FALCOM SAR MURABAHA FUND

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

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Independent auditor's report to the unitholders and Fund's manager of Falcom SAR Murabaha fund

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 SAR Murabaha 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 Organization for Certified Public Accountants ("SOCPA").

What we have audited

The Fund's financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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

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

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

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

Independent auditor's report to the unitholders and the Fund's manager of Falcom SAR Murabaha 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 SAR MURABAHA FUND
STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals unless stated otherwise)

	Note	December 31, 2020	December 31, 2019
Assets			
Cash and cash equivalents		**35,942,541**	8,442,667
Financial assets at amortised cost	5	**1,098,995,093**	700,921,539
Financial assets at fair value through statement of income (FVSI)	6	**574,181,291**	174,789,079
Accrued murabaha income		**7,744,458**	7,686,449
Total assets		**1,716,863,383**	891,839,734
Liabilities			
Accrued management fees	7	**2,672,108**	1,503,073
Other liabilities		**46,941**	14,446
Total liabilities		**2,719,049**	1,517,519
Equity attributable to the unitholders		**1,714,144,334**	890,322,215
Units in issue (units)		**1,334,946,087**	708,502,018
Unit value (Saudi Riyals)		**1.28**	1.26

The accompanying notes from 1 to 11 form an integral part of these financial statements.

FALCOM SAR MURABAHA FUND
STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Saudi Riyals unless stated otherwise)

	Note	For the year ended December 31, 2020	2019
INCOME			
Murabaha contracts commission income		**32,823,444**	38,824,795
Gain on sale of financial assets carried at FVSI		**3,844,180**	2,331,602
Unrealised gain on financial assets at FVSI		**4,003,320**	1,508,944
Total income		**40,670,944**	42,665,341
EXPENSES			
Management fees	7	**(7,832,299)**	(6,530,579)
Other expenses		**(801,370)**	(307,425)
Total expenses		**(8,633,669)**	(6,838,004)
Net income for the year		**32,037,275**	35,827,337
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**32,037,275**	35,827,337

The accompanying notes from 1 to 11 form an integral part of these financial statements.

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

	For the year ended December 31	
	2020	**2019**
Equity attributable to the unitholders as at January 1	**890,322,215**	1,097,142,704
Total comprehensive income for the year	**32,037,275**	35,827,337
Unitholders subscriptions and redemptions:		
Issuance of redeemable units during the year	**2,320,617,814**	1,545,967,526
Redemption of redeemable units during the year	**(1,528,832,970)**	(1,788,615,352)
Equity attributable to the unitholders as at December 31	**1,714,144,334**	890,322,215

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

	For the year ended December 31	
	2020	**2019**
Number of units as at the beginning of the year	**708,502,018**	898,604,250
Issuance of redeemable units during the year	**1,827,075,639**	1,246,657,055
Redemption of redeemable units during the year	**(1,200,631,570)**	(1,436,759,287)
Number of units at the end of the year	**1,334,946,087**	708,502,018

The accompanying notes from 1 to 11 form an integral part of these financial statements.

FALCOM SAR MURABAHA FUND
STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals unless stated otherwise)

	For the year ended December 31	
	2020	**2019**
Cash flows from operating activities		
Net income for the year	**32,037,275**	35,827,337
Adjustments for non-cash items		
Murabaha contracts commission income	**(32,823,444)**	(38,824,795)
Gain on sale of financial assets carried at FVSI	**(3,844,180)**	(2,331,602)
Unrealised gain on financial assets at FVSI	**(4,003,320)**	(1,508,944)
Changes in operating assets and liabilities:		
Addition to financial assets at amortised cost	**(3,122,050,854)**	(3,270,054,240)
Proceeds from sale of financial assets at amortised cost	**2,756,800,744**	3,671,894,917
Additions to financial assets at FVSI	**(1,419,700,000)**	(766,949,209)
Proceeds from sale of financial assets at FVSI	**1,028,155,288**	619,045,399
Accrued murabaha income	**(58,009)**	412,947
Accrued management fees	**1,169,035**	(38,328)
Other liabilities	**32,495**	(10,690)
Net cash flows (used in) / generated from operating activities	**(764,284,970)**	247,462,792
Cash flows from financing activities		
Issuance of redeemable units during the year	**2,320,617,814**	1,545,967,526
Redemption of redeemable units during the year	**(1,528,832,970)**	(1,788,615,352)
Net cash flows generated from / (used in) financing activities	**791,784,844**	(242,647,826)
Net increase in cash and cash equivalents	**27,499,874**	4,814,966
Cash and cash equivalents at the beginning of the year	**8,442,667**	3,627,701
Cash and cash equivalents at the end of year	**35,942,541**	8,442,667

The accompanying notes from 1 to 11 form an integral part of these financial statements.

1. Legal status and Principal activities

Falcom SAR Murabaha 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 return and provide liquidity in accordance with capital market rates on the short term, and maintain Unitsholders 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’s manager is as follows:

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

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

The Capital Market Authority (“CMA”) license was granted for the establishment of the Fund on 12 Jumada Al Akhir 1429 H (corresponding to June 16, 2008).The Fund commenced operations on 9 Rajab1429 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-Ḥijjah 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. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

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

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

2.2 Changes in accounting policy and disclosures

(i) New standard effective in current year

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

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

(ii) Accounting standards issued but not yet effective

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

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

2.3 Functional and presentation currency

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

Transactions and balances

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

2.4 Cash and cash equivalents

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

2.5 Financial instruments

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

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

2.5.1 Measurement methods

Initial recognition and measurement

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

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

2.5.2 Classification and measurement of financial instruments

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

Equity instruments

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and profit ('SPPP'),that are not designated at FVSI, are measured at amortised cost. The carrying amount of these assets is adjusted by expected credit loss allowances recognized and measured. The profits made from these financial assets are recognized in the statement of comprehensive income using the effective interest rate method.

Business model: the business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVSI.

Factors considered by the Fund in determining the business model for a group of assets include past experiences on how the cash flows for these assets were collected, how the asset's performance is evaluated internally and reported to senior management, how risks are assessed and managed and how managers are compensated. The securities held for trading purpose are considered as held for sale in the short term or as part of the portfolio of financial instruments which are managed together or has evidence of a recent actual pattern of short-term profit-taking. The securities are classified as part of 'other' business model and measured at FVSI.

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect cash flows and sell, the Fund assesses whether debt instruments' cash flows represent solely payments of principal and profit (the 'SPPP test'). In making this assessment, the Fund considers whether contractual cash flows are consistent with a basic lending arrangement i.e. Interest includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVSI.

The Fund reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

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, and therefore was not presented in these financial statements. Financial assets held at amortised cost include investments in Murabaha and bank balances. Bank balances are held at a bank 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.

2.6 Offsetting

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

2.7 Accruals and other liabilities

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

2.8 Equity attributable to the unitholders

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

(a) Redeemable Units

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

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

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

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

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

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

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

(b) Trading in the units

Units of the Fund are available for purchasing only in the Kingdom of Saudi Arabia at Falcom Financial Services branches by natural and corporate persons. The equity value of units in 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. Profit on Murabaha contracts is recognised on effective commission rate method.

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 commission rate is fixed in Murabaha contracts.

(iii) Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.

The Fund has no exposure to equity instruments' price risk as the Fund holds no such investments.

(b) Credit risk

Credit risk 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 financial assets. The Fund's manager seeks to reduce credit risk by monitoring credit risk and setting credit limit for money market conditions. The maximum exposure to credit risk of financial asset is its carrying amount.

Expected credit loss measurement

Under the expected credit loss model, credit losses are recognized before they occur, as was not the case in the incurred loss model. The impairment model requires more timely information that would allow a more accurate reversal of the inherent credit risk exposure.

Under the general approach of the IFRS 9 as endorsed in the Kingdom of Saudi Arabia related to impairment, the financial assets are classified into three stages. Each stage indicates the credit quality of defined financial assets.

Stage 1: includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognised and profit is calculated on the gross carrying amount of the assets (that is, without deduction for credit allowance).

Stage 2: includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but profit is still calculated on the gross carrying amount of the asset.

Stage 3: includes financial assets that have objective evidence of impairment at the reporting date. The defaulters who already have impairment (default) are classified in this stage.

An essential component of IFRS 9 as endorsed in the Kingdom of Saudi Arabia is to determine whether there has been a significant increase in credit risk of Fund's credit exposures since initial recognition. The assessment of the significant reduction is a key factor in determining the turning point between allowance measurement requirement on the basis of 12-month ECL and lifetime ECL.

The performance of financial assets are monitored on a regular basis against pre-determined classification/ catalysts to ensure effectiveness and relevance, and to ensure that:

- the categories are able to determine significant increases in credit risk before default,
- the categories are not less released from the point of time at which the asset becomes due for more than 30 days,
- there is a stability in the ECL allowance for transfers between 12-month (stage 1) and lifetime.

The Fund specified the following definition of default:

A "default" is defined as either a continuous failure to pay a 90-day financial liability or events that cause the Fund to consider that it is unlikely that the customer will pay its credit commitments to the Fund. When assessing whether the borrower is in default, the Fund takes into account the following factors:

- Qualitative, e.g. breaches,
- Quantitative, e.g. late payment and non-payment of another obligation of the same issuer to the Fund,
- Based on the information developed internally and obtained from external sources.

Probability of Default (PD) are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of the concerned parties. These statistical models are based on internally compiled information comprising both quantitative and qualitative factors. If a concerned party is transferred between estimate categories, then this will lead to a change in the estimation of the associated PD.

Loss Given Default (LGD) is the amount of expected loss on a claim should any default occurs. The Fund evaluates the information of LGD based on the date of redemption rates of claims form defaulters. LGD model is an integral part of the financial asset.

Exposure at Default (EAD) is an estimate of the extent to which the Fund may be exposed to the obligated party in the event of default. The Fund derives its exposure to default from the obligated party's current exposure. The default exposure assessment should take any expected changes to the exposure after the valuation date. This is important in the case of stage 2 assets where default may occur for several years in the future. The default exposure of financial asset is its total carrying amount.

The Fund is not exposed to significant credit risk to the financial instruments as the Fund invests in murabaha contracts with short-term and high-stability goods.

The Fund's manager reviews the credit concentration of the investment portfolio, depending on the counterparties. As at December 31, 2020 and December 31, 2019 the Fund has investments with credit ratings ranging from A to BB+.

(c) Liquidity risk

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

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

3.2 Capital risk management

The Fund's capital represents equity attributable to the redeemable 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 are 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 unitsholders.

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.

(All amounts in Saudi Riyals unless stated otherwise)

4. Fair value estimation

The fair value of financial instruments traded in active markets are based on quoted market prices at the end of trading as at the date of 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 treated 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 December 31, 2020 and December 31, 2019:

As at December 30, 2020

Assets class	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVSI (note 6)	**-**	**574,181,291**	**-**	**574,181,291**
Financial assets at amortised cost (note 5)	**-**	**-**	**1,098,995,093**	**1,098,995,093**

As at December 30, 2019

Assets class	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVSI (note 6)	-	174,789,079	-	174,789,079
Financial assets at amortised cost (note 5)	-	-	700,921,539	700,921,539

5. Financial assets at amortised cost

The balance consists of the Fund's investment in murabaha contracts with low risk fixed-rate commodities at local banks and financial institution (Falcom Financial services). These investments are initially measured at cost and are subsequently measured at amortized cost. The following is a list of the commodities invested:

Description	**As at December 31,**	
	2020	**2019**
Platinum	**719,349,745**	327,100,030
Palladium	**379,645,348**	248,321,509
MNI	**-**	74,000,000
Aluminium	**-**	51,500,000
	1,098,995,093	700,921,539

(All amounts in Saudi Riyals unless stated otherwise)

6. Financial assets at FVSI

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.

Following is the breakdown of investments held in Fund's units:

Description	**As at December 31,**	
	2020	**2019**
Alinma liquidity fund in SAR	**238,519,028**	-
Alpha murabaha fund	**130,774,510**	-
Al- murabih SAR murabaha fund	**52,765,933**	22,000,000
The First murabahat fund In SAR	**49,391,322**	49,593,987
Itqan murabaha fund	**42,033,382**	15,095,041
Muscat capital money market fund	**40,127,020**	55,038,737
Al-Khair capital murabaha fund in SAR	**20,570,096**	-
Riyadh SAR trading fund	**-**	33,061,314
	574,181,291	174,789,079

7. 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.

		Amount of transactions during the year ended December 31		**Closing balance December 31,**	
Related party	**Nature of transaction**	**2020**	**2019**	**2020**	**2019**
Falcom Financial Services	Management fees	**7,832,299**	6,530,579	**2,672,108**	1,503,073
	Murabaha placements	**743,800,153**	632,349,908	**211,310,318**	96,783,571
	Income earned on placements	**6,744,415**	7,006,911	**1,051,937**	817,409
Falcom IPO Fund	(Disposal) of / Investment in Fund units	**(7,300,000)**	11,200,000	**9,569,329**	16,869,329

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's manager refunds any other expenses paid on behalf of the Fund.

8. Financial instruments

	As at December 31,	
	2020	**2019**
Financial assets – at amortized cost		
Cash and cash equivalents	**35,942,541**	8,442,667
Financial assets at amortised cost	**1,098,995,093**	700,921,539
Accrued murabaha income	**7,744,458**	7,686,449
Financial assets – at fair value		
Financial assets at FVSI	**574,181,291**	174,789,079
Financial liabilities – at amortized cost		
Accrued management expenses	**2,672,108**	1,503,073
Other liabilities	**46,941**	14,446

9. 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.

Even during the peak of the pandemic, the impact on our business and results were not significant. Due to the economic stimulus programs announced to mitigate the impact from the pandemic resulted in a drop in the interest rates and an increase in the money supply/liquidity in the market.

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.

10. 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.

11. Approval of the financial statements

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