

FALCOM
SAUDI EQUITY EXCHANGE TRADED FUND
INTERIM CONDENSED FINANCIAL STATEMENTS
For the six months period ended 30 June 2015
together with the
Review Report to the Unitholders



KPMG Al Fozan & Al Sadhan

KPMG Tower
Salahudeen Al Ayoubi Road
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 11 8748500
Fax +966 11 8748600
Internet www.kpmg.com.sa

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**REVIEW REPORT
ON THE INTERIM CONDENSED FINANCIAL STATEMENTS**

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

Scope of Review

We have reviewed the accompanying interim balance sheet of **FALCOM Saudi Equity Exchange Traded Fund** (the "Fund") managed by FALCOM Financial Services (the "Fund Manager") as at 30 June 2015 and the related interim statements of income, cash flows and changes in net assets attributable to unitholders for the six months period ended 30 June 2015 and the attached notes from (1) to (13) for the six months period then ended which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Fund Manager and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

We conducted our review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Al Sadhan



Khalil Ibrahim Al Sedais
License No. 371

Date: 19 Shawwal 1436H
Corresponding to: 4 August 2015

FALCOM SAUDI EQUITY EXCHANGE TRADED FUND
INTERIM BALANCE SHEET
As at 30 June 2015
(Amounts in Saudi Arabian Riyals)

| | <i>Note</i> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------------|-------------------|
| <u>ASSETS</u> | | | |
| Cash balance | | 414,919 | 483,335 |
| Held for trading investments | 7 | 31,975,348 | 22,957,703 |
| Dividend receivable | | 12,480 | 11,900 |
| TOTAL ASSETS | | <u>32,402,747</u> | <u>23,452,938</u> |
| <u>LIABILITIES</u> | | | |
| Accrued liabilities | | 78,779 | 61,061 |
| TOTAL LIABILITIES | | <u>78,779</u> | <u>61,061</u> |
| NET ASSETS ATTRIBUTABLE TO UNITHOLDERS | | <u>32,323,968</u> | <u>23,391,877</u> |
| Units in issue (numbers) | | <u>1,000,000</u> | <u>700,000</u> |
| Net assets value - per unit | | <u>32.32</u> | <u>33.42</u> |

The accompanying notes 1 through 13 form an integral part of these interim condensed financial statements.

FALCOM SAUDI EQUITY EXCHANGE TRADED FUND
INTERIM STATEMENT OF INCOME
For the six months period ended 30 June 2015
(Amounts in Saudi Arabian Riyals)

| | <i>Notes</i> | <u>2015</u> | <u>2014</u> |
|----------------------------------|--------------|-------------------------|------------------|
| INCOME | | | |
| Trading gain, net | 8 | 2,830,220 | 2,456,793 |
| Dividend income, net | | 595,877 | 483,664 |
| | | <u>3,426,097</u> | <u>2,940,457</u> |
| EXPENSES | | | |
| Fund management fee | 9 | 76,261 | 62,628 |
| Other expenses | 9 | 76,261 | 62,628 |
| | | <u>152,522</u> | <u>125,256</u> |
| NET INCOME FOR THE PERIOD | | <u>3,273,575</u> | <u>2,815,201</u> |

The accompanying notes 1 through 13 form an integral part of these interim condensed financial statements.

FALCOM SAUDI EQUITY EXCHANGE TRADED FUND
INTERIM STATEMENT OF CASH FLOWS
For the period ended 30 June 2015
(Amounts in Saudi Arabian Riyals)

| | <u>Notes</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income for the period | | 3,273,575 | 2,815,201 |
| Adjustment for: | | | |
| Trading gain on held for trading investments | | (2,830,220) | (2,456,793) |
| | | <u>443,355</u> | <u>358,408</u> |
| Changes in operating assets and liabilities: | | | |
| Held for trading investments | | (236,680) | (22,250) |
| Accrued liabilities | | (1,758) | (26,596) |
| Dividend receivable | | (12,480) | (11,900) |
| Net cash generated from operating activities | | <u>192,437</u> | <u>297,662</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Creation of units | | 85,248 | -- |
| Redemption of units | | (80,996) | (41,884) |
| Net cash from/(used) in financing activities | | <u>4,252</u> | <u>(41,884)</u> |
| Net increase in cash and cash equivalents | | 196,689 | 255,778 |
| Cash and cash equivalents at beginning of the period | | <u>218,230</u> | <u>227,557</u> |
| Cash and cash equivalents at end of the period | | <u><u>414,919</u></u> | <u><u>483,335</u></u> |
| SUPPLEMENTAL NON CASH INFORMATION | | | |
| Non cash increase / (decrease) in held for trading investments | (3) | <u>4,997,497</u> | <u>(3,821,025)</u> |
| In kind creation of units | (3) | <u>9,870,347</u> | <u>--</u> |
| In kind redemption of units | (3) | <u>(7,703,070)</u> | <u>(6,322,318)</u> |

The accompanying notes 1 through 13 form an integral part of these interim condensed financial statements.

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

For the six months period ended 30 June 2015
(Amounts in Saudi Arabian Riyals)

| | 2015 | | 2014 | |
|-----------------------------------|------------------------|-------------------------|------------------------|-------------------------|
| | <i>Number of units</i> | <i>Net assets value</i> | <i>Number of units</i> | <i>Net assets value</i> |
| At beginning of the period | 925,000 | 26,878,864 | 900,000 | 26,940,878 |
| Net income for the period | -- | 3,273,575 | -- | 2,815,201 |
| Creation of Units | 300,000 | 9,955,595 | -- | -- |
| Redemption of units | (225,000) | (7,784,066) | (200,000) | (6,364,202) |
| | 75,000 | 2,171,529 | (200,000) | (6,364,202) |
| At end of the period | 1,000,000 | 32,323,968 | 700,000 | 23,391,877 |

The accompanying notes 1 through 13 form an integral part of these interim condensed financial statements.

FALCOM SAUDI EQUITY EXCHANGE TRADED FUND

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2015

1. THE FUND AND ITS ACTIVITIES

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

The interim results of the Fund may not be indicative of its annual results.

2. REGULATING AUTHORITY

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

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

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

4. VALUATION OF THE FUND

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

5. BASIS OF PREPARATION

5.1 Statement of compliance

These interim condensed financial statements have been presented in accordance with the requirements of accounting standard on interim financial reporting issued by the Saudi Organization of Certified Public Accountants (the “SOCPA”). These interim condensed financial statements do not include all the information presented in annual financial statements; therefore, these interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2014.

5.2 Basis of measurement

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

5.3 Functional and presentation currency

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

FALCOM SAUDI EQUITY EXCHANGE TRADED FUND
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2015

(Amounts in Saudi Arabian Riyals)

5. BASIS OF PREPARATION (CONTINUED)

5.4 Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

6. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these interim condensed financial statements are consistent with those used and disclosed in the annual financial statements for the year ended 31 December 2014.

Financial instrument policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2014.

7. HELD FOR TRADING INVESTMENTS

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

| <u>Description</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|
| Al Rajhi Bank | 4,453,000 | 3,209,220 |
| Saudi Basic Industries Corporation | 3,718,560 | 3,129,056 |
| Jabal Omar Development Company | 2,518,560 | 1,023,680 |
| SAVOLA Group | 1,687,840 | 1,186,248 |
| Al Inma Bank | 1,438,690 | 809,754 |
| Saudi Telecom Company | 1,355,400 | 932,631 |
| Jarir Marketing Company | 1,219,920 | 761,208 |
| Al Marai Company | 1,123,670 | 623,280 |
| Saudi Arabia Fertilizers Company | 1,068,980 | 814,681 |
| Maaden Saudi Arabian Mining Company | 963,916 | 448,507 |
| Etihad Etisalat Company | 926,120 | 1,563,576 |
| Bank Al Bilad | 823,840 | 537,026 |
| Saudi Cement Company | 775,860 | 646,800 |
| Saudi Electricity Company | 761,070 | 482,681 |
| National Industrialization Company | 707,624 | 828,559 |
| Al Tayyar Travel Group Holding Company | 703,100 | 451,178 |
| Yanbu National Petrochemical Company | 677,040 | 630,196 |
| The National . Shipping Company of Saudi Arabia | 670,980 | 285,790 |
| Fawaz Abdulaziz Al Hokair Company | 646,800 | 437,388 |
| Saudi International Petrochemical Company | 640,848 | 459,777 |
| Bank Al Jazira | 627,000 | 472,954 |
| Saudi International Investment Group | 624,976 | -- |
| Makkah Construction and Development Company | 611,780 | 376,040 |
| Dar Al Arkan Real Estate Development Company | 604,968 | 548,785 |
| Advanced Polypropylene Company | 530,880 | 292,152 |
| Yamamah Saudi Cement Company Limited | 491,280 | 471,086 |
| Yanbu Cement Company | 464,820 | 374,052 |
| Arabian Cement Company | 439,350 | 286,230 |
| Southern Province Cement Company | 353,700 | 291,690 |
| Sahara Petrochemical Company | 344,776 | 345,363 |
| Mobile Telecommunication Company Saudi Arabia | -- | 238,115 |

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

For the six months period ended 30 June 2015

(Amounts in Saudi Arabian Riyals)

7. HELD FOR TRADING INVESTMENTS (Continued)

7.1 The Fund invests in the component securities of Benchmark Index in the same weights and proportions while keeping adequate amount of cash to account for the Fund expenses and liabilities on ongoing basis.

Fund rebalancing activities are undertaken periodically to ensure proper tracking of performance of the Benchmark Index and to keep adequate cash balance.

7.2 As at 30 June 2015, cost of the above mentioned held for trading investments amounted to SAR 29.24 million (30 June 2014: SAR 20.86 million).

8. TRADING GAIN, NET

| | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|
| Realised gain on held for trading investments | 1,106,940 | 361,961 |
| Unrealised gain on held for trading investments | 1,723,280 | 2,094,832 |
| | <u>2,830,220</u> | <u>2,456,793</u> |

9. MANAGEMENT FEE, CUSTODIAN & FUND ADMINISTRATION FEES AND OTHER EXPENSES

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

| | |
|--|-------------|
| Management Fee | 0.50% |
| Administrator Fee | 0.17% |
| Custodial Charges | 0.15% |
| Index Fee | 0.10% |
| Tadawul Listing and Basic Registration Fee | Up-to 0.08% |

The above charges, in total, do not exceed 1% per annum of the Fund's net assets value based on the terms and conditions of the Fund.

10. TRANSACTIONS WITH RELATED PARTIES

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

Related party transactions for the period ended 30 June 2015 and balances arising there-from are described as under:

| <u>Related party</u> | <u>Nature of transactions</u> | <u>Amount of transaction during the period</u> | | <u>Closing balance Receivable/(Payable)</u> | |
|---------------------------|-------------------------------|--|-------------|---|-------------|
| | | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| FALCOM Financial Services | Fund management fee | 76,261 | 62,628 | 39,390 | 30,531 |
| FALCOM Financial Services | Cash balance | -- | -- | 414,919 | 483,335 |

FALCOM SAUDI EQUITY EXCHANGE TRADED FUND

NOTES TO THE FINANCIAL STATEMENTS

For the six months period ended 30 June 2015

(Amounts in Saudi Arabian Riyals)

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The Fund's financial assets consist of cash and bank balance and held for trading investments; its financial liabilities consist of other liabilities which represent Accrued Management Fees towards Fund Manager and accruals of other expenses.

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

12. LAST VALUATION DAY

The last valuation day of the period was 30 June 2015.

13. AUTHORIZATION

These financial statements were authorized for issue by the Fund Board on 19 Shawwal 1436H (corresponding to 4 August 2015).