

**FALCOM FINANCIAL SERVICES
(A Single Shareholder Saudi Closed Joint Stock Company)**

**Limited Assurance Report on the Schedule of Capital Adequacy
as at December 31, 2020**



To the Board of Directors of
Falcom Financial Services

Report on Schedule of Capital Adequacy

We have undertaken a limited assurance engagement in respect of the accompanying Schedule of Capital Adequacy setting out the calculation of minimum capital requirement and capital adequacy ratios (the “Schedule”) of Falcom Financial Services (the “Company”) as at December 31, 2020, prepared in accordance with the applicable criteria mentioned below.

Subject matter

The subject matter for our limited assurance engagement is the Schedule prepared by the management of the Company as attached to this report and submitted to us.

Criteria

The criteria is the applicable requirements of Article 74(b) of the Prudential Rules (the “Rules”) issued by the Capital Market Authority (“CMA”) (the “Criteria”).

Management’s responsibility

The Company’s management is responsible for:

- the preparation of the Schedule in accordance with the Criteria and ensuring its accuracy;
- the design, implementation and maintenance of internal control relevant to the preparation of the Schedule that is free from material misstatement, whether due to fraud or error;
- reflecting in the audited financial statements the information that is derived from the Schedule; and
- being reasonable for the calculation of capital requirements in accordance with the Criteria and for ensuring that financial resources are sufficient to meet the relevant prudential requirements.

Our independence and quality control

We have complied with the independence requirements of the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, and the ethical requirements that are relevant to our limited assurance engagement in the Kingdom of Saudi Arabia which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control 1, as endorsed in the Kingdom of Saudi Arabia, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the Schedule based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information', as endorsed in the Kingdom of Saudi Arabia. This standard requires that we plan and perform this engagement to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Company has not complied with the applicable requirements of the Rules issued by CMA in the preparation of the Schedule as at December 31, 2020.

The procedures selected depend on our judgment, including the assessment of risks such as failure of systems and controls, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's compliance with the requirements of the Rules issued by CMA for the preparation of the Schedule. Our procedures included examining, on a test basis, evidence supporting systems and controls in respect of the preparation of the Schedule in accordance with the requirements of the Rules issued by CMA.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Summary of work performed

We have planned and performed the following procedures to obtain limited assurance over the Company's compliance with the requirements of the Rules issued by CMA in the preparation of the Schedule:

- Obtaining and reviewing the Schedule which sets out the calculation of minimum capital required and capital adequacy ratios and the Capital Adequacy Model (CAM) as at December 31, 2020;
- Checking the consistency of the financial information between the Schedule and the audited financial statements of the Company as at December 31, 2020;
- Checking the mathematical accuracy to ensure the relevant computations in the CAM are in accordance with the Rules; and
- Checking that the information in the Schedule was properly extracted from the Company's CAM as at December 31, 2020.

Inherent limitations

Our procedures regarding systems and controls relating to the preparation of the Schedule in accordance with the requirements of the Rules issued by CMA are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, such procedures may not be relied upon as evidence of the effectiveness of the systems and controls against fraudulent collusion, especially on the part of those holding positions of authority or trust.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement under ISAE 3000 (Revised), as endorsed in the Kingdom of Saudi Arabia. Consequently, the nature, timing and extent of the procedures outlined above for gathering sufficient appropriate evidence were deliberately limited relative to a reasonable assurance engagement, and therefore less assurance is obtained with a limited assurance engagement than for a reasonable assurance engagement.

Our procedures did not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, as endorsed in the Kingdom of Saudi Arabia, and accordingly we do not express an audit or a review opinion in relation to the adequacy of systems and controls.

This conclusion relates only to the Schedule as at December 31, 2020 and should not be seen as providing assurance as to any future dates or periods, as changes to systems or controls may alter the validity of our conclusion.

Limited assurance conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the Company has not complied, in all material respects, with the applicable requirements of the Rules issued by CMA relating to the preparation of the Schedule reflecting the minimum capital requirement and capital adequacy ratios as at December 31, 2020.

Restriction of use

This report, including our conclusion, has been prepared solely upon the request of the management of the Company, to assist the Company in fulfilling its reporting obligations to CMA in accordance with the Rules. This report should not be used for any other purpose or be distributed to or otherwise quoted or referred to, without our prior consent to any other parties other than CMA.

PricewaterhouseCoopers



Ali H. Al Basri
License Number 409

February 14, 2021
(2 Rajab 1442H)

**FALCOM FINANCIAL SERVICES
(A SINGLE SHAREHOLDER SAUDI CLOSED JOINT STOCK COMPANY)
SCHEDULE OF CAPITAL ADEQUACY
AS AT DECEMBER 31, 2020**

Minimum capital and the total capital ratio

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

	<u>Amount in SAR'000</u>	
	2020	2019
Capital base		
Tier-I Capital	169,973	155,494
Tier-II Capital	80	35
Total capital base	170,053	155,529
Minimum capital requirement		
Credit Risk	104,403	65,361
Market Risk	897	2,173
Operational Risk	14,111	10,026
Total minimum capital requirement	119,411	77,560
Capital Adequacy Ratio:		
Total capital ratio (times)	1.42	2.01
Surplus in capital	50,642	77,969

- a) The above information has been extracted from the audited Capital Adequacy Model for December 31, 2020 and December 31, 2019 respectively, as submitted to CMA.
- 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's website, however that information is not subject to review or audit by the independent auditor of the Company.