

**FALCOM SAUDI EQUITY FUND**

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

**FALCOM SAUDI EQUITY FUND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

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



## *Independent auditor's report to the unitholders and Fund's manager of Falcom Saudi Equity Fund*

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Falcom Saudi Equity Fund (the "Fund") as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

#### **What we have audited**

The Fund's financial statements comprise:

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

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#### *Basis for opinion*

We conducted our audit in accordance with the International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

#### **Independence**

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

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

The Fund's manager is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority, and the Fund's terms and conditions, and for such internal control as Fund's manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund's manager.
- Conclude on the appropriateness of the Fund's manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**PricewaterhouseCoopers**



Ali H. Al Basri  
License Number 409

April 5, 2021

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

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	Note	<u>As at December 31,</u>	
		<b>2020</b>	<b>2019</b>
<b>Assets</b>			
Cash and cash equivalents		<b>15,504,255</b>	4,776,931
Financial assets at fair value through statement of income (FVSI)	5	<b>137,833,651</b>	125,609,599
Dividends receivable		<b>89,000</b>	-
<b>Total assets</b>		<b><u>153,426,906</u></b>	<b><u>130,386,530</u></b>
<b>Liabilities</b>			
Accrued management fees	6	<b>743,727</b>	552,440
Other liabilities		<b>16,167</b>	13,209
<b>Total liabilities</b>		<b><u>759,894</u></b>	<b><u>565,649</u></b>
<b>Equity attributable to the unitholders</b>		<b><u>152,667,012</u></b>	<b><u>129,820,881</u></b>
Units in issue (units)		<b><u>55,833,594</u></b>	<b><u>55,625,142</u></b>
Unit value (Saudi Riyals)		<b><u>2.73</u></b>	<b><u>2.33</u></b>

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

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

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	Note	For the year ended December 31,	
		2020	2019
<b>INCOME</b>			
Dividend income		1,975,132	3,218,930
Gain on sale of financial assets at FVSI		22,034,862	8,151,248
Unrealised gain on financial assets at FVSI		957,766	20,627,800
<b>Total income</b>		<b>24,967,760</b>	<b>31,997,978</b>
<b>EXPENSES</b>			
Management fees	6	(2,358,480)	(2,091,442)
Other expenses		(278,366)	(114,322)
<b>Total expenses</b>		<b>(2,636,846)</b>	<b>(2,205,764)</b>
<b>Net income for the year</b>		<b>22,330,914</b>	29,792,214
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>22,330,914</b>	<b>29,792,214</b>

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

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

	<u>For the year ended December 31,</u>	
	<b>2020</b>	<b>2019</b>
<b>Equity attributable to the unitholders as at January 1,</b>	<b>129,820,881</b>	103,126,897
Total comprehensive income for the year	<b>22,330,914</b>	29,792,214
<b>Unit holders subscriptions and redemptions:</b>		
Issuance of redeemable units during the year	<b>5,787,774</b>	4,086,177
Redemption of redeemable units during the year	<b>(5,272,557)</b>	(7,184,407)
<b>Equity attributable to the unitholders as at December 31,</b>	<b><u>152,667,012</u></b>	<u>129,820,881</u>

**The movement in number of units**

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

	<u>For the year ended December 31,</u>	
	<b>2020</b>	<b>2019</b>
<b>Number of units at the beginning of the year</b>	<b>55,625,142</b>	57,205,503
Issuance of redeemable units during the year	<b>2,420,848</b>	2,013,826
Redemption of redeemable units during the year	<b>(2,212,396)</b>	(3,594,187)
<b>Number of units at the end of the year</b>	<b><u>55,833,594</u></b>	<u>55,625,142</u>

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

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

	<b>For the year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Net income for the year	<b>22,330,914</b>	29,792,214
<b>Adjustments for non-cash items</b>		
Gain on sale of financial assets at FVSI	<b>(22,034,862)</b>	(8,151,248)
Unrealised gain on financial assets at FVSI	<b>(957,766)</b>	(20,627,800)
<b>Changes in operating assets and liabilities:</b>		
Additions to financial assets at FVSI	<b>(483,752,661)</b>	(268,931,163)
Proceeds from sale financial assets at FVSI	<b>494,521,237</b>	275,189,781
Dividends receivable	<b>(89,000)</b>	25,000
Accrued management fees	<b>191,287</b>	82,981
Other liabilities	<b>2,958</b>	582
<b>Net cash flows generated from operating activities</b>	<b>10,212,107</b>	7,380,347
<b>Cash flows from financing activities</b>		
Issuance of redeemable units during the year	<b>5,787,774</b>	4,086,177
Redemption of redeemable units during the year	<b>(5,272,557)</b>	(7,184,407)
<b>Net cash flows generated from / (used in) financing activities</b>	<b>515,217</b>	(3,098,230)
<b>Net increase in cash and cash equivalents</b>	<b>10,727,324</b>	4,282,117
<b>Cash and cash equivalents at the beginning of the year</b>	<b>4,776,931</b>	494,814
<b>Cash and cash equivalents at the end of the year</b>	<b>15,504,255</b>	4,776,931

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



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

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## **1. LEGAL STATUS AND PRINCIPAL ACTIVITIES**

Falcom Saudi Equity Fund (the "Fund") is a fund established under an agreement between Falcom Financial Services ("Fund's manager") and Fund Investors ("unitholders"). The Fund's objectives are to achieve long term capital growth through investing in securities listed on the Saudi stock exchange that meet Islamic Sharia. The Fund is "open-ended" and does not normally distribute any dividends to the Unit holders. Instead, all profits collected in the Fund are reinvested and are reflected in the price of the Fund's units.

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

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

The Fund's manager is dealing with unit holders as it is independent unit, therefore, the Fund's manager prepares separate financial statements for the Fund.

The Capital Market Authority ("CMA") license was granted to the Fund on 12 Rabi Al Awwal 1428H (corresponding to March 31, 2007). The Fund commenced operations on November 18, 2007.

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

## **2. Summary of significant accounting policies**

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

### **2.1 Basis of preparation**

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

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

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

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

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

### **2.2 Changes in accounting policy and disclosures**

#### **(i) New standard effective in current year**

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

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

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

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**(ii) Accounting standards issued but not yet effective**

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

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

**2.3 Functional and presentation currency**

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

**Transactions and balances**

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

**2.4 Cash and cash equivalents**

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

**2.5 Financial instruments**

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

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

**2.5.1 Measurement methods**

Initial recognition and measurement

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

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

**2.5.2 Classification and measurement of financial instruments**

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

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

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Equity instruments

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

**2.5.3 Impairment of financial assets held at amortised cost**

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

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

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

**2.5.4 De-recognition of financial instruments**

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

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

**2.5.5 Financial liabilities**

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

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

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## **2.6 Offsetting**

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

## **2.7 Accruals and other liabilities**

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

## **2.8 Equity attributable to the unitholders**

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

### **(a) Redeemable Units**

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

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

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

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

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

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

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

### **(b) Trading in the units**

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

## **2.9 Tax / Zakat**

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

## **2.10 Revenue recognition**

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

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

## **3. Financial risk management**

### **3.1 Financial risk factors**

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

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

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

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

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

#### **(a) Market risk**

##### **(i) Foreign exchange risk**

Foreign exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in currency exchange rates. These risks arise from financial instruments recognised in foreign currencies.

All transactions and balances of the Fund are in Saudi Riyals and therefore, the Fund is not exposed to foreign exchange risk.

##### **(ii) Commission rate risk**

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

##### **(iii) Price risk**

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

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

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

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

Sector	December 31, 2020		December 31, 2019	
	%		%	
Primary materials	34.92%	48,126,153	21.36%	26,826,728
Banks	12.62%	17,393,502	16.39%	20,585,479
Energy	10.58%	14,588,245	11.26%	14,141,807
Consumer services	9.14%	12,599,183	15.30%	19,219,640
Telecommunications	7.34%	10,119,020	5.24%	6,579,366
Health Care	5.87%	8,087,990	3.54%	4,447,793
Insurance	5.73%	7,892,168	1.64%	2,062,627
Property management and development	5.32%	7,332,074	-	-
Transportation	3.26%	4,492,266	4.29%	5,388,606
Food production	2.65%	3,656,450	4.02%	5,054,940
Commercial and professional services	2.57%	3,546,600	1.26%	1,586,856
Complementary commodities	-	-	12.86%	16,152,962
Long-term commodities	-	-	2.84%	3,562,795
	<b>100%</b>	<b>137,833,651</b>	<b>100%</b>	<b>125,609,599</b>

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

Sector	December 31, 2020		December 31, 2019	
	Change %	Impact on equity	Change %	Impact on equity
Primary materials	5%	2,406,308	5%	1,341,366
Banks	5%	869,675	5%	1,029,274
Energy	5%	729,412	5%	707,090
Consumer services	5%	629,959	5%	960,982
Telecommunications	5%	505,951	5%	328,968
Health Care	5%	404,400	5%	222,390
Insurance	5%	394,608	5%	103,131
Property management and development	5%	366,604	5%	-
Transportation	5%	224,613	5%	269,430
Food production	5%	182,823	5%	252,747
Commercial and professional services	5%	177,330	5%	79,344
Complementary commodities	5%	-	5%	807,648
Long-term commodities	5%	-	5%	178,140
	<b>5%</b>	<b>6,891,683</b>	<b>5%</b>	<b>6,280,480</b>

**(b) Credit risk**

The Fund is exposed to credit risk, which is the risk that one party to the financial instrument will cause a financial loss to the other party through the inability to settle an obligation. The fund is exposed to credit risk on dividends receivable and bank balances.

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

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

**(c) Liquidity risk**

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

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

The Fund terms and conditions stipulate the possibility of subscribing and redeeming the units on each valuation day. Therefore, the Fund is exposed to the liquidity risk resulting from the payment of the redemptions at any time. However, the Fund's manager has developed the Fund's liquidity guidelines and monitors the liquidity requirements regularly to ensure that there are sufficient funds to fulfil any obligations as they arise, either through new subscriptions, liquidation of the investment portfolio, or obtaining funding from related parties.

**3.2 Capital risk management**

The Fund's capital represents equity attributable to the redeemable unitholders. The value of equity attributable to the redeemable unitholders may change significantly on each valuation day, whereas the Fund is subject to subscriptions and redemptions at the discretion of the unitholders on each valuation day, in addition to changes resulting from the Fund's performance. The Fund's objectives when managing capital is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide returns for the unitholders and benefits for other stakeholders, and to maintain the capital base to support the development of the Fund's investment activities. To maintain the capital structure, the Fund's policy is to monitor the level of subscriptions and redemptions related to the assets that it is expected to be able to liquidate and to adjust the amount of distributions that the Fund may pay to the redeemable units.

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

**4. Fair value estimation**

The fair value of financial instruments traded in active markets depends on the quoted market prices at the end of trading as at the date of the financial statements. Instruments that have not had any sale on the valuation day are valued based on the latest bid price.

An active market is a market in which assets or liabilities are dealt with sufficient movement and volume to provide price information on an ongoing basis. The fair value is approximately equal to the carrying amount, less provision for impairment of other receivables and other payables.

The fair value hierarchy consists of the following levels:

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

Investments are based on quoted prices in active markets that are categorised as level 1 and include quoted equity instruments. The Fund does not adjust the quoted price of such instruments.

The following table includes an analysis of the fair value hierarchy of the Fund's assets and liabilities (by category) measured at fair value through profit or loss as of December 31, 2020 and December 31, 2019:

**As at December 31, 2020**

Asset category	Level 1	Level 2	Level 3	Total
Financial assets at FVSI	137,833,651	-	-	137,833,651

As at December 31, 2019

Asset category	Level 1	Level 2	Level 3	Total
Financial assets at FVSI	125,609,599	-	-	125,609,599

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

**5. Financial assets at FVSI**

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

Sector	Fair value	
	December 31, 2020	December 31, 2019
Primary materials	48,126,153	26,826,728
Banks	17,393,502	20,585,479
Energy	14,588,245	14,141,807
Telecommunications	10,119,020	6,579,366
Consumer services	12,599,183	19,219,640
Health Care	8,087,990	4,447,793
Insurance	7,892,168	2,062,627
Property management and development	7,332,074	-
Transportation	4,492,266	5,388,606
Food production	3,656,450	5,054,940
Commercial and professional services	3,546,600	1,586,856
Complementary commodities	-	16,152,962
Long term commodities	-	3,562,795
	<b>137,833,651</b>	<b>125,609,599</b>

**6. Related party transactions and balances**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

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

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

Related Party	Nature of transaction	Transactions amount during the year ended December 31		Closing Balance	
		2020	2019	December 31, 2020	December 31, 2019
Falcom Financial Services	Management fees	2,358,480	2,091,442	743,727	552,440

The Fund pays management fees at the rate of 1.75% per annum of the equity value of the Fund calculated on each valuation day. In addition, the Fund's manager refunds any other expenses paid on behalf of the Fund.

**7. Financial instruments**

	Note	2020	2019
<b>Financial assets – at amortized cost</b>			
Cash and cash equivalents		15,504,255	4,776,931
Dividends receivable		89,000	-
<b>Financial assets – at fair value</b>			
Financial assets at FVSI	5	137,833,651	125,609,599
<b>Financial liabilities – at amortized cost</b>			
Accrued management expenses	6	743,727	552,440
Other liabilities		16,167	13,209



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

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**8. Impact of COVID-19 on the Fund**

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

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

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

**9. Last valuation day**

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

**10. Approval of the Financial Statements**

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