

FALCOM SAUDI EQUITY ETF

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
AND INDEPENDENT AUDITOR'S REPORT**

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FINANCIAL STATEMENTS
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Independent auditor's report to the unitholders and the Fund's manager of Falcom Saudi Equity ETF

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 Falcom Saudi Equity ETF (the "Fund") as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at December 31, 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity attributable to the unitholders for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. 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 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 code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Key Audit Matter	Valuation of investments at fair value through statement of income (FVSI)
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Fund's manager made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Fund, the accounting processes and controls, and the industry in which the Fund operates.

Independent auditor's report to the unitholders and the Fund's manager of Falcom Saudi Equity ETF (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<p>Valuation of investments at fair value through statement of income ("FVSI")</p> <p>As at December 31, 2020, the Fund held investments in listed equity amounting to Saudi Riyals 19.25 million which have been classified as held at FVSI. These investments are carried at fair value with the corresponding fair value change recognized in the statement of income. The fair value of these investments is determined through obtaining market observable prices, as these are actively traded.</p> <p>The valuation of the Fund's investments at FVSI is considered a key audit matter due to the significance of such investments to the Fund's financial statements.</p> <p>Refer to Note 2.5.2 to the accompanying financial statements for the accounting policy of investments and Note 5 for related disclosure of investments held at FVSI.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none">• Agreed the carrying value of investments held at FVSI to the underlying list of investments;• Obtained market prices as at December 31, 2020 from external sources for a sample of investments held by the Fund, recalculated the fair value of these investments as at December 31, 2020 and compared these to the values included in the list of investments; and• Assessed the adequacy of the disclosures in the financial statements.

Other information

The Fund's manager is responsible for the other information. The other information comprises the information included in the Fund's annual report but does not include the financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Fund's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Fund's manager and those charged with governance for the financial statements

The Fund's manager is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority and the Fund's terms and conditions, and for such internal control as the Fund's 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's 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 Fund's manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Fund's financial reporting process.

Independent auditor's report to the unitholders and the Fund's manager of Falcom Saudi Equity ETF (continued)

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 the International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, 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 the International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, 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 manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund's manager.
- Conclude on the appropriateness of the Fund's 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 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers



Ali H. Al Basri
License Number 409

April 5, 2021

FALCOM SAUDI EQUITY ETF
STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals unless stated otherwise)

		As at December 31,	
		2020	2019
Assets			
Cash and cash equivalents		149,979	175,580
Financial assets at fair value through statement of income (FVSI)	5	19,246,483	23,719,167
Dividends receivable		8,283	-
Total assets		<u>19,404,745</u>	<u>23,894,747</u>
Liability			
Accrued management fees	6	59,554	59,497
Total liability		<u>59,554</u>	<u>59,497</u>
Equity attributable to the unitholders		<u>19,345,191</u>	<u>23,835,250</u>
Number of units in issue (units)		<u>550,000</u>	<u>725,000</u>
Unit value (Saudi Riyals)		<u>35.17</u>	<u>32.88</u>

The accompanying notes from 1 to 10 form an integral part of these financial statements.

FALCOM SAUDI EQUITY ETF
STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Saudi Riyals unless stated otherwise)

	Note	For the year ended December 31,	
		2020	2019
Income			
Dividends income		535,559	922,677
Gain on sale of financial assets at FVSI		47,602	836,151
Unrealised gain / (loss) on financial assets at FVSI		450,271	(78,638)
Total income		1,033,432	1,680,190
Expenses			
Management fees	6	(115,660)	(137,862)
Other expenses		(115,660)	(137,862)
Total expenses		(231,320)	(275,724)
Net income for the year		802,112	1,404,466
Other comprehensive income for the year		-	-
Total comprehensive income for the year		802,112	1,404,466

The accompanying notes from 1 to 10 form an integral part of these financial statements.

FALCOM SAUDI EQUITY ETF
STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO THE UNITHOLDERS
(All amounts in Saudi Riyals unless stated otherwise)

	For the year ended December 31,	
	2020	2019
Equity attributable to the unitholders as at January 1	23,835,250	19,736,568
Total comprehensive income for the year	802,112	1,404,466
Unitholders subscriptions and redemptions:		
Issuance of redeemable units during the year	-	11,603,291
Redemption of redeemable units during the year	(5,292,171)	(8,909,075)
Equity attributable to the unitholders as at December 31	19,345,191	23,835,250

The movement in number of units

The movement in number of units for the year ended December 31 is as follows:

	For the year ended December 31,	
	2020	2019
Number of units as at January 1	725,000	650,000
Issuance of redeemable units during the year	-	350,000
Redemption of redeemable units during the year	(175,000)	(275,000)
Number of units as at December 31	550,000	725,000

The accompanying notes from 1 to 10 form an integral part of these financial statements.

FALCOM SAUDI EQUITY ETF
STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals unless stated otherwise)

	For the year ended December 31,	
	2020	2019
Cash flows from operating activities		
Net income for the year	802,112	1,404,466
Adjustments for non-cash items:		
Gain on sale of financial assets at FVSI	(47,602)	(836,151)
Unrealised gain / (loss) on financial assets at FVSI	(450,271)	78,638
Changes in operating assets and liabilities:		
Additions to financial assets at FVSI	(275,912)	(12,220,436)
Proceeds from sale of financial assets at FVSI	5,246,469	8,905,374
Dividends receivable	57	3,198
Accrued management fees	(8,283)	7,337
Net cash flows generated from/ (used in) operating activities	5,266,570	(2,657,574)
Cash flows from financing activities		
Issuance of redeemable units during the year	-	11,603,291
Redemption of redeemable units during the year	(5,292,171)	(8,909,075)
Net cash flows (used in) / generated from financing activities	(5,292,171)	2,694,216
Net change in cash and cash equivalents	(25,601)	36,642
Cash and cash equivalents at the beginning of the year	175,580	138,938
Cash and cash equivalents at the end of the year	149,979	175,580

The accompanying notes from 1 to 10 form an integral part of these financial statements.

FALCOM SAUDI EQUITY ETF
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(All amounts in Saudi Riyals unless stated otherwise)

1. Legal status and Principal activities

Falcom Saudi Equity ETF (the "Fund") is a fund established under agreement between Falcom Financial Services (the "Fund's manager") and investors in the Fund (the "Unitholders"). The Fund's objectives are represented in achieving capital growth and gains on the long term through the inactive investment of a basket of shares of companies listed on the Saudi stock exchange for the purpose of achieving performance level similar to index performance before fees and expenses.

The address of the Fund's manager is as follows:

Falcom Financial Services
Olaya Street, P.O. Box 884
Riyadh 11421
Kingdom of Saudi Arabia

In dealing with the unitholders, the Fund's manager considers the Fund as an independent accounting unit. Accordingly, the Fund's manager prepares separate financial statements for the Fund.

The Capital Market Authority ("CMA") license was granted to the Fund on 12 Jumada Al Akhir 1429 H (corresponding to June 16, 2008). The Fund commenced operations on 9 Rajab 1429H (corresponding to July 12, 2008).

The Fund is subject to the provisions of the Investment Fund Regulations ("IFR") issued by the CMA on 3 Dhu al-Hijjah 1427H (corresponding to December 24, 2006) as amended by the CMA on 16 Shabaan 1437H (corresponding to May 23, 2016) which clarifies the requirements for the operation of the investment funds in the Kingdom of Saudi Arabia.

1.1 Primary market operation (issuance and redemption of units)

Falcom Financial Services as the Fund's manager of the ETF, carry out the primary market operations. Falcom Financial Services also acts as the Market Maker for the ETF. The creation and redemption activities are done on the basis of baskets of exchange traded fund (ETF) units (for the Fund, one basket equals 25,000 ETF units), referred to creation and redemption of units respectively. The process of creation and redemption of ETF units is on an in-kind basis whereby the Fund's manager and the Market Maker interexchange ETF units of the Fund and equity, through the custodian, for the purpose of creation and redemption of ETF units. The created units are then freely floated on Tadawul for public trading.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

These financial statements have been prepared under the historical cost convention method except for revaluation of financial assets at fair value through statement of income (FVSI).

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of liquidity.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions on accounting estimates are recognised in the year in which the estimates are revised and in any future years affected. No significant estimates or assumptions have been made in the preparation of these financial statements.

The Fund is expected to retrieve or settle all its assets and liabilities within 12 months after the reporting date.

FALCOM SAUDI EQUITY ETF
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(All amounts in Saudi Riyals unless stated otherwise)

2.2 Changes in accounting policy and disclosures

(i) New standard effective in current year

The International Accounting Standard Board (IASB) has issued the following amendments to accounting standards, which were effective from January 1, 2020 but do not have any significant impact on the financial statements of the Fund.

- (a) Amendments to IFRS 3: Definition of a Business
- (b) Amendments to IAS 1 and IAS 8: Definition of Material
- (c) Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

(ii) Accounting standards issued but not yet effective

The International Accounting Standard Board (IASB) has issued following accounting standards and amendments which are effective from periods on or after January 1, 2021. The Fund has opted not to early adopt these pronouncements and they are not expected to have a significant impact on the financial statements of the Fund.

- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions.
- Amendments to IFRS 17 and IFRS 4, 'Insurance contracts', deferral of IFRS 9.
- Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2.
- Amendments to IAS 1, Presentation of financial statements' on classification of liabilities.
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16.
- IFRS 17, 'Insurance contracts'.

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates (the "functional currency"). These financial statements are presented in Saudi Riyals which is the Fund's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals using prevailing exchange rates at the statement of financial position date. Foreign exchange losses and gains of these transactions are included in the statement of comprehensive income.

2.4 Cash and cash equivalents

The Fund's cash and cash equivalents comprise balance with Banque Saudi Fransi. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.5 Financial instruments

All regular-way purchases and sales of financial assets are recognised and derecognized on the trade date, i.e. the date that the Fund commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

All other financial assets and liabilities are initially recognised on the trade date at which the Fund becomes a party to the contractual provision of the instrument.

2.5.1 Measurement methods

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument i.e. Trade date.

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through statement of income (FVSI), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVSI are expensed in the statement of comprehensive income. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an impairment loss being recognised in the statement of comprehensive income when an asset is newly originated.

2.5.2 Classification and measurement of financial instruments

The Fund classifies its equity instruments at FVSI and other financial assets at amortised cost. The classification requirements for equity and debt instruments are described below:

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's equity.

The Fund classifies its investments as held at FVSI. The Fund subsequently measures all equity investments at FVSI, except where the Fund's manager has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income (FVOCI). The Fund's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to the statement of comprehensive income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the statement of comprehensive income when the Fund's right to receive dividend is established.

The subsequent unrealised revaluation gains / loss on investment held at FVSI is recognised in the statement of comprehensive income.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective.

Classification and subsequent measurement of debt instruments depend on:

- The Fund's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on the business model and cash flow characteristics, the debt financial assets can be classified as held at amortised cost, FVSI and FVOCI.

2.5.3 Impairment of financial assets held at amortised cost

The Fund assesses expected credit losses on a prospective basis for its assets carried at amortised cost. The Fund recognises a provision for such losses at each reporting date. The measurement of expected credit losses reflects the following:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- Time value of resources; and
- Reasonable and supported information available at no cost or undue effort at the reporting date on past events, current conditions or expectations of future economic conditions.

The value of financial assets held at amortised cost has been taken into account in the calculation of expected credit loss. However, the expected credit loss was insignificant. Accordingly, it has not been presented in these financial statements. Financial assets held at amortised cost include bank balances. Bank balances are held at banks with high credit rating.

2.5.4 De-recognition of financial instruments

A financial asset is derecognised, when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. In instances where the Fund is assessed to have transferred a financial asset, the asset is derecognised if the Fund has transferred substantially all the risks and rewards of ownership. Where the Fund has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Fund has not retained control of the financial asset. The Fund recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability is derecognised only when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

FALCOM SAUDI EQUITY ETF
NOTES TO THE FINANCIAL STATEMENTS
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(All amounts in Saudi Riyals unless stated otherwise)

2.5.5 Financial liabilities

All financial liabilities are initially recognised at fair value less transaction cost except for financial liabilities measured at FVSI where transaction cost, if any, are not deducted from the fair value measurement at initial recognition and are included in the statement of comprehensive income. The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVSI.

2.6 Offsetting

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position only when the Fund currently has a legally enforceable right to offset these amounts and when there is an intention to either settle them on a net basis or realise the assets and settle the liabilities simultaneously.

2.7 Accruals and other liabilities

Liabilities are recognised for amounts to be paid for goods or serviced received whether or not billed to the Fund. Accruals and other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective commission rate method.

2.8 Equity attributable to the unitholders

Equity attributable to unitholders is equity and is made up of units issued and retained earnings resulting from Fund's activity.

(a) Redeemable Units

The Fund classifies its redeemable units as an equity instrument if the redeemable units have all of the following features:

- It entitles the holder to a pro rata share of the Fund's equity in the event of the Fund's liquidation.
- The instrument is in the class of instruments that is subordinate to all other classes of instruments.
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
- The instrument does not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata shares of the Fund's equity.
- The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised equity or the change in the fair value of the recognised and unrecognised equity of the Fund over the life of the instrument.

In addition - in order to classify instruments as equity - the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognised equity or the change in the fair value of the recognised and unrecognised equity of the Fund; and
- The effect of substantially restricting or fixing the residual return to the instrument holders.

The Fund's redeemable participating units meet the definition of puttable instruments classified as equity instruments under IFRS and accordingly, are classified as equity instruments.

The Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have any of the features or meet all the conditions set out in IFRS, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity attributable to unitholders. If the redeemable units subsequently have all the features and meet the conditions set out in IFRS, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification. The subscription and redemption of redeemable units are accounted for as equity transactions as long as units are classified as equity.

The Fund's distributions are classified as dividend distribution in the statement of changes in equity attributable to the unitholders.

(b) Trading in the units

Units of the Fund are available for purchasing only in the Kingdom of Saudi Arabia at Falcom Financial Services branches by natural and corporate persons. The equity value of the Fund is determined on the valuation day by dividing the equity value (fair value of total assets minus liabilities) by the total number of outstanding units on the relevant valuation day.

FALCOM SAUDI EQUITY ETF
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(All amounts in Saudi Riyals unless stated otherwise)

2.9 Tax / Zakat

No provision for zakat or income tax has been made in the accompanying financial statements, whereas zakat or income tax, if any, will be an obligation on the unitholders.

2.10 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Fund and can be reliably measured, regardless of the time of payment. Revenue is measured at the fair value of the consideration received net of taxes and rebates.

Dividend income is recognised when the Fund's right to receive the dividends is established.

3. Financial risk management

3.1 Financial risk factors

The Fund's objective is to ensure the Fund's ability to continue as a going concern so that it can continue to provide optimal returns for the unitholders and ensure reasonable safety of the unitholders.

The Fund's activities expose it to a variety of financial risks which include market risk, credit risk and liquidity risk.

The Fund's manager is responsible for identifying and monitoring risks. The Fund's Board of Directors oversees the Fund's manager and is ultimately responsible for the overall management of the Fund.

The risks are monitored and controlled based on the limits set by the Fund's Board of Directors. The Fund has a document of terms and conditions that define its general business strategies and expose it to risks and overall risk management and is obligated to take actions to rebalance the portfolio in line with investment guidelines.

The Fund uses various methods to measure and manage the different types of risks to which it is exposed. The following is an explanation of these methods:

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in currency exchange rates. These risks arise from financial instruments denominated in foreign currencies. All the Fund's transactions and balances are denominated in Saudi Riyals; therefore, the Fund is not exposed to foreign exchange risk.

(ii) Commission rate risk

Special commission rate risk arises from the possibility that changes in the market's special commission rates will affect future profitability or the fair value of financial instruments. The Fund is not subject to significant special commission rate risks, as it does not have any financial instruments that carry significant special commission.

(iii) Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate due to changes in market prices due to factors other than the movement of foreign exchange rates and commissions.

Price risk arises mainly from uncertainty about the future prices of financial instruments owned by the Fund. The Fund's manager closely monitors the price movements of the financial instruments listed on the Saudi Stock Exchange. The Fund manages the risks by diversifying its investment portfolio by investing in various market sectors.

FALCOM SAUDI EQUITY ETF
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(All amounts in Saudi Riyals unless stated otherwise)

The table below shows the Fund's total financial assets by investment sectors:

Sector	December 31, 2020		December 31, 2019	
	%		%	
Banks	27.19%	5,233,045	35.43%	8,402,816
Primary materials	23.79%	4,579,167	29.11%	6,905,457
Energy	16.66%	3,205,594	1.55%	367,720
Telecommunications	9.82%	1,890,390	10.34%	2,451,915
Food production	5.71%	1,099,217	4.56%	1,080,605
Real estate	5.61%	1,079,420	7.15%	1,696,964
Public utilities	2.73%	525,301	2.64%	625,668
Retail	2.22%	427,258	2.65%	629,114
Health care	2.18%	419,870	0.00%	-
Insurance	1.75%	336,409	2.32%	550,531
Food retail	1.25%	240,442	0.85%	203,261
Complementary commodities	1.09%	210,371	1.46%	346,733
Consumer services	-	-	0.98%	231,812
Professional and commerce services	-	-	0.96%	226,571
	100%	19,246,483	100.00%	23,719,167

The impact on equity value (as a result of change in the fair value of financial assets) is due to a reasonable possible change in equity indicators on a sector basis, with other variables held constant as follows:

Sector	December 31, 2020		December 31, 2019	
	Change %	Impact on equity	Change %	Impact on equity
Banks	5%	261,652	5%	420,141
Primary materials	5%	228,958	5%	345,273
Energy	5%	160,280	5%	18,386
Telecommunications	5%	94,520	5%	122,596
Food production	5%	54,961	5%	54,030
Real estate	5%	53,971	5%	84,848
Public utilities	5%	26,265	5%	31,283
Retail	5%	21,363	5%	31,456
Health care	5%	20,994	5%	-
Insurance	5%	16,820	5%	27,527
Food retail	5%	12,022	5%	10,161
Complementary commodities	5%	10,519	5%	17,337
Consumer services	5%	-	5%	11,591
Professional and commerce services	5%	-	5%	11,329
	5%	962,324	5%	1,185,958

(b) Credit risk

The Fund is exposed to credit risk, which is the risk that one party to the financial instrument will cause a financial loss to the other party through the inability to settle an obligation.

The Fund's policy is to conclude financial instrument contracts with reputable counterparties. The Fund seeks to reduce credit risk by monitoring credit exposures, setting limits for transactions with specific counterparties, and constantly assessing the solvency of such parties.

The Fund's manager reviews the credit concentration of the investment portfolio, depending on the counterparties. The Fund is not currently exposed to credit risk within its investment portfolio. The cash and cash equivalents balance is deposited with Banque Saudi Fransi, which has an external credit rating from Moody's with a credit quality of A1.

(c) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to generate sufficient cash resources to fully settle its obligations when they fall due, or it can only be done on terms that are not feasible.

The Fund terms and conditions stipulate the possibility of the subscriptions and redemptions of units on each valuation day. Therefore, the Fund is exposed to the liquidity risk resulting from the payment of the redemptions

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at any time. Fund securities are easily realisable and can be liquidated at any time. However, the Fund's manager has developed the Fund's liquidity guidelines and monitors the liquidity requirements regularly to ensure that there are sufficient funds to fulfil any obligations as they arise, either through new subscriptions, liquidation of the investment portfolio, or obtaining funding from related parties.

3.2 Capital risk management

The Fund's capital represents equity attributable to the redeemable unit holders. The value of equity attributable to the redeemable unit holders may change significantly on each valuation day, whereas the Fund is subject to subscriptions and redemptions at the discretion of the unitholders on each valuation day, in addition to 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 so that it can continue to provide returns for the unitholders and benefits for other stakeholders, and to maintain the capital base to support the development of the Fund's investment activities.

To maintain the capital structure, the Fund's policy is to monitor the level of subscriptions and redemptions related to the assets that it is expected to be able to liquidate and to adjust the amount of distributions that the Fund may pay to the redeemable unitholders.

The Fund's Board of Directors and the Investment Manager monitor the capital based on the equity attributable to the redeemable unit holders.

4. Fair value estimation

The fair value of financial instruments traded in active markets are based on quoted market prices at the end of trading as at the reporting date. Instruments that have not been sold are valued on the valuation day based on the most recent bid price.

An active market is a market in which assets or liabilities are treated with sufficient movement and volume to provide price information on an ongoing basis. The carrying value less impairment provision of other receivables and carrying value of payables approximate their fair values.

The fair value hierarchy consists of the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for assets and liabilities.

Investments are based on prices quoted in active markets classified as level 1, and include quoted equity instruments. The Fund does not adjust the quoted price for these instruments.

The following table includes the hierarchy analysis for the fair value of Fund's assets and liabilities (by class) measured at fair value as at December 31, 2020 and December 31, 2019:

As at December 31, 2020

Assets class	Level 1	Level 2	Level 3	Total
Financial assets at FVSI	19,246,483	-	-	19,246,483

As at December 31, 2019

Assets class	Level 1	Level 2	Level 3	Total
Financial assets at FVSI	23,719,167	-	-	23,719,167

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5. Financial assets at FVSI

All of the Fund's financial assets are investments in shares of Saudi joint stock enterprises listed on the Saudi Stock Exchange and units in a Saudi investment fund held for trading. The details of investment in equity portfolio are summarized as follows:

Sector	Fair value	
	December 31, 2020	December 31, 2019
Banks	5,233,045	8,402,816
Primary materials	4,579,167	6,905,457
Energy	3,205,594	367,720
Telecommunications	1,890,390	2,451,915
Food production	1,099,217	1,080,605
Real estate	1,079,420	1,696,964
Public utilities	525,301	625,668
Retail	427,258	629,114
Health care	419,870	-
Insurance	336,409	550,531
Food retail	240,442	203,261
Complementary commodities	210,371	346,733
Consumer services	-	231,812
Professional and commerce services	-	226,571
	19,246,483	23,719,167

The Fund invests in the shares of enterprises within the targeted indicator portfolio, taking into account the relative weights of assets distribution, while sufficient cash is held continuously to meet expenses and any other obligations on the Fund.

6. Related party transactions and balances

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.

Within the normal course of business, the Fund deals with related parties that are in turn subject to the Fund's terms and conditions issued by the CMA. All transactions with related parties are approved by the Fund's Board.

The Fund's manager and companies related to the Fund's manager are considered as related parties to the Fund.

Related party	Nature of transaction	Amount of transactions during the year ended December 31,		Closing balance	
		2020	2019	December 31, 2020	December 31, 2019
Falcom Financial Services	Management fees	115,660	137,862	59,554	59,497
Falcom Financial Services	(Disposal of) / Investment in Fund units	(3,130,172)	2,652,415	3,521,734	6,651,906

The Fund pays management fees, fees and other expenses calculated on each evaluation day in the percentages shown below of the Fund's net assets value.

	Percentage
Management fees	0.5%
Other fees and expenses, including:	
Administrative fees	0.17%
Custody fees	0.15%
Index fees	0.10%
Listing and recording fees	0.08%

In accordance with the terms and conditions of the Fund, the annual rate of the Fund's expenses shall not exceed 1% of the equity value. In addition, the Fund's manager refunds any other expenses paid on behalf of the Fund.

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7. Financial instruments

		December 31,	
	Note	2020	2019
Financial assets – at amortized cost			
Cash and cash equivalents		149,979	175,580
Dividend receivable		8,283	-
Financial assets – at fair value			
Financial assets at FVSI	5	19,246,483	23,719,167
Financial liabilities – at amortized cost			
Accrued management expenses	6	59,554	59,497

8. Impact of COVID-19 on the fund

The COVID-19 pandemic developed rapidly in the first half of 2020, with a significant number of cases. Measures taken to contain the virus affected economic activities during that time. The Fund's manager has taken several measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home during the peak of the pandemic). However, moving to the end of 2020 and the beginning of 2021, things are looking more normal, especially with the approval of a number of vaccines for immediate use.

During the peak of the pandemic, the impact on the business and results were significant. However, during the second half of 2020 and beyond the market became more normalized with the economies across the world opening up from total lockdown. As the Fund operates in the equity market, a decline in Tadawul's index was witnessed during the first half of 2020 due to uncertainty involved and thus decline in investment's value during that period. Nonetheless, assisted by the improvement in the economic activity in the second half of 2020, the Fund was able to end the year with generating an overall profit for the year.

Management reassures that it will continue to follow the Government's policies and advice and, in parallel, management will do our utmost to continue our operations in the best and safest way possible without jeopardising the health and safety of our people.

9. Last valuation day

The Fund units are valued, and the equity value is calculated at the end of each working day (valuation day). The last day of valuation was December 31, 2020.

10. Approval of the financial statements

The financial statements were approved by the Fund's manager on April 4, 2021.