

FALCOM SAR MURABAHA FUND

**CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020
AND INDEPENDENT AUDITOR'S REVIEW REPORT**

FALCOM SAR MURABAHA FUND
CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020

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Independent auditor's review report on the condensed interim financial statements

To the Unitholders and the Fund Manager of Falcom SAR Murabaha Fund

Introduction

We have reviewed the accompanying interim statement of financial position of Falcom SAR Murabaha Fund (the "Fund") as of June 30, 2020, and the related interim statements of comprehensive income, changes in equity attributable to the unitholders and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes (the "condensed interim financial statements"). The Fund Manager is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34"), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410- "Review of interim financial information performed by the independent auditor of the entity" as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read "Ali H. Al Basri", is written over a horizontal line.

Ali H. Al Basri
License Number 409

August 24, 2020

FALCOM SAR MURABAHA FUND**INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)**

(All amounts are in Saudi Riyals unless stated otherwise)

	Note	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Assets			
Cash and cash equivalents		12,316,841	8,442,667
Financial assets at amortised cost	5	961,062,265	700,921,539
Financial assets at fair value through statement of income (FVSI)	5	387,798,684	174,789,079
Accrued murabaha income		7,690,251	7,686,449
Total assets		1,368,868,041	891,839,734
Liabilities			
Accrued management fees	6	1,805,986	1,503,073
Other liabilities		23,575	14,446
Total liabilities		1,829,561	1,517,519
Equity attributable to the unit holders		1,367,038,480	890,322,315
Units in issue (units)		1,075,971,840	708,502,018
Unit value (Saudi Riyals)		1.27	1.26

The accompanying notes on page 6 to page 8 form an integral part of these condensed interim financial statements.

FALCOM SAR MURABAHA FUND**INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

(All amounts are in Saudi Riyals unless stated otherwise)

		For the six-month period ended June 30,	
	Note	2020	2019
INCOME			
Murabaha contracts commission income		14,757,712	20,779,530
Gain on sale of financial assets carried at FVSI		682,935	162,122
Gain on change in fair value of financial assets at FVSI		2,366,404	854,684
Total income		17,807,051	21,796,336
EXPENSES			
Management fees	6	(3,324,801)	(3,198,975)
Other expenses		(237,984)	(157,166)
Total expenses		(3,562,785)	(3,356,141)
Net income for the period		14,244,266	18,440,195
Other comprehensive income for the period		-	-
Total comprehensive income for the period		14,244,266	18,440,195

The accompanying notes on page 6 to page 8 form an integral part of these condensed interim financial statements.

FALCOM SAR MURABAHA FUND**INTERIM STATEMENT OF CHANGES IN EQUITY
ATTRIBUTABLE TO THE UNITHOLDERS (UNAUDITED)**

(All amounts are in Saudi Riyals unless stated otherwise)

	For the six-month period ended June 30	
	2020	2019
Equity attributable to the unitholders as at January 1	890,322,215	1,097,142,704
Total comprehensive income for the period	14,244,266	18,440,195
Unit holders' subscriptions and redemptions:		
Issuance of redeemable units during the period	1,151,286,615	734,164,364
Redemption of redeemable units during the period	(688,814,616)	(483,949,251)
Equity attributable to the unitholders as at June 30	1,367,038,480	1,365,798,012

	For the six-month period ended June 30	
	2020	2019
The movement in number of units		
The movement in number of units for the six-month period ended June 30, is summarised as follows:		
Number of units as at the beginning of the period	708,502,018	898,604,250
Issuance of redeemable units during the period	912,107,085	596,928,485
Redemption of redeemable units during the period	(544,637,263)	(393,549,662)
Number of units at the end of the period	1,075,971,840	1,101,983,073

The accompanying notes on page 6 to page 8 form an integral part of these condensed interim financial statements.

FALCOM SAR MURABAHA FUND**INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**

(All amounts are in Saudi Riyals unless stated otherwise)

	For the six-month period ended June 30	
	2020	2019
Cash flows from operating activities		
Net income for the period	14,244,266	18,440,195
Adjustments for non-cash items		
Murabaha contracts commission income	(14,757,712)	(20,779,530)
Gain on sale of financial assets carried at FVSI	(682,935)	(162,122)
Gain on change in fair value of financial assets at FVSI	(2,366,404)	(854,684)
Changes in operating assets and liabilities:		
Addition to financial assets at amortised cost	(1,483,933,068)	(1,858,806,286)
Proceeds from sale of financial assets at amortised cost	1,238,550,054	1,722,045,883
Additions to financial assets at FVSI	(469,200,000)	(146,100,000)
Proceeds from sale of financial assets at FVSI	259,239,734	33,700,000
Accrued murabaha income	(3,802)	392,483
Accrued management fees	302,913	145,770
Other liabilities	9,129	(5,218)
Net cash flows used in operating activities	(458,597,825)	(251,983,509)
Cash flows from financing activities		
Issuance of redeemable units during the period	1,151,286,615	734,164,364
Redemption of redeemable units during the period	(688,814,616)	(483,949,251)
Net cash flows generated from financing activities	462,471,999	250,215,113
Net change in cash and cash equivalents	3,874,174	(1,768,396)
Cash and cash equivalents at the beginning of the period	8,442,667	3,627,701
Cash and cash equivalents at the end of period	12,316,841	1,859,305

The accompanying notes on page 6 to page 8 form an integral part of these condensed interim financial statements.

FALCOM SAR MURABAHA FUND

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020

1- GENERAL

Falcom SAR Murabaha Fund (the "Fund") is a fund established under an agreement between Falcom Financial Services ("Fund Manager") and Fund Investors ("unit holders"). The Fund's objectives are to achieve return and provide liquidity in accordance with capital market rates on the short term, and maintain Units Holders investments. The Fund provides to investors investment solutions in accordance with Islamic Shariah to achieve competitive returns from the market from short term Murabaha investments. The Fund is "open-ended" and does not distribute any dividends to the Unitholders. Instead, all profits collected in the fund are reinvested and reflected in the price of the Fund's unit. The address of the Fund manager is as follows:

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

In dealing with the unit holders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund.

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

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

2- BASIS OF PREPARATION

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 – "Interim Financial Reporting" (IAS 34), as endorsed in the Kingdom of Saudi Arabia. These condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2019.

These vinterim financial statements have been prepared under the historical cost convention amended by the revaluation of financial assets at FVSI.

The principal accounting policies, estimates and assumptions used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2019.

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 interim statement of financial position. Instead, assets and liabilities are presented in order of liquidity.

The preparation of condensed interim 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 condensed interim financial statements.

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

3. ADOPTION OF NEW STANDARDS AND AMENDMENTS TO EXISTING ACCOUNTING STANDARDS

New accounting standards and amendments to existing accounting standards effective from January 1, 2020 and onwards do not have any significant effect on the Fund's condensed interim financial statements.

4. FUNCTIONAL AND PRESENTATION CURRENCY

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

FALCOM SAR MURABAHA FUND

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020

5. FAIR VALUE ESTIMATION

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

An active market is a market in which assets or liabilities are traded with sufficient movement and volume to provide price information on an ongoing basis. The fair value is approximately equal to the carrying amount less any provision for impairment of other receivables and carrying value of 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 based on inputs other than quoted prices included within level 1, that are observable for the asset or liability are categorised as level 2. These investments have been valued using the net asset value of the funds available on Tadawul (Saudi stock exchange). The estimated fair value of the Fund's financial assets and liabilities is not considered to be significantly different from their carrying values.

The following table includes the hierarchy analysis for the fair value of Fund's assets and liabilities (by class) measured at fair value as at June 30, 2020 and December 31, 2019:

As at June 30, 2020 (unaudited)

Assets class	Level 1	Level 2	Level 3	Total
Financial assets at FVSI (note 5.1)	-	387,798,684	-	387,798,684
Financial assets at amortised cost (note 5.2)	-	-	961,062,265	961,062,265

As at December 30, 2019 (Audited)

Assets class	Level 1	Level 2	Level 3	Total
Financial assets at FVSI	-	174,789,079	-	174,789,079
Financial assets at amortised cost	-	-	700,921,539	700,921,539

5.1 This balance represents the Fund's investment in units of other local investment funds that invest in Murabaha and are managed by investment companies licensed by the CMA in the Kingdom of Saudi Arabia.

5.2 The balance consists of the Fund's investment in murabaha contracts with low risk fixed-rate commodities at local banks and financial institution.

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's Board.

Related party	Nature of transaction	Amount of transactions during the period ended June 30 (Unaudited)		Closing balance	
		2020	2019	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Falcom Financial Services	Management fees	3,324,801	3,198,975	1,805,986	1,503,073
Falcom IPO Fund	Investment in murabaha fund units	6,000,000	7,700,000		
	Redemption of murabaha fund units	13,800,000	7,200,000	9,188,355	16,869,329

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The Fund pays management fees at the rate of 0.5% per annum of the equity value of the Fund calculated on each valuation day. In addition, the Fund Manager refunds any other expenses paid on behalf of the Fund.

The murabaha placements with Falcom Financial Services amounts to SAR 74.5 million as at June 30, 2020 (2019: SAR 96.7 million). The income earned on the placements matured during the year period ended June 30, 2020 amounts to SAR 1.1 million (June 30, 2019: SAR nil). Further the income earned during the period on placements outstanding as at June 30, 2020 amounts to SAR 0.6 million (2019: SAR 0.81 million).

7. IMPACT OF COVID-19 ON THE FUND

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by the Government to contain the virus have affected economic activities. We have 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).

At this stage, the impact on our business and results has not been significant. Based on our experience to date, we expect this to remain the case. As we operate in the business of murabaha investments, we have found a decline in rate of return offered for murabaha investments, and we expect this to continue. We will continue to follow the Government's policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health and safety of our people.

8. 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 June 30, 2020.

9. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements were approved by the Fund's Board on August 23, 2020.