

FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2016 AND
INDEPENDENT AUDITORS' REPORT**

FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

March 15, 2017

To the Shareholders of Falcom Financial Services
(A Saudi Closed Joint Stock Company)

Scope of audit

We have audited the accompanying consolidated balance sheet of Falcom Financial Services (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2016 and the consolidated statements of income, cash flows and changes in equity for the year then ended, and the notes from (1) to (35) which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company in accordance the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and the results of its consolidated operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers

By: _____
Omar M. Al Sagga
License Number 369

FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)

CONSOLIDATED BALANCE SHEET

(All amounts in Saudi Riyals thousands Saudi Riyals unless otherwise stated)

	Notes	December 31,	
		2016	2015
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	253,052	107,139
Investments	5	369	3,393
Islamic financing receivables	6	524,454	444,057
Margin lending and murabaha financing	7	123,948	122,957
Due from related parties	8	7,796	7,431
Prepaid expenses and accrued income	9	28,126	51,484
Other receivables	10	6,799	52,655
		944,544	789,116
NON-CURRENT ASSETS			
Investments	5	275,343	371,706
Islamic financing receivables	6	1,064,432	1,260,873
Intangible assets		5,255	2,627
Property and equipment, net	11	106,964	77,139
Capital work in progress	12	41,827	41,715
Goodwill	13	120,573	120,573
		1,614,394	1,874,633
TOTAL ASSETS		2,558,938	2,663,749
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bank financing	14	476,969	584,935
Accounts payable and accruals	15	32,137	23,255
Provision for zakat	16	93,323	73,496
		602,429	681,686
NON-CURRENT LIABILITIES			
Bank financing	14	554,566	639,923
Employee termination benefits	17	14,847	14,792
		569,413	654,715
Total liabilities		1,171,842	1,336,401
SHAREHOLDERS' EQUITY			
Share capital	18	1,050,000	1,050,000
Statutory reserve	19	24,960	24,440
Other reserves	21	(16,245)	(40,020)
Retained earnings		153,275	148,600
Total shareholders' equity		1,211,990	1,183,020
Non-controlling interest		175,106	144,328
Total shareholders' equity		1,387,096	1,327,348
TOTAL LIABILITIES AND EQUITY		2,558,938	2,663,749
Contingencies and commitment	31		

The notes on pages 6 to 25 form an integral part of these consolidated financial statements.

FALCOM FINANCIAL SERVICES
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CONSOLIDATED INCOME STATEMENT

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Year ended December 31,	
		2016	2015
REVENUES:			
Income from Islamic financing	22	339,046	295,212
Commission on brokerage services		21,795	32,317
Management and subscription fee from mutual funds		15,232	24,476
Advisory services income		1,416	10,773
(Loss) / income from investments, net	23	(7,647)	2,561
Share in net loss of associates	5	(6,606)	(8,794)
		<u>363,236</u>	<u>356,545</u>
EXPENSES:			
Salaries and related benefits		(102,698)	(105,405)
Finance cost	25	(75,815)	(60,728)
Provision for impairment, net	24	(79,464)	(79,081)
General and administrative expenses	26	(45,160)	(49,226)
		<u>(303,137)</u>	<u>(294,440)</u>
Income from operations		60,099	62,105
Other income	27	<u>3,798</u>	<u>28,101</u>
Income before zakat and non-controlling interest		63,897	90,206
Zakat	16	<u>(27,924)</u>	<u>(21,961)</u>
Income before non-controlling interest		35,973	68,245
Non-controlling interest		<u>(30,778)</u>	<u>(25,951)</u>
Net income for the year		<u>5,195</u>	<u>42,294</u>
Earnings per share:			
Income from operations - (SR)	20	<u>0.57</u>	<u>0.59</u>
Net income for the year - (SR)	20	<u>0.05</u>	<u>0.40</u>

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

	Notes	Year ended December 31,	
		2016	2015
Cash flow from operating activities:			
Income before zakat and non-controlling interest		63,897	90,206
Adjustments for non-cash items:			
Depreciation	11	5,444	5,072
Amortization of intangible	26	316	384
Provision for impairment, net	24	79,464	79,081
Gain on sale of property and equipment		(19)	(17,754)
Unrealized loss on held for trading investments		-	136
Share in net loss of associates	5	6,606	8,794
Provision for employees' termination benefits	17	4,129	3,993
Changes in operating assets and liabilities:			
Investments held for trading		3,024	126
Islamic financing receivable		85,279	(603,995)
Margin lending and murabaha financing		(991)	41,397
Due from related parties		(365)	(5,734)
Prepaid expenses and accrued income		23,358	(36,674)
Other receivables		45,856	35,006
Accounts payable and accruals		8,864	(10,012)
Employee termination benefits paid	17	(4,074)	(893)
Zakat paid	16	(8,097)	(8,197)
Net cash generated from/ (used in) from operating activities		<u>312,691</u>	<u>(419,064)</u>
Cash flow from investing activities:			
Additions to investment in associates	5-b	-	(26,000)
Additions to property and equipment	11	(35,271)	(6,887)
Additions to capital work in progress	12	(112)	(29,027)
Available for sale investments - net		64,856	(62,059)
Additions to intangible assets		(2,944)	(2,395)
Proceeds from sale of property and equipment		16	-
Short-term deposit	4	(45,917)	(5,417)
Net cash used in investing activities		<u>(19,372)</u>	<u>(131,785)</u>
Cash flow from financing activities:			
Proceeds from bank financing		850,899	1,427,555
Repayment of bank financing		(1,044,222)	(877,811)
Net cash (used in)/ generated from financing activities		<u>(193,323)</u>	<u>549,744</u>
Net increase/ (decrease) in cash and cash equivalents		99,996	(1,105)
Cash and cash equivalents at beginning of year		93,222	94,327
Cash and cash equivalents at end of year	4	<u>193,218</u>	<u>93,222</u>
Supplemental non-cash information:			
Changes in fair value of available for sale investments	5-a	(24,901)	(32,737)
Foreign currency translation differences	21	(23)	(22)
Sale of property and equipment	10	-	31,512

The notes on pages 6 to 25 form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total
January 1, 2016								
Net income for the year		1,050,000	24,440	(40,020)	148,600	1,183,020	144,328	1,327,348
Transfer to statutory reserve	19	-	520	-	5,195	5,195	30,778	35,973
Net changes in value of available for sale investments		-	-	-	(520)	-	-	-
Impairment of available for sale investments	21	-	-	(24,901)	-	(24,901)	-	(24,901)
Currency translation differences	21	-	-	48,699	-	48,699	-	48,699
		-	-	(23)	-	(23)	-	(23)
		1,050,000	24,960	(16,245)	153,275	1,211,990	175,106	1,387,096
January 1, 2015								
Net income for the year		1,050,000	20,211	(63,317)	110,535	1,117,429	118,377	1,235,806
Transfer to statutory reserve	19	-	4,229	-	42,294	42,294	25,951	68,245
Net changes in value of available for sale investments		-	-	-	(4,229)	-	-	-
Impairment of available for sale investments	21	-	-	(32,737)	-	(32,737)	-	(32,737)
Currency translation differences	21	-	-	56,056	-	56,056	-	56,056
		-	-	(22)	-	(22)	-	(22)
		1,050,000	24,440	(40,020)	148,600	1,183,020	144,328	1,327,348

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1. GENERAL INFORMATION

Falcom Financial Services (the "Company"), a closed joint stock company, incorporated in Kingdom of Saudi Arabia was formed pursuant to the ministerial resolution No. 2631 dated 10 Ramadan 1427H (corresponding to October 3, 2006). The Company operates under Commercial Registration No. 1010226584, dated 4 Dhu Al Hijjah 1427H (corresponding to December 25, 2006) in Riyadh, through its four branches in the Kingdom of Saudi Arabia. The address of the Company's head office is as follows:

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

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

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

The accompanying consolidated financial statements include the financial statements of the Company and its following subsidiaries collectively (the "Group"):

Subsidiary name	Country	Ownership percentage	
		2016	2015
Nayifat Finance Company (1)	Saudi Arabia	75.86%	75.86%
Falcom Financial Service and Partners SAOC (2)	Oman	99.99%	99.99%

(1) Nayifat Finance Company ("Nayifat") was registered as a Closed Joint Stock Company under Commercial Registration ("CR") Number 1010176451 issued in Riyadh on 9 JumadThani 1431H (corresponding to 23 May 2010). In accordance with the Law of Supervision of Finance Companies, the Saudi Arabian Monetary Authority (SAMA) granted Nayifat a license to operate as a financing company.

(2) During 2008, the Company established a subsidiary in the Sultanate of Oman under the name Falcom Financial Service and Partners SAOC (Omani closed joint stock company), in which of the Company has an ownership interest of 99.99% and the remaining 0.01% held by Company's two other shareholders resulting in an effective ownership interest of 100%. The subsidiary is registered under Commercial Registration number 1041405 dated 15 Muharram 1429H (corresponding to March 11, 2008).

Also, the Company has an investment in a subsidiary under the name of Bursa Café which was established on 13 Safar 1430H (corresponding to February 9, 2009) with a share capital of SR 50,000. Bursa Café is a limited liability company which aims to start and operate cafes, restaurants and hotels and buying and acquiring real estates for the benefit of the Company, as well as, managing commercial agencies. The Company owns 90% share in Bursa Café and the remaining share is owned by a related party. Bursa Café accounts were not consolidated into the accompanying consolidated financial statement as they were insignificant to the consolidated accounts and due to the fact that Bursa Café did not commence its operations yet. Accordingly, the investment in Bursa Café is carried at cost under "investments in associates and unconsolidated subsidiary" (see Note 5).

During the year, the Group's Board of Directors resolved to establish a holding company where some of the Group's investments will be transferred to, subject to the required approvals and legal formalities.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by revaluation of available-of-sale investments and held for trading investments at fair value and investment in associates at equity method, and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Basis of consolidation

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Immaterial subsidiary which did not commence its operations yet is carried at cost.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries, is tested annually for impairment and carried at cost, net of any impairment losses, if any. Impairment losses recognized on goodwill are not reversible.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Cash and cash equivalents

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

2.4 Investments

All investment securities are initially recognized at cost being the fair value of the consideration given include acquisition charges associated with the investment.

Premiums are amortized and discounts accreted using the effective yield method and are taken to dividends and profit from investments.

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated balance sheet date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

Equity investment in an entity in which the Group holds less than 20% of its total shareholding for which fair value is not available or cannot be reasonably determined is held at cost minus other-than-temporary declining losses determined.

The subsequent reporting values for each class of investment are determined as follows:

Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in short-term.

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After initial recognition, held for trading investments are measured at fair value and any unrealized gain or loss arising from a change in its fair value is recognized in the consolidated income statement.

Available for sale

Available for sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in commission rates, exchange rates or equity prices.

Investments which are classified as "available for sale" are subsequently measured at fair value. Any unrealized gain or loss arising from a change in its fair value is recognized directly in "other reserves" under shareholders' equity. Decline other than temporary is recognized in the consolidated income statement when arises. On derecognition, any cumulative gain or loss previously recognized in shareholders' equity is included in the consolidated income statement. Equity investments classified under available for sale investments whose fair value cannot be reliably measured are carried at cost.

Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition income or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.5 Islamic financing receivables

Islamic financing receivables comprising of Tawarruq, Murabaha and Ijarah originated by the Group, are initially recognized at fair value including transaction costs when cash is advanced to customers. Subsequently these financial assets are measured at amortized cost. For presentation purposes, the unearned finance income and provision for impairment is deducted from gross receivables.

Tawarruq

A contract whereby the Group sells a commodity or an asset to its customer on a deferred payment basis. The selling price by Group comprises the cost plus an agreed profit margin. The customer sells the same commodity or an asset to a third party at market price to raise the needed cash.

Murabaha

A contract whereby the Group sells to customers a commodity or an asset, which the Group has purchased and acquired, based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

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Ijara

Ijara is an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer (lessee) request, based on his promise to lease the asset for an agreed rent and for a specific period. Ijarah could end by transferring the ownership of the leased asset to the lessee. Ijara Islamic financing receivable represents net investment in assets leased for period, which either approximate or cover major part of the estimated useful lives of such assets. The documentation includes a separate undertaking from the Group to sell the leased assets to the lessee upon maturity of the lease.

2.6 Margin lending and murabaha financing

Margin lending and murabaha financing are recognized when cash is advanced to the borrowers. They are derecognized when either borrower repays their obligations, or the balance is sold or written-off, or substantially all the risks and rewards of ownership are transferred to other party.

Margin lending and murabaha financing are carried at the amount advanced to the customers, including related transaction cost less any provision for credit losses, if any. A provision against credit losses is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. All margin lending and murabaha financing at December 31, 2016 are maturing within one year.

2.7 Investment property

Investment property is potentially held to earn rentals or for capital appreciation rather than for use in the Group purposes. Investment property is carried at cost less accumulated depreciation, if any, except for land which is carried at cost.

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

2.8 Investment management services

The Group offers investment services to its customers which include management of certain investment funds. The Group's share of these funds is included in available for sale investments.

Assets held in trust or in a fiduciary capacity, if any, are not treated as assets of the Group and, accordingly, are not included in the consolidated financial statements.

2.9 Settlement date accounting

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

2.10 De-recognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expire. In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Group has not retained control of the financial asset. The Group recognizes separately as assets or liabilities any rights and obligations created or retained in the process. A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

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2.11 Impairment of financial and non-financial assets

Held at amortized cost

At each reporting date, the Group assesses whether there is objective evidence that financial assets at amortized cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired primarily includes:

- default or delinquency by the counter-party;
- indications that a counter-party will enter bankruptcy or under significant financial difficulties; or
- restructuring of receivables on terms that the Group would not consider otherwise.

All individually significant receivables are assessed for specific impairment based on the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Other financial assets with similar characteristics of credit risk are collectively assessed for impairment based on probability of default calculated on historical trend and other factors.

Impairment losses and subsequent changes therein are recognized in consolidated income statement.

Financial assets are written-off only in circumstances where there are no realistic prospects of recovery.

Held as available for sale

For equity investments held as available for sale, impairment assessment is based on significant and prolonged decline in the "fair value below their cost for securities individually and other than temporary decline is recorded as impairment loss. Impairment losses cannot be reversed through the consolidated income statement as long as the asset continues to be recognized. Therefore, any increase in fair value after impairment has been recorded can only be recognized in equity. On derecognition, any cumulative gain or loss previously recognized in equity is transferred to the consolidated income statement for the year.

Non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets, other than goodwill, that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated income statement.

2.12 Foreign currency translations

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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(c) Subsidiary

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

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

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

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

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

2.13 Property and equipment

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

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

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

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

2.14 Intangible assets

Software acquired by the Group is measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software for the current and comparative periods is three years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.15 Bank financing and related cost

Bank financing are recognized initially at fair value, net of transactions cost. Bank financing are subsequently carried at amortized cost; any difference between the proceeds (net of transaction cost) and the redemption value is recognized in the consolidated income statement over the period of the financing using the effective commission method.

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

All other financing costs are recognized in consolidated income statement in the period in which they are incurred.

2.16 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

2.17 Zakat

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

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

Foreign subsidiary is subject to income taxes in its country of domicile. Such income taxes, if any, are charged to the consolidated income statement.

2.18 Employees' termination benefits

Employees' termination benefits required by Saudi Labor and Workman Law are accrued by the Group charged to the consolidated income statement. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the consolidated balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

The foreign subsidiary provide currently for employee termination and other benefits as required under the laws of its country of domicile.

2.19 Provisions

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

2.20 Revenue recognition

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

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

Fee, commission and other income are recognized on accrual basis as the services are rendered.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

Dividends are recognized when declared.

Investments return from Murabaha contracts or short-term deposits is recognized based on the effective rate of return during the contract period.

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2.21 Repossessed assets held for sale

The Group, in the ordinary course of business, acquires real estate or other assets against settlement of due financing. Such assets are considered as assets held for sale and are initially recorded at the lower of receivable value or the current fair value of the related assets, less any costs to sell, at the time of possession. No depreciation is charged on such assets.

Subsequent to initial recognition, any subsequent write down to fair value, less cost to sell, are charged to the consolidated income statement. Any subsequent gain in the fair value less cost to sell of these assets to the extent this does not exceed the cumulative write down is recognized as income together with any gain/loss on disposal.

2.22 Operating leases

Operating leases' expenses are directly charged to consolidated income statement during the lease period. Lease revenue is recognized based on accrual basis according to lease terms.

2.23 Dividends

Dividends are recorded in the financial statements in the period in which they are approved by the shareholders of the Group.

2.24 Segment information

a) Business segment

A business segment is group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

3. CRITICAL ACCOUNTING ESTIMATES AND ADJUSTMENTS

The preparation of the financial statements in conformity with SOCPAs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

- 1- Provision for impairment - note 24
- 2- Provision for zakat - note 16

4. CASH AND CASH EQUIVALENTS

	Note	2016	2015
Cash in hand		87	65
Cash at banks		193,131	93,157
Cash and cash equivalents		<u>193,218</u>	<u>93,222</u>
Short-term deposit	4.1	59,834	13,917
Total		<u>253,052</u>	<u>107,139</u>

4.1 This include SR 8.5 million held with a local bank as a non-commission bearing deposit and SR 46 million in relation to a bank guarantee (see note 16.3).

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5. INVESTMENTS

	Note	2016	2015
Current			
Investments held for trading – in quoted shares		369	3,393
Non-current			
Available for sale investments	5-a	78,401	168,158
Investment in associates and unconsolidated subsidiary	5-b	51,342	57,948
Investment property	5-c	145,600	145,600
Total non-current		<u>275,343</u>	<u>371,706</u>

a) Available for sale investments

	2016	2015
Investment in quoted shares	46,483	82,529
Investment in mutual funds	31,918	85,629
Total	<u>78,401</u>	<u>168,158</u>

Movement in available for sale investment is as follows:

	Note	2016	2015
January 1		168,158	138,836
Additions		54,424	78,108
Disposals		(119,280)	(16,049)
Changes in fair value	21	(24,901)	(32,737)
December 31		<u>78,401</u>	<u>168,158</u>

b) Investment in associates and unconsolidated subsidiary

<u>Name</u>	<u>Country of incorporation</u>	<u>2016</u>		<u>2015</u>	
		<u>Ownership percentage</u>	<u>Amount</u>	<u>Ownership percentage</u>	<u>Amount</u>
Al Amthal Financing Company (1)	Saudi Arabia	20%	50,390	20%	56,984
FAL Industrial City Company	Saudi Arabia	37.50%	899	37.50%	911
Wefal Real Estate Company (did not commence operations yet)	Saudi Arabia	15%	8	15%	8
Boursa Cafe Company (did not commence operations yet)	Saudi Arabia	90%	45	90%	45
			<u>51,342</u>		<u>57,948</u>

(1) Al Amthal Financing Company, summarized financial information extracted from its 2016 financial statements was as follows:

	2016	2015
Total assets	302,942	326,661
Revenue	14,442	29,282
Equity	251,951	284,919

Movement in investment in associates and unconsolidated subsidiary balance was as follows:

	2016	2015
January 1	57,948	40,742
Additions	-	26,000
Share in net loss	(6,606)	(8,794)
December 31	<u>51,342</u>	<u>57,948</u>

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c) Investment property

Investment property as at December 31, 2016 and 2015 represents parcel of land acquired for earning income or capital gain. Such land is jointly owned by the Group and a related party. The Group's share in land is registered in the name of a related party who has provided a declaration of the Group's holding in the land. Legal formalities to register the Group's share in the land in its name were in process as at December 31, 2016 (Also see note 12).

6. ISLAMIC FINANCING RECEIVABLES

	2016	2015
Current portion	524,454	444,057
Non-current portion	1,064,432	1,260,873
Total	<u>1,588,886</u>	<u>1,704,930</u>

6.1 The business activities of the Group are in the Kingdom of Saudi Arabia and primarily represent Tawarruq Consumer Islamic financing ("Consumer").

	2016	2015
Gross receivables	2,336,715	2,516,096
Unearned finance income	<u>(718,189)</u>	<u>(787,283)</u>
	1,618,526	1,728,813
Deferred initial direct costs	24,617	29,472
Impairment provision	<u>(54,257)</u>	<u>(53,355)</u>
	<u>1,588,886</u>	<u>1,704,930</u>

Analysis of credit quality of Islamic financing receivables is as follows:

	2016	2015
Performing	1,419,273	1,555,080
Non performing - past due and impaired	<u>199,253</u>	<u>173,733</u>
	<u>1,618,526</u>	<u>1,728,813</u>

Performing balances has a satisfactory history of repayments and were outstanding for less than 90 days. Non performing balances of SR 90 million (2015: SR 55 million) were outstanding for more than 360 days.

For additional details of financial risk management refer to note 29 of these consolidated financial statements.

6.2 Movement in impairment provision was as follows:

	2016	2015
January 1	53,355	45,622
Charge for the year	30,765	25,725
Write-off during the year	<u>(29,863)</u>	<u>(17,992)</u>
December 31	<u>54,257</u>	<u>53,355</u>

6.3 Assignment of Islamic financing receivables

The Group assigned Islamic financing receivables amounting to SR 1.25 billion (December 31, 2015: SR 1.46 billion) to commercial banks for obtaining bank financing. These Islamic financing receivables have not been derecognized from the consolidated statement of financial position as the Group retains substantially all the risks and rewards, primarily credit risk. The amount received on assignment of Islamic financing receivables has been recognized as bank financing (Refer note 14).

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7. MARGIN LENDING AND MURABAHA FINANCING

	Note	2016	2015
Margin lending	7.1	101,430	61,395
Murabaha financing	7.2	22,518	61,562
		<u>123,948</u>	<u>122,957</u>

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

7.2 The Group provides Murabaha financing to acquire shares for a limited period through the Group. The Group has the option to liquidate the client's investments portfolio to ensure repayment of the Murabaha amount. Such financing bears a pre-agreed profit margin.

8. SIGNIFICANT RELATED PARTY MATTERS

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

	2016	2015
Management fees from mutual funds	15,076	22,535
Key management compensation	22,533	25,804
Financial charges (*)	5,796	3,728
Directors' remunerations	1,785	2,098
Mutual fund subscription fees	156	1,941

(*) During 2016 and 2015, Falcom Murabaha Saudi Riyal Fund, a fund managed by the Group, placed a murabaha deposit with the Group bearing a commission at average rate of 5% (2015: 3%).

b) Related party balances as at December 31 were as follows:

	2016	2015
Receivables from affiliates	7,796	7,431
Accrued management fee	3,124	4,455

Balances related to directors and key management personnel, at December 31 are as follows:

	2016	2015
Employee loans	1,512	2,103
Accrued directors' remunerations	1,556	1,870

Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities at the Group level.

9. PREPAID EXPENSES AND ACCRUED INCOME

	2016	2015
Commission and fees receivables	3,583	13,273
Repossessed assets held for sale - real estate	20,669	20,669
Prepaid expenses	3,874	17,542
Total	<u>28,126</u>	<u>51,484</u>

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10. OTHER RECEIVABLES

	Note	2016	2015
Receivable from sale of property and equipment		-	31,512
Accounts receivable, net	24	3,138	16,725
Advances		438	517
Loans to employees		2,817	3,722
Other assets		406	179
Total		6,799	52,655

11. PROPERTY AND EQUIPMENT

2016	Land, buildings and freehold improvements	Leasehold improvements	Furniture and fixtures	Motor vehicles	Software	Total
Cost:						
January 1, 2016	76,675	16,172	17,403	114	25,164	135,528
Additions	31,564	974	1,113	-	1,620	35,271
Disposals	-	(10,341)	(504)	-	(14)	(10,859)
December 31, 2016	108,239	6,805	18,012	114	26,770	159,940
Accumulated depreciation:						
January 1, 2016	8,231	10,811	14,752	70	24,525	58,389
Additions	1,400	2,312	1,162	16	554	5,444
Disposals	-	(10,341)	(503)	-	(13)	(10,857)
December 31, 2016	9,631	2,782	15,411	86	25,066	52,976
Net book value at:						
December 31, 2016	98,608	4,023	2,601	28	1,704	106,964
2015	Land, buildings and freehold improvements	Leasehold improvements	Furniture and fixtures	Motor vehicles	Software	Total
Cost:						
January 1, 2015	91,608	11,760	15,253	114	24,916	143,651
Additions	77	4,412	2,150	-	248	6,887
Disposals	(15,010)	-	-	-	-	(15,010)
December 31, 2015	76,675	16,172	17,403	114	25,164	135,528
Accumulated depreciation:						
January 1, 2015	7,918	8,543	13,858	47	24,203	54,569
Additions	1,565	2,268	894	23	322	5,072
Disposals	(1,252)	-	-	-	-	(1,252)
December 31, 2015	8,231	10,811	14,752	70	24,525	58,389
Net book value at:						
December 31, 2015	68,444	5,361	2,651	44	639	77,139

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12. CAPITAL WORK IN PROGRESS

	2016	2015
January 1	41,715	12,688
Additions during the year	112	29,027
December 31	41,827	41,715

During 2010, the Group and other related parties signed an agreement with FAL Industrial City Company, the "Developer", and an associate company, to develop a special industrial city within the Kingdom of Saudi Arabia on a land owned by the Group and the related parties, whereby the Developer will charge all direct and indirect costs and expenses attributable to development of the industrial city plus management fee of 7.5% of such costs and expenses to the land owners in proportion to their ownership percentage in the land, in which the Group owns 12.53% (2015: 12.53%).

Capital work in progress principally represents the Group's share in the costs and expenses charged by the Developer through December 31, 2016. The land under development is presented under the investment account within the item investment property which amounted to SR 145.6 million as of December 31, 2016 (2015: SR 145.6 million) (see Note 5-c).

13. GOODWILL

	2016	2015
Nayifat Finance Company (NFC)	120,573	120,573

Summarized financial information about the NFC is disclosed as Islamic financing in note 30 – Segment information.

14. BANK FINANCING

	2016	2015
Current portion of financing	480,923	589,102
Unamortized deferred charges – current portion	(3,954)	(4,167)
	476,969	584,935
Non-current portion of financing	558,899	645,993
Unamortized deferred charges – non-current portion	(4,333)	(6,070)
	554,566	639,923
Total	1,031,535	1,224,858

The Group has long-term financing facilities with banks to finance current and long term funding needs, primarily to finance Islamic finance receivables, amounting to SR 1.25 billion of which SR 989 million was utilized as of 31 December 2016 (2015: SR 1.16 billion). These facilities are repayable in 36 to 48 monthly instalments. The financing bear commission charges at prevailing market rates. These facilities are denominated in Saudi Riyal and secured by assignment of Islamic financing receivables.

The Group assigned Islamic financing receivables amounting to SR 1.25 billion (2015: SR 1.46 billion) to commercial banks for obtaining bank financing. The key covenants related to bank financing are to maintain gearing ratio, debt to receivable ratio and certain restriction on dividend pay-out. The Group was in compliance with these covenants as at consolidated balance sheet date.

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15. ACCOUNTS PAYABLE AND ACCRUALS

	Note	2016	2015
Accrued employees cost		14,931	12,909
Accrued expenses		5,275	4,406
Accrued finance cost		2,963	2,484
Accounts payable		2,571	2,402
Other	15.1	6,397	1,054
Total		32,137	23,255

15.1 This include unidentified collections amounting to SR 5.7 million (2015: Nil).

16. ZAKAT

16.1 Components of zakat base

The Group's Saudi Arabian subsidiaries file separate zakat and income tax declarations on unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulations are principally comprised of shareholders' equity, provisions at the beginning of year, long-term borrowings and estimated taxable income, less deduction for the net book value of property and equipment, investments and certain other items.

16.2 Movement in provision for zakat

	2016	2015
January 1	73,496	59,732
Provision for the year	27,924	21,961
Payments during the year	(8,097)	(8,197)
December 31	93,323	73,496

16.3 Status of assessment

Falcom Financial Services ("the Company")

The Company has submitted its zakat declarations to the General Authority of Zakat and Tax ("GAZT") up to the year ended December 31, 2015 and has received zakat assessments for the years ended December 31, 2007 to 2011. In those assessments, additional zakat claims of SR 46 million were raised; computed mainly due to disallowing the deduction of investments from the zakat base. The Company has appealed against such assessments at the Higher Appeal Committee following the ruling issued by the preliminary appeal committee earlier, which upheld GAZT's decision. As part of the appeal process, a bank guarantee in the same amount has been submitted to GAZT.

Naiyfah Finance Company

The Company has submitted its zakat declarations to the GAZT up to the year ended December 31, 2015 and has received final zakat assessments for the years from 2002 to 2007. In those assessments, the GAZT added back credit balances that have completed one full Hijri year and as a result, an additional zakat liability has arisen which the Company has accrued for. However, there is an exposure of approximately SR 52 million for the years from 2008 to 2016 as a result of not adding non-current portion of "financing" into the Zakat calculation as the management believes that it is not required to be added back based on the Board of Grievances' (BOG) interpretation of the relevant Fatwa.

17. EMPLOYEE TERMINATION BENEFITS

	2016	2015
January 1	14,792	11,692
Provision for the year	4,129	3,993
Payments during the year	(4,074)	(893)
December 31	14,847	14,792

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18. SHARE CAPITAL

The authorized and paid-in capital of the Group is SR 1.05 billion divided into 105 million shares of SR 10 each.

19. STATUTORY RESERVE

In accordance with the new Regulations for Companies in Saudi Arabia, the Company is required to set aside a statutory reserve, after absorption of accumulated losses, by the appropriation of 10% of net income until the reserve equals 30% (2015: 50%) of the share capital. This reserve is not available for distribution. Accordingly, the Company has transferred 10% of its net income for the year to the statutory reserve account.

20. EARNINGS PER SHARE

Earnings per share were calculated by dividing income from operations and net income for the year by the weighted average of the shares outstanding during the year of 105 million shares.

21. OTHER RESERVES

	Note	Unrealized loss from investments	Currency translation	Total
2016				
January 1		(40,041)	21	(40,020)
Changes in fair value of available for sale investments	5	(24,901)	-	(24,901)
Impairment of available for sale investments	24	48,699	-	48,699
Currency translation differences		-	(23)	(23)
		(16,243)	(2)	(16,245)
2015				
January 1		(63,360)	43	(63,317)
Changes in fair value of available for sale investments	5	(32,737)	-	(32,737)
Impairment of available for sale investments	24	56,056	-	56,056
Currency translation differences		-	(22)	(22)
		(40,041)	21	(40,020)

22. INCOME FROM ISLAMIC FINANCING

	2016	2015
Income from islamic financing	341,599	292,770
Fee and commission income	12,833	17,951
Amortization of transaction costs	(15,386)	(15,509)
	339,046	295,212

23. (LOSS) / INCOME FROM INVESTMENTS, NET

	2016	2015
Realized (loss) / gains from investments	(8,225)	2,569
Dividends and profit from investments	15	128
Unrealized gain / (loss) on held for trading investments	563	(136)
Total	(7,647)	2,561

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24. PROVISION FOR IMPAIRMENT, NET

	Note	2016	2015
Available for sales investments	21	48,699	56,056
Islamic financing receivable	6.2	30,765	25,725
Account receivable		-	(3,883)
Goodwill		-	1,183
Total		79,464	79,081

25. FINANCE COST

	2016	2015
Finance cost on bank financing	64,637	50,229
Amortization of deferred charges	6,217	6,638
Bank charges	4,961	3,861
Total	75,815	60,728

26. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2016	2015
Utilities and communication expenses		10,769	12,694
Rent and premises related expenses		7,649	7,203
Professional charges		4,781	5,668
Depreciation	11	5,444	5,072
Amortization		316	384
Insurance		8,024	4,347
Security and others cost		1,334	2,020
Marketing expenses		696	1,532
Repairs, maintenance, and office supplies		1,809	1,442
Loss on sales-repossessed assets		-	1,121
Other expenses		4,338	7,743
Total		45,160	49,226

27. OTHER INCOME

	2016	2015
Gain on sale of property and equipment	19	17,745
Liabilities no longer payable written back	-	6,803
Rental income	2,631	3,271
Other	1,148	282
Total	3,798	28,101

28. CUSTOMERS' ACCOUNTS

These comprise the accounts of brokerage customers in local and international shares maintained with Banque Saudi Faransi amounting to SR 257 million at December 31, 2016 (2015: SR 249.1 million). These accounts are not included in these consolidated financial statements in accordance with Article (71) of "Authorized Persons" by laws issued by the Capital Market Authority Board's resolution No. 1-83-2005 dated 21/5/1426H corresponding to June 28, 2005 and pursuant to the Capital Market Authority regulations enacted by Royal Decree No. M/30 dated 2/6/1424H.

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29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, investments, Islamic financing receivables, accounts payable and accruals, bank financing and other current assets and liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is offset and net amounts reported in the financial statements, when there is a legally enforceable right to set off the recognized amounts and intention is either to settle on a net basis, or to realize the asset and liability simultaneously.

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

Islamic financing receivables (IFR)

IFR is exposed to significant credit risk. The Group has established procedures to manage credit exposure including evaluation of credit worthiness, formal credit approvals, assigning credit limits, and obtaining collateral such as personal guarantees. The overall underwriting decision is based on the following key parameters:

- Dual credit score i.e. SIMAH and Application scoring system
- Minimum income level and maximum Debt Burden of the borrower
- Loan repayment history with other financial institutions sourced from SIMAH
- Salary certificate from the employer and last three months bank statement where the customer's monthly salary is credited.

All the customers provide standing instructions to credit Nayifat account towards monthly installments. In addition, the customers also provide Direct Debit Mandate as a stand by repayment mode. The Group also receives repayments through SADAD. The Group has an approved Collection policy and procedures manual to follow up with delinquent customers.

The concentration risk is the risk that the Group is exposed to if they invested all their assets in one sector or one industry. The Group strategy is to finance to Saudi nationals under the following categories:

- Consumers employed in secured working environment
- Steady income group with largely guaranteed employment or minimum loss of employment.
- Employees of selected large scale private sector companies.

The Group's operations are mainly in the Kingdom of Saudi Arabia and provides financing to individuals of government and private sectors. The Group manages its credit risk exposure through diversification of principal activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.

The main consideration for the impairment assessment include whether any monthly contractual payments are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group's collective provision methodology is based on the default probability calculated on actual forward flow rates of past twenty four months. Management believes that adequate provision has been accounted for, where required addressing the credit risk. Further, based on historical results the actual write-offs are less than 2% of the receivables originated and now the Group is carrying over 3% cumulative provision on its receivables. Moreover, the Group in the ordinary course of providing finance subject to additional personal guarantees for security to mitigate credit risk associated with Islamic financing receivables. As at balance sheet date, the Group has adequate collaterals or guarantees to cover the credit risk exposure after recorded impairment provisions. For additional details relating to IFR and related risk refer note 2.5 and note 6 to these consolidated financial statements.

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Cash and bank balances and other receivables

These are placed with banks having good credit ratings, and therefore are not subject to significant credit risk. Other receivables are not significant and also not exposed to significant credit risk.

29.2 Commission rate risk is the impact on future earnings of the Group resulting from increase in the market interest / commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to interest rate adjustment within a specified period. The most important source of such risk is the Group's Islamic financing receivables and bank borrowings. The commission rate is fixed for the financing receivables but the bank borrowings are subject to increase in the market borrowing rates.

The financial liabilities of SR 494 million are based on floating rates and thus, a 100 basis points change in commission rates could have an approximately SR 5 million annual effect on the Group's profitability.

The Group's management monitors the fluctuations in commission rates on regular basis and take appropriate measures to minimize the profit rate risk by adjusting lending rate for future contracts.

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

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

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

	<u>2016</u>	<u>2015</u>
Shareholders' equity	1,387,096	1,327,348
Bank financing	1,031,535	1,224,858
Total capital structure	<u>2,418,631</u>	<u>2,552,206</u>
Gearing ratio	<u>42.65%</u>	<u>47.99%</u>

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

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

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

29.6 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. As the Group's and subsidiary's financial instruments are compiled under the historical cost convention, except for investments at fair value, differences can arise between the book values and the fair value estimates. Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

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30. SEGMENT INFORMATION

Selected financial information, as of December 31, 2016 and 2015 and for the years then ended, summarized by the main business segments, was as follows:

	Brokerage	Investment Banking Group	Asset management	Islamic financing	Investments and other	Total
2016						
Revenues (including other income)	21,795	1,416	15,232	339,046	(10,455)	367,034
Expenses (including zakat)	14,130	2,260	2,936	211,848	99,887	331,061
Income (loss) before non-controlling interest	7,665	(844)	12,296	127,198	(110,342)	35,973
Total assets	-	-	-	1,822,495	736,443	2,558,938
Total liabilities	-	-	-	1,097,432	74,410	1,171,842
2015						
Revenues (including other income)	32,317	10,773	24,476	295,212	21,868	384,646
Expenses (including zakat)	17,980	3,494	4,876	187,725	102,326	316,401
Net income (loss) before non-controlling interest	14,337	7,279	19,600	107,487	(80,458)	68,245
Total assets	-	-	-	1,835,904	827,845	2,663,749
Total liabilities	-	-	-	1,238,039	98,362	1,336,401

Selected financial information as of December 31 and for the years then ended summarized by geographic area, was as follows:

	Saudi Arabia	Oman	Total
2016			
Revenues (including other income)	365,444	1,590	367,034
Expenses (Including zakat)	329,411	1,650	331,061
Net income (loss) before non-controlling interest	36,033	(60)	35,973
Total assets	2,542,118	16,820	2,558,938
Total liabilities	1,171,703	139	1,171,842
2015			
Revenues (including other income)	379,410	5,236	384,646
Expenses (Including zakat)	313,379	3,022	316,401
Net income before non-controlling interest	66,031	2,214	68,245
Total assets	2,645,016	18,733	2,663,749
Total liabilities	1,334,391	2,010	1,336,401

31. CONTINGENCIES AND COMMITMENTS

Contingency

The contingency related to zakat and income tax is disclosed in note 16 to these consolidated financial statements.

Operating leases commitments

The operating lease commitments for the office premises are as follows:

	2016	2015
Less than one year	2,488	2,933
More than a year and less than five years	7,117	7,833
Over five years	835	-
Total	10,440	10,766

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32. MINIMUM CAPITAL AND THE TOTAL CAPITAL RATIO

In accordance with Article 74(b) of the Prudential Rules issued by the CMA (the Rules), given below are the capital base, minimum capital requirement and total capital ratio as at December 31, 2016 and 2015:

	2016	2015
Capital base:		
Tier-I Capital	1,086,162	1,059,683
Tier-II Capital	-	-
Total capital base	1,086,162	1,059,683
Minimum capital requirement:		
Credit Risk	929,408	1,002,116
Market Risk	430	897
Operational Risk	75,784	73,610
Total minimum capital requirement	1,005,622	1,076,623
Total capital ratio:		
Tier 1 capital ratio (time)	1.08	0.98
Total capital ratio (time)	1.08	0.98
Surplus (deficit) in capital	80,540	(16,940)

- a) The above information has been extracted from the annual Capital Adequacy Models as prescribed by the CMA for December 31, 2016 and 2015.
- b) The capital base consists of Tier 1 capital and Tier 2 capital calculated as per Article 4 and 5 of the Rules respectively. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in Part 3 of the Rules.
- c) The Company is required to maintain adequate capital as specified in the Rules. The capital adequacy ratio shall not be less than 1.
- d) The Company is required to disclose the prescribed information as required under Pillar III of the Rules on the Company website (www.falcom.com.sa), however that information is not subject to review or audit by the external auditors' of the Group.

33. COMPARATIVE FIGURES

During the year, certain prior year amounts have been reclassified to conform current year's presentation. The impact of reclassifications was not material to the overall presentation of the consolidated financial statements.

34. SUBSEQUENT EVENT

The Board of Directors, in their meetings held on January 18, 2017, resolved to distribute cash dividends amounting to Saudi Riyals 52.5 million.

35. APPROVAL OF FINANCIAL STATEMENT

The accompanying consolidated financial statements were approved and authorized for issue by the Group's Board of Directors on February 22, 2017.