

FALCOM FINANCIAL SERVICES
(A Saudi Joint Stock Company)

**Special Purpose Report on the
Schedule of Capital Adequacy
December 31, 2016**



INDEPENDENT AUDITORS' SPECIAL PURPOSE REPORT
ON THE SCHEDULE OF CAPITAL ADEQUACY

To the Management of
Falcom Financial Services

Scope

We have audited the accompanying Schedule of Capital Adequacy (the "Schedule") setting out the capital adequacy position of **Falcom Financial Services** (the "Company") as at December 31, 2016. This Schedule was prepared by the management of the Company and presented to us with all necessary information and explanations, which we required.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia and included such tests of the accounting records and other procedures as we considered necessary to obtain a reasonable degree of assurance to enable us to express an opinion on this Schedule.

Basis of Preparation

The amounts set out in the accompanying Schedule were computed and prepared by the management of the Company in accordance with the provisions of the Prudential Rules issued by the Capital Market Authority ("CMA").

Unqualified Opinion

In our opinion, the accompanying Schedule, presents fairly, in all material respects, the capital adequacy position of the Company as at December 31, 2016 and the minimum capital computations in accordance with the provisions of the Prudential Rules issued by the CMA.

Restriction of use

This report is issued by us solely for the Company's compliance with the requirements of the Prudential Rules issued by CMA, and is not intended to be, and should not be used for any other purposes or to be distributed to any other parties other than the CMA.

PricewaterhouseCoopers

By: _____
Omar M. Al Sagga
License Number 369



Riyadh, Saudi Arabia
Date: March 15, 2017

FALCOM FINANCIAL SERVICES**Schedule of Capital Adequacy****As of and for the year ended December 31, 2016****Minimum capital and the total capital ratio**

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

	2016	2015
	SR'000	SR'000
Capital base		
Tier I Capital	1,086,162	1,059,683
Tier II Capital	-	-
Total capital base	1,086,162	1,059,683
Minimum capital requirement		
Credit risk	929,408	1,002,116
Market risk	430	897
Operational risk	75,784	73,610
Total minimum capital requirement	1,005,622	1,076,623
Total capital ratio:		
Tier 1 capital ratio (time)	1.08	0.98
Total capital ratio (time)	1.08	0.98
Surplus/ (deficit) in capital	80,540	(16,940)

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