

**Markaz Investment and Development Fund
State of Kuwait**

**Financial statements and independent auditor's report
For the year ended 31 December 2023**

Markaz Investment and Development Fund

Financial statements and independent auditor's report For the year ended 31 December 2023

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Independent auditor's report to the fund manager of Markaz Investment and Development Fund

Report on the audit of the financial statements

Our Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Markaz Investment and Development Fund ("the fund") as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with IFRS accounting standards.

What we have audited

The fund's financial statements comprise:

- The statement of financial position as at 31 December 2023;
 - The statement of comprehensive income for the year then ended;
 - The statement of changes in net assets attributable to unitholders for the year then ended;
 - The statement of cash flows for the year then ended; and
 - Notes to the financial statements, comprising material accounting policy information.
-

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 these financial statements* section of our report.

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

Independence

We are independent of the fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of these financial statements in the State of Kuwait. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of management and those charged with governance for these financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management 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 management either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.



Independent auditor's report to the fund manager of Markaz Investment and Development Fund (continued)

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of these 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 management.
- Conclude on the appropriateness of management'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 these 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 these 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 those charged with governance 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.



Independent auditor's report to the fund manager of Markaz Investment and Development Fund (continued)

Report on other Legal and Regulatory Requirements

We further report that during the course of our audit, we have not become aware of any material violations concerning the Executive Bylaws of Law No. 7 of 2010 pertaining to the Establishment of the Capital Markets Authority and the Regulation of Securities' Activity and subsequent amendments thereto 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.

A handwritten signature in blue ink, appearing to read 'Khalid Ebrahim Al-Shatti', is written over a horizontal line.

Khalid Ebrahim Al-Shatti
Licence No. 175
PricewaterhouseCoopers (Al-Shatti & Co.)

29 January 2024
Kuwait

Markaz Investment and Development Fund

Statement of comprehensive income

(All amounts in Kuwaiti Dinars unless otherwise stated)


	Notes	Year ended 31 December	
		2023	2022
Income			
Dividend income		1,794,909	1,909,780
Interest income		10,886	7,311
Net realised (loss) / gain on sale of financial assets at fair value through profit or loss		(2,262,002)	2,880,405
Net unrealised (loss) / gain on financial assets at fair value through profit or loss	5	(1,035,349)	539,832
Foreign currency exchange loss		(2,009)	-
Total (loss)/ income		(1,493,565)	5,337,328
Expenses			
Management fees	10	(707,655)	(1,112,548)
Custodian and controller fees	10	(57,807)	(71,521)
Other operating expenses		(53,903)	(74,791)
Total expenses		(819,365)	(1,258,860)
(Loss) / profit for the year		(2,312,930)	4,078,468
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		(2,312,930)	4,078,468

The accompanying notes set out on pages 8 to 20 form an integral part of these financial statements.

Markaz Investment and Development Fund**Statement of financial position***(All amounts in Kuwaiti Dinars unless otherwise stated)*

	Notes	As at 31 December	
		2023	2022
Assets			
Current assets			
Bank balances		12,752	155,524
Financial assets at fair value through profit or loss	5	42,146,467	54,776,498
Receivables and other assets	6	2,872,128	1,241,451
Total assets		45,031,347	56,173,473
Liabilities			
Current liability			
Accrued expenses and other payables	7	2,531,626	140,872
Total liability		2,531,626	140,872
Net assets attributable to unitholders		42,499,721	56,032,601
Represented by			
Unitholders contribution	8	8,575,485	10,825,485
Units deficit	8	(134,737,099)	(125,767,149)
Retained earnings		168,661,335	170,974,265
Net assets attributable to unitholders		42,499,721	56,032,601
Net asset value per unit	9	4.956	5.176

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Kuwait Financial Centre K.P.S.C
(Fund manager)



Gulf Custody Company K.S.C.C
(Custodian and investment controller)

The accompanying notes set out on pages 8 to 20 form an integral part of these financial statements.

Markaz Investment and Development Fund

Statement of changes in net assets attributable to unitholders (All amounts in Kuwaiti Dinars unless otherwise stated)

	Outstanding number of redeemable units	Unitholders' contribution	Unit Deficit	Retained earnings	Total
Balance at 1 January 2022	13,845,365	13,845,365	(113,057,370)	166,895,797	67,683,792
Subscription of redeemable units	166	166	829	-	995
Redemption of redeemable units	(3,020,046)	(3,020,046)	(12,710,608)	-	(15,730,654)
Total comprehensive income for the year	-	-	-	4,078,468	4,078,468
Balance at 31 December 2022	10,825,485	10,825,485	(125,767,149)	170,974,265	56,032,601
Balance at 1 January 2023	10,825,485	10,825,485	(125,767,149)	170,974,265	56,032,601
Redemption of redeemable units	(2,250,000)	(2,250,000)	(8,969,950)	-	(11,219,950)
Total comprehensive loss for the year	-	-	-	(2,312,930)	(2,312,930)
Balance at 31 December 2023	8,575,485	8,575,485	(134,737,099)	168,661,335	42,499,721

The accompanying notes set out on pages 8 to 20 form an integral part of these financial statements.

Markaz Investment and Development Fund

Notes to the financial statements

(All amounts in Kuwaiti Dinars unless otherwise stated)

		Year ended 31 December	
	Note	2023	2022
Cash flows from operating activities			
(Loss)/profit for the year		(2,312,930)	4,078,468
Adjustments for:			
Dividend income		(1,794,909)	(1,909,780)
Interest income		(10,886)	(7,311)
Net unrealised loss / (gain) on financial assets at fair value through profit or loss	5	1,035,349	(539,832)
Management, custodian and controller fees		765,462	1,184,069
		(2,317,914)	2,805,614
Changes in operating assets and liabilities			
Net movement in financial assets at fair value through profit or loss		11,594,682	11,360,146
Receivables and other assets		(1,630,677)	482,728
Accrued expenses and other payables		(19,530)	16,821
Cash generated from operating activities		7,626,561	14,665,309
Dividend income received		1,794,909	1,909,780
Interest income received		10,886	7,311
Management, custodian and controller fees paid		(833,359)	(1,203,255)
Net cash generated from operating activities		8,598,997	15,379,145
Cash flows from financing activities			
Proceeds from subscriptions during the year		-	995
Payments for units redeemed during the year		(8,741,769)	(15,730,654)
Net cash used in financing activities		(8,741,769)	(15,729,659)
Decrease in bank balances		(142,772)	(350,514)
Bank balances at the beginning of the year		155,524	506,038
Bank balances at the end of the year		12,752	155,524
Non-cash transactions:			
Accrued expenses and other payables		2,478,181	-
Redemption of redeemable units		(2,478,181)	-

The accompanying notes set out on pages 8 to 20 form an integral part of these financial statements.

Markaz Investment and Development Fund

Statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

1 General information

Markaz Investment and Development Fund ("the Fund") is an open-ended Fund established on 16 April 2001 in the State of Kuwait in accordance with Law No. 31 of 1990, as amended. The Fund is licensed as a collective investment scheme under the Law No. 7 of 2010, as amended pertaining to the establishment of the Capital Markets Authority ("CMA") and the regulation of securities activity.

The Fund aims to achieve long term capital growth exceeding the benchmark through investing in the stocks of selective companies listed in Boursa Kuwait in accordance with investment policies, rules and limitations stated in the Articles of Association. The Fund may participate in unlisted stocks if the investment is derived from the Fund's investment in listed entities that granted its shareholders the right to subscribe for such stocks or distributed the same to its shareholders.

The Fund Manager may also invest in instruments issued by Kuwaiti banks, e.g. certificates of deposit, in addition to bonds issued or guaranteed by the government of GCC countries, money market Fund units, and local debt instruments Fund units with view to distributing the risks subject to investment limitations set forth in the Articles of Association provided that all the Fund's investments shall be in compliance with the provisions of Law No.7 of 2010, as amended, resolutions and instructions, as amended.

The duration of the Fund was ten years from the establishment date. The initial period expired on 4 August 2011. A majority of the redeemable unitholders approved the renewal of the Fund's duration for a similar period ending on 3 August 2021. The fund's duration was then extended for an additional period of 10 years ending on 16 April 2031.

On 20 March 2020, the CMA approved to renew the Fund's license up to 19 March 2023. On 20 March 2023, the CMA approved to renew the Fund's license up to 19 March 2026.

The Fund is managed by Kuwait Financial Centre K.P.S.C. (the "Fund Manager"). Gulf Custody Company K.S.C.C. is the fund's custodian and investment Controller (the "Fund Custodian").

The registered office of the fund is Al Asimah, Mirgab, Block 1 Qasima 6, Al Sour Street, Ali Alshaiea and Abdulaziz Mohammed Al Humod Alshaiea, floor 8.

These financial statements were authorised for issue by the fund manager and the fund custodian on 21 January 2024

2 Material accounting policies

The material accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with IFRS Accounting Standards. IFRS Accounting Standards comprise the following authoritative literature:

- IFRS Accounting Standards
- IAS Standards
- Interpretations developed by the IFRS Interpretations Committee (IFRIC Interpretations) or its predecessor body, the Standing Interpretations Committee (SIC Interpretations).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

Markaz Investment and Development Fund

Statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

2 Material accounting policies (continued)

2.1 Basis of preparation (continued)

The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires the fund manager to exercise its judgement in the process of applying the fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(a) Standards and amendments to existing standards effective 1 January 2023

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2023 that have a material effect on the financial statements of the fund.

(ii) New standards, amendments and interpretations effective after 1 January 2023 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2023 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the fund.

2.2 Foreign currency translation

(a) *Functional and presentation currency*

The fund's unitholders are mainly from the State of Kuwait, with the subscriptions and redemptions of the redeemable shares denominated in Kuwaiti Dinars. The primary activity of the fund is to invest in equity securities traded in Kuwait, Arab and other Middle East countries, government bonds and initial public offerings. The performance of the fund is measured and reported to the investors in Kuwaiti Dinars. The management of the fund considers the Kuwaiti Dinar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Kuwaiti Dinars, which is the fund's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the statement of financial position date.

Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income. Foreign exchange gains and losses relating to cash and cash equivalents are presented in the statement of comprehensive income within 'foreign currency exchange gain/(loss)'

Statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.3 Financial assets at fair value through profit or loss

(i) Classification of financial assets at fair value through profit or loss

The fund classifies its investments based on both the fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

(ii) Recognition and derecognition

Regular purchases and sales of investments are recognised on the trade date, being the date on which the fund commits to purchase or sell the investment. Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed as incurred in the statement of comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the fund has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within unrealised gain on financial assets at fair value through profit or loss in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is included in the statement of comprehensive income within dividend income when the fund's right to receive payments is established. Interest on debt securities at fair value through profit or loss is recognised in the statement of comprehensive income.

(iv) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the current bid price on the reporting date. The fund utilises the last traded market price for financial assets where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

Markaz Investment and Development Fund

Statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.3 Financial assets at fair value through profit or loss (continued)

(iv) Fair value estimation (continued)

The fair value of financial assets that are not traded in an active market is determined using valuation techniques. The fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent ordinary transactions between market participants, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the fund currently has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the fund or the counterparty.

2.5 Receivables and other assets

Receivables and other assets are non-derivative financial assets and are mainly amounts due from financial intermediaries, they represent receivables for securities sold that have been contracted for but not yet settled on the statement of financial position date and are held for collection.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the fund shall measure the loss allowance on receivables and other assets at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. The fund holds the receivables and other assets with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.6 Bank balances

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes current accounts held with local banks.

2.7 Accrued expenses and other payables

Accrued expenses and other payables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. Accrued expenses are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are classified as non-current liabilities.

Markaz Investment and Development Fund

Statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.8 Net assets attributable to unitholders

Units are subscribed and redeemed at the holder's option at prices based on the fund's net asset value per unit at the time of subscription or redemption. The fund's net asset value per share is calculated by dividing the net assets attributable to unitholders with the weighted average number of outstanding units. In accordance with the provisions of the fund's articles of association, investment positions are valued based on the last traded market price for determining the net asset value per unit for subscriptions and redemptions. The redemption and subscription process will be entered into and executed on weekly basis.

2.9 Interest income and dividend income

Interest income

Interest is recognised on a time-proportionate basis using the effective interest method. Interest income includes interest from balances held with banks.

Dividend income

Dividend income is recognised when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the fund, and the amount of the dividend can be measured reliably.

2.10 Management and custodian fees

Management fees

Management fees are payable to the fund manager and calculated on the basis 1.75% per annum of the net asset value of the fund until 24 June 2023. Starting from 25 June 2023, the basis of management fees was reduced to 1% per annum of the net asset value of the fund (2022: 1.75% per annum).

Custodian and controller fees

Custodian fees are payable to the custodian and calculated on the basis of 0.0625% per annum (2022: 0.0625% per annum) of the net asset value of the fund before accounting for management fees and controller fees. Calculated and accrued on weekly basis and paid on a quarterly basis.

Controller fees are payable to the investment controller and calculated on the basis of 0.05% per annum (2022: 0.05% per annum) of the net asset value of the fund before accounting for management fees and custodian fees. Calculated and accrued on weekly basis and paid on a quarterly basis.

2.11 Transaction costs

Transaction costs are costs incurred to acquire financial assets at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income.

Markaz Investment and Development Fund

Statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

3 Financial risk management

3.1 Financial risk factors

The fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk.

The fund is also exposed to operational risks such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian. Although an appropriate legal framework is in place that eliminates the risk of loss of value of the securities held by the custodian, in the event of its failure, the ability of the fund to transfer securities might be temporarily impaired. All investment presents a risk of loss of capital. The maximum loss of capital on equity securities is limited to the fair value of the securities.

The fund's overall risk management programme seeks to maximise the returns derived for the level of risk to which the fund is exposed and seeks to minimise potential adverse effects on the fund's financial performance. The monitoring of these risks is carried out by the fund's management. Risk management is carried out by the management under policies approved by the fund manager. The fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below:

3.1.1 Market risk

(a) Price risk

The fund is exposed to equity securities price risk. This arises from investments held by the fund for which prices in the future are uncertain. The fund's policy is to manage price risk through diversification and selection of securities and other financial instruments within specified limits set by the fund managers'. The fund also manages its exposure to price risk by analysing the investment portfolio by industrial sector. The fund's policy is to concentrate the investment portfolio in sectors where management believes the fund can maximise the returns derived for the level of risk to which the fund is exposed.

The table below is a summary of the significant sector concentrations within the equity portfolio:

Sectors	As at 31 December	
	2023	2022
Banks	52%	50%
Financial services	18%	12%
Insurance	6%	4%
Real estate	-	1%
Industrials and basic materials	15%	22%
Telecommunications	9%	10%
Consumer goods	-	1%
	100%	100%

Markaz Investment and Development Fund

Notes to the financial statements

(All amounts in Kuwaiti Dinars unless otherwise stated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

3.1.1 Market risk (continued)

(a) Price risk (continued)

The table below summarises the sensitivity of the fund's net assets attributable to unitholders to equity price movements as at 31 December. The analysis is based on the assumptions that the S&P Kuwait Domestic Liquid Capped Index ("the index") increased by 10% and decreased by 10%, with all other variables held constant, and that the fair value of the fund's portfolio of equity securities moved according to their historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE Index, having regard to the historical volatility of the index. The impact below arises from the reasonable possible change in the fair value of equities.

	<u>2023</u>	<u>2022</u>
Effect on net assets attributable to unitholders of an increase in the index	<u>4,214,647</u>	<u>5,477,650</u>
Effect on net assets attributable to unitholders of a decrease in the index	<u>(4,214,647)</u>	<u>(5,477,650)</u>

The fund manager uses the index as a reference point in making investment decisions. However, the fund manager does not manage the fund's investment strategy to track the index. The sensitivity analysis presented is based upon the portfolio composition as at 31 December and the historical correlation of the securities comprising the portfolio to the respective indices. The composition of the fund's investment portfolio and the correlation thereof to the index, is expected to change over time. The sensitivity analysis prepared as of 31 December is not necessarily indicative of the effect on the fund's net assets attributed to unitholders of future movements in the level of the index.

(b) Foreign currency risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

As at the reporting date, the fund does not have any significant assets and liabilities denominated in foreign currencies.

(c) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments.

The fund has no exposure to interest rate risk as the fund is not subject to floating profit bearing assets or liabilities.

3.1.2 Credit risk

The fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The fund is also exposed to counterparty credit risk on bank balances and receivables and other assets.

Markaz Investment and Development Fund

Statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

3.1.2 Credit risk (continued)

The fund's policy to manage credit risk with respect to bank balances is by dealing with reputable banks. The fund transacts its major business with the fund manager, other related parties and other reputable counter parties and continually monitors credit exposures and assesses the creditworthiness of counterparties.

In accordance with the fund's policy, the fund manager monitors the funds credit position on a daily basis.

Exposure to credit risk

The maximum exposure to credit risk before any credit enhancements at 31 December is the carrying amount of the financial assets as set out below:

	As at 31 December	
	2023	2022
Bank balances	12,752	155,524
Receivables and other assets (excluding prepaid expenses)	2,868,437	1,235,161
	2,881,189	1,390,685

The fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. As at 31 December 2023 and 2022, all financial assets are held with counterparties with reputable financial institution with no history of default. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the fund.

Effective 8 December 2021, Gulf Custody Company K.S.C.C., formerly "Gulf Clearing Company" (GCC), was appointed as the custodian and investment controller of the fund. GCC is established as a Kuwaiti Shareholding Closed Company on January 13, 2001. As at 31 December 2023, all balances due from GCC and investments are placed in custody with the GCC. GCC is also monitored and regulated by the CMA.

Risk concentration of the maximum exposure to credit risk

Concentrations arise when a number of counterparties is engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations indicate the relative sensitivity of the fund's performance to developments affecting a particular industry or geographical location.

As at 31 December 2023 and 2022, all financial assets subject to credit risk are in Kuwait and with banks and financial institutions.

Markaz Investment and Development Fund

Statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

3.1.3 Liquidity risk

Liquidity risk is the risk that the fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due.

The fund is exposed to weekly cash redemptions of redeemable shares. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed. The fund's listed securities are considered readily realisable, as all securities are listed on the Kuwait Stock Exchange. Only a limited proportion of its assets in investments are not actively traded on a stock exchange.

Moreover, the fund's units do not have any contractual maturity since these units are redeemable on demand at the unitholders' options.

As at 31 December 2023 and 2022, the fund's financial liabilities subjected to liquidity risk have contractual maturities up to one year from the end of the reporting period. These represent the contractual undiscounted cash flow.

3.2 Capital risk management

The capital of the fund is represented by the net assets attributable to unitholders. The amount of net asset attributable to unitholders can change significantly on a weekly basis, as the fund is subject to weekly subscriptions and redemptions at the discretion of unitholders, as well as changes resulting from the fund's performance. 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 unitholders, provide benefits for other stakeholders and maintain a strong capital base to support the development of the investment activities of the fund. In order to maintain the capital structure, the fund's policy is to perform the following:

- Monitor the level of weekly subscriptions and redemptions relative to the assets it expects to be able to liquidate within 7 days and adjust the amount of distributions the fund pays to redeemable unitholders
- Redeem and issue new shares in accordance with the bylaw 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 unitholders.

Markaz Investment and Development Fund

Notes to the financial statements

(All amounts in Kuwaiti Dinars unless otherwise stated)

3 Financial risk management (continued)

3.3 Fair value estimation

The fair value of financial assets traded in active markets is based on quoted market prices at the current bid price on the year-end date. The fund utilises the last traded market price for financial assets.

An active market is a market in which transactions for the asset take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The fund uses a variety of methods and makes assumptions that are based on market conditions existing at each year end date. For instruments for which there is no active market, the fund may use internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted equity securities for which markets were or have been inactive during the financial year. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The fair value hierarchy has the following levels:

- **Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the fund is the current bid price. These instruments are included in level 1.
- **Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques that maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- **Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the fund. The fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Markaz Investment and Development Fund

Statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

Financial assets carried at fair value through profit or loss are grouped into the fair value hierarchy as follows:

31 December 2023	Level 1	Level 3	Total
Quoted securities	<u>42,146,467</u>	<u>-</u>	<u>42,146,467</u>
31 December 2022	Level 1	Level 3	Total
Quoted securities	<u>54,776,498</u>	<u>-</u>	<u>54,776,498</u>

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

	As at 31 December	
	2023	2022
Balance at the beginning of the year	-	57,876
Disposal	-	(57,876)
Balance at the end of the year	<u>-</u>	<u>-</u>

There were no transfers between levels during the years ended 31 December 2023 and 2022.

4 Critical accounting estimates and judgments

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below.

4.1 Critical accounting estimates and assumptions

Fair value of securities not quoted in an active market

The fair value of financial assets not traded in an active market is determined using valuation techniques. The fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, realisable net asset value, combination of price-to-book value and realisable net asset value, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

4.2 Critical judgements

Significant accounting judgements in determining business model

The objective of the fund is to achieve long-term capital appreciation and its portfolio is managed on a fair value basis. The fund manages its financial assets with the objective of realising cash flows through the sale of the assets. The fund makes decisions based on the assets' fair values and manages the assets to realise those fair values resulting in active buying and selling.

The fund therefore applies the business model allowed by IFRS 9 paragraph B4.1.6 which requires its portfolio to be classified at fair value through profit or loss.

Markaz Investment and Development Fund

Statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

5 Financial assets at fair value through profit or loss

	As at 31 December	
	2023	2022
Quoted securities	<u>42,146,467</u>	<u>54,776,498</u>

Quoted securities represent investments in equity securities listed in Boursa Kuwait.

Movements in financial assets at fair value through profit or loss are as follows:

	As at 31 December	
	2023	2022
Balance at 1 January	54,776,498	65,596,812
Purchases	15,123,902	22,019,925
Disposals	(26,718,584)	(33,380,071)
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	(1,035,349)	539,832
Balance at 31 December	<u>42,146,467</u>	<u>54,776,498</u>

6 Receivables and other assets

	As at 31 December	
	2023	2022
Receivables	2,868,437	1,235,161
Prepaid expenses	3,691	6,290
	<u>2,872,128</u>	<u>1,241,451</u>

7 Accrued expenses and other payables

	As at 31 December	
	2023	2022
Accrued management fees (Note 10)	37,896	102,135
Accrued custodian and controller fees (Note 10)	13,482	17,140
Other payables	2,480,248	21,597
	<u>2,531,626</u>	<u>140,872</u>

8 Unitholders contribution and unit deficit

Unitholders contribution

	As at 31 December	
	2023	2022
Issued and fully paid	<u>8,575,485</u>	<u>10,825,485</u>

The fund is an open ended fund with fund capital varying from 2,000,000 to 100,000,000 units with a par value of KD 1 per unit (31 December 2022 KD 1 per unit).

Unit deficit

Unit deficit represents shortfalls on the par value of the subscriptions and redemptions of the funds' units.

Markaz Investment and Development Fund

Statement of financial position

(All amounts in Kuwaiti Dinars unless otherwise stated)

9 Net assets value per unit

	As at 31 December	
	2023	2022
Net assets attributable to unitholders (KD)	<u>42,499,721</u>	<u>56,032,601</u>
Number of units outstanding	<u>8,575,485</u>	<u>10,825,485</u>
Net asset value per unit (KD)	<u>4.956</u>	<u>5.176</u>

10 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.

Related parties primarily comprise the fund's unitholders, fund manager and fund custodian and controller. Transactions with related parties are conducted in the normal course of business and are on terms and conditions approved by the management and under the terms of the articles of association of the fund.

Transactions included in the statement of comprehensive income

	Year ended 31 December	
	2023	2022
Management fees (fund manager)	<u>707,655</u>	<u>1,112,548</u>
Custodian and controller fees (fund custodian)	<u>57,807</u>	<u>71,521</u>

Balances included in the statement of financial position

	As at 31 December	
	2023	2022
Accrued management fees (fund manager) (Note 7)	<u>37,896</u>	<u>102,135</u>
Accrued custodian and controller fees (fund custodian) (Note 7)	<u>13,482</u>	<u>17,140</u>
Amount due to fund manager included in other payable (Note 7)	<u>-</u>	<u>20,347</u>

At the reporting date, the fund manager held 2,896,866 units representing 33.78% of the units issued (31 December 2022: 2,896,866 units representing 26.76% of the fund's subscribed units). This is in accordance with the articles of association of the fund which requires that the fund manager should not own less than KD 100,000 and not more than 95% of the fund's contributed capital at any time.