FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2017 AND
INDEPENDENT AUDITORS' REPORT

FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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Independent auditors' report to the shareholders of Falcom Financial Services (A Saudi Closed Joint Stock Company)

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Falcom Financial Services (the "Company") as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in Saudi Arabia.

What we have audited

The Company's financial statements comprise:

- the balance sheet as at December 31, 2017;
- the income statement for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in shareholders' equity for the year then ended; and
- the notes to the financial statements, which include the summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company and the applicable requirements of the Regulation for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

PricewaterhouseCoopers, License No. 25,
Kingdom Tower, P.O. Box 8282, Riyadh 11482, Kingdom of Saudi Arabia
T: +966 (11) 211-0400, F: +966 (11) 211-0401, www.pwc.com/middle-east

Independent auditors' report to the shareholders of Falcom Financial Services (A Saudi Closed Joint Stock Company) (continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management and those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

By: ______________________

Omar M. Al Sagga
License Number 369

March 25, 2018

FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)

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

	Notes	December 31, 2017	2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	**115,508**	253,052
Investments	5	**1,378**	369
Islamic financing receivables	6	**-**	524,454
Margin lending and murabaha financing	7	**82,499**	123,948
Due from related parties	8	**49,942**	7,796
Prepaid expenses and accrued income	9	**6,095**	28,126
Other receivables	10	**3,333**	6,799
		258,755	944,544
NON-CURRENT ASSETS			
Investments	5	**54,318**	275,343
Islamic financing receivables	6	**-**	1,064,432
Intangible assets		**-**	5,255
Property and equipment, net	11	**67,002**	106,964
Capital work in progress	12	**-**	41,827
Goodwill	13	**-**	120,573
		121,320	1,614,394
TOTAL ASSETS		**380,075**	2,558,938
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Borrowing	14	**105,867**	476,969
Accounts payable and accruals	15	**3,253**	32,137
Provision for zakat	16	**-**	93,323
		109,120	602,429
NON-CURRENT LIABILITIES			
Borrowings	14	**-**	554,566
Employees' termination benefits	17	**6,881**	14,847
		6,881	569,413
Total liabilities		**116,001**	1,171,842
SHAREHOLDERS' EQUITY			
Share capital	18	**250,000**	1,050,000
Statutory reserve	19	**25,119**	24,960
Other reserves	21	**(8,250)**	(16,245)
(Accumulated losses) / Retained earnings		**(2,795)**	153,275
Total shareholders' equity		**264,074**	1,211,990
Non-controlling interest		**-**	175,106
Total shareholders' equity and non-controlling interest		**264,074**	1,387,096
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**380,075**	2,558,938
Contingencies and commitments	28		

The notes on pages 6 to 27 form an integral part of these financial statements.

FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)

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

	Notes	Year ended December 31, 2017	2016
CONTINUING OPERATIONS			
REVENUES:			
Commission on brokerage services		**13,876**	21,067
Management and subscription fee from mutual funds		**11,697**	15,232
Advisory services income		**13,093**	1,416
Loss from investments, net	22	**(305)**	(8,506)
		38,361	29,209
EXPENSES:			
Salaries and related benefits		**(27,777)**	(35,531)
Finance cost	8	**(9,009)**	(5,796)
Impairment on available for sales investments		**(11,064)**	(48,699)
Other general and administrative expenses	23	**(11,851)**	(20,987)
		(59,701)	(111,013)
Loss from operations		**(21,340)**	(81,804)
Other income	24	**3,077**	3,774
Loss before zakat		**(18,263)**	(78,030)
Zakat	16	**-**	(6,528)
Net loss for the year from continuing operations		**(18,263)**	(84,558)
DISCONTINUED OPERATIONS			
Share in net income of associates and subsidiaries	1.1, 5, 30	**19,852**	89,753
Net income for the year		**1,589**	5,195
Loss per share:			
Loss from operations - (SR)	20	**(0.05)**	(0.08)
Net income for the year - (SR)	20	**0.06**	0.00

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FALCOM FINANCIAL SERVICES
(A Saudi Closed Joint Stock Company)

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

	Notes	Year ended December 31, 2017	2016
Cash flows from operating activities:			
Net income for the year		1,589	63,897
Adjustments for non-cash items:			
Depreciation	23	2,418	5,444
Amortization of intangible	23	63	316
Provision for impairment		11,064	79,464
Gain on sale of property and equipment		-	(19)
Share in net loss of associates and subsidiaries	5	(19,852)	6,606
Loss from investments, net		305	-
Provision for employees' termination benefits	17	1,683	4,129
Finance cost		9,009	5,795
Changes in operating assets and liabilities:			
Investments held for trading		(1,942)	3,024
Islamic financing receivable		-	85,279
Margin lending and murabaha financing		41,449	(991)
Due from related parties		(10,107)	(365)
Prepaid expenses and accrued income		(1,090)	23,358
Other receivables		134	45,856
Accounts payable and accruals		(3,245)	8,864
Employee termination benefits paid	17	(3,107)	(4,074)
Zakat paid	16	(5,756)	(8,097)
Net cash generated from from operating activities		22,615	318,486
Cash flows from investing activities:			
Additions to property and equipment	11	(333)	(35,271)
Additions to capital work in progress	12	-	(112)
Available for sale investments	5	(1,365)	54,424
Additions to intangible assets		-	(2,944)
Proceeds from sale of property and equipment		-	16
Proceed from sale of available for sale investments		22,067	10,432
Short-term deposit		-	(45,917)
Net cash generating / (used in) from investing activities		20,369	(19,372)
Cash flows from financing activities:			
Proceeds from borrowings		669,006	850,899
Repayment of borrowings		(615,436)	(1,044,222)
Finance costs paid		(7,988)	(5,795)
Dividend paid	32	(52,500)	-
Net cash used in financing activities		(6,918)	(199,118)
Net increase in cash and cash equivalents		36,066	99,996
Cash and cash equivalents at beginning of year		32,442	93,222
Cash and cash equivalents at end of year	4	68,508	193,218
Supplemental non-cash information:			
Changes in fair value of available for sale investments	5-a	(2,962)	(24,901)
Foreign currency translation differences	21	-	(23)
Transfer of investments to Falcom Holding	30.1	(903,897)	-
Transfer of capital work in progress to Falcom Holding	30.1	(41,827)	-
Transfer of employees' termination benefits to Falcom Holding		(2,437)	-
Transfer of share capital to Falcom Holding		905,000	-

The notes on pages 6 to 27 form an integral part of these financial statements.

FALCOM FINANCIAL SERVICES
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Share capital	Statutory reserve	Other reserves	(Accumulated losses) / Retained earnings	Total	Non-controlling interest	Total
January 1, 2017		1,050,000	24,960	(16,245)	153,275	1,211,990	175,106	**1,387,096**
Transfer to share capital from retained earnings	18	105,000	-	-	(105,000)	-	-	**-**
Dividend declared and paid	32	-	-	-	(52,500)	(52,500)	-	**(52,500)**
Net income for the year		-	-	-	1,589	1,589	-	**1,589**
Transfer to statutory reserve	19	-	159	-	(159)	-	-	**-**
Net changes in value of available for sale investments	21	-	-	(2,962)	-	(2,962)	-	**(2,962)**
Impairment of available for sale investments	21	-	-	11,064	-	11,064	-	**11,064**
Currency translation differences	21	-	-	-	-	-	-	**-**
Transfer to Falcom Holding Company	18, 30	(905,000)	-	(107)	-	(905,107)	(175,106)	**(1,080,213)**
December 31, 2017		**250,000**	**25,119**	**(8,250)**	**(2,795)**	**264,074**	**-**	**264,074**
January 1, 2016		1,050,000	24,440	(40,020)	148,600	1,183,020	144,328	1,327,348
Net income for the year		-	-	-	5,195	5,195	30,778	35,973
Transfer to statutory reserve	19	-	520	-	(520)	-	-	-
Net changes in value of available for sale investments	21	-	-	(24,901)	-	(24,901)	-	(24,901)
Impairment of available for sale investments	21	-	-	48,699	-	48,699	-	48,699
Currency translation differences	21	-	-	(23)	-	(23)	-	(23)
December 31, 2016		1,050,000	24,960	(16,245)	153,275	1,211,990	175,106	1,387,096

The notes on pages 6 to 27 form an integral part of these 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 three branches in the Kingdom of Saudi Arabia.

The Company has the following branches in the Kingdom Saudi Arabia and the results, assets and liabilities, of these branches are included in these financial statements.

S. No	Commercial Registration Number	Date (Hijri)	City
1	2051062669	24/9/1437	Khobar
2	2250066119	24/9/1437	Al Ahsaa
3	4030290109	24/9/1437	Jeddah

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, and
5. Provide custodial services for the purposes attributable to mutual funds and management of portfolios and brokerage for international equity.

1.1 Discontinued operations:

During the year, the shareholders of the Company resolved to transfer the long-term investments and certain other assets to Falcom Holding Company ("FHC") as part of the restructuring scheme under the common control entities. Accordingly, the balances were transferred at net book value as of March 31, 2017. For further details, please see note 30 of these financial statements.

The accompanying consolidated financial statements include the financial statements of the Company for the full year and the results of its following subsidiaries collectively (the "Group") till March 31, 2017:

Subsidiary name	Country	Ownership percentage as at December 31	
		2017	2016
Nayifat Finance Company (1)	Saudi Arabia	0%	75.86%
Falcom Financial Service and Partners SAOC (2)	Oman	0%	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 May 23, 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 had 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% shares in Boursa Café and the remaining share are owned by a related party Boursa Café accounts were not consolidated into the accompanying financial statements 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 an unconsolidated subsidiary" (see Note 5).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The accompanying 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 Company 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 Company 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 subsidiaries which have not commenced operations are 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 Company'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 subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

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 including acquisition expenses 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 as of the balance sheet date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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

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 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. A decline in value determined to be other than temporary is recognized in the income statement when arises. On derecognition, any cumulative gain or loss previously recognized in shareholders' equity is recognized and charged to the 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 Company's share of its associates' post-acquisition income or losses is recognized in the 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 Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company'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 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 receivables represent net investment in assets leased for period, which either approximates or covers 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.

2.6 Margin lending and murabaha financing

Margin lending and murabaha financing are recognized when cash is advanced to the borrowers. They are derecognized when either the borrower settles 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 measured at the amount advanced to the customers, including related transaction costs less any provision for credit losses, if any. A provision against credit losses is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. All margin lending and murabaha financing as of December 31, 2017 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 Company 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 income statement.

2.8 Investment management services

The Company offers investment services to its customers which include management of certain investment funds. The Company'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 Company and, accordingly, are not included in the 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 Company 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 Company is assessed to have transferred a financial asset, the asset is derecognized if the Company has transferred substantially all the risks and rewards of ownership. Where the Company has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Company has not retained control of the financial asset. The Company 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.

2.11 Impairment of financial and non-financial assets

Held at amortized cost

At each reporting date, the Company 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 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 an impairment loss. Impairment losses cannot be reversed through the 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 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 income statement.

2.12 Foreign currency translations

(a) Functional and presentation currency

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

(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 income statement.

(c) Subsidiary

The results and financial position of subsidiaries 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 income statement.

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

2.13 Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation on assets is charged to the 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
Computers hardware	4 years

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

Maintenance and normal repairs, which do not materially extend the estimated useful life of an asset, are charged to the 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 is recognized initially at fair value, net of transactions costs. Bank financing is subsequently carried at amortized cost; any difference between the proceeds (net of transaction cost) and the redemption value is recognized in the 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 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 Company.

2.17 Zakat

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

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

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

2.18 Employees' termination benefits

Employees' termination benefits required by Saudi Labor and Workman Law are accrued by the Company charged to the 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 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 employees' termination and other benefits as required under the laws of its country of domicile.

2.19 Provisions

Provisions are recognized when; the Company 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 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 and 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.

Fees, 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

2.21 Repossessed assets held for sale

The Company, in the ordinary course of business, acquires real estate or other assets against settlement of due financing receivables. 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, is charged to the 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 lease expenses are directly charged to 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.

3. CRITICAL ACCOUNTING ESTIMATES AND ADJUSTMENTS

The preparation of the financial statements in conformity with Accounting Standards Generally Accepted in the Kingdom of Saudi Arabia 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.
2- Provision for zakat – note 16.

4. CASH AND CASH EQUIVALENTS

	Note	2017	2016
Cash in hand		**24**	87
Cash at banks		**33,412**	193,131
Short term deposits with maturity date less than 3 months		**35,072**	-
Cash and cash equivalents		**68,508**	193,218
Short term deposits with maturity date more than 3 months	4.1	**47,000**	59,834
Total		**115,508**	253,052

4.1 This include Zero (2016: SR 8.5 million) held with a local bank as a non-commission bearing deposit and SR 46 million (2016: SR 46 million) in relation to a bank guarantee (see note 16).

(All amounts in Saudi Riyals thousands unless otherwise stated)

5. INVESTMENTS

	Note	2017	2016
Current			
Investments held for trading - in quoted shares		1,378	369
Non-current			
Available for sale investments	5-a	54,318	78,401
Investment in associates and unconsolidated subsidiary	5-b	-	51,342
Investment property	5-c	-	145,600
Total non-current		54,318	275,343

a) Available for sale investments

	2017	2016
Investment in quoted shares	37,795	46,483
Investment in mutual funds	16,523	31,918
Total	54,318	78,401

Movement in available for sale investments is as follows:

	Note	2017	2016
January 1		78,401	168,158
Additions		1,365	54,424
Disposals		(21,808)	(119,280)
Transfer to FHC		(678)	-
Changes in fair value	21	(2,962)	(24,901)
December 31		54,318	78,401

b) Investment in associates and unconsolidated subsidiary

		2017		2016	
Name	Country of incorporation	Ownership percentage	Amount	Ownership percentage	Amount
Al Amthal Financing Company	Saudi Arabia	0%	-	20%	50,390
FAL Industrial City Company	Saudi Arabia	0%	-	37.50%	899
Wefal Real Estate Company (did not commence operations yet)	Saudi Arabia	0%	-	15%	8
Boursa Cafe Company (did not commence operations yet)	Saudi Arabia	0%	-	90%	45
			-		51,342

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

	2017	2016
January 1	51,342	57,948
Additions	-	-
Share in net income / (loss) from discontinued operations	19,852	(6,606)
Transfer to FHC	(71,194)	-
December 31	-	51,342

c) Investment property

Investment property represents parcel of land acquired for earning income or capital gain. Such land is jointly owned by Falcom Holding 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 the Company's holding in the land. Legal formalities to register the Company's share in the land in its name were in process as at December 31, 2017 (Also see note 12).

The balance was transferred to Falcom Holding Company. Also see Note 30.

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. ISLAMIC FINANCING RECEIVABLES

	Note	2017	2016
Current portion	30.2	-	524,454
Non-current portion	30.2	-	1,064,432
Total		-	1,588,886

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

	2017	2016
Gross receivables	-	2,336,715
Unearned finance income	-	(718,189)
	-	1,618,526
Deferred initial direct costs	-	24,617
Impairment provision	-	(54,257)
	-	1,588,886

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

	2017	2016
Performing	-	1,419,273
Non performing - past due and impaired	-	199,253
	-	1,618,526

6.2 Movement in impairment provision was as follows:

	2017	2016
January 1	**54,257**	53,355
Charge for the year	**11,514**	30,765
Write-off during the year	-	(29,863)
Transferred to FHC	**(65,771)**	-
December 31	-	54,257

7. MARGIN LENDING AND MURABAHA FINANCING

	Note	2017	2016
Margin lending	7.1	**43,655**	101,430
Murabaha financing	7.2	**38,844**	22,518
		82,499	123,948

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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

8. SIGNIFICANT RELATED PARTY MATTERS

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

	Note	2017	2016
Dividend declared and paid to shareholders		**52,500**	-
Management fees from mutual funds		**11,614**	15,076
Key management compensation		**5,985**	8,294
Bonus to key management personnel		**-**	1,160
Financial charges (*)		**9,009**	5,796
Directors' remunerations		**234**	1,785
Mutual fund subscription fees		**83**	156
Expenses charged to the FHC		**4,653**	-
Rental income	24	**1,216**	1,864
Security		**390**	1,334
Advertising and brochures		**296**	197
Rent expense		**500**	500

(*) During 2017 and 2016, Falcom Murabaha Saudi Riyal Fund, a fund managed by the Company, placed a murabaha deposit with the Company bearing a commission at average rate of 5.8% (2016: 5%).

For assets transferred to Falcom Holding Company during the year, please refer to Note 30 of these financial statements.

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

	Note	2017	2016
Receivables from Falcom Murabaha Fund		**63**	7,796
Receivable from FHC		**49,879**	-
		49,942	7,796
Accrued management fee	9.1	**4,198**	3,124
Borrowing – Murabaha deposits	14	**105,867**	51,157

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

	2017	2016
Employee loans	**125**	1,512
Accrued Directors' remunerations	**100**	1,556
Employees termination benefits	**2,869**	4,384

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

9. PREPAID EXPENSES AND ACCRUED INCOME

	Note	2017	2016
Commission and fees receivables	9.1	**4,775**	3,583
Repossessed assets held for sale - real estate		**-**	20,669
Prepaid expenses		**1,320**	3,874
Total		**6,095**	28,126

9.1 This include SR 4.2 million (2016: SR 3.1 million) accrued management fee due from related parties.

(All amounts in Saudi Riyals thousands unless otherwise stated)

10. OTHER RECEIVABLES

	2017	2016
Loans to employees	**2,082**	2,817
Advances and accounts receivable	**951**	3,576
Other assets	**300**	406
Total	**3,333**	6,799

11. PROPERTY AND EQUIPMENT

2017	Land, buildings and freehold improve-ments	Leasehold improvements	Furniture and fixtures	Motor vehicles	Computers hardware and Software	Total
Cost:						
January 1, 2017	108,239	6,805	18,012	114	26,770	159,940
Additions	-	-	83	-	250	333
Disposals	-	-	-	-	-	-
Transfer (Note 30.2)	(32,439)	(6,099)	(5,120)		(303)	(43,961)
December 31, 2017	75,800	706	12,975	114	26,717	116,312
Accumulated depreciation:						
January 1, 2017	9,631	2,782	15,411	86	25,066	52,976
Additions	1,394	176	249	12	650	2,481
Disposals	-	-	-	-	-	-
Transfer (Note 30.2)	-	(2,675)	(3,154)	(12)	(306)	(6,147)
December 31, 2017	11,025	283	12,506	86	25,410	49,310
Net book value at:						
December 31, 2017	64,775	423	469	28	1,307	67,002

2016	Land, buildings and freehold improve-ments	Leasehold improvements	Furniture and fixtures	Motor vehicles	Computers hardware and 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

The Company also holds computer software and licenses with a cost amounting to SR 13,108 (2016: SR 13,108) and written down value amounting to SR 13,014 (2016: SR 12,951). Amortization charge for the year amounts to SR 63 (2016: SR 60).

(All amounts in Saudi Riyals thousands unless otherwise stated)

12. CAPITAL WORK IN PROGRESS

	Note	2017	2016
January 1		41,827	41,715
Additions during the year		-	112
Transfer to FHC	30.1	(41,827)	-
December 31		-	41,827

During 2010, Falcom Holding 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% (2016: 12.53%).

Capital work in progress principally represents the Company's share in the costs and expenses charged by the Developer. The land under development is presented under the investment account within the item investment property which amounted to SR Nil as of December 31, 2017 (2016: SR 145.6 million) as the balance was transferred to FHC (see Note 5-c and note 30).

For assets transferred to Falcom Holding Company during the year, please refer to Note 30 of these financial statements.

13. GOODWILL

	Note	2017	2016
Nayifat Finance Company (NFC)	30.2	-	120,573

14. BORROWINGS

	Note	2017	2016
Short term borrowings	8	105,867	51,157
Long term borrowings	14.1	-	980,378
		105,867	1,031,535

14.1 The details of long term borrowings were as follows:

	2017	2016
Current portion of financing	106,390	480,923
Unamortized deferred charges - current portion	(523)	(3,954)
	105,867	476,969
Non-current portion of financing	-	558,899
Unamortized deferred charges - non-current portion	-	(4,333)
	-	554,566
Total	105,867	1,031,535

As of December 31, 2016, the Company had 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. These facilities were repayable in 36 to 48 monthly instalments. The financing bear commission charges at prevailing market rates. These facilities were denominated in Saudi Riyal and secured by assignment of Islamic financing receivables.

As of December 31, 2016, the Company assigned Islamic financing receivables amounting SR 1.25 billion to commercial banks for obtaining bank financing. The key covenants related to bank financing were 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 balance sheet date.

For liabilities transferred to Falcom Holding Company during the year, please refer to Note 30 of these financial statements.

(All amounts in Saudi Riyals thousands unless otherwise stated)

15. ACCOUNTS PAYABLE AND ACCRUALS

	Note	2017	2016
Accrued employees cost		-	14,931
Accrued expenses		1,238	5,275
Accrued finance cost		-	2,963
Accounts payable		1,666	2,571
Other	15.1	349	6,397
Total		3,253	32,137

15.1 In 2016, the balance was including unidentified collections amounting to SR 5.7 million.

16. ZAKAT

	2017	2016
January 1	93,323	73,496
Provision for the year	671	27,924
Payments during the year	(5,495)	(8,097)
Transferred to FHC	(88,499)	-
December 31	-	93,323

The Zakat return will be submitted on consolidated basis at FHC level and as per the agreement with the FHC any zakat charge related to the Company will be absorbed by FHC.

Status of assessments

The Company has submitted its zakat declarations with the General Authority of Zakat and Tax ("GAZT") up to the year ended December 31, 2016 and has received zakat assessments for the years ended December 31, 2007 to 2011. In those assessments, additional zakat claims 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.

17. EMPLOYEES' TERMINATION BENEFITS

	2017	2016
January 1	14,847	14,792
Provision for the year	1,683	4,129
Payments during the year	(3,107)	(4,074)
Transfer to FHC	(6,542)	-
December 31	6,881	14,847

(All amounts in Saudi Riyals thousands unless otherwise stated)

18. SHARE CAPITAL

The authorized and paid-in capital of the Company as of December 31, 2017 is SR 250 million (2016: SR 1.05 billion) divided into 25 million shares (2016: 105 million shares) of SR 10 each.

During 2017, The Company increased its share capital by 105 million through a transfer from retained earnings after getting the required approvals from the shareholders and regulators. Thereafter, the Company decided to decrease its share capital by SR 905 million after getting the required approvals from shareholders and regulators. The updated Commercial Registration reflecting the current share capital was obtained on August 27, 2017.

The list of shareholders as of December 31, 2017 was as follows:

Name of shareholder	Percentage	Number of shares	Share capital in Saudi Riyal
Falcom Holding Company	99.99%	24,997,500	249,975,000
Fahd Bin Mohamed Bin Saleh Alathel	0.01%	2,500	25,000
	100%	25,000,000	250,000,000

19. STATUTORY RESERVE

In accordance with the 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% (2016: 30%) 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 450 thousand shares (2016: 105 million shares).

21. OTHER RESERVES

	Note	Unrealized loss from investments	Currency translation	Total
2017				
January 1		(16,243)	(2)	(16,245)
Changes in fair value of available for sale investments	5	(2,962)	-	(2,962)
Impairment of available for sale investments		11,064	-	11,064
Transfer to FHC		(107)	-	(107)
		(8,248)	**(2)**	**(8,250)**
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		48,699	-	48,699
Currency translation differences		-	(23)	(23)
		(16,243)	(2)	(16,245)

22. LOSS FROM INVESTMENTS, NET

	2017	2016
Realized gain / (loss) from investments	**259**	(8,506)
Unrealized loss on held for trading investments	**(564)**	-
	(305)	(8,506)

(All amounts in Saudi Riyals thousands unless otherwise stated)

23. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2017	2016
Utilities and communication expenses		**4,928**	6,810
Rent and premises related expenses		**996**	4,351
Professional charges		**768**	1,800
Legal and governmental expenses		**171**	569
Depreciation	11	**2,418**	3,308
Amortization	11	**63**	60
Insurance		**368**	368
Security and others cost		**385**	1,334
Marketing expenses		**910**	528
Other expenses		**844**	1,859
		11,851	20,987

24. OTHER INCOME

	2017	2016
Gain on sale of property and equipment	**-**	19
Rental income	**1,216**	2,631
Other	**1,861**	1,124
	3,077	3,774

25. CUSTOMERS' ACCOUNTS

These comprise the accounts of brokerage customers in local and international shares maintained with Banque Saudi Faransi amounting to SR 169 million at December 31, 2017 (2016: SR 257 million). These accounts are not included in these 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.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the 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 assets and liability are 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.

26.1 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. Management analyses credit risk in the following categories:

Islamic financing receivables (IFR)

IFR is exposed to significant credit risk. 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 overall underwriting decision is based on the following key parameters:

- Dual credit score i.e. Saudi Credit Bureau ("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 amounts in Saudi Riyals thousands unless otherwise stated)

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 Company has an approved Collection policy and procedures manual to follow up with delinquent customers.

The concentration risk is the risk that the Company is exposed to if they invested all their assets in one sector or one industry. The Company 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 Company's operations are mainly in the Kingdom of Saudi Arabia and 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 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 Company'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.

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.

26.2 Commission rate risk is the impact on future earnings of the Company 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 Company's Islamic financing receivables and bank borrowings. The commission rate is fixed for the financing receivables and financial liabilities and therefore, there is no commission rate risk as at balance sheet date.

26.3 Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial obligation. 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 Company'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 Company, 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 December 31, 2017 and 2016 management's analysis of gearing ratio was as follows:

	2017	2016
Shareholders' equity	**264,074**	1,387,096
Borrowings	**105,867**	1,031,535
Total capital structure	**369,941**	2,418,631
Gearing ratio	**28.62%**	42.65%

26.4 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.

26.5 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

The Company is exposed to market risk with respect to its investments. The Company 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.

26.6 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 Company'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 significantly different from their carrying values.

27. SEGMENT INFORMATION FOR CONTINUING OPERATIONS

Selected financial information, as of December 31, 2017 and 2016 and for the years then ended, summarized by the main business segments of continued operations, was as follows:

	Brokerage	Investment Banking Group	Asset management	Investments and other	Total
2017					
Revenues	**13,876**	**13,093**	**11,697**	**(305)**	**38,361**
Other income	-	-	-	**3,077**	**3,077**
Expenses before Zakat	**(16,939)**	**(4,189)**	**(3,410)**	**(35,163)**	**(59,701)**
(Loss) / income before Zakat	**(3,063)**	**8,904**	**8,287**	**(32,391)**	**(18,263)**
Total assets	-	-	-	**380,075**	**380,075**
Total liabilities	-	-	-	**116,001**	**116,001**
2016					
Revenues	21,067	1,416	15,232	(8,506)	29,209
Other income				3,774	3,774
Expenses before Zakat	(14,130)	(2,260)	(2,936)	(91,687)	(111,013)
Loss before Zakat	6,937	(844)	12,296	(96,419)	(78,030)
Total assets	-	-	-	360,281	360,281
Total liabilities	-	-	-	74,272	74,272

28. CONTINGENCIES AND COMMETMENTS

Contingency

There is no contingency as of the balances sheet date.

Operating leases commitments from continuing operations

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

	2017	2016
Less than one year	**430**	580
More than a year and less than five years	**758**	1,188
Over five years	-	-
Total	**1,188**	1,768

(All amounts in Saudi Riyals thousands unless otherwise stated)

29. 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, 2017 and 2016:

	2017	2016
Capital base:		
Tier-1 capital	263,510	1,086,162
Tier-2 capital	-	-
Total capital base	263,510	1,086,162
Minimum capital requirement:		
Credit risk	114,366	929,408
Market risk	252	430
Operational Risk	28,172	75,784
Total minimum capital requirement	142,790	1,005,622
Total capital ratio:		
Tier-1 capital ratio (time)	1.85	1.08
Total capital ratio (time)	1.85	1.08
Surplus in capital	120,720	80,540

a) The above information has been extracted from the annual Capital Adequacy Models as prescribed by the CMA for December 31, 2017 and 2016.

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.

30. DISCONTINUED OPERATIONS: ASSETS TRASFERRED TO FALCOM HOLDING COMPANY

30.1 On April 1, 2017, the Company has transferred the following assets to Falcom Holding Company:

	April 1, 2017	December 31, 2016
<u>CURRENT ASSETS</u>		
Due from related parties	3,063	-
<u>NON-CURRENT ASSETS</u>		
<u>Investment in subsidiaries:</u>		
Nayifat Finance Company (including goodwill of SAR 120,573)	694,153	670,534
Falcom Financial Service and Partners SAOC	16,483	16,483
Wefal Real Estate Company (did not commence operations yet)	8	8
Boursa Cafe Company (did not commence operations yet)	45	45
<u>Investment in associates:</u>		
Al Amthal Financing Company	46,817	50,390
FAL Industrial City Company	899	899
Investment property	145,600	145,600
Capital work in progress	41,827	41,827
Total	**948,895**	**925,786**

(All amounts in Saudi Riyals thousands unless otherwise stated)

30.2 The financial position of the Company as of December 31, 2016 was analysed by the management as follows:

	Continuing operations	Discontinued operations	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	79,442	173,610	253,052
Investments – held for trading in quoted shares	-	369	369
Islamic financing receivables	-	524,454	524,454
Margin lending and murabaha financing	123,948	-	123,948
Due from related parties	1,548	6,248	7,796
Prepaid expenses and accrued income	5,004	23,122	28,126
Other receivables	3,466	3,333	6,799
	213,408	731,136	944,544
NON-CURRENT ASSETS			
Investments	77,723	197,620	275,343
Islamic financing receivables	-	1,064,432	1,064,432
Intangible assets	-	5,255	5,255
Property and equipment, net	69,150	37,814	106,964
Capital work in progress	-	41,827	41,827
Goodwill	-	120,573	120,573
	146,873	1,467,521	1,614,394
TOTAL ASSETS	360,281	2,198,657	2,558,938
LIABILITIES			
CURRENT LIABILITIES			
Bank financing	51,276	425,693	476,969
Accounts payable and accruals	6,498	25,639	32,137
Provision for zakat	5,756	87,567	93,323
	63,530	538,899	602,429
NON-CURRENT LIABILITIES			
Bank financing	-	554,566	554,566
Employee termination benefits	10,742	4,105	14,847
	10,742	558,671	569,413
Total liabilities	74,272	1,097,570	1,171,842
Non-controlling interest	-	175,106	175,106
Total liabilities and non-controlling interest	74,272	1,272,676	1,346,948
NET ASSETS	**286,009**	**925,981**	**1,211,990**

(All amounts in Saudi Riyals thousands unless otherwise stated)

30.3 The financial performance of the Company for the year ended December 31, 2016 was analysed by the management as follows:

	Continuing operations	Discontinued operations	Total
REVENUES:			
Income from Islamic financing	-	339,046	339,046
Commission on brokerage services	21,067	728	21,795
Management and subscription fee from mutual funds	15,232	-	15,232
Advisory services income	1,416	-	1,416
(Loss) / income from investments, net	(8,506)	859	(7,647)
Share in net loss of associates	-	(6,606)	(6,606)
	29,209	334,027	363,236
EXPENSES:			
Salaries and related benefits	(35,531)	(67,167)	(102,698)
Finance cost	(5,796)	(70,019)	(75,815)
Provision for impairment, net	(48,699)	(30,765)	(79,464)
Other general and administrative expenses	(20,987)	(24,173)	(45,160)
	(111,013)	(192,124)	(303,137)
Income from operations	(81,804)	141,903	60,099
Other income	3,774	24	3,798
Income before zakat and non-controlling interest	(78,030)	141,927	63,897
Zakat	(6,528)	(21,396)	(27,924)
Income before non-controlling interest	(84,558)	120,531	35,973
Non-controlling interest	-	(30,778)	(30,778)
Net income for the year	**(84,558)**	**89,753**	**5,195**

30.4 The cash flows of the Company for the year ended December 31, 2016 was analysed by the management as follows:

	Continuing operations	Discontinued operations	Total
Cash flows from operating activities	20,135	292,556	312,691
Cash flows from investing activities	11,938	(31,310)	(19,372)
Cash flows from financing activities	(11,908)	(181,415)	(193,323)

31. COMPARATIVE FIGURES

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

32. DIVIDENDS

The Board of Directors, in their meetings held on January 18, 2017, resolved to distribute cash dividends amounting to Saudi Riyals 52.5 million (2016: Nil).

33. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved for issue by the Company's Board of Directors on March 22, 2018.