FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2015 AND
INDEPENDENT AUDITORS' REPORT

FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

INDEPENDENT AUDITORS' REPORT March 24, 2016

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, 2015 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 with Article 123 of 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, 2015 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)

		December 31.	
ASSETS	**Notes**	**2015**	**2014**
CURRENT ASSETS			
Cash and cash equivalents	4	**107,139**	102,827
Investments	5	**3,393**	3,655
Islamic financing receivables	6	**444,057**	368,330
Margin lending and murabaha financing	7	**122,957**	164,354
Due from related parties	8	**7,431**	1,697
Prepaid expenses and accrued income	9	**21,750**	14,810
Other receivables	10	**82,389**	52,266
		789,116	707,939
NON-CURRENT ASSETS			
Investments	5	**371,706**	325,178
Islamic financing receivables	6	**1,260,873**	758,330
Property and equipment, net	11	**77,139**	89,082
Capital work in progress	12	**41,715**	12,688
Intangible assets		**2,627**	616
Goodwill	3,13	**120,573**	121,756
		1,874,633	1,307,650
TOTAL ASSETS		**2,663,749**	2,015,589
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Islamic bank financing	14	**584,935**	403,863
Accounts payable and accruals	15	**23,255**	33,245
Provision for zakat	16	**73,496**	59,732
		681,686	496,840
NON-CURRENT LIABILITIES			
Islamic bank financing	14	**639,923**	271,251
Employee termination benefits	17	**14,792**	11,692
		654,715	282,943
Total liabilities		**1,336,401**	779,783
EQUITY			
Share capital	18	**1,050,000**	1,050,000
Statutory reserve	19	**24,440**	20,211
Other reserves	21	**(40,020)**	(63,317)
Retained earnings		**148,600**	110,535
Total shareholders' equity		**1,183,020**	1,117,429
Non-controlling interest		**144,328**	118,377
Total equity		**1,327,348**	1,235,806
TOTAL LIABILITIES AND EQUITY		**2,663,749**	2,015,589
Contingencies and commitment	31		

The notes on pages 6 to 26 form an integral part of these consolidated financial statements.

FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)
CONSOLIDATED INCOME STATEMENT
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Year ended December 31, 2015	2014
REVENUES:			
Income from Islamic financing	22	**295,212**	208,121
Commission on brokerage services, net		**32,317**	53,466
Management fee from mutual funds		**24,476**	25,369
Advisory services income		**10,773**	10,623
Income from investments, net	23	**2,561**	54,756
Company share in net loss of associates	5	**(8,794)**	(1,738)
Total revenues		**356,545**	350,597
EXPENSES:			
Salaries and related benefits		**(105,405)**	(77,568)
Provision for impairment, net	24	**(79,081)**	(29,543)
Finance cost	25	**(60,728)**	(49,040)
General and administrative expenses	26	**(49,226)**	(33,649)
Total expenses		**(294,440)**	(189,800)
Income from operations		**62,105**	160,797
Other income	27	**28,101**	3,214
Income before zakat and non-controlling interest		**90,206**	164,011
Zakat	16	**(21,961)**	(20,596)
Income before non-controlling interest		**68,245**	143,415
Non-controlling interest		**(25,951)**	(19,717)
Net income for the year		**42,294**	123,698
Earnings per share:			
Income from operations - (SR)	20	**0.59**	1.53
Net income for the year - (SR)	20	**0.40**	1.18

The notes on pages 6 to 26 form an integral part of these consolidated financial statements.

FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals thousands unless otherwise stated)

		Year ended December 31,	
	Notes	**2015**	**2014**
Cash flow from operating activities:			
Income before zakat and non-controlling interest		**90,206**	164,011
Adjustments for non-cash items:			
Depreciation and amortization		**5,456**	4,989
Provision for impairment, net	24	**79,081**	29,543
Gain on sale of property and equipment		**(17,754)**	(13)
Unrealized loss on held for trading investments		**136**	3,014
Company share in net loss of associates	5	**8,794**	1,738
Provision for employees' termination benefits	17	**3,993**	2,677
Changes in operating assets and liabilities:			
Investments held for trading		**126**	3,659
Islamic financing receivable		**(603,995)**	(194,523)
Margin lending and murabaha financing		**41,397**	38,099
Due from related parties		**(5,734)**	392
Prepaid expenses and accrued income		**(6,940)**	(4,216)
Other receivables		**5,272**	29,109
Accounts payable and accruals		**(10,012)**	(8,837)
Employee termination benefits paid	17	**(893)**	(1,346)
Zakat paid	16	**(8,197)**	(15,386)
Net cash (used in) generated from operating activities		**(419,064)**	52,910
Cash flow from investing activities:			
Additions to investment in associates	5-b	**(26,000)**	-
Disposal of investment in associates	5-b	**-**	13,889
Additions to investment property	5-c	**-**	(17,600)
Additions to property and equipment	11	**(6,887)**	(2,041)
Additions to capital work in progress	12	**(29,027)**	(11,529)
Available for sale investments		**(62,059)**	58,091
Intangible assets		**(2,395)**	(201)
Consideration paid for acquisition of subsidiary, net of cash acquired	3	**-**	(213,704)
Proceeds from sale of property and equipment		**-**	13
Short-term deposit	4	**(5,417)**	(8,500)
Net cash used in investing activities		**(131,785)**	(181,582)
Cash flow from financing activities:			
Proceeds from Islamic bank financing		**1,427,555**	386,866
Repayment of Islamic bank financing		**(877,811)**	(358,796)
Dividends paid		**-**	(52,500)
Net cash generated from (used in) financing activities		**549,744**	(24,430)
Net decrease in cash and cash equivalents		**(1,105)**	(153,102)
Cash and cash equivalents at beginning of year		**94,327**	247,429
Cash and cash equivalents at end of year	4	**93,222**	94,327
Supplemental non-cash information:			
Changes in fair value of available for sale investments	5-a	**(32,737)**	(78,375)
Foreign currency translation differences	21	**(22)**	8
Net assets at fair value for the acquired subsidiary		**-**	408,698
Sale of property and equipment	10	**31,512**	-

The notes on pages 6 to 26 form an integral part of these consolidated financial statements.

FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)
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, 2015		**1,050,000**	**20,211**	**(63,317)**	**110,535**	**1,117,429**	**118,377**	**1,235,806**
Net income for the year		-	-	-	42,294	**42,294**	25,951	**68,245**
Transfer to statutory reserve	19	-	4,229	-	(4,229)	**-**	-	**-**
Net changes in value of available for sale investments	21	-		(32,737)	-	**(32,737)**	-	**(32,737)**
Impairment of available for sale investments	21	-	-	56,056	-	**56,056**	**-**	**56,056**
Currency translation differences	21	-	-	(22)	-	**(22)**	**-**	**(22)**
December 31, 2015		**1,050,000**	**24,440**	**(40,020)**	**148,600**	**1,183,020**	**144,328**	**1,327,348**
January 1, 2014		1,050,000	7,841	15,050	51,707	1,124,598	-	1,124,598
On acquisition of subsidiary	3	-	-	-	-	-	98,660	98,660
Net income for the year		-	-	-	123,698	123,698	19,717	143,415
Transfer to statutory reserve	19	-	12,370	-	(12,370)	-	-	-
Net changes in value of available for sale investments	21	-	-	(78,375)	-	(78,375)	-	(78,375)
Currency translation differences	21	-	-	8	-	8	-	8
Dividends	34	-	-	-	(52,500)	(52,500)	-	(52,500)
December 31, 2014		1,050,000	20,211	(63,317)	110,535	1,117,429	118,377	1,235,806

The notes on pages 6 to 26 form an integral part of these consolidated financial statements.

(All amounts in Saudi Riyals thousands unless otherwise stated)

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 4 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 2015	2014
Nayifat Finance Company (1)	Saudi Arabia	75.85%	75.86%
Falcom Financial Service and Partners SAOC (2)	Oman	99.99%	99.99%

(1) Effective January 1, 2014, the Company increased its shareholding in Nayifat Finance Company (NFC) from 37.93% to 75.86%. NFC (formerly known as Nayifat Instalment Company), was registered as a Closed Joint Stock Company under Commercial Registration ("CR") Number 1010176451 issued in Riyadh on 9 Jumad Thani 1431H (corresponding to 23 May 2010). In accordance with the Finance Lease Law of Saudi Arabian Monetary Agency (SAMA), NFC was granted a leasing license by SAMA to operate under the new name of Nayifat Finance Company in the Kingdom of Saudi Arabia under license No. 5A/S/201312 dated 28 Safar 1435 (corresponding to 31 December 2013). From 7 July 2014, the change in name was reflected as an amendment to the NFC,s commercial registration and by-laws. However, the change will not affect the legal status and scope of business or activities of NFC.

As per SAMA license, NFC is involved in lease financing, financing consumers and small and medium enterprises in the Kingdom of Saudi Arabia.

(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 Boursa Café which was established on 13 Safar 1430H (corresponding to February 9, 2009) with a share capital of SR 50,000. Boursa 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 Boursa Café and the remaining share is owned by a related party. Boursa 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 Boursa Café did not commence its operations yet. Accordingly, the investment in Boursa Café is carried at cost under "investments in associates and unconsolidated subsidiary" (see Note 5).

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 investments to fair value, and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 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

2.3 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.

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.

2.4 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.

2.5 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.

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 consolidate 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.

2.6 Islamic financing receivables

Islamic financing receivables comprising of Tawarruq, Murabaha and Ijarah originated by the Company, 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 Company sells a commodity or an asset to its customer on a deferred payment basis. The selling price by Company 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 Company sells to customers a commodity or an asset, which the Company 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.

Ijara
Ijara is an agreement whereby the Company, 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 Company to sell the leased assets to the lessee upon maturity of the lease.

2.7 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, 2015 are maturing within one year.

2.8 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.

2.9 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.

2.10 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.

2.11 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.

2.12 Impairment of 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 Company 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.

2.13 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.

(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.

2.14 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	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.

Non-current 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. Impairment losses recognized on goodwill are not reversible.

2.15 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.

2.16 Islamic bank financing and related cost

Islamic bank financing are recognized initially at fair value, net of transactions cost. Islamic 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.

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.

2.17 Accounts payable and accruals

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

2.18 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 Saudi Arabian Income 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.

2.19 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.

2.20 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.

2.21 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.

2.22 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.

2.23 General, administrative and marketing expenses

General administrative and marketing expenses are treated as period costs.

2.24 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.

2.25 Dividends

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

2.26 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

3. STEP ACQUISITION

Effective January 1, 2014 the Company increased its shareholding in NFC from 37.93% to 75.86%. The fair value of identifiable assets and liabilities as at the date of acquisition were as follows:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	52,597
Available for sale investments	60,000
Islamic financing receivables	945,225
Prepayments and other assets	57,229
Intangible assets	731
Property and equipment	2,782
	1,118,564
Liabilities	
Accounts payable	(8,982)
Accrued expenses and other liabilities	(9,428)
Term loan	(647,044)
Provision for zakat	(42,129)
Employees' termination benefits	(2,283)
	(709,866)
Total identifiable net assets at fair value	**408,698**
Non-controlling interest of NFC	(98,660)
Goodwill arising from acquisition	120,573
Purchase consideration transferred	430,611
Total Acquisition cost:	
Consideration paid	266,301
Fair value of previously held equity	164,310
Total	430,611
Net cash outflow on acquisition:	
Net cash acquired with the subsidiary	52,597
Consideration paid	(266,301)
	(213,704)

4. CASH AND CASH EQUIVALENTS

	2015	**2014**
Cash in hand	**65**	43
Cash at banks	**93,157**	94,284
Cash and cash equivalents	**93,222**	94,327
Short-term deposit	**13,917**	8,500
Total	**107,139**	102,827

5. INVESTMENTS

	Note	**2015**	**2014**
Current			
Investments held for trading – in quoted shares		**3,393**	3,655
Non-current			
Available for sale investments	5-a	**168,158**	138,836
Investment in associates and unconsolidated subsidiary	5-b	**57,948**	40,742
Investment property	5-c	**145,600**	145,600
Total non-current		**371,706**	325,178

(All amounts in Saudi Riyals thousands unless otherwise stated)

a) Available for sale investments

	2015	2014
Investment in quoted shares	**82,529**	83,449
Investment in mutual funds	**85,629**	55,387
Total	**168,158**	138,836

Movement in available for sale investment is as follows:

	2015	2014
January 1	**138,836**	215,302
On acquisition of subsidiary	**-**	60,000
Additions	**78,108**	44,850
Disposals	**(16,049)**	(102,941)
Changes in fair value	**(32,737)**	(78,375)
December 31	**168,158**	138,836

b) Investment in associates and unconsolidated subsidiary

		2015		2014	
Name	Country of incorporation	Ownership percentage	Amount	Ownership percentage	Amount
Al Amthal Financing Company (1)	Saudi Arabia	20%	**56,984**	20%	39,764
FAL Industrial City Company (2)	Saudi Arabia	37.50%	**911**	37.50%	925
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
			57,948		40,742

(1) The share of loss in the associate has been calculated for the period from November 30, 2014 to December 31, 2015, since the associate's shareholders resolved to convert the company from a limited liability company to a closed joint stock company which has been done effective Safar 8, 1436H (corresponding to November 30, 2014) date of declaration from Ministry of Commerce and Industry number (344/Q).

(2) On December 12, 2013, the shareholders resolved to reduce the share capital of the Company from SR 15 million to SR 3 million while maintaining the same ownership percentages as of the resolution date. All legal formalities to reflect the change in share capital were completed during the year ended December 31, 2014.

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

	2015	2014
January 1	**40,742**	211,388
Derecognition of associate	**-**	(155,019)
Additions / (Disposals)	**26,000**	(13,889)
Company share in net loss	**(8,794)**	(1,738)
December 31	**57,948**	40,742

c) Investment property

	2015	2014
January 1	**145,600**	128,000
Additions	**-**	17,600
December 31	**145,600**	145,600

(All amounts in Saudi Riyals thousands unless otherwise stated)

Investment property as at December 31, 2015 and 2014 represents parcel of land acquired for earning income or capital gain. Such land is jointly owned by the Company and a related party. The Company's share in land is registered in the name of a related party who has provided a declaration of holding the Company's share in the land on behalf of the Company. Legal formalities to register the Company's share in the land in its name were in process as at December 31, 2015.

6. ISLAMIC FINANCING RECEIVABLES

	2015	2014
Current portion	**444,057**	**368,330**
Non-current portion	**1,260,873**	**758,330**
Total	**1,704,930**	**1,126,660**

6.1 The business activities of the subsidiary, Nayifat Finance Company, are in the Kingdom of Saudi Arabia. As at year end Islamic financing receivables of more than 98% comprise of Consumer Islamic financing ("Consumer") and the rest represent Small and Medium Enterprises Islamic financing ("SME"). The reconciliation of gross and net receivable is as follows:

	2015	2014
Gross receivables	**2,516,096**	1,636,560
Unearned finance income	**(787,283)**	(485,151)
	1,728,813	1,151,409
Deferred initial direct costs	**29,472**	20,873
Impairment provision	**(53,355)**	(45,622)
	1,704,930	1,126,660

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

	2015	2014
Neither past due nor impaired	**1,114,932**	779,074
Past due but not impaired	**440,148**	265,338
Performing	**1,555,080**	1,044,412
Past due and impaired - non performing	**173,733**	106,997
	1,728,813	1,151,409

Islamic finance receivables which are neither past due nor impaired have a satisfactory history of repayments. Past due but not impaired balances are less than 90 days outstanding. Past due and impaired balances of SR 55.4 million are outstanding for more than 360 days. The specific and collective provision as at year end date were SR 28 million (on the portfolio of SR 64.4 million) and SR 25 million (on the portfolio of SR 1.66 billion of which SR 1.11 billion neither past due nor impaired) respectively.

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:

	2015	2014
January 1	**45,622**	25,691
Charge for the year	**25,725**	25,789
Write-off during the year	**(17,992)**	(5,858)
December 31	**53,355**	45,622

6.3 Assignment of Islamic financing receivables

The Company assigned Islamic financing receivables amounting to SR 1.46 billion (31 December 2014: SR 0.87 billion) to commercial banks for obtaining Islamic bank financing. These Islamic financing receivables have not been derecognized from the consolidated statement of financial position as the Company retains substantially all the risks and rewards, primarily credit risk. The amount received on assignment of Islamic financing receivables has been recognized as Islamic bank financing (Refer note 14).

(All amounts in Saudi Riyals thousands unless otherwise stated)

7. MARGIN LENDING AND MURABAHA FINANCING

	Note	2015	2014
Margin lending	7.1	**61,395**	79,146
Murabaha financing	7.2	**61,562**	85,208
		122,957	164,354

7.1 The Company provides margin lending facilities to certain clients for dealing in the local stock market through the Company. The Company 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 Company provides Murabaha financing to acquire shares for a limited period through the Company. The Company 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:

	2015	2014
Management fees from mutual funds	**22,535**	20,090
Key management compensation	**25,804**	16,744
Financial charges (*)	**3,728**	5,549
Directors' remunerations	**2,098**	871
Mutual fund subscription fees	**1,941**	3,267

(*) During 2015 and 2014, Falcom Murabaha Saudi Riyal Fund, a fund managed by the Company, placed a murabaha deposit with the Company bearing a commission at 3% (2014: 4.5%).

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

	2015	2014
Receivables from affiliates	**7,431**	1,697
Accrued management fee	**4,455**	6,056

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

	2015	2014
Employee loans	**2,103**	671
Accrued directors' remunerations	**1,870**	1,858

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

9. PREPAID EXPENSES AND ACCRUED INCOME

	2015	2014
Commission and fees receivables	**13,303**	7,196
Prepaid expenses	**8,447**	7,614
Total	**21,750**	14,810

(All amounts in Saudi Riyals thousands unless otherwise stated)

10. OTHER RECEIVABLES

	Note	2015	2014
Receivable for sale of property and equipment		**31,512**	-
Accounts receivable, net	24	**20,790**	14,322
Repossessed assets held for sale - real estate		**20,669**	28,849
Advances		**5,517**	5,339
Loans to employees		**3,722**	3,317
Other assets		**179**	439
Total		**82,389**	52,266

11. PROPERTY AND EQUIPMENT

2015	Land and buildings	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	15,253	2,264	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	23	894	322	**5,072**
Disposals	(1,252)	-	-	-	-	**(1,252)**
December 31, 2015	8,231	10,811	13,881	941	24,525	**58,389**
Net book value at:						
December 31, 2015	**68,444**	**5,361**	**1,372**	**1,323**	**639**	**77,139**

2014	Land and buildings	Leasehold improvements	Furniture and fixtures	Motor vehicles	Software	Total
Cost:						
January 1, 2014	89,689	10,344	13,077	102	24,467	**137,679**
On acquisition of subsidiary	928	3,024	3,706	233	-	**7,891**
Additions	991	34	506	61	449	**2,041**
Disposals	-	(1,642)	(2,036)	(282)	-	**(3,960)**
December 31, 2014	91,608	11,760	15,253	114	24,916	**143,651**
Accumulated depreciation:						
January 1, 2014	6,266	6,206	12,283	77	23,915	**48,747**
On acquisition of subsidiary	-	2,078	2,798	233	-	**5,109**
Additions	1,652	1,901	813	19	288	**4,673**
Disposals	-	(1,642)	(2,036)	(282)	-	**(3,960)**
December 31, 2014	7,918	8,543	13,858	47	24,203	**54,569**
Net book value at:						
December 31, 2014	**83,690**	**3,217**	**1,395**	**67**	**713**	**89,082**

Land and buildings at December 31, 2015 includes SR 20 million (2014: SR 28.4 million) relating to land cost.

(All amounts in Saudi Riyals thousands unless otherwise stated)

12. CAPITAL WORK IN PROGRESS

	2015	**2014**
January 1	**12,688**	1,159
Additions during the year	**29,027**	11,529
December 31	**41,715**	12,688

During 2010, the Company 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 Company 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 Company owns 12.53% (2014: 11.11%).

Capital work in progress principally represents the Company's share in the costs and expenses charged by the Developer through December 31, 2015. The land under development is presented under the investment account within the item investment property which amounted to SR 145.6 million as at December 31, 2015 (2014: SR 145.6 million) (see Note 5-c).

13. GOODWILL

	Note	**2015**	**2014**
Nayifat Finance Company	3	**120,573**	120,573
Al Amthal Financing Company		**-**	1,183
		120,573	121,756

14. ISLAMIC BANK FINANCING

	2015	**2014**
Current portion of financing	**589,102**	407,830
Unamortized deferred charges – current portion	**(4,167)**	(3,967)
	584,935	403,863
Non-current portion of financing	**645,993**	276,510
Unamortized deferred charges – non-current portion	**(6,070)**	(5,259)
	639,923	271,251
Total	**1,224,858**	675,114

The Company 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 1.16 billion was utilized as of 31 December 2015 (2014: SR 0.67 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 Company assigned Islamic financing receivables amounting to SR 1.46 billion (31 December 2014: SR 0.87 billion) to commercial banks for obtaining Islamic bank financing. The key covenants related to Islamic bank financing are to maintain gearing ratio, debt to receivable ratio and certain restriction on dividend pay-out. The Company was in compliance with these covenants as at consolidated balance sheet date.

(All amounts in Saudi Riyals thousands unless otherwise stated)

15. ACCOUNTS PAYABLE AND ACCRUALS

	2015	2014
Accrued employees cost	**12,909**	14,234
Accrued expenses	**4,406**	2,398
Accrued finance cost	**2,484**	2,435
Accounts payable	**2,402**	13,291
Other	**1,054**	887
Total	**23,255**	33,245

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 deductions for the net book value of property and equipment, investments and certain other items.

16.2 Movement in provision for zakat

	2015	2014
January 1	**59,732**	12,393
On acquisition of subsidiary	**-**	42,129
Provision for the year	**21,961**	20,596
Payments during the year	**(8,197)**	(15,386)
December 31	**73,496**	59,732

16.3 Status of assessment

Falcom Financial Services Company

The Company has submitted its zakat declarations to the Department of Zakat and Income Tax (DZIT) up to the year ended 31 December 2014 and has received final zakat assessments up to 2007.

Naiyfat Finance Company

The Company has submitted its zakat declarations to the Department of Zakat and Income Tax (DZIT) up to the year ended 31 December 2014 and has received final zakat assessments for the years from 2002 to 2007. In those assessments, the DZIT added back credit balances that have completed one full Hijra 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 28 million for the years from 2008 to 2015 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

17. EMPLOYEE TERMINATION BENEFITS

	2015	2014
January 1	**11,692**	8,078
On acquisition of subsidiary	**-**	2,283
Provision for the year	**3,993**	2,677
Payments during the year	**(893)**	(1,346)
December 31	**14,792**	11,692

18. SHARE CAPITAL

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

19. STATUTORY RESERVE

In accordance with its By-laws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company allocates each year 10% of its net income, after absorbing accumulated losses, to form a statutory reserve until such reserve equals one-half of its share capital. Such reserve is not currently available for distribution to the shareholders.

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

	Unrealized loss from investments	Currency translation	Total
2015			
January 1	(63,360)	43	**(63,317)**
Changes in fair value of available for sale investments	(32,737)	-	**(32,737)**
Impairment of available for sale investments	56,056	-	**56,056**
Currency translation differences	-	(22)	**(22)**
	(40,041)	**21**	**(40,020)**
2014			
January 1	15,015	35	15,050
Changes in fair value of available for sale investments	(78,375)	-	(78,375)
Currency translation differences	-	8	8
	(63,360)	43	(63,317)

22. INCOME FROM ISLAMIC FINANCING

	2015	2014
Income from islamic financing	**292,770**	204,495
Fee and commission income	**17,951**	7,998
Amortization of transaction costs	**(15,509)**	(4,372)
	295,212	208,121

Tawarruq receivables and revenue approximate to 99% (2014: 98%) of the total receivables and revenue.

(All amounts in Saudi Riyals thousands unless otherwise stated)

23. INCOME FROM INVESTMENTS, NET

	2015	2014
Realized gains from investments	**2,569**	57,534
Dividends and profit from investments	**128**	236
Unrealized loss on held for trading investments	**(136)**	(3,014)
Total	**2,561**	54,756

24. PROVISION FOR IMPAIRMENT, NET

	Note	2015	2014
Available for sales investments		**56,056**	-
Islamic financing receivable	6.2	**25,725**	25,789
Account receivable		**(3,883)**	3,754
Goodwill	13	**1,183**	-
Total		**79,081**	29,543

25. FINANCE COST

	2015	2014
Finance cost on Islamic bank financing	**50,229**	42,668
Amortization of deferred charges	**6,638**	4,603
Bank charges	**3,861**	1,769
Total	**60,728**	49,040

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2015	2014
Communication expenses	**10,771**	9,508
Rent and premises related expenses	**7,203**	5,151
Professional charges	**5,668**	4,587
Depreciation and amortization	**5,456**	4,989
Insurance	**4,347**	203
Security and others cost	**2,020**	1,821
Utilities and miscellaneous expenses	**1,923**	1,253
Marketing expenses	**1,532**	730
Repair and maintenance	**1,442**	918
Loss on sales-repossessed assets	**1,121**	-
Other expenses	**7,743**	4,489
Total	**49,226**	33,649

27. OTHER INCOME

	2015	2014
Gain on sale of property and equipment	**17,745**	-
Liabilities no longer payable written back	**6,803**	-
Rental income	**3,271**	2,561
Other	**282**	653
Total	**28,101**	3,214

28. CUSTOMERS' ACCOUNTS

These comprise the accounts of brokerage customers in local and international shares maintained with Banque Saudi Faransi amounting to SR 249.1 million at December 31, 2015 (2014: SR 440.5 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.

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, isalmic 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 generally exposed to significant credit risk. Therefore, the Company 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 Company is in the process of implementing credit-scoring system to mitigate any judgemental risks.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company's operations are principally in the Kingdom of Saudi Arabia and the Company provides financing to individuals of government and private sectors. The Company 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 payments of principal or profit 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 Company's collective provision is based on the default probability calculated on actual forward flow rates of last twenty four months. The management believes that adequate provision has been accounted for, where required to address the credit risk and collective provision is around 1.1% of respective receivables and fifty percent fluctuation may have SR 10 million effect on the profitability of the Company. Further, based on historical results the actual write-offs are less than 2% of the receivables originated and currently the Company is carrying 3% cumulative provision on its receivables. For additional details related to IFR and related risk refer note 2.6 and note 6 to these financial statements.

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 uncertainty of future earnings resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to commission rate adjustment within a specified period. The most important source of such risk is the Company's Islamic bank financing and Islamic financing receivable activities, where fluctuations in commission rates, if any, are reflected in the results of operations.

As at balance sheet date, the Company has SR 1.72 billion and SR 1.16 billion of commission bearing financial assets and liabilities respectively. The financial liabilities of SR 590 million are based on floating rates and thus, a 100 basis points change in commission rates could have an approximately SR 6 million annual effect on the Company's profitability.

(All amounts in Saudi Riyals thousands unless otherwise stated)

The Company's management monitors the fluctuations in commission rates on regular basis to minimize commission rate risk.

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.

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.

30. SEGMENT INFORMATION

The Group's principal activities are related to the following main business segments:

- Brokerage
- Investment Banking Group ("IBG") – Advisory services
- Asset management
- Islamic financing
- Investments and other

Selected financial information, as of December 31, 2015 and 2014 and for the years then ended, summarized by the business segments, is as follows:

2015	Brokerage	IBG	Asset management	Islamic financing	Investments and other	Total
Revenues	**32,317**	**10,773**	**24,476**	**295,212**	**(6,233)**	**356,545**
Other income	**-**	**-**	**-**	**-**	**28,101**	**28,101**
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**
2014						
Revenues	53,466	10,623	25,369	208,121	53,018	350,597
Other income	-	-	-	306	2,908	3,214
Expenses (Including zakat)	25,588	3,349	3,951	126,749	50,759	210,396
Net income (loss) before non-controlling interest	27,878	7,274	21,418	81,678	5,167	143,415

(All amounts in Saudi Riyals thousands unless otherwise stated)

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

	Saudi Arabia	Oman	Total
2015			
Revenues	**355,207**	**1,338**	**356,545**
Other income	**24,203**	**3,898**	**28,101**
Expenses (Including zakat)	**313,379**	**3,022**	**316,401**
Net income (loss) 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**
2014			
Revenues	351,207	(610)	350,597
Other income	3,214	-	3,214
Expenses (Including zakat)	204,818	5,578	210,396
Net income (loss) before non-controlling interest	149,603	(6,188)	143,415
Total assets	1,997,628	17,961	2,015,589
Total Liabilities	776,296	3,487	779,783

31. CONTINGENCIES AND COMMETMENTS

Contingency

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

Operating leases commitments

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

	2015	2014
Less than one year	**2,933**	1,450
More than a year and less than five years	**7,833**	1,966
Total	**10,766**	3,416

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, 2015 and 2014:

	2015	2014
Capital base		
Tier-I Capital	**1,059,683**	992,043
Tier-II Capital	**-**	-
Total capital base	**1,059,683**	992,043
Minimum capital requirement		
Credit Risk	**1,002,116**	821,734
Market Risk	**897**	1,114
Operational Risk	**73,610**	47,450
Total minimum capital requirement	**1,076,623**	870,298
Total capital ratio:		
Tier 1 capital ratio (time)	**0.98**	1.14
Total capital ratio (time)	**0.98**	1.14
(Deficit) Surplus in capital	**(16,940)**	121,745

a) The above information has been extracted from the annual Capital Adequacy Models as prescribed by the CMA for December 31, 2015 and 2014.

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 Company.

33. COMPARATIVE FIGURES

During the year, certain prior year amounts have been reclassified to confirm current year's presentation and that include reclassification of accrued profit of SR 12.7 million from "prepayment and other receivables" to "Islamic financing receivable". The impact of other reclassifications was also not material to the overall presentation of the consolidated financial statements.

34. DIVIDENDS

The Board of Directors, in their meetings held on July 1, 2014, resolved to distribute cash dividends amounting to Saudi Riyals 52.5 million, which were paid to the shareholders during the year ended December 31, 2014.

35. APPROVAL OF FINANCIAL STATEMENT

The accompanying consolidated financial statements were approved by the Company's Board of Directors on 15 Jumada-II1437H (corresponding to March 24, 2016).