FALCOM FINANCIAL SERVICES
(A Single Shareholder Saudi Closed Joint Stock Company)

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

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FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Independent auditor's report to the shareholder of Falcom Financial Services (A Single Shareholder Closed Joint Stock Company)

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 Financial Services (the "Company") 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 Company's financial statements comprise:

- the statement of financial position as at December 31, 2020;
- the statement of income and other comprehensive income for the year then ended;
- the statement of changes in shareholder's equity 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 Company 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.

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

Management 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 requirements of the Regulations for Companies and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent auditor's report to the shareholder of Falcom Financial Services Company (A Single Shareholder Closed Joint Stock Company) (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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company 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 management and 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.

PricewaterhouseCoopers

Ali H. Al Basri
License Number 409

February 14, 2020

FALCOM FINANCIAL SERVICES
(A Single Shareholder Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	December 31, 2020	2019
ASSETS			
CURRENT ASSETS			
Cash and bank balances	4	**39,712**	57,555
Due from financial institutions	5	**-**	22,667
Margin lending and murabaha financing	6	**274,859**	83,896
Investments at fair value through statement of income (FVSI)	7	**5,591**	13,572
Due from related parties	8	**6,695**	5,627
Other assets	9	**18,201**	11,508
		345,058	194,825
NON-CURRENT ASSETS			
Investments at fair value through other comprehensive income (FVOCI)	7	**2,080**	2,035
Investments at fair value through statement of income (FVSI)	7	**3,833**	-
Property and equipment, net	10	**65,921**	66,806
		71,834	68,841
TOTAL ASSETS		**416,892**	263,666
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Accounts payable and accruals	11	**22,336**	8,906
Due to a related party	8	**211,310**	86,784
Provision for zakat	12	**2,894**	3,105
		236,540	98,795
NON-CURRENT LIABILITY			
Employee end of service benefits	13	**10,299**	9,342
TOTAL LIABILITIES		**246,839**	108,137
SHAREHOLDER'S EQUITY			
Share capital	14	**150,000**	150,000
Statutory reserve	15	**9,192**	25,119
Other reserves	17	**80**	35
Retained earnings / (accumulated losses)		**10,781**	(19,625)
TOTAL SHAREHOLDER'S EQUITY		**170,053**	155,529
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**416,892**	263,666
Contingencies and commitments	18		

The notes on pages 7 to 29 form an integral part of these financial statements.

FALCOM FINANCIAL SERVICES
(A Single Shareholder Saudi Closed Joint Stock Company)

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the year ended December 31, 2020	2019
INCOME			
Commission on brokerage services		**50,361**	14,606
Management and subscription fee from mutual funds		**17,745**	21,212
Advisory services income		**25,254**	10,605
Gain from sale of investments, net	19	**1,840**	2,941
		95,200	49,364
EXPENSES			
Salaries and related benefits		**(35,944)**	(24,656)
Finance costs	8	**(6,698)**	(6,639)
Other general and administrative expenses	20	**(13,801)**	(8,808)
		(56,443)	(40,103)
Income from operations		**38,757**	9,261
Other income	21	**2,000**	3,084
Income before zakat		**40,757**	12,345
Zakat	12	**(3,778)**	(3,147)
Income for the year		**36,979**	9,198
Other comprehensive income			
Changes in the fair value of investments at FVOCI	17	**45**	33
Total comprehensive income for the year		**37,024**	9,231
Earnings per share:			
Earnings for the year (Saudi Riyal)	22	**2.27**	0.61

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FALCOM FINANCIAL SERVICES
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STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Other reserves	Retained earnings / (accumulated losses)	Total
January 1, 2020	14	**150,000**	**25,119**	**35**	**(19,625)**	**155,529**
Absorption of accumulated losses through statutory reserve	15	**-**	**(19,625)**	**-**	**19,625**	**-**
		150,000	**5,494**	**35**	**-**	**155,529**
Income for the year		**-**	**-**	**-**	**36,979**	**36,979**
Net changes in value of investments at FVOCI	17	**-**	**-**	**45**	**-**	**45**
Total comprehensive income for the year		**-**	**-**	**45**	**36,979**	**37,024**
Transfer to statutory reserve	2.17	**-**	**3,698**	**-**	**(3,698)**	**-**
Dividends	16	**-**	**-**	**-**	**(22,500)**	**(22,500)**
December 31, 2020		**150,000**	**9,192**	**80**	**10,781**	**170,053**
January 1, 2019	14	150,000	25,119	(12,589)	(5,057)	157,473
Income for the year		-	-	-	9,198	9,198
Net changes in value of investments at FVOCI	17	-	-	33	-	33
Total comprehensive income for the year		-	-	33	9,198	9,231
Transfer of FV reserve on disposal investment held at FVOCI		-	-	12,591	(23,766)	(11,175)
December 31, 2019		150,000	25,119	35	(19,625)	155,529

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FALCOM FINANCIAL SERVICES
(A Single Shareholder Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the year ended December 31,	
		2020	**2019**
Cash flows from operating activities:			
Income before zakat for the year		**40,757**	12,345
Adjustments for non-cash and other items:			
Depreciation	10, 20	**2,257**	2,465
Gain from sale of investments, net	19	**(1,840)**	(2,941)
Provision for employee end of service benefits	13	**1,816**	2,178
Finance costs	8	**6,698**	6,639
Provision for doubtful accounts	20	**4,640**	-
Changes in operating assets and liabilities:			
Due from financial institutions		**22,667**	(22,667)
Margin lending and murabaha financing		**(190,963)**	60,265
Due from related parties		**(27,963)**	(1,702)
Other assets		**(7,268)**	(2,081)
Accounts payable and accruals		**13,210**	4,330
Employee end of service benefits paid	13	**(529)**	(484)
Zakat paid	12	**(3,989)**	(1,411)
Net cash (used in) / generated from operating activities		**(140,507)**	56,936
Cash flows from investing activities:			
Purchase of property and equipment	10	**(1,372)**	(4,365)
Proceeds from short-term murabaha deposit	4	**47,000**	-
Purchase of investments at FVSI and FVOCI		**(9,238)**	(11,127)
Proceeds from sale of investments		**15,226**	37,171
Net cash generated from investing activities		**51,616**	21,679
Cash flows from financing activities:			
Proceeds from borrowings		**647,016**	69,000
Repayments of borrowings		**(522,490)**	(168,713)
Finance costs paid		**(6,478)**	(2,652)
Net cash generated from / (used in) financing activities		**118,048**	(102,365)
Net change in cash and cash equivalents		**29,157**	(23,750)
Cash and cash equivalents at the beginning of the year		**10,555**	34,305
Cash and cash equivalents at the end of the year	4	**39,712**	10,555
Supplemental non-cash information:			
Net changes in value of investments at FVOCI	17	**45**	33
Offsetting dividends payable against amount due from Falcom Holding Company	16	**(22,500)**	-
Transfer of employee end of service benefits to Falcom Holding Company	13	**(330)**	-

The notes on pages 7 to 29 form an integral part of these financial statements.

(All amounts in Saudi Riyals thousands unless otherwise stated)

1. GENERAL INFORMATION

Falcom Financial Services (the "Company"), a single shareholder Saudi closed joint stock company, incorporated in Kingdom of Saudi Arabia was formed pursuant to the Ministerial Resolution number 2631 dated 10 Ramadan 1427H (corresponding to October 3, 2006). The Company operates under Commercial Registration number 1010226584, dated 4 Dhu Al Hijjah 1427H (corresponding to December 25, 2006) in Riyadh, through its branches in the Kingdom of Saudi Arabia.

The Company has the following branches in the Kingdom Saudi Arabia and the results, assets and liabilities, of these branches are included in these financial statements.

S. No	Commercial Registration Number	Date (Hijri)	City
1	2051062669	24/9/1437	Khobar
2	4030290109	24/9/1437	Jeddah

The address of the Company's Head Office is as follows:

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

The Company obtained license (number 37-06020) from the Capital Market Authority ("CMA") to perform the following securities related activities:

1. Act as principal and agent and provide cover,
2. Manage and establish mutual funds and portfolios,
3. Provide arranging services,
4. Provide advisory services, and
5. Provide custodial services for the purposes attributable to mutual funds and management of portfolios and brokerage for international equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

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 SOCPA.

(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 Company.

(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 were effective from periods on or after January 1, 2021. The Company has opted not to early adopt these pronouncements and they are not expected to have a significant impact on the financial statements of the Company.

- 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'.

(iii) Historical cost convention

These financial statements have been prepared on a going concern basis under historical cost convention, except for the measurement of investments at fair value through statement of income or fair value through other comprehensive income, using the accrual basis of accounting. The accounting policies are consistently applied except as stated in these financial statements.

2.2 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.

2.3 Financial instruments

(a) Initial recognition

The Company initially recognises financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

(b) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through statement of income), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

(c) Measurement

At initial recognition, the Company measures financial assets at its fair value, in the case of a financial asset not at fair value through statement of income, transaction costs that are directly attributable to the acquisition of financial asset. Transaction costs of financial assets carried at FVSI are expensed in statement of income.

Subsequent measurement of debt instrument:

It depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. There are three measurement categories into which the Company classifies its debt instruments:

(i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and profit are measured at amortized cost. A gain or loss on a debt instrument that is subsequently measured at amortized cost and is not part of the hedging relationship is recognised in statement of income when the asset is derecognised or impaired. Profit from these financial assets is calculated based on the effective yield method.

(ii) Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, profit on financial instruments (revenue) and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of income and recognised in other gains / (losses).

(iii) Fair value through statement of income (FVSI): Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through statement of income. A gain or loss on a debt investment that is subsequently measured at fair value through statement of income and is not part of a hedging relationship is recognised in statement of income and presented net in the statement of income within other gains/ (losses) in the year in which it arises.

Subsequent measurement of equity instrument:
The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to statement of income following the derecognition of the investment. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Dividends from such investments continue to be recognised in statement of income as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVSI are recognised in other gains/ (losses) in the statement of income as applicable.

(d) ***Impairment of financial assets***

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost and FVOCI. Previously, the Company was using the incurred loss model.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant change in credit risk on an ongoing basis throughout each reporting period. The impairment model was developed considering probability of default and loss given default which were derived from historical data of the Company and are adjusted to reflect the expected future outcome which includes macroeconomic factors such as inflation and gross domestic product growth rate.

For financial assets, a credit loss is calculated as the present value (at effective profit rate) of the difference between:

(a) the contractual cash flows that are due to an entity under the contract; and
(b) the cash flows that the entity expects to receive.

The financial assets of the Company are categorized as follows:

1- Performing:

These represent the financial assets where Customers have a low risk of default and a strong capacity to meet contractual cash flows.

As per the management past due information is the most appropriate basis for assessing the increase in credit risk in the Company and based on their experience and analysis, the balances which are less than 60 days past due does not result in significant increase in credit risk and considered as performing.

The Company measures the loss allowance for performing financial assets at an amount equal to 12-month expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. 12-month expected credit losses are the portion of expected credit losses that results from default events on the financial assets that are possible within 12 months after the reporting date.

2- Underperforming:

These represent the financial assets where there is a significant increase in credit risk and that is presumed if a debtor is more than 60 days past due in making a contractual payment/ installment.

The Company measures the loss allowance for underperforming financial assets at an amount equal to life-time expected credit losses.

3- Non-performing:

These represent defaulted financial assets. A default on a financial asset is considered when the debtor fails to make a contractual payment/ installment within 90 days after they fall due.

The Company measures the loss allowance for non-performing financial assets at an amount equal to life-time expected credit losses.

Financial asset is written-off only when:

(i) that is past due at least from two years, and
(ii) there is no reasonable expectation of recovery.

Where financial assets are written off, the Company continues to engage enforcement activities to attempt to recover the receivable due. Where recoveries are made, after write-off, are recognised as other income in the statement of income and other comprehensive income.

(e) Financial liabilities - classification, measurement and de recognition

Financial liabilities are classified and subsequently measured at amortized cost using the effective yield method. The effective yield rate is the rate that discounts the estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

The Company derecognises a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

2.4 Margin lending and murabaha financing

Margin lending and murabaha financing are recognised when cash is advanced to the borrowers. They are derecognised when either borrower repays their obligations, or the balance is sold or written-off, or substantially all the risks and rewards of ownership are transferred to other party. These facilities are advanced to customers for the purpose of investments and trading in shares.

Margin lending and murabaha financing are carried at the amount advanced to the customers, including related transaction cost less any provision for credit losses, if any. A provision against credit losses is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. All margin lending and murabaha financing at December 31, 2019 are maturing within one year.

2.5 Investment management services

The Company offers investment services to its customers which include management of certain investment funds. The Company's share of these funds is included in investment is mutual funds. Assets held in trust or in a fiduciary capacity, if any, are not treated as assets of the Company and, accordingly, are not included in the financial statements.

2.6 Settlement date accounting

All regular-way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date the asset is delivered to/or received from the counter party. The Company accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the marketplace.

2.7 Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets, other than goodwill, that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognised for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately in the statement of income.

2.8 Foreign currency translations

(a) Functional and presentation currency

These financial statements are presented in Saudi Riyals (SR) which is the functional currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

(c) Foreign operations

The results and financial position of the foreign subsidiary having reporting currency other than Saudi Riyals is translated into Saudi Riyals as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
(ii) income and expenses for each statement of income is translated at average exchange rates; and
(iii) components of the equity accounts are translated at the exchange rates in effect at the dates the related items originated.

Cumulative adjustments resulting from the translations of the financial statements of a foreign subsidiary into Saudi Riyals are reported as a separate component of equity under "other reserves".

Dividends received from an associate are translated at the exchange rate in effect at the transaction date and related currency translation difference is realized in the statement of income.

When investment in a foreign subsidiary is partially disposed-off or sold, currency translation differences that were recorded in equity are recognised in the statement of income as part of gain or loss on disposal or sale.

2.9 Borrowing cost

Borrowing cost directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other financing costs are recognised in the statement of comprehensive income in the year in which they are incurred.

2.10 Zakat

The Company is subject to zakat in accordance with the regulations of zakat and Income Tax. Provision for zakat is charged to the statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes, if any, on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under the Tax Law.

2.11 Provisions

Provisions are recognised when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.12 Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation on assets is charged to the statement of income, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

Buildings and freehold improvements	3-40 years
Leasehold improvements	(useful life or lease term whichever is shorter)
Furniture and fixtures	4-5 years
Motor vehicles	5 years
Computers	4 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in statement of income.

Maintenance and normal repairs, which do not materially extend the estimated useful life of an asset, are charged to the statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.13 Revenue

The revenue of the Company broadly categorised as:

(a) Income from Islamic finance
(b) Contract with customers (including brokerage income and asset management fees)
(c) Dividend income
(d) Trading income/ (loss)
(e) Rental income

The related accounting policies are follows:

(a) Income from Islamic finance

Income from Islamic financing receivables is recognised in the statement of income using the effective yield method, using the applicable effective profit rate (“EPR”), on the outstanding balance over the term of the contract.

The calculation of the EPR includes transaction costs and fees & commission income received that are an integral part of the EPR. Transaction costs include incremental costs that are directly attributable to the acquisition of the financial asset.

(b) Contracts with customers (including brokerage income and asset management fees)

The Company recognises revenue under IFRS 15 using the following five steps model:

Step 1: Identify the contract with customer	A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
Step 2: Identify the performance obligations	A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
Step 3: Determine the transaction price	The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
Step 4: Allocate the transaction price	For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
Step 5: Recognise revenue	The Group recognises revenue (or as) it satisfies a performance obligation by transferring a promised good or service to the customer under a contract.

Based on the above five steps the revenue recognition policy for each revenue stream is as follow:

Brokerage income

Brokerage income is recognised when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Company is satisfied when the Company carries out the transaction, which triggers immediate recognition of the revenue, as the Company will have no further commitments.

Asset management fees

Asset management fees are recognised based on a fixed percentage of net assets under management ("asset-based"), or a percentage of returns from net assets ("returns-based") subject to applicable terms and conditions and service contracts with customers and funds. The Company attributes the revenue from management fees to the services provided during the year, because the fee relates specifically to the Company's efforts to transfer the services for that period. As asset management fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognised.

Special commission income on Murabaha contract receivable

Special commission income for all special commission bearing financial instruments (Murabaha contract receivables) are recognised in the statement of income using the effective commission rate basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective commission rate, Company estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset is adjusted if Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as impairment losses.

If a financial asset subsequently becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

The calculation of the effective yield takes into account all contractual terms of the financial instruments (Murabaha contract receivables) and includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset.

(c) Dividend income

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

(d) Trading income/ (loss)

Results arising from trading activities include all gains and losses from changes in fair values and disposal of investments.

(e) Rental income

Rental income receivable from operating lease of the property is recognised on a straight-line basis over the term of the lease.

2.14 Leases

Right of use asset ("RoU")/ lease liabilities
On initial recognition at the inception of the contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of use assets
The Company applies cost model and measures the right of use asset at cost;

(a) Less any accumulated depreciation and any accumulated impairment losses; and
(b) Adjusted for any re-measurement of the lease liability for lease modifications

Generally, the RoU asset would equate to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the RoU asset value.

Lease liability
On initial recognition, the lease liability is the present value of all remaining payments to the lessor.

After the commencement date, the Company measures the lease liability by:

1. Increasing the carrying amount to reflect the interest on the lease liability;
2. Reducing the carrying amount to reflect the lease payments made; and
3. Re-measuring the carrying amount to reflect any re-assessment or any lease modification.

Short-term and low values leases
Payments associated with short-term leases and leases of low value assets are recognised on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less.

2.15 Statutory reserve

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the year is transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve equals at least 30% of the share capital. Moreover, the reserve is not available for distribution.

2.16 Expenses

Expenses, other than employee's costs and financial charges are classified as general and administrative expenses.

(All amounts in Saudi Riyals thousands unless otherwise stated)

2.17 Contingent assets and liabilities

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of obligations cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where an inflow of economic benefits is probable.

2.18 Dividends

Dividends are recorded in the financial statements in the year in which they are approved by the shareholder of the Company.

3. CRITICAL ACCOUNTING ESTIMATES AND ADJUSTMENTS

The preparation of the 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 and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

a. Provision for liabilities and charges

The Company receives legal claims against it in the normal course of its business. Management make judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process being followed as per the Law.

4. CASH AND BANK BALANCES

	Note	December 31, 2020	December 31, 2019
Cash in hand		**43**	43
Cash at banks		**39,669**	10,512
Cash and cash equivalents		**39,712**	10,555
Short-term deposits	4.1	**-**	47,000
		39,712	57,555

4.1 The balance represents short term deposits with maturity of more than 3 months.

5. DUE FROM FINANCIAL INSTITUTIONS

During 2019, Falcom Holding Company obtained a SR 100 million loan from Banque Saudi Fransi with security against a collateral of quoted shares owned by Falcom Financial Services. Later during the year 2019, the Company sold the shares for SR 22.667 million and the proceeds were placed with Saudi Fransi Capital a subsidiary of Banque Saudi Fransi.

During 2020, Falcom Holding Company management decided to replace the collateral with its own cash and subsequently on December 31, 2020 the cash of SR 22.667 million was received by Falcom Financial Services.

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. MARGIN LENDING AND MURABAHA FINANCING

	Note	December 31, 2020	December 31, 2019
Margin lending	6.1, 6.3	**269,902**	70,608
Murabaha financing	6.2, 6.3	**4,957**	13,288
		274,859	83,896

6.1 The Company provides margin lending facilities to certain clients for dealing in the local stock market through the Company. The Company has the option to liquidate the client's investment portfolio to ensure repayment of the lending amount in case of default. Such lending does not bear any commission or charges.

6.2 The Company provides murabaha financing to acquire shares for a limited period through the Company. The Company has the option to liquidate the client's investments portfolio to ensure repayment of the murabaha amount in case of default. Such financing bears a pre-agreed profit margin.

6.3 All the balances at the year-end were classified as performing. No provision for impairment was required as there is no history of default and the Company has the option to liquidate the client's investments portfolio to ensure repayment.

7. INVESTMENTS

December 31, 2020	**FVOCI**	**FVSI**
Arar Hills Fund (level 2) – non-current	**988**	-
Murabaha Financing Fund (level 2) – non-current	**1,092**	-
Falcom Gold Fund (level 2) – non-current	-	**3,833**
Falcom Saudi Equity ETF fund (level 1) - current	-	**3,521**
Falcom Petrochemical ETF fund (level 1) - current	-	**2,070**
Total	**2,080**	**9,424**

December 31, 2019	**FVOCI**	**FVSI**
Arar Hills Fund (level 2) – non-current	988	-
Murabaha Financing Fund (level 2) – non-current	1,047	-
Falcom Saudi Equity ETF fund (level 1) - current	-	6,652
Falcom Petrochemical ETF fund (level 1) - current	-	6,920
Total	2,035	13,572

(All amounts in Saudi Riyals thousands unless otherwise stated)

8. SIGNIFICANT RELATED PARTY MATTERS

In the ordinary course of business, the Company transacts with related parties. The principal parties of the Company are Falcom Holding Company, investment funds managed by the Company and its associates.

(a) Significant related party transactions during the year were as follows:

	Note	December 31, 2020	December 31, 2019
a) Falcom Holding Company – parent company:			
Dividends off-set	16	**22,500**	-
Zakat paid	12	**22,054**	-
Expenses related to the Falcom Holding Company		**4,292**	3,968
Transfer of employee end of service benefits	13	**330**	-
b) Affiliates:			
Rental income	10	**2,000**	2,102
Advertising and brochures		**95**	35
Commission on brokerage services (*)		**224**	46
c) Investment funds:			
Management fees from mutual funds (**)		**16,660**	20,708
Finance costs (***)		**6,698**	6,639
Mutual fund subscription		**99**	1,000
d) Directors and key management			
Margin lending – Hala Alathel (shareholder of Falcom Holding Company)		**-**	15,500
Key management compensation		**9,965**	5,264
Directors' remunerations and related committees		**2,612**	1,124

(*) It represents a brokerage commission collected by Al Amthal Financing Company through its trading in a mutual fund. During the year 2020, the investments of Al Amthal Financing Company amounted to SR 7.5 million (2019: SR 3.4 million).
(**) It includes management fees from funds on fees and management fees from the portfolio of Nayifat Financing Company managed by the Company amounting to SR 2.05 million, which its deposits amounted to SR 26.5 million (2019: SR 21.8 million) during the year 2020.
(***) During 2020 and 2019, Falcom Murabaha Saudi Riyal Fund, a fund managed by the Company, placed a murabaha deposit with the Company bearing a commission at average rate of 4.5% (2019: 4.5%).

(b) Related party balances as of December 31 were as follows:

	Note	December 31, 2020	December 31, 2019
Receivables from Falcom Holding Company		**6,186**	1,973
Receivables from Fal Holding Company		**3,379**	2,881
Receivables from Arabian Medical Hospital		**686**	686
Receivables from Warehouse Logistic Company		**396**	-
Receivables from Falcom Murabaha SAR Fund		**63**	63
Receivables from Al Amthal Financing Company		**50**	10
Receivables from Nayifat Financing Company		**-**	14
Provision for doubtful accounts	8.1	**(4,065)**	-
		6,695	5,627
Borrowing - Murabaha deposits – Falcom Murabaha SAR Fund		**211,310**	86,784
Accrued management fee and other receivables	9.1	**9,500**	4,416

8.1 During 2020, the management provided 100% against the long outstanding balance receivable from Fal Holding Company and Arabian Medical Hospital amounting to SR 3.379 million and SR 0.686 million respectively.

(All amounts in Saudi Riyals thousands unless otherwise stated)

Balances related to directors and key management personnel were as follows:

	December 31, 2020	December 31, 2019
Employees end of service benefits	**3,246**	3,423

Key management personnel are those persons, including executive directors, having authority and responsibility for planning, directing and controlling the activities at the Company level.

9. OTHER ASSETS

	Note	December 31, 2020	December 31, 2019
Commission and fees receivables	9.1	**9,737**	4,624
Advances and accounts receivable		**6,866**	4,532
Prepaid expenses		**1,636**	1,362
Loans to employees		**537**	990
Provision for doubtful accounts		**(575)**	-
		18,201	11,508

9.1 This includes SR 9.5 million (2019: SR 4.4 million) accrued management fee and other receivables due from related parties.

10. PROPERTY AND EQUIPMENT, NET

2020	Land, buildings and freehold improvements *	Leasehold improvements	Furniture and fixtures	Motor vehicles	Computers	Total
Cost:						
January 1, 2020	**79,934**	**324**	**13,021**	**114**	**27,322**	**120,715**
Additions	**162**	**-**	**239**	**-**	**971**	**1,372**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**
December 31, 2020	**80,096**	**324**	**13,260**	**114**	**28,293**	**122,087**
Accumulated depreciation:						
January 1, 2020	**13,995**	**270**	**12,870**	**102**	**26,672**	**53,909**
Charge for the year	**1,483**	**54**	**137**	**12**	**571**	**2,257**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**
December 31, 2020	**15,478**	**324**	**13,007**	**114**	**27,243**	**56,166**
Net book value at:						
December 31, 2020	**64,618**	**-**	**253**	**-**	**1,050**	**65,921**

(All amounts in Saudi Riyals thousands unless otherwise stated)

2019	Land, buildings and freehold improvement *	Leasehold improvements	Furniture and fixtures	Motor vehicles	Computers	Total
Cost:						
January 1, 2019	75,800	324	12,994	114	27,118	116,350
Additions	4,134	-	27	-	204	4,365
Disposals	-	-	-	-	-	-
December 31, 2019	79,934	324	13,021	114	27,322	120,715
Accumulated depreciation:						
January 1, 2019	12,418	189	12,692	98	26,047	51,444
Charge for the year	1,577	81	178	4	625	2,465
Disposals	-	-	-	-	-	-
December 31, 2019	13,995	270	12,870	102	26,672	53,909
Net book value at:						
December 31, 2019	65,939	54	151	12	650	66,806

* The Company owns fully the head office. The Company has leased a part of the building to Nayifat Financing Company and Warehouse Logistic Company. The Company considers the rental income relatively simple and the rental income is amounting to SR 2.0 million (2019: SR 2.1 million).

11. ACCOUNTS PAYABLE AND ACCRUALS

	December 31, 2020	December 31, 2019
Accrued sales incentives	**7,819**	-
Accounts payable	**4,887**	5,389
Accrued board of directors' expense	**2,336**	-
Accrued expense	**2,242**	1,857
VAT payable	**2,015**	737
Accrued employee bonus	**1,870**	-
Accrued finance costs	**1,026**	805
Others	**141**	118
	22,336	8,906

12. ZAKAT

12.1 Components of zakat base

The Company files separate zakat declarations a standalone basis. The significant components of the zakat base of Company under zakat and income tax regulations are principally comprised of shareholder's equity, provisions at the beginning of year, long-term borrowings and estimated taxable income, less deduction for the net book value of property and equipment, investments and certain other items.

	2020	2019
January 1	**3,105**	1,369
Provision for the year	**3,778**	3,147
Payments during the year	**(3,989)**	(1,411)
December 31	**2,894**	3,105

(All amounts in Saudi Riyals thousands unless otherwise stated)

12.2 Status of assessments

The Company has submitted its zakat declarations with the General Authority of Zakat and Tax ("GAZT") up to the year ended December 31, 2019.

i) For the years from 2007 to 2011

The GAZT has issued zakat assessments for the years ended December 31, 2007 to 2011. In those assessments, additional zakat assessment of SAR 46 million were raised mainly due to disallowing the deduction of investments from the zakat base. The Company has appealed against such assessments at the Higher Appeal Committee following the ruling issued by the preliminary appeal committee earlier, which upheld GAZT's decision. As part of the appeal process, a bank guarantee in the same amount has been submitted to GAZT. Therefore, the Company has agreed to pay 22.1 million and paid in 2020 as the Board of Directors of Falcom Holding decided on December 15, 2019 to approve the settlement submitted by GAZT and to recognize it as an expense in the financial statements of Falcom Holding Company instead of Falcom Financial Services Company.

ii) For the years from 2012 to 2016

During 2019, the GAZT has issued its final zakat assessments for the years 2012 to 2016 requesting the Company to settle additional zakat liability amounting to SAR 9.4 million for the above years. The Company has objected against such assessments at the General Secretariat of the Tax Committees following the ruling issued by the preliminary appeal committee earlier, which upheld GAZT's decision. Until now no date has been set for a session from the General Secretariat of the Tax Committees to discuss the Company's objection.

iii) For the years from 2017 to 2018

During 2020, the GAZT has issued its final zakat assessments for the years 2017 and 2018 requesting the Company to settle additional zakat liability amounting to SAR 3 million for the above years. The Company has accepted GAZT's treatment in relation to certain items and settled the respective zakat due amounting to SAR 0.8 million and filed appeal against the remaining additional zakat liability. The GAZT has accepted Company's contention and issued its revised assessment with no additional zakat liability for the years 2017 and 2018.

iv) For the year 2019

The Company has submitted its zakat declaration with GAZT and paid the Zakat, however, the Company has not received the final assessment yet.

13. EMPLOYEE END OF SERVICE BENEFITS

	2020	**2019**
January 1	**9,342**	7,648
Provision for the year	**1,816**	2,178
Payments during the year	**(529)**	(484)
Transfer to Falcom Holding Company	**(330)**	-
December 31	**10,299**	9,342

13.1 Key actuarial assumptions

	December 31, 2020	**December 31, 2019**
End of service benefits:		
Discount rate	**1.80%**	2.85%
Salary growth rate	**1.80%**	2.85%

(All amounts in Saudi Riyals thousands unless otherwise stated)

13.2 Sensitivity analysis for actuarial assumptions

December 31, 2020	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
End of service benefits:				
Discount rate	+ 0.5%	+0.5%	(398)	426
Salary growth rate	- 0.5%	- 0.5%	306	(290)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employees' EOSB.

14. SHARE CAPITAL

The authorized and paid-in capital of the Company as of December 31, 2020 is SR 150 million (December 31, 2019: SR 150 million) divided into 15 million shares of SR 10 each.

The list of shareholders as of December 31, 2020 and 2019 were as follows:

Name of shareholder	Note	Percentage	Number of shares	Share capital in Saudi Riyal
December 31, 2020				
Falcom Holding Company	14.1	100%	15,000,000	150,000,000
December 31, 2019				
Falcom Holding Company		99.99%	14,998,500	149,985,000
Fahd Bin Mohamed Bin Saleh Alathel		0.01%	1,500	15,000
		100%	15,000,000	150,000,000

14.1 On October 24, 2020 Fahd Bin Mohamed Bin Saleh Alathel transferred his shares to Falcom Holding Company. CMA was notified about the change in shareholding of the Company which is 100% owned by Falcom Holding Company. The Company received an approval letter from CMA on November 2, 2020. The legal formalities related to update the commercial registration and Company's by-laws are under process.

15. STATUTORY RESERVE

In accordance with the Regulations for Companies in Saudi Arabia, the Company is required to set aside a statutory reserve, after absorption of accumulated losses, by the appropriation of 10% of net income until the reserve equals at least 30% of the share capital. This reserve is not available for distribution to the shareholder. Based on the board of directors decision's recommendation on September 29, 2020 and shareholders' approval during the annual general assembly meeting on December 15, 2020 the accumulated losses as of December 31, 2019 amounting to SR 19.625 million have been absorbed against the statutory reserve during 2020.

16. DIVIDENDS

During the annual general assembly meeting on December 15, 2020, the shareholder approved the dividend amounting to SR 22.5 million. The management has off-set the dividend payable against the balance receivable for the parent Falcom Holding Company.

(All amounts in Saudi Riyals thousands unless otherwise stated)

17. OTHER RESERVES

	Unrealized gain from investments
2020	
January 1	**35**
Changes in fair value of investment through other comprehensive income	**45**
December 31	**80**
2019	
January 1	(12,589)
Transfer of FV reserve on disposal investments held at FVOCI	12,591
Changes in fair value of investment through other comprehensive income	33
December 31	35

18. CONTINGENCIES AND COMMETMENTS

Except for zakat (Note 12), there were no contingencies as of the statement of financial position date.

19. GAIN FROM INVESTMENTS, NET

	December 31, 2020	December 31, 2019
Realized gain from investments	**1,316**	3,586
Unrealized gain /(loss) on investments at FVSI	**524**	(645)
	1,840	2,941

20. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	Note	December 31, 2020	December 31, 2019
Provision for doubtful accounts	8, 9	**4,640**	-
Utilities and communication expenses		**3,448**	2,676
Depreciation	10	**2,257**	2,465
Legal and professional charges		**813**	1,434
Electricity		**465**	550
Insurance		**450**	390
Rental and premises related expenses		**446**	489
Operational Losses		**446**	62
Marketing expenses		**440**	257
Other		**396**	485
		13,801	8,808

21. OTHER INCOME

The balance includes rental income for building of the head office. The Company owns fully the head office and has leased a part of the building to Nayifat Financing Company and Warehouse Logistic Company (affiliates).

22. EARNINGS PER SHARE

Earnings per share were calculated by dividing net income for the year by the weighted average of the shares outstanding during the year of 15 million shares (2019: 15 million shares).

(All amounts in Saudi Riyals thousands unless otherwise stated)

23. CUSTOMERS' ACCOUNTS

These comprise the accounts of brokerage customers in local and international shares maintained with Banque Saudi Fransi amounting to SR 428 million at December 31, 2020 (2019: SR 216 million). These accounts are not included in these financial statements in accordance with Article (71) of "Capital Market Institutions" (previously known as "Authorised Persons") by laws issued by the Capital Market Authority Board's resolution No. 1-83-2005 dated 21/5/1426H corresponding to June 28, 2005 and pursuant to the Capital Market Authority regulations enacted by Royal Decree No. M/30 dated 2/6/1424H.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Effective risk management is of primary importance to the Company. Risks include market risk (primarily foreign exchange risk, price risk and commission rate risk), credit risk, liquidity risk, and operational risk. The Company ensures that it is conservatively capitalized relative to its risk levels, as well as external requirements and benchmarks.

Financial instruments carried on the balance sheet include cash and bank balances, margin lending and murabaha financing, other assets, investments at FVSI – current, investments at FVSI – non-current, investments at FVOCI, accounts payable and accruals and due to a related party (Short-term murabaha financing). The particular recognition methods adopted are disclosed in the individual policy statements associated with each item

Financial assets and financial liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

24.1 Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

a) Commission rate risk

Commission rate risk is the impact on future earnings of the Company resulting from increase in the market interest/ commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to interest rate adjustment within a specified period. The most important source of such risk is the Company's bank borrowings. The commission rate is fixed for the financing receivables and financial liabilities and therefore, there is no commission rate risk as at balance sheet date.

Commission rate risk	**Within 3 months**	**3-12 months**	**Over 1 year**	**Non-commission bearing**	**Total**
December 31, 2020					
Assets					
Cash and bank balances	-	-	-	**39,712**	**39,712**
Margin lending and murabaha financing	-	**274,859**	-	-	**274,859**
Oher assets	-	-	-	**16,567**	**16,567**
Investments at FVSI – current	-	-	-	**5,591**	**5,591**
Investments at FVSI – non-current	-	-	-	**3,833**	**3,833**
Investments at FVOCI	-	-	-	**2,080**	**2,080**
Total financial assets	**-**	**274,859**	**-**	**67,783**	**342,642**
Accounts payable and accruals	-	-	-	**20,884**	**20,884**
Due to a related party (Short-term murabaha financing)	-	**211,310**	-	-	**211,310**
Total financial liabilities	**-**	**211,310**	**-**	**20,884**	**232,194**
Cumulative mismatch as a percentage of total liabilities					**48%**

(All amounts in Saudi Riyals thousands unless otherwise stated)

Commission rate risk	**Within 3 months**	**3-12 months**	**Over 1 year**	**Non-commission bearing**	**Total**
December 31, 2019					
Assets					
Cash and bank balances	47,000	-	-	33,222	80,222
Margin lending and murabaha financing	-	83,896	-	-	83,896
Other assets	-	-	-	9,171	9,171
Investments at FVSI	-	-	-	13,572	13,572
Investments at FVOCI	-	-	-	2,035	2,035
Total financial assets	47,000	83,896	-	58,000	188,896
Accounts payable and accruals	-	-	-	8,906	8,906
Due to a related party (Short-term murabaha financing)	-	86,784	-	-	86,784
Total financial liabilities	-	86,784	-	8,906	95,690
Cumulative mismatch as a percentage of total liabilities					97%

b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not material.

c) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company is exposed to market risk with respect to its investments. The Company limits market risks by diversification of its investments and monitoring continuously the developments in the stock and international funds markets. In addition, the key factors that affect the stock and bond market movements are monitored including analysis of the operational and financial performance of investees.

24.2 Credit risk

Credit risk is the risk that one party of a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum exposure to credit risk is equal to the carrying amount of financial assets. Management analyses credit risk in the following categories:

Credit quality analysis

The following table sets out the credit analysis for financial assets:

December 31, 2020	**Investment grade**	**Non-investment grade**	**Unrated**	**Total**
Financial assets				
Cash and bank balances	**39,712**	-	-	**39,712**
Margin lending and murabaha financing	-	-	**274,859**	**274,859**
Investments at FVSI – current	**5,591**	-	-	**5,591**
Investments at FVSI – non-current	**3,833**	-	-	**3,833**
Investments at FVOCI	**2,080**	-	-	**2,080**
Other assets	-	-	**16,567**	**16,567**
Total	**51,216**	-	**291,426**	**342,642**

(All amounts in Saudi Riyals thousands unless otherwise stated)

December 31, 2019	**Investment grade**	**Non-investment grade**	**Unrated**	**Total**
Financial assets				
Cash and bank balances	80,222	-	-	80,222
Margin lending and murabaha financing	-	-	83,896	83,896
Investments at FVSI	13,572	-	-	13,572
Investments at FVOCI	2,035	-	-	2,035
Other assets	-	-	9,171	9,171
Total	95,829	-	103,067	188,896

The credit risk exposure for receivable against margin financing by geographic region is as follows:

	December 31, 2020	**December 31, 2019**
Saudi Arabia	**274,859**	83,896

The credit risk exposure for receivables against margin financing by type of customer representing only retail clients as at December 31, 2020 and 2019.

24.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial obligation. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments.

December 31, 2020	**Less than 1 year**	**Total**
Accounts payable and accruals	**22,336**	**22,336**
Due to a related party (Short-term murabaha financing)	**211,310**	**211,310**
	233,646	**233,646**
December 31, 2019		
Accounts payable and accruals	8,906	8,906
Due to a related party (Short-term murabaha financing)	86,784	86,784
	95,690	95,690

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of bank financing and the advantages and security afforded by a sound capital position. In relation to the capital structure of the Company, management closely monitor the compliance of regulations and bank financing covenants and as at balance sheet date was in compliance with the prescribe requirements. At December 31, 2020 and 2019 management's analysis of gearing ratio was as follows:

	December 31, 2020	**December 31, 2019**
Shareholder's equity	**170,053**	155,529
Payable to a related party	**211,310**	86,784
Total capital structure	**381,363**	242,313
Gearing ratio	**55.41%**	35.81%

24.4 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Company's activities either internally or externally at the Company's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

Operational risk is a distinct risk category which the Company manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels. The objective in managing operational risk is to ensure control of the Company's resources by protecting its assets and minimizing the potential for financial loss.

The Company's risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations. The management of operational risk has a key objective of minimizing the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss.

25. FINANCIAL INSTRUMENT FAIR VALUE

As at December 31, 2020 and 2019, the fair values of the Company's financial instruments are estimated to approximate their carrying values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS that are endorsed in the Kingdom of Saudi Arabia, including the level in the fair value hierarchy in which such valuations should be classified.

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

Level 1: quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted market prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(All amounts in Saudi Riyals thousands unless otherwise stated)

The table below presents the financial assets and financial liabilities at their fair values as at December 31, 2020 and 2019 based on the fair value hierarchy:

	Carrying	Fair value			
December 31, 2020	**value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at amortized cost					
Cash and bank balances	**39,712**	-	-	**39,712**	**39,712**
Margin lending and murabaha financing	**274,859**	-	-	**274,859**	**274,859**
Other assets	**16,567**	-	-	**16,567**	**16,567**
Financial assets measured at fair value					
Investments at FVSI – current	**5,591**	**5,591**	-	-	**5,591**
Investments at FVSI – non-current	**3,833**	-	**3,833**	-	**3,833**
Investments at FVOCI	**2,080**	-	**2,080**	-	**2,080**
	342,642	**5,591**	**5,913**	**331,138**	**342,642**
Financial liabilities measured at amortized cost					
Accounts payable and accruals	**20,884**	-	-	**20,884**	**20,884**
Due to a related party (Short-term murabaha financing)	**211,310**	-	-	**211,310**	**211,310**
	232,194	-	-	**232,194**	**232,194**

	Carrying	Fair value			
December 31, 2019	**value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at amortized cost					
Cash and bank balances	80,222	-	-	80,222	80,222
Margin lending and murabaha financing	83,896			83,896	83,896
Other assets	9,171	-	-	9,171	9,171
Financial assets measured at fair value					
Investments at FVSI	13,572	13,572	-	-	13,572
Investments at FVOCI	2,035	-	2,035	-	2,035
	188,896	13,572	2,035	173,289	188,896
Financial liabilities measured at amortized cost					
Accounts payable and accruals	8,906	-	-	8,906	8,906
Due to a related party (Short-term murabaha financing)	86,784	-	-	86,784	86,784
	95,690	-	-	95,690	95,690

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. During the years ended December 31, 2020 and 2019, there were no transfers into or out of Level 3 fair value measurements.

The fair values of financial position financial instruments not measured at fair value are not significantly different from the carrying values included in the financial statements. The fair values of cash and bank balances, margin financing other assets which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of financial instrument. An active market for these instruments is not available and the Company intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

(All amounts in Saudi Riyals thousands unless otherwise stated)

25.1 Fair valuation techniques

The following tables show the valuation techniques used in measuring Level 2 fair values.

Description	Valuation techniques	Unobservable inputs
Investments at FVOCI – Murabaha Financing Fund	Fair value of net assets	Fair value of equity shares
Investments at FVOCI – Arar Hills Fund	Fair value of net assets	Fair value of equity shares

26. CAPITAL RISK MANAGEMENT

The objective of managing capital is to safeguard the Company's ability as a going concern, so that it could continue to provide adequate returns to its shareholder by pricing products and services commensurate with the level of risk. It is the policy of the Company to maintain adequate capital base so as to maintain investor, creditor and market confidence and to support future development of the business. The Company's capital base sufficiently covers all material risks meeting the minimum capital requirement and the Company intends to maintain a healthy capital ratio to cater future business growth. For capital adequacy working, refer to Note 26.1.

26.1 Minimum capital and the total capital ratio

In accordance with Article 74(b) of the Prudential Rules issued by CMA (the Rules), given below are the capital base, minimum capital requirement and total capital ratio as at December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Capital base:		
Tier-1 capital	**169,973**	155,494
Tier-2 capital	**80**	35
Total capital base	**170,053**	155,529
Minimum capital requirement:		
Credit risk	**104,403**	65,361
Market risk	**897**	2,173
Operational Risk	**14,111**	10,026
Total minimum capital requirement	**119,411**	77,560
Total capital ratio:		
Tier-1 capital ratio (time)	**1.42**	2.01
Total capital ratio (time)	**1.42**	2.01
Surplus in capital	**50,642**	77,969

a) The above information has been extracted from the annual Capital Adequacy Models as prescribed by CMA for December 31, 2020 and 2019.
b) The capital base consists of Tier 1 capital and Tier 2 capital calculated as per Article 4 and 5 of the Rules respectively. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in Part 3 of the Rules.
c) The Company is required to maintain adequate capital as specified in the Rules. The capital adequacy ratio shall not be less than 1.
d) The Company is required to disclose the prescribed information as required under Pillar III of the Rules on the Company website (www.falcom.com.sa), however that information is not subject to review or audit by the independent auditor of the Company.

27. IMPACT OF COVID-19

The COVID-19 pandemic developed rapidly in 2020, and the consequences that are followed. The measures taken to contain the virus have affected economic activity which is also in other markets. In this regard, the management has taken several precautionary measures, such as safety and health measures for employees (such as social distancing and working from home).

Management believes that there is minimal impact on the company from the COVID-19 pandemic. The only negative impact was on the mutual funds that are managed by the Company, as there was a decline in Tadawul's index with the outbreak of the pandemic. This decline has led to unrealized revaluation losses in the funds which have been recovered in the third quarter. The Company will continue to follow the Government's policies and advice and, in parallel, the Company will do utmost to continue operations in the best and safest way possible without jeopardising the health and safety of its employees.

28. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with current year presentation.

29. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved for issue by the Company's Board of Directors on February 8, 2021.