

**FALCOM**  
**SAUDI EQUITY EXCHANGE TRADED FUND**

**FINANCIAL STATEMENTS**  
**For the year ended 31 December 2015**  
**together with the**  
**INDEPENDENT AUDITORS' REPORT**



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## **INDEPENDENT AUDITORS' REPORT**

To: **The Unitholders**  
**FALCOM Saudi Equity Exchange Traded Fund**  
**Riyadh, Kingdom of Saudi Arabia**

We have audited the accompanying financial statements of FALCOM Saudi Equity Exchange Traded Fund (the "Fund") –managed by FALCOM Financial Service (the "Fund Manager"), which comprise the balance sheet as at 31 December 2015, and the related statements of income, cash flows and changes in net assets attributable to Unitholders for the year then ended and the attached notes (1) to (14) which form an integral part of the financial statements.

### ***Fund Manager's responsibility for the financial statements***

The Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the accounting standards on financial reporting issued by the Saudi Organization of Certified Public Accountants (SOCPA) and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Fund Manager has provided us with all the information and explanations that we require relating to our audit of these financial statements.

### ***Auditors' responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Fund'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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of accounting estimates made by the Fund Manager, as well as evaluating the overall presentation of the financial statements.

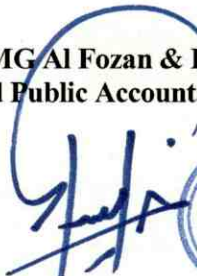
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

In our opinion, the financial statements taken as a whole present fairly, in all material respects, the financial position of the FALCOM Saudi Equity Exchange Traded Fund as at 31 December 2015, and the results of its operations and its cash flows for the year then ended in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Fund.

**For KPMG Al Fozan & Partners  
Certified Public Accountants:**

  
Khalil Ibrahim Al Sedais  
License No. 371



Riyadh on: 21 Jumada'II 1437H  
Corresponding to: 30 March 2016

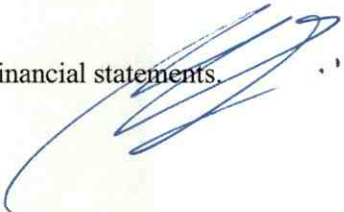
**FALCOM SAUDI EQUITY EXCHANGE TRADED FUND  
BALANCE SHEET**

As at 31 December 2015

(Amounts in Saudi Arabian Riyals)

	<i>Note</i>	<u>2015</u>	<u>2014</u>
<b><u>ASSETS</u></b>			
Cash balance		<b>541,188</b>	218,230
Held for trading investments	7	<b>21,961,269</b>	26,741,171
<b>TOTAL ASSETS</b>		<b><u>22,502,457</u></b>	<u>26,959,401</u>
<b><u>LIABILITIES</u></b>			
Accrued liabilities		<b>64,358</b>	80,537
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b><u>22,438,099</u></b>	<u>26,878,864</u>
<b>Units in issue (<i>numbers</i>)</b>		<b><u>900,000</u></b>	<u>925,000</u>
<b>Net assets value - per unit</b>		<b><u>24.93</u></b>	<u>29.06</u>

The accompanying notes 1 through 14 form an integral part of these financial statements.



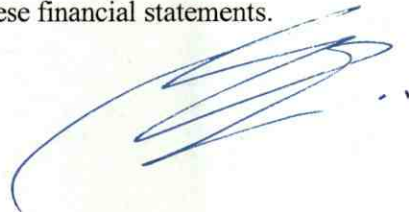
**FALCOM SAUDI EQUITY EXCHANGE TRADED FUND  
STATEMENT OF INCOME**

For the year ended 31 December 2015

(Amounts in Saudi Arabian Riyals)

	<i>Notes</i>	<u>2015</u>	<u>2014</u>
<b>INCOME</b>			
Trading (loss) / gain, net	8	(4,899,700)	(2,939,261)
Dividend income		949,367	841,523
		<u>(3,950,333)</u>	<u>(2,097,738)</u>
<b>EXPENSES</b>			
Fund management fee	9&10	146,631	142,309
Other expenses	9	146,631	142,309
		<u>293,262</u>	<u>284,618</u>
<b>NET LOSS</b>		<u>(4,243,595)</u>	<u>(2,382,356)</u>

The accompanying notes 1 through 14 form an integral part of these financial statements.



**FALCOM SAUDI EQUITY EXCHANGE TRADED FUND****STATEMENT OF CASH FLOWS**

For the year ended 31 December 2015

(Amounts in Saudi Arabian Riyals)

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	(4,243,595)	(2,382,356)
<i>Adjustment for:</i>		
Trading loss on held for trading investments (note 8)	4,899,700	2,939,261
	<u>656,105</u>	<u>556,905</u>
<b>Changes in operating assets and liabilities:</b>		
Held for trading investments	(264,659)	(631,868)
Accrued liabilities	(16,179)	(7,120)
<b>Net cash generated from / (used in) operating activities</b>	<u>375,267</u>	<u>(82,083)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Creation of units	124,215	126,662
Redemption of units	(176,524)	(53,906)
<b>Net cash (used in) / generated from financing activities</b>	<u>(52,309)</u>	<u>72,756</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	322,958	(9,327)
Cash and cash equivalents at beginning of the year	218,230	227,557
<b>Cash and cash equivalents at end of the year</b>	<u>541,188</u>	<u>218,230</u>
<b>SUPPLEMENTAL NON CASH INFORMATION</b>		
Net decrease in held for trading investments	4,515,243	572,061
In-kind creation of units	11,911,180	10,914,288
In-kind redemption of units	(12,056,041)	(8,666,702)

The accompanying notes 1 through 14 form an integral part of these financial statements.

**FALCOM SAUDI EQUITY EXCHANGE TRADED FUND**  
**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

For the year ended 31 December 2015

(Amounts in Saudi Arabian Riyals)

	2015		2014	
	<i>Number of units</i>	<i>Net assets value</i>	<i>Number of units</i>	<i>Net assets value</i>
<b>At the beginning of the year</b>	<b>925,000</b>	<b>26,878,864</b>	900,000	26,940,878
<b>Net loss for the year</b>	--	<b>(4,243,595)</b>	--	(2,382,356)
<b>Changes from unit transactions</b>				
Creation of units	<b>375,000</b>	<b>12,035,395</b>	300,000	11,040,950
Redemption of units	<b>(400,000)</b>	<b>(12,232,565)</b>	(275,000)	(8,720,608)
Net change	<b>(25,000)</b>	<b>(197,170)</b>	25,000	2,320,342
<b>At the end of the year</b>	<b>900,000</b>	<b>22,438,099</b>	925,000	26,878,864

The accompanying notes 1 through 14 form an integral part of these financial statements.

**FALCOM SAUDI EQUITY EXCHANGE TRADED FUND  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2015

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**1. THE FUND AND ITS ACTIVITIES**

- 1.1** FALCOM Saudi Equity Exchange Traded Fund (“the Fund”) is an exchange traded mutual investment fund created through an Agency (Wakala) contract between FALCOM Financial Services (the Fund Manager) and the Investors established by virtue of the approval of Capital Market Authority on 30 Rabi Al-Awwal 1431H corresponding to 16 March 2010. The objective of the Fund is to passively invest in the listed Saudi equities in order to achieve the results that correspond to the performance of F30 FALCOM Saudi Equity Index, the “Benchmark Index”, which is a free-float market capitalization based index that tracks the performance of top 30 (by free float market capitalization) Shariah compliant Saudi equities (the “Component Securities”) listed on Tadawul.

In June 2013, the Fund appointed HSBC Saudi Arabia Limited to act as the custodian and Saudi Fransi Capital as the second market maker (previously FALCOM Financial Services). However, Falcom Financial Services continued to act as the primary market maker.

**2. REGULATING AUTHORITY**

The Fund is governed by the Investment Fund Regulations (“the Regulations”) issued by Capital Market Authority (CMA) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) detailing requirements for all funds within the Kingdom of Saudi Arabia.

**3. PRIMARY MARKET OPERATION (CREATION AND REDEMPTION OF UNITS)**

The primary market operation is only carried out between Fund Manager and the authorized Market Maker. The Creation and Redemption activities are done on the basis of blocks of exchange traded fund (ETF) units only (*one block equals 25,000 ETF Units*), referred as Creation Unit and Redemption Unit respectively. The process of creation and redemption of ETF Units is on in-kind basis whereby Fund Manager and Market Maker inter-exchange ETF Units and the Basket of shares, through custodian, for the purpose of creation and redemption of ETF Units.

**4. VALUATION OF THE FUND**

The value of the Fund’s portfolio is determined on the valuation day. The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net value of assets (fair value of fund assets *minus* fund liabilities) by the total number of outstanding fund units on the end of the day.

**5. BASIS OF PREPARATION**

**5.1 Statement of compliance**

The accompanying financial statements have been presented in accordance with the general accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization of Certified Public Accountants (the “SOCPA”).



**FALCOM SAUDI EQUITY EXCHANGE TRADED FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2015

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**5. BASIS OF PREPARATION (CONTINUED)**

**5.2 Basis of measurement**

These financial statements have been prepared under the historical cost convention using accrual basis of accounting and the going concern concept, except for the measurement of held for trading investments at fair value.

**5.3 Functional and presentation currency**

These financial statements are presented in Saudi Arabian Riyals (SAR) which is the functional currency of the Fund. All financial information presented has been rounded to the nearest SAR.

**5.4 Use of estimates and judgments**

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

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 future periods affected.

**6. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently throughout the periods presented in these financial statements.

**6.1 Investments held for trading**

Investments are classified as "Held for trading" as these are purchased for the purpose of resale in the short term. Investments held for trading are initially recorded at cost which includes the purchase price plus all expenses made by the Fund for the purpose of acquiring securities. Subsequent to initial recognition, investments held for trading are measured at fair value and resulting gains or losses are recognised in the statement of income. Realised gains or losses at disposal and unrealised gains or losses are determined on average cost basis.

**6.2 Revenue recognition**

The realized gain or loss from a held for trading investments is calculated as the difference between its carrying amount at the beginning of the reporting period, or transaction price when purchased in the current reporting period and its sale price.

The unrealized gain or loss is calculated as the difference between the carrying amount of a held for trading investment at the beginning of the reporting period, or transaction price when purchased in the current reporting period and its carrying amount at the end of the reporting period.

Dividend income is recognised when the right to receive is established.

**6.3 Fund management fee, custodian & fund administration fees and other expenses**

Fund management fee, custodian & fund administration fees and other expenses are charged at agreed rates with the Fund Manager. These charges are calculated and accrued on each valuation day at an annual percentage of the Fund's net assets value at each valuation day and are payable quarterly. These expenses are charged to the statement of income.

**6.5 Zakat / income tax**

Zakat / income tax is the obligation of the Unitholders and is not provided for in the accompanying financial statements.

**FALCOM SAUDI EQUITY EXCHANGE TRADED FUND****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2015

(Amounts in Saudi Arabian Riyals)

**7. HELD FOR TRADING INVESTMENTS**

The composition of held for trading investments by-investee is summarized as follows:

<i>Description</i>	<u>2015</u>	<u>2014</u>
Al Rajhi Bank	3,405,168	3,358,259
Saudi Basic Industries Corporation	2,680,110	3,083,136
Jabal Omar Development Company	1,696,302	1,620,045
Saudi Telecom Company	1,221,129	1,228,539
SAVOLA Group	1,100,779	1,826,792
Al Inma Bank	904,824	1,208,520
Al Marai Company	873,270	914,529
Saudi Arabia Fertilizers Company	765,603	953,018
Jarir Marketing Company	763,686	958,300
Maaden Saudi Arabian Mining Company	741,024	674,843
Etihad Etisalat Company	689,321	1,128,426
Saudi Electricity Company	623,133	616,605
Makkah Construction and Development Company	562,464	493,210
The National Shipping Company of Saudi Arabia	530,122	402,560
Saudi Cement Company	470,340	717,504
Al Tayyar Travel Group Holding Company	462,978	594,405
Bank Al Bilad	432,180	721,137
Fawaz Abdulaziz Al Hokair Company	413,694	611,129
Dar Al Arkan Real Estate Development Company	369,619	489,717
Yanbu National Petrochemical Company	363,870	568,320
Bupa Saudi Arabia	356,814	-
National Industrialization Company	341,532	897,398
Advanced Polypropylene Company	320,299	355,762
Bank Al Jazira	317,844	570,851
Yamamah Saudi Cement Company Limited	314,118	477,744
Yanbu Cement Company	285,012	419,256
Saudi International Petrochemical Company	252,504	519,598
Arabian Cement Company	247,950	420,006
Sahara Petrochemical Company	228,780	336,330
Southern Province Cement Company	226,800	367,845
Mobile Telecommunication Company (Zain KSA)	-	207,387
<b>Total</b>	<u><b>21,961,269</b></u>	<u><b>26,741,171</b></u>

7.1 As at 31 December 2015, cost of the above mentioned held for trading investments amounted to SAR 27.05 million (31 December 2014: 29.78 million).

**FALCOM SAUDI EQUITY EXCHANGE TRADED FUND****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2015

(Amounts in Saudi Arabian Riyals)

**8. TRADING GAIN / (LOSS), NET**

	<u>2015</u>	<u>2014</u>
Realised gain on held for trading investments	186,641	105,349
Unrealised (loss) / gain on held for trading investments	(5,086,341)	(3,044,610)
	<u>(4,899,700)</u>	<u>(2,939,261)</u>

**9. MANAGEMENT FEE AND OTHER EXPENSES**

The Fund Manager charges to the Fund on each Valuation Day, management fee at following rates as percentage of the Fund's net assets value:

<b>Management fee</b>	<b>0.50% (2014: 0.50%)</b>
<b>Other expenses:</b>	
Administration fee	0.17% (2014: 0.17%)
Custodial charges	0.15% (2014: 0.15%)
Index fee	0.10% (2014: 0.10%)
Tadawul listing and basic registration fee	Up-to 0.08% (2014: Up-to 0.08%)

**10. TRANSACTIONS WITH RELATED PARTIES**

In the ordinary course of its activities, the Fund transacts with the related party. FALCOM Financial Services (being the Fund Manager and primary market maker) is considered to be a related party of the Fund.

Related party transactions for the year ended 31 December 2015 and balances arising thereof are described as under:

Related party	Nature of transactions	Amount of transaction during the period		Closing balance	
		<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
FALCOM Financial Services	Fund management fee	146,631	142,309	32,179	40,269

## FALCOM SAUDI EQUITY EXCHANGE TRADED FUND

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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#### 11. RISK MANAGEMENT

##### *Credit risk*

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund is exposed to credit risk for its cash balance only. The exposure is not significant since the cash balance is maintained with the custodian with sound credit rating.

##### *Equity price risk*

Equity price risk is the risk that the fair value of equity investments decreases due to general market and as a result of changes in the levels of equity indices and the value of individual stocks. The Fund is exposed to equity price risk arising from its investments in shares.

The Fund Manager endeavors to minimize the risk including the concentration risk through investment in component securities of Benchmark Index and periodic rebalancing to ensure adequate tracking of the Benchmark Index.

##### *Liquidity risk*

Liquidity risk is the risk that the Fund may encounter difficulty in releasing funds to meet commitments associated with financial liabilities and redemption of units.

The Fund has the mechanism of in-kind redemption of units, hence, not significantly exposed to liquidity risk. Furthermore, the Fund Manager, through periodic Fund rebalancing activities, ensures to keep adequate cash with custodian to meet its financial commitments associated with financial liabilities.

#### 12. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments comprise financial assets and financial liabilities.

The Fund's financial assets consist of cash at bank and held for trading investments; its financial liabilities consist of other liabilities, which represent liabilities towards Fund Manager and custodian to the Fund.

Investments are carried at fair values. The fair values of other financial instruments are not materially different from their carrying values.

#### 13. LAST VALUATION DAY

The last valuation day of the period was 31 December 2015 (2014: 31 December 2014).

#### 14. AUTHORIZATION

These financial statements were authorized for issue by the Fund Board on 21 Jumada'II 1437H (corresponding to 30 March 2015).