

**Al Wasm Fund  
(Fund Manager – Kuwait Finance & Investment  
Company K.S.C.)  
State of Kuwait**

**Financial statements and independent auditor's report  
for the year ended 31 December 2013**


كافيه جاني آل-موتوا & पार्टنرس  
initial: for registration purpose

KPMG

**Al Wasm Fund**  
**(Fund Manager – Kuwait Finance & Investment Company K.S.C.)**  
**State of Kuwait**

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<b>Index</b>	<b>Page</b>
Independent auditor's report to the unitholders	1 – 2
Statement of financial position	3
Statement of comprehensive income	4
Statement of changes in equity	5
Statement of cash flows	6
Notes to the financial statements	7 - 15

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## **Independent auditor's report to unitholders**

### **The unitholders**

**Al Wasm Fund**

**(Fund Manager – Kuwait Finance & Investment Company K.S.C)**

**State of Kuwait**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Al Wasm Fund ("the Fund"), which comprise the statement of financial position as at 31 December 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting 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.

#### *Auditor's Responsibility*

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

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

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

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*Opinion*

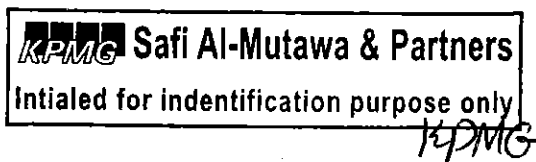
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Fund's articles and memorandum of association. In our opinion, proper books of account have been kept by the Fund. We have not become aware of any contravention, during the year ended 31 December 2013 of Law No. 7 of 2010, as amended, pertaining to the establishment of the Capital Market Authority and the regulation of securities activity and of the Fund's articles and memorandum of association, that might have had a material effect on the Fund's activities or on its financial position.

**Safi A. Al-Mutawa**  
**License No 138 "A"**  
**of KPMG Safi Al-Mutawa & Partners**  
**Member firm of KPMG International**

**Kuwait: [            ] 2014**




**Al Wasm Fund**  
**(Fund Manager – Kuwait Finance & Investment Company K.S.C.)**  
**State of Kuwait**

**Statement of financial position**  
*as at 31 December 2013*

	Notes	2013 KD	2012 KD
<b>Assets</b>			
Bank balances		73,065	435,857
Investments at fair value through profit or loss	8	2,018,282	1,406,242
Other assets		-	96,502
<b>Total assets</b>		<u>2,091,347</u>	<u>1,938,601</u>
<b>Liabilities</b>			
Payables and other liabilities		21,472	20,765
<b>Total liabilities</b>		<u>21,472</u>	<u>20,765</u>
<b>Equity</b>			
Unit capital	9	5,001,000	5,000,000
Unit deficit		(1,658,465)	(1,657,838)
Accumulated losses		(1,272,660)	(1,424,326)
<b>Total equity</b>		<u>2,069,875</u>	<u>1,917,836</u>
<b>Total liabilities and equity</b>		<u>2,091,347</u>	<u>1,938,601</u>
Outstanding number of units		5,001,000	5,000,000
<b>Net asset value per unit</b>	10	<u>0.414</u>	<u>0.384</u>

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

  
Fund Manager

  
Fund Custodian

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**Al Wasm Fund**  
**(Fund Manager – Kuwait Finance & Investment Company K.S.C.)**  
**State of Kuwait**

**Statement of comprehensive income**  
*for the year ended 31 December 2013*

	<b>2013</b>	<b>2012</b>
	<b>KD</b>	<b>KD</b>
Realized gain on investments at fair value through profit or loss	104,816	107,862
Unrealized gain on investments at fair value through profit or loss	40,446	61,809
Dividend income	49,323	30,473
Interest income	158	917
<b>Net investment income</b>	<u>194,743</u>	<u>201,061</u>
Management fees	(36,246)	(32,028)
Custodian fees	(2,589)	(2,288)
Other operating expenses	(4,242)	(3,170)
<b>Total expenses</b>	<u>(43,077)</u>	<u>(37,486)</u>
<b>Net profit and total comprehensive income for the year</b>	<u>151,666</u>	<u>163,575</u>

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


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**State of Kuwait**

**Statement of changes in equity**  
*for the year ended 31 December 2013*

	Number of units	Unit capital KD	Unit deficit KD	Accumulated losses KD	Total KD
<b>Balance at 1 January 2012</b>	5,063,380	5,063,380	(1,698,288)	(1,587,901)	1,777,191
Subscription of redeemable units	16,000	16,000	(10,188)	-	5,812
Redemption of redeemable units	(79,380)	(79,380)	50,638	-	(28,742)
Net profit for the year	-	-	-	163,575	163,575
<b>Balance at 31 December 2012</b>	<b>5,000,000</b>	<b>5,000,000</b>	<b>(1,657,838)</b>	<b>(1,424,326)</b>	<b>1,917,836</b>
<b>Balance at 1 January 2013</b>	5,000,000	5,000,000	(1,657,838)	(1,424,326)	1,917,836
Subscription of redeemable units	116,000	116,000	(67,999)	-	48,001
Redemption of redeemable units	(115,000)	(115,000)	67,372	-	(47,628)
Net profit for the year	-	-	-	151,666	151,666
<b>Balance at 31 December 2013</b>	<b>5,001,000</b>	<b>5,001,000</b>	<b>(1,658,465)</b>	<b>(1,272,660)</b>	<b>2,069,875</b>

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**Al Wasm Fund**  
**(Fund Manager – Kuwait Finance & Investment Company K.S.C.)**  
**State of Kuwait**

**Statement of cash flows**  
*for the year ended 31 December 2013*

	2013 KD	2012 KD
<b>Cash flow from operating activities</b>		
Net profit for the year	151,666	163,575
<i>Adjustments for:</i>		
Realized gain on investments at fair value through profit or loss	(104,816)	(107,862)
Unrealized gain from investments at fair value through profit or loss	(40,446)	(61,809)
	<u>6,404</u>	<u>(6,096)</u>
<i>Changes in:</i>		
- Investments at fair value through profit or loss	(466,778)	138,429
- Other assets	96,502	(96,117)
- Payables and other liabilities	707	22
<b>Net cash (used in) / generated from operating activities</b>	<u>(363,165)</u>	<u>36,238</u>
<b>Cash flow from financing activities</b>		
Subscription of redeemable units	48,001	5,812
Redemption of redeemable units	(47,628)	(28,742)
<b>Net cash generated from / (used in) financing activities</b>	<u>373</u>	<u>(22,930)</u>
Net (decrease) / increase in cash and cash equivalents	(362,792)	13,308
Cash and cash equivalents at beginning of the year	435,857	422,549
<b>Cash and cash equivalents at end of the year</b>	<u>73,065</u>	<u>435,857</u>

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

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**Al Wasm Fund**  
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**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 December 2013*

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**1. Reporting entity**

Al Wasm Fund (“the Fund”) was established on 10 April 2005 in Kuwait under the ministerial resolution number 98 of 2005 and in accordance with Decree No. 31 of 1990 as amended. The Fund was included in the commercial register number 54 on 19 April 2005 and in the investment fund register of CBK under resolution number (1/253/2005) on 19 September 2005. The Fund has initial duration of ten years commencing from the date of establishment and renewable for additional periods subject to approval of 50% of the unit holders. The Fund aims to achieve medium and long term capital growth by focusing on investing in companies listed in Kuwait Stock Exchange (“KSE”) and in shares of new companies offered for subscription to be listed in KSE.

The Fund is regulated by Capital Markets Authority (CMA) as per law No. 7 of 2010. On 25/9/2013 the General Assembly meeting of unit holders approved the followings:

- 1- appointment of the board members of the Fund for three fiscal years.
- 2- determination and approval of the Board members’ fees of KD 300 (Kuwaiti Dinar Three Hundred Only) for each member for each fiscal year for three years.
- 3- appointment of external auditor for the Fund (KPMG Safi Al Mutawa & partners – KPMG)
- 4- appointment of the investment controller and the custodian (Gulf Custody Company) taking into account the following:
  - the legal entity should be independent for Fund manager and Custodian or Investment Controller i.e. each entity has independent legal status.
  - the Fund manager may not be subsidiary, associate or affiliate of the company intended to be assigned as custodian or investment controller and vice versa. No entity shall have effective control over the other entity.
- 5- the new Articles of Association of the Fund after its regularization as per law no. 7 of 2010 and its executive regulations of CMA after approval on 17/7/2013 by CMA.

The registered office of the Fund is at head office of Kuwait Finance and Investment Company K.S.C., P.O.Box 21521, Safat 13037, Kuwait.

The Fund is managed by Kuwait Finance and Investment Company (K.S.C.C.) (the “Fund Manager”). The Fund manager is entitled to management fees of 1.75% per annum of the net assets value of the Fund calculated on a weekly basis and payable quarterly and a performance fees of 10% of the Fund’s returns that exceed 10% per annum calculated on weekly basis and payable annually. The total fees payable to Fund manager does not exceed 5% per annum of the net asset value of the Fund.

Gulf Clearing Company is the Fund’s custodian (the “Custodian”) and the Investment Controller (“Investment controller”) and is entitled to a fee of 0.125% per annum of the net asset value of the Fund determined on a weekly basis and payable quarterly.

These financial statements were authorized for issue by the Fund Manager on [       ] 2014.

**Al Wasm Fund**  
**(Fund Manager – Kuwait Finance & Investment Company K.S.C.)**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 December 2013*

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**2. Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), the requirements of Law No. 7 of 2010, as amended, pertaining to the establishment of the Capital Market Authority and the regulation of securities activity and the Fund's articles and memorandum of association.

**3. Basis of measurement**

The financial statements have been prepared on the historical cost basis except for investments carried at fair value through profit or loss, which are measured at fair value.

**4. Functional and presentation currency**

These financial statements are presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Fund.

**5. Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**6. Changes in accounting policies**

Except for the changes below, the Fund has consistently applied the accounting policies set out in Note 7 to all periods presented in these financial statements;

*IAS 1 Presentation of items of Other Comprehensive Income*

As a result of the amendments of IAS 1, the Fund has modified the presentation of items in OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

**Al Wasm Fund  
(Fund Manager – Kuwait Finance & Investment Company K.S.C.)  
State of Kuwait**

**Notes to the financial statements  
for the year ended 31 December 2013**

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The adoption of the amendment to IAS 1 has no impact on the recognized assets, liabilities and comprehensive income of the Fund.

*IFRS 13 Fair values of financial instruments*

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as 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. It replaces and expands the disclosure requirements about fair value measurement in other IFRSs.

In accordance with the transitional provisions of IFRS 13, the Fund has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurement of the Fund's assets and liabilities.

**7. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in Note 6;

a) Investments at fair value through profit or loss

The fund classifies its financial assets on acquisition in accordance with the purpose for which such investments were acquired. The fund classified its financial assets into financial assets at fair value through profit or loss.

Financial assets are classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are classified at fair value through profit or loss, if the Fund holds these assets for short term profit taking. Derivatives are classified as held for trading if not classified as hedged item. Financial assets at fair value through profit or loss are disclosed as a separate line item in the statement of financial position.

Investments at fair value through profit or loss are measured initially at fair value (transaction price). Transaction costs on investments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, all investments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognized in the statement of comprehensive income.

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**Al Wasm Fund**  
**(Fund Manager – Kuwait Finance & Investment Company K.S.C.)**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 December 2013*

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The fair value of quoted instruments is based on current bid prices. If the market information for a financial asset is not active (and for unlisted securities), the fund establishes fair value by using valuation techniques. These includes the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

Financial investments are recognized / derecognized by the Fund on the trade date in which the fund commits to purchase / sell the investments.

b) Provisions

A provision is recognized if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

c) Unit capital

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Fund has one class of redeemable units in issue. These units are the most subordinate category of financial instruments issued by the Fund and, on liquidation of the fund holders entitle to the residual net assets. The redeemable units provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund's net assets at redemption date and also in the event of the Fund's liquidation.

The Fund's redeemable units meet all those conditions that are required to be met for a puttable financial instrument that includes a contractual obligation for the Fund to repurchase or redeem that instrument for cash or another financial asset to be classified as equity.

Transaction costs incurred by the Fund in issuing or redeeming its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transactions.

d) Unit surplus / (deficit)

On the issue of units, the difference between the issue price and the nominal value is credited to the surplus/ (deficit) account. On redemption, the difference between redemption value and par value is debited from surplus/ (deficit) account.

**Al Wasm Fund  
(Fund Manager – Kuwait Finance & Investment Company K.S.C.)  
State of Kuwait**

**Notes to the financial statements  
for the year ended 31 December 2013**

e) NAV per unit

NAV per unit is calculated in accordance with the prospectus of the Fund, by dividing the net assets included in the statement of financial position by the number of units outstanding at year-end.

f) Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and term deposits with original maturities of less than three months.

g) Revenue recognition

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

Interest income is recognized on a time proportionate basis using the percentage specified in the respective contract.

h) Expenses

All expenses, including management fees and custodian fees are recognized in the statement of comprehensive income on an accrual basis.

i) New Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual period beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Fund, except for IFRS 9 Financial Instruments which becomes mandatory for the Fund's 2015 financial statements and could change the classification and measurement of financial assets. The standard is not expected to have a significant impact on the measurement basis of the financial assets since the majority of the Fund's financial assets are measured at fair value through profit or loss. The Fund does not plan to adopt this standard early and the extent of the impact has not been determined.

**8. Investments at fair value through profit or loss**

	2013 KD	2012 KD
Quoted securities	1,994,282	1,382,242
Unquoted security	24,000	24,000
	<u>2,018,282</u>	<u>1,406,242</u>

**Al Wasm Fund**  
**(Fund Manager – Kuwait Finance & Investment Company K.S.C.)**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 December 2013*

The Fund has fair valued the unquoted security as of 31 December 2013 by using the most recent financial information available for the investee.

The sector wise breakup of quoted investments at fair value through profit and loss is as follows:

	<b>2013</b>	<b>2012</b>
	<b>KD</b>	<b>KD</b>
Basic Materials	232,314	236,502
Industrials	323,921	135,800
Consumer Goods	-	87,000
Consumer Services	53,900	108,388
Telecommunications	95,200	-
Banks	643,821	319,650
Real Estate	327,346	254,701
Financial Services	317,780	209,401
Oil and gas	-	30,800
	<u>1,994,282</u>	<u>1,382,242</u>

**9. Unit capital**

As at 31 December 2013, the issued and paid up unit capital of the Fund was KD 5,001,000 divided into 5,001,000 redeemable units with par value of KD 1 each (2012: KD 5,000,000 divided into 5,000,000 redeemable units with par value of KD 1 each).

**10. Net asset value per unit**

	<b>2013</b>	<b>2012</b>
Total equity (KD)	2,069,875	1,917,869
Number of units outstanding	5,001,000	5,000,000
Net asset value per unit (KD)	0.414	0.384

**11. Related party transactions**

Related parties primarily comprise fund manager, the Fund board members and their close family members. Transactions with related parties are conducted in the normal course of business and are on terms and conditions approved by the management.

Significant balances and transactions with related parties at the reporting date are as follows:

- a) Management fee for the year amounted to KD 36,246 (2012: KD 32,028). As at 31 December 2013, the management fee amounting to KD 9,678 (2012: KD 8,670) was payable.
- b) At the reporting date, the Fund manager held 3,698,000 (2012: 3,597,000) units of the Fund which represented approximately 73.94%, (2012: 71.94%) of the total units subscribed and outstanding.

**Al Wasm Fund  
(Fund Manager – Kuwait Finance & Investment Company K.S.C.)  
State of Kuwait**

**Notes to the financial statements  
for the year ended 31 December 2013**

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**12. Financial instruments and 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 mainly invests in companies listed on the Kuwait Stock Exchange ("KSE") as per 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 explained below:

**Market risk**

Market risk is the risk that the Fund may incur financial losses due to adverse movements in equity prices, interest rates and foreign currency rates. The Fund's investments are susceptible to market price risk arising from uncertainties about future prices of the instruments. The Fund adopts 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 daily basis by the Fund Manager.

At reporting date, the fund is not exposed to any interest rate and current rate fluctuation risk, as it does not hold any such instruments.

**i. Equity price risk**

Equity price risk is the risk that the value of an instrument will fluctuate as a result of changes in equity prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market.

The Fund mainly invests in stocks listed in the Kuwait Stock Exchange.

Equity price risk is managed by the Fund Manager through diversification of its investment position among various sectors of the market. The Fund adheres to the limits set by the Fund Manager in respect of diversification of the investment portfolio.

*Sensitivity analysis – equity price risk*

The Fund's investments are publicly traded and are included in Kuwait Stock Exchange Index (KSE Index).

For quoted investments, a 1% increase/decrease in KSE index at 31 December 2012 assuming that all other variables held constant and all the quoted investments moved according to the historical correlation with the KSE index, would have increased/decreased profit for the year and equity by KD 16,890 (2012: KD 16,618).

**Al Wasm Fund**  
**(Fund Manager – Kuwait Finance & Investment Company K.S.C.)**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 December 2013*

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**Credit risk**

Credit risk is the risk that a counter party 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 that best represent the maximum credit risk exposure at the statement of financial position date are bank balances amounting to KD 73,065 (2012: KD 435,857).

Bank balances are placed with high credit quality financial institutions.

**Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with redemptions by unit holders and settlement of liabilities. The Fund's units do not have any contractual maturity since these units are redeemable on demand at the unit holders' option.

Additionally, the Fund maintains adequate amount of cash and its investments are highly liquid and marketable.

All the financial liabilities of the fund is expected to mature within three months of the reporting date.

**Fair value of financial instruments**

The fair value of financial assets and liabilities at the reporting date were not significantly different from their carrying values.

*Fair value hierarchy*

When measuring the fair value of an asset or a liability, the Fund uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included 'Within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of investments at fair value through profit or loss amounting to KD 1,994,282 (2012: KD 1,382,242) is determined only based on Level 1 fair value measurement which is the quoted market prices prevailing at the reporting date. The fair value of unquoted securities of KD 24,000 (2012: KD 24,000) is determined based on Level 3 fair value measurement inputs.



**Al Wasm Fund**  
**(Fund Manager – Kuwait Finance & Investment Company K.S.C.)**  
**State of Kuwait**


**Notes to the financial statements**  
*for the year ended 31 December 2013*

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**13. Capital management objectives**

The Fund's articles of association specify the minimum amount of capital that must be held by the Fund. The table below summarizes the capital held by the Fund.

	<b>2013</b>	<b>2012</b>
	<b>KD</b>	<b>KD</b>
Capital	5,001,000	5,000,000
Minimum regulatory capital	5,000,000	5,000,000

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