

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

SAUDI ORIX LEASING COMPANY
(Closed Joint Stock Company)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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INDEPENDENT AUDITORS' REPORT

February 6, 2017

To the Shareholders of Saudi ORIX Leasing Company
(A Saudi Closed Joint Stock Company)

Scope of audit

We have audited the accompanying statement of financial position of Saudi ORIX Leasing Company (a Saudi Closed Joint Stock Company) (the "Company") as at December 31, 2016 and the related statements of profit or loss, comprehensive income, cash flows and changes in equity and cash flows for the year then ended and notes from (1) to (23) which form an integral part of these financial statements. These financial statements, which were prepared by the Company in accordance with the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards ("IFRS"); 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 financial statements.

PricewaterhouseCoopers

By: _____
Khalid A. Mahdhar
License Number 368





Saudi ORIX Leasing Company
(Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016
(All amounts in Saudi Riyals unless otherwise stated)

ASSETS	Notes	2016	2015
Non-current assets:			
Property and equipment	3	1,410,214	2,178,321
Intangible assets	3	614,010	482,598
Net investment in finance leases	4	564,578,204	817,708,369
Derivative financial instruments	10	3,198,068	3,324,715
		<u>569,800,496</u>	<u>823,694,003</u>
Current assets:			
Current maturity of net investment in finance leases	4	931,965,686	1,119,248,250
Advances, prepayments and other receivables	5	7,645,820	8,426,194
Cash and cash equivalents	6	84,014,097	84,252,257
		<u>1,023,625,603</u>	<u>1,211,926,701</u>
TOTAL ASSETS		<u>1,593,426,099</u>	<u>2,035,620,704</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	7	550,000,000	550,000,000
Statutory reserve	7	73,855,250	68,529,341
Retained earnings		211,440,970	187,616,551
Cash flow hedge reserve	10	3,198,068	3,324,715
Total equity		<u>838,494,288</u>	<u>809,470,607</u>
LIABILITIES:			
Non-current liabilities:			
Long-term loans	8	390,667,155	620,482,904
Employees' end of service benefits	9	10,581,146	11,244,966
		<u>401,248,301</u>	<u>631,727,870</u>
Current liabilities:			
Short-term loans	11	-	20,000,000
Current maturity of long-term loans	8	280,879,755	492,400,387
Accounts payable	12	36,561,308	36,230,783
Accrued expenses and other liabilities	13	36,242,447	45,791,057
		<u>353,683,510</u>	<u>594,422,227</u>
Total liabilities		<u>754,931,811</u>	<u>1,226,150,097</u>
TOTAL EQUITY AND LIABILITIES		<u>1,593,426,099</u>	<u>2,035,620,704</u>
Commitments	19		

The accompanying notes (1) through (23) form an integral part of these financial statements.


Chief Executive Officer


Director


Chief Financial Officer

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2016	2015
INCOME			
Lease income	14	159,979,397	213,542,519
Other income		2,430,173	3,156,866
		<u>162,409,570</u>	<u>216,699,385</u>
EXPENSES			
Special commission expense	15	26,113,915	36,400,781
Provision for lease losses	4	33,141,116	25,155,200
Salaries and employee related expenses		42,020,325	43,053,544
General and administrative expenses	16	6,944,724	6,782,547
Depreciation and amortization	3	930,396	1,069,043
Total expenses		<u>109,150,476</u>	<u>112,461,115</u>
Profit for the year		<u>53,259,094</u>	<u>104,238,270</u>
Earnings per share - basic and diluted	18	<u>0.97</u>	<u>1.90</u>

The accompanying notes (1) through (23) form an integral part of these financial statements.


Chief Executive Officer


Director


Chief Financial Officer

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals unless otherwise stated)

	<u>2016</u>	<u>2015</u>
Profit for the year	53,259,094	104,238,270
Other comprehensive income		
<i>Items to be reclassified to profit or loss in subsequent periods</i>		
Cash flow hedges - effective portion of changes in fair value	<u>(126,647)</u>	4,379,060
Total comprehensive income for the year	<u>53,132,447</u>	<u>108,617,330</u>

The accompanying notes (1) through (23) form an integral part of these financial statements.



Chief Executive Officer



Director



Chief Financial Officer


Saudi ORIX Leasing Company
(Closed Joint Stock Company)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		53,259,094	104,238,270
Adjustments for:			
Depreciation of property and equipment	3	811,294	905,835
Amortisation of intangible assets	3	119,102	163,208
Special commission expense	15	26,113,915	36,400,781
Provision for lease losses	4	33,141,116	25,155,200
(Gain)/ loss on disposal of property and equipment		(17,028)	1,918
		<u>113,427,493</u>	<u>166,865,212</u>
Changes in operating assets and liabilities:			
Net investment in finance leases		407,271,613	169,139,290
Advances, prepayments and other receivables		1,491,404	2,629,390
Accounts payable		330,525	(76,137,010)
Accrued expenses and other liabilities		(6,286,094)	2,889,921
Employees' end of service benefits, net	9	(663,820)	1,787,139
Net cash generated from operating activities		<u>515,571,121</u>	<u>267,173,942</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment and intangible assets	3	(456,673)	(927,489)
Proceeds from disposal of property and equipment		180,000	24,750
Net cash used in investing activities		<u>(276,673)</u>	<u>(902,739)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans		377,500,000	797,491,250
Repayments of loans		(838,665,309)	(743,330,372)
Redemption of Sukuk		-	(240,000,000)
Special commission paid		(27,097,569)	(34,361,426)
Income tax paid on behalf of non-Saudi shareholders		(8,657,687)	(10,185,281)
Zakat paid on behalf of Saudi shareholders		(2,175,972)	(1,974,853)
Dividends paid, net		(16,436,071)	(16,330,163)
Net cash used in financing activities		<u>(515,532,608)</u>	<u>(248,690,845)</u>
Net (decrease)/ increase in cash and cash equivalents		(238,160)	17,580,358
Cash and cash equivalents at the beginning of the year		84,252,257	66,671,899
Cash and cash equivalents at the end of the year	6	<u>84,014,097</u>	<u>84,252,257</u>
Non-cash activities during the year:			
Fair value change on cash flow hedges		(126,647)	4,379,060
Zakat accrued on behalf of Saudi shareholders		1,843,449	1,759,612
Income tax accrued on behalf of non-Saudi shareholders		5,829,246	8,887,794

The accompanying notes (1) through (23) form an integral part of these financial statements.


Chief Executive Officer


Director

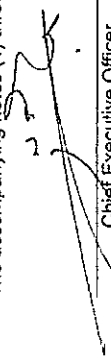

Chief Financial Officer

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Share capital	Statutory reserve	Retained earnings	Cash flow hedge reserve	Total equity
Balance as at 1 January 2016		550,000,000	68,529,341	187,616,551	3,324,715	809,470,607
Total comprehensive income:						
Profit for the year		-	-	53,259,094	-	53,259,094
Other comprehensive income		-	-	-	(126,647)	(126,647)
Transfer to statutory reserve	7	-	5,325,909	(5,325,909)	-	-
Transactions with shareholders of the Company, recorded directly in shareholders' equity						
Dividend Paid		-	-	(27,500,000)	-	(27,500,000)
Zakat accrued	17	-	-	(1,843,449)	-	(1,843,449)
Zakat recovered		-	-	2,175,972	-	2,175,972
Income tax accrued	17	-	-	(5,829,246)	-	(5,829,246)
Income tax recovered		-	-	8,887,957	-	8,887,957
Total transactions with shareholders of the Company		-	-	(24,108,766)	-	(24,108,766)
Balance as at 31 December 2016		550,000,000	73,855,250	211,440,970	3,198,068	838,494,288
Balance as at 1 January 2015		550,000,000	58,105,514	120,779,677	(1,054,345)	727,830,846
Total comprehensive income						
Profit for the year		-	-	104,238,270	-	104,238,270
Other comprehensive income		-	-	-	4,379,060	4,379,060
Transfer to statutory reserve	7	-	10,423,827	(10,423,827)	-	-
Transactions with shareholders of the Company, recorded directly in shareholders' equity						
Dividend Paid		-	-	(27,500,000)	-	(27,500,000)
Zakat accrued	17	-	-	(1,759,612)	-	(1,759,612)
Zakat recovered		-	-	1,974,853	-	1,974,853
Income tax accrued	17	-	-	(8,887,794)	-	(8,887,794)
Income tax recovered		-	-	9,194,984	-	9,194,984
Total transactions with shareholders of the Company		-	-	(26,977,569)	-	(26,977,569)
Balance as at 31 December 2015		550,000,000	68,529,341	187,616,551	3,324,715	809,470,607

The accompanying notes (1) through (23) form an integral part of these financial statements.


Chief Executive Officer


Chief Financial Officer

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals unless otherwise stated)

1. CORPORATE INFORMATION

Saudi ORIX Leasing Company (the "Company") is a closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under commercial registration number 1010163957 issued in Riyadh on 21 Shawal 1421H (corresponding to 16 January 2001), non-industrial license number 99 dated 27 Safar 1421H (corresponding to 31 May 2000) issued by the Ministry of Commerce and Industry and Finance company license number 7/A Sh/201403 dated 27 /04/ 1435H (corresponding to 27 February 2014) issued by Saudi Arabian Monetary Authority ("SAMA"), through its five branches (2015: five branches) in the Kingdom of Saudi Arabia.

The Company's head office is located in Riyadh at the following address:

Saudi ORIX Leasing Company
343, King Saud Road, Head Office
P.O. Box 22890, Riyadh 11416
Kingdom of Saudi Arabia

The Company has the following branches:

<i>Branch Commercial Registration number</i>	<i>Date</i>	<i>Location</i>
2050046083	9 Jamada Awal 1425H	Dammam
4030150057	9 Jamada Awal 1425H	Jeddah
2055013067	9 Rabi-Al-Awwal 1432H	Jubail
5855036378	9 Rabi-Al-Awwal 1432H	Khamis Mushait
4031090240	26 Rabi-Al-Thanni 1436H	Makkah

The objective of the Company is to provide lease financing for movable and immovable assets to all economic sectors in the Kingdom of Saudi Arabia.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) as required by the Implementing Regulation of the Finance Companies Control Law issued by SAMA.

2.2 Basis of preparation

The financial statements are prepared on a going concern basis under the historical cost convention, modified to include the measurement at fair value of derivative financial instruments.

2.3 New standards, amendments to standards and interpretations – not yet effective

There is no new standard or amendment to the existing standard effective during the year has significant effect on the Company's financial statements.

Further, the Company has chosen not to early adopt the following published new standards and revisions to existing standards, which are relevant to the operations of the Company:

- IFRS 9: Financial instruments (effective date January 1, 2018)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The Company is in process to assess the implications of IFRS 9.

Saudi ORIX Leasing Company
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals unless otherwise stated)

- IFRS 16: Leases (effective date January 1, 2019)

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its lease as operating leases or finance leases, and to account for those two types of lease differently. IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. As per the management initial assessment there will be no significant impact of this new standards on the Company's financial statements.

The other new or amended standards including IFRS 15 Revenue from customers (effective 1 January 2018) are not expected to have a significant impact on the Company's financial statements.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

- (a) provision for lease losses (Note 2.5.3 and Note 2.5.17); and
- (b) Zakat and tax (Note 2.5.14 and Note 17).

- 2.5** The principal accounting policies adopted in the preparation of these financial statements, which are consistently applied, are set out below:

2.5.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property and equipment is capitalised and the asset so replaced is retired from use. All other repairs and maintenance expenditure are charged to the statement of profit or loss during the period in which they are incurred.

Depreciation is charged using the straight-line method over its estimated useful life as mentioned below, after taking into account residual value.

	Years
Leasehold improvements	10
Office furniture and fixtures	5
Motor vehicles	5
Information technology equipment	4

Depreciation on additions is charged from the month the assets are available for use. No depreciation is charged in the month of disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains/ losses on disposal of property and equipment, if any, are taken to the statement of profit or loss in the period in which they arise.

Assets having an indefinite useful life are stated at acquisition cost less accumulated impairment losses, if any.

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals unless otherwise stated)

The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each statement of financial position date.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2.5.2 Net investment in finance leases

Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. Finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases. The Company takes down payments on leases with the right to set off against the residual value of leased assets and for presentation purposes, these down payments along with prepaid lease rentals are deducted from gross investment in finance leases.

2.5.3 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

2.5.4 Assets classified as held for sale

The Company classifies a non-current asset, if any, as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised in the statement of profit or loss for any initial or subsequent write down of the non-current asset to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale.

2.5.5 Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the Company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires.

On derecognition of a financial asset or financial liability, the difference between the carrying amount and the consideration received (and receivable) or paid (and payable) is recognised in the statement of profit or loss.

2.5.5.1 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Management determines the classification of the financial asset at the time of initial recognition.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals unless otherwise stated)

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial investments

The Company has not designated any financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables comprise of loans, advances, deposits, prepayments, other receivables and cash and cash equivalents. After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Restructured/ rescheduled receivables are recorded at revised terms and conditions as approved by the management. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue.

2.5.5.2 Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as financial liabilities at fair value through profit or loss or "other financial liabilities".

The Company has not designated any financial liability as fair value through profit or loss.

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest rate method.

Transaction costs relating to long-term loans and borrowings are being amortised over the period of agreement using the effective interest rate method.

2.5.6 Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its loan exposure to interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in the statement of changes in equity.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

Saudi ORIX Leasing Company
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals unless otherwise stated)

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been and are expected to be highly effective throughout the financial reporting periods for which they were / are designated.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of profit or loss for the period.

2.5.7 Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.5.8 Regular way Contracts

Regular way purchases or sales of financial assets are those, the contract which requires delivery of assets within the timeframe generally established by regulation or convention in the market. All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date on which the asset is delivered to or by the Company.

2.5.9 Offsetting

Financial assets and liabilities are offset and are reported net in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Similarly, income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

2.5.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks including bank overdrafts and investments with original maturity of less than three months from the contract date.

2.5.11 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Saudi Arabian Riyals ("SR") which is the Company's functional and presentation currency. All financial information presented in Saudi Arabian Riyals has been rounded to the nearest Riyal, unless otherwise mentioned.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals unless otherwise stated)

2.5.12 Foreign currency translation

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the respective transactions. At statement of financial position date, monetary assets and liabilities in foreign currencies are translated to Saudi Arabian Riyals at the prevailing exchange rates. Gains and losses resulting from changes in exchange rates are recognised as income or expense. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction are not retranslated at statement of financial position date.

2.5.13 Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the statement of financial position date are considered as non-adjusting events and are recorded in the financial statements in the year in which they are approved/ transfers are made.

2.5.14 Zakat and income tax

The Company's Saudi shareholders are subject to zakat and its non-Saudi shareholders are subject to income tax in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT") (previously known as the Department for Zakat and Income Tax "DZIT"), as applicable in the Kingdom of Saudi Arabia. An estimate of zakat and income tax arising therefrom is provided by a charge to retained earnings and all payments of zakat and income tax made on behalf of the shareholders are deducted from the first available dividends.

2.5.15 Revenue recognition-Finance leases

Finance lease income is recognised over the term of the lease using the effective yield method.

Service fees charged in respect of processing and other services are recognised as income as the services are rendered.

2.5.16 Employees' end of service benefits

The Company provides end-of-service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

2.5.17 Impairment of financial and non-financial assets

Financial assets:

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. Objective evidence whether the financial assets are impaired includes:

- default or delinquency by a lessee'
- restricting of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that the party from whom an amount is due to the Company will enter bankruptcy;
- adverse changes in payment status of the lessee; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

If such evidence exists, an impairment loss and subsequent changes therein is recognised in the statement of profit or loss. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of profit or loss;
- (b) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

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In addition to specific provisions against individually significant lease receivables, the Company also makes a collective impairment provision against lease receivables which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the exposure since it was granted. The amount of the provision is based on the historical loss pattern for lease receivables within each grade and is adjusted to reflect current economic changes.

Receivables are written off, when in the opinion of management, the likelihood of any future collection is believed to be minimal.

Non-Financial assets:

An assessment is made at each statement of financial position date to determine whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's (CGU), fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

2.5.18 *Borrowing Costs*

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of special commission expense and other costs that the Company incurs in connection with the borrowing of funds.

2.5.19 *Comparative*

Certain comparative figures have been reclassified to conform to current year's presentation; however, the effect of those reclassification is not significant.

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3. PROPERTY AND EQUIPMENT

	Leasehold improvements	Office furniture and fixtures	Motor vehicles	Information technology equipment	Total
Cost:					
Balance as at 1 January 2016	1,400,313	2,224,444	1,033,880	4,440,609	9,099,246
Additions during the year	11,975	1,600	-	192,584	206,159
Disposals during the year	-	-	(407,430)	-	(407,430)
Balance as at 31 December 2016	1,412,288	2,226,044	626,450	4,633,193	8,897,975
Accumulated depreciation:					
Balance as at 1 January 2016	825,427	1,883,691	573,905	3,637,902	6,920,925
Charge for the year	134,283	113,254	119,065	444,692	811,294
Disposals during the year	-	-	(244,458)	-	(244,458)
Balance as at 31 December 2016	959,710	1,996,945	448,512	4,082,594	7,487,761
Net book value:					
At 31 December 2016	452,578	229,099	177,938	550,599	1,410,214
Cost:					
Balance as at 1 January 2015	1,182,396	2,028,736	941,980	4,095,395	8,248,507
Additions during the year	217,917	195,708	141,900	345,214	900,739
Disposals during the year	-	-	(50,000)	-	(50,000)
Balance as at 31 December 2015	1,400,313	2,224,444	1,033,880	4,440,609	9,099,246
Accumulated depreciation:					
Balance as at 1 January 2015	694,199	1,776,279	419,282	3,148,662	6,038,422
Charge for the year	131,228	107,412	177,955	489,240	905,835
Disposals during the year	-	-	(23,332)	-	(23,332)
Balance as at 31 December 2015	825,427	1,883,691	573,905	3,637,902	6,920,925
Net book value:					
At 31 December 2015	574,886	340,753	459,975	802,707	2,178,321

The Company also holds certain computer software and licenses with a cost amounting to SR 1,539,231 (2015: SR 1,288,718) and written down value amounting to SR 614,010 (2015: SR 482,598). Amortization charge for the year amounts to SR 119,102 (2015: SR 163,208).

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4. NET INVESTMENT IN FINANCE LEASES

	<u>2016</u>	<u>2015</u>
Lease receivables		
- Performing	1,818,370,876	2,406,359,544
- Non-performing	190,808,170	103,684,737
Residual value	<u>922,696,055</u>	<u>875,742,310</u>
Gross investment in finance leases	2,931,875,101	3,385,786,591
Non-refundable security deposits	(921,376,067)	(874,746,821)
Prepaid lease rentals	(142,641,210)	(187,958,787)
Unearned lease finance income	<u>(202,775,285)</u>	<u>(250,726,831)</u>
Net investment in finance leases	1,665,082,539	2,072,354,152
Provision for lease losses	<u>(168,538,649)</u>	<u>(135,397,533)</u>
	1,496,543,890	1,936,956,619
Current maturity	<u>(931,965,686)</u>	<u>(1,119,248,250)</u>
	<u>564,578,204</u>	<u>817,708,369</u>

4.1 The maturity of the gross investment in finance leases (i.e. minimum lease payments ("MLPs")) and net investment in finance leases (i.e. present value of MLPs) is as follows:

	<u>2016</u>		<u>2015</u>	
	MLPs	PV of MLPs	MLPs	PV of MLPs
Not later than one year	1,386,917,206	931,965,686	1,597,193,212	1,119,248,250
Later than one year but not later than five years	1,544,957,895	733,116,853	1,756,862,099	945,891,180
Later than five years	-	-	31,731,280	7,214,722
	<u>2,931,875,101</u>	<u>1,665,082,539</u>	<u>3,385,786,591</u>	<u>2,072,354,152</u>

4.2 The Company's implicit rate of return on leases generally ranges between approximately 8% and 14% (2015: 8% and 14%) per annum. These are secured against leased assets and down payments which are generally up to 20% (2015: up to 20%) of the cost of leased asset.

4.3 Lease rentals received during the year aggregate to SR 1,204 million (2015: SR 1,405 million).

4.4 The movement in the provision for lease losses was as follows:

	<u>2016</u>	<u>2015</u>
Balance at the beginning of the year	135,397,533	110,242,333
Provision for the year, net	<u>33,141,116</u>	<u>25,155,200</u>
Balance at the end of the year	<u>168,538,649</u>	<u>135,397,533</u>

5. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	<u>2016</u>	<u>2015</u>
Advances and prepayments:		
Advance to suppliers - unsecured	456,900	2,753,555
Prepaid rent	709,769	727,975
Prepaid charges	963,369	1,368,521
Prepaid insurance	1,470,362	63,672
Prepaid visa cost	38,422	54,259
Other receivables - considered good:		
Loans and advances to staff	1,770,393	2,322,387
Other receivables from lessees	714,630	168,586
Others	<u>1,521,975</u>	<u>967,239</u>
	<u>7,645,820</u>	<u>8,426,194</u>

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6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following:

	<u>2016</u>	<u>2015</u>
Cash at banks	38,998,466	84,235,823
Term deposits of less than three month maturity	45,000,000	-
Cash in hand	15,631	16,434
	<u>84,014,097</u>	<u>84,252,257</u>

7. SHARE CAPITAL AND STATUTORY RESERVE

The pattern of shareholding as of 31 December is as follows:

<u>2016</u>	<u>2015</u>	Shareholders	<u>2016</u>	<u>2015</u>
Number of shares				
20,897,250	20,897,250	The Saudi Investment Bank ("SAIB")	208,972,500	208,972,500
17,600,000	17,600,000	Trade Development & Investment Group Limited	176,000,000	176,000,000
15,125,000	15,125,000	ORIX Corporation - Japan	151,250,000	151,250,000
1,375,000	1,375,000	ORIX Leasing Pakistan Limited - Pakistan	13,750,000	13,750,000
2,750	2,750	Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi	27,500	27,500
<u>55,000,000</u>	<u>55,000,000</u>		<u>550,000,000</u>	<u>550,000,000</u>

7.1 The portion of Saudi to non-Saudi shareholders (including non-Saudi shareholders in SAIB) is 66.2% to 33.8% (2015: 66.2% to 33.8%).

7.2 As required by Regulations For Companies, 10% of the net income for the year is transferred to a statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the capital. The reserve is not available for distribution.

8. LONG-TERM LOANS

	Note	<u>2016</u>	<u>2015</u>
Secured:			
Long-term loans	8.1	283,353,312	973,382,257
Foreign currency loans	8.2	388,636,364	139,772,728
Less: unamortised transaction costs		<u>(442,766)</u>	<u>(271,694)</u>
		671,546,910	1,112,883,291
Less: current maturity		<u>(280,879,755)</u>	<u>(492,400,387)</u>
		<u>390,667,155</u>	<u>620,482,904</u>

8.1 The long-term loans carry special commission rate equal to SIBOR plus bank margins or fixed rates payable on a quarterly basis. These facilities are secured by the assignment of lease contract receivables. Under the terms of the arrangements, the Company has to adhere to certain financial and non-financial covenants.

8.2 The Company has a facility from International Finance Corporation ("IFC"), amounting to USD 20 million (SR 75 million) and from a foreign bank amounting to USD 100 million. IFC loan is repayable over a period of 7 years from the date of first drawdown (i.e. 23 July 2010) in equal half yearly installments with a grace period of 24 months. This facility carries fixed special commission rate and is secured against assignment of lease contract receivables. Loan from bank is repayable by December 2019 and carries special commission at an annual rate of LIBOR plus bank margin payable on quarterly and bi-annually basis.

8.3 The loan facilities available from commercial banks amounted to SR 1,736 million (December 31, 2015: SR 1,942 million) of which SR 672 million (2015: SR 1,113 million) were utilised.

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9. EMPLOYEES' END OF SERVICE BENEFITS

	<u>2016</u>	<u>2015</u>
Balance at the beginning of the year	11,244,966	9,457,827
Charged during the year	2,369,470	2,374,931
Paid during the year	<u>(3,033,290)</u>	<u>(587,792)</u>
Balance at the end of the year	<u>10,581,146</u>	<u>11,244,966</u>

10. DERIVATIVE FINANCIAL INSTRUMENTS

	<u>2016</u>	<u>2015</u>
Interest rate swaps- cash flow hedge	<u>3,198,068</u>	<u>3,324,715</u>

As at 31 December 2016, the Company held Interest Rate Swaps ("IRS") of a notional value of around SR 607.3 million (2015: SR 494.8 million), in order to reduce its exposure to interest rate risks against long-term loans.

Net fair value of cash flows hedge of SR 3,198,068 (2015: SR 3,324,715) represents the positive mark to market value of SR 3,236,359 and negative mark to market value of SR 38,291 of the interest rate swaps as of 31 December 2016 (2015: positive mark to market value of SR 3,325,918 and negative mark to market value of SR 1,203). The cash flow hedge reserve represents the effective portion of cash flow hedges.

11. SHORT-TERM LOANS

	<u>2016</u>	<u>2015</u>
Short-term loans - secured	<u>-</u>	<u>20,000,000</u>

The short-term loans carry special commission rate equal to SIBOR plus bank margin. The facilities are secured by the assignment of lease contract receivables. Under the terms of the arrangements, the Company has to adhere to certain financial and non-financial covenants.

12. ACCOUNTS PAYABLE

These represent non-interest bearing payables against purchase of assets leased by the Company. The average credit period on purchases of assets from certain suppliers is one month.

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	<u>2016</u>	<u>2015</u>
Proposed lease related payables	13.1	17,386,826	22,133,819
Employee related payables		4,362,400	7,118,675
Zakat and income tax accrued on behalf of shareholders		1,891,519	4,215,677
Accrued special commission expense		2,423,178	3,413,858
Insurance claims to be settled		2,877,164	2,245,350
Insurance premium payable		3,094,230	3,204,151
Legal and professional charges		598,631	350,977
Others		<u>3,608,499</u>	<u>3,108,550</u>
		<u>36,242,447</u>	<u>45,791,057</u>

13.1 These include advance down payments, prepaid lease payments and front-end fees of lease contracts not executed as at statement of financial position date, and other payables for lessees.

14. LEASE INCOME

Lease income includes SR 3.0 million (2015: SR 2.7 million) related to front-end fee and also adjusted by net insurance income.

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15. SPECIAL COMMISSION EXPENSE

	<u>2016</u>	<u>2015</u>
Special commission expense on:		
Long-term loans	24,242,860	25,872,311
Sukuk	-	6,708,089
Short-term loan	489,359	796,535
Amortisation of transaction costs and bank charges	<u>1,381,696</u>	<u>3,023,846</u>
	<u>26,113,915</u>	<u>36,400,781</u>

16. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2016</u>	<u>2015</u>
License, legal and professional charges	2,848,018	2,262,162
Rent and premises related expenses	1,307,793	1,226,256
Communication expenses	1,072,709	928,028
Insurance of own assets	472,647	411,787
Office repair and maintenance cost	359,815	552,101
Travelling and transportation	325,183	294,394
Printing and stationery	278,596	371,292
Advertising and promotion expenses	109,455	464,604
Others	<u>170,508</u>	<u>271,923</u>
	<u>6,944,724</u>	<u>6,782,547</u>

17. ZAKAT AND INCOME TAX

a) Zakat

Movement in provision

	<u>2016</u>	<u>2015</u>
Balance as at 1 January	2,224,042	2,439,283
Provided during the year	1,843,449	1,759,612
Payment during the year	<u>(2,175,972)</u>	<u>(1,974,853)</u>
Balance as at 31 December	<u>1,891,519</u>	<u>2,224,042</u>

Charge for the year

Zakat is payable by the Saudi Shareholders and is calculated based on the higher of Zakat base or the adjusted profit for year. The computation of estimated Zakat base and adjusted profit is as follows:

Computation of Zakat base:

	<u>2016</u>	<u>2015</u>
Shareholders' equity at beginning	806,145,892	728,885,191
Opening provisions and adjustments	11,244,964	9,457,827
Borrowings, net	409,444,065	580,139,923
Book value of long-term assets	<u>(3,969,876)</u>	<u>(4,456,283)</u>
Net investment in finance leases	<u>(1,496,543,890)</u>	<u>(1,936,956,619)</u>
	<u>(273,678,845)</u>	<u>(622,929,961)</u>
Adjusted profit for the year	53,089,088	106,322,204
Zakat base (negative)	<u>(220,589,757)</u>	<u>(516,607,757)</u>

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Computation of adjusted profit:

	<u>2016</u>	<u>2015</u>
Profit for the year	53,259,094	104,238,270
Adjustments:		
Provision for end of service benefits, net	(663,820)	1,787,139
Other adjustments	493,814	296,795
Adjusted profit for the year	<u>53,089,088</u>	<u>106,322,204</u>
Allocation of adjusted profit:		
Adjusted profit attributable to non-Saudi shareholders	17,944,112	35,936,905
Adjusted profit attributable to Saudi shareholders	<u>35,144,976</u>	<u>70,385,299</u>
Zakat @ 2.5% on adjusted profit attributable to Saudi shareholders	878,624	1,759,632
Zakat under protest (see note (c) below)	548,485	-
Prior year adjustment	416,340	(20)
Net amount charged to retained earnings	<u>1,843,449</u>	<u>1,759,612</u>

(b) Income tax

Movement in provision

	<u>2016</u>	<u>2015</u>
Balance as at 1 January	1,991,635	3,289,122
Provided during the year	5,829,246	8,887,794
Payment during the year	(8,657,687)	(10,185,281)
Balance as at 31 December	<u>(836,806)</u>	<u>1,991,635</u>

Charge for the year

Non-Saudi shareholders are subject to income tax at 20% on the adjusted net profit. Income tax liability for the years 2016 and 2015 has been calculated based on adjusted profit for the years ended 31 December as follows:

	<u>2016</u>	<u>2015</u>
Adjusted profit attributable to non-Saudi shareholders	<u>17,944,113</u>	<u>35,936,905</u>
Income tax payable @ 20%	3,588,823	7,187,381
Income tax under protest (see note (c) below)	2,240,339	1,700,492
Prior year adjustment	84	(79)
	<u>5,829,246</u>	<u>8,887,794</u>

(c) Status of assessments

Zakat assessments for the period ended 31 December 2001 and for the years ended 31 December 2002, 2003, 2004 and 2005, have been assessed at SR 9.8 million in excess of the Zakat provision provided for in these financial statements. This is principally due to the fact that the General Authority of Zakat and Tax ("GAZT") has not allowed the deduction of the net investment in finance leases from the zakat base. The Company has appealed against this treatment. For the assessments relating to years 2001 and 2002, both the Higher Appeal Committee (at the Ministry of Finance) and the Board of Grievances have rejected the appeal based on formality/procedural grounds. The Company has filed a review appeal to the Board of Grievances.

If the GAZT continues to disallow the deduction of the Net Investment in Finance Leases from the Zakat base in its assessments for all subsequent periods up to 31 December 2016, there is a potential risk of an additional claim of SR 167 million. On the basis of an expert opinion, the Company considers it unlikely that the present position of GAZT will be upheld throughout the appeal process.

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Due to the uncertainties involved, the Company is unable to assess accurately the final outcome of this matter and has not provided for any potential additional liability in these financial statements. The Saudi shareholders have provided proportionate indemnities to the Company to reimburse it in full for the potential Zakat liability, should it be payable.

Further, the Company has protested the disallowances of the provision for lease losses in the adjusted profits and has filed an appeal against the same. For the year ended 31 December 2016, in order to avoid any penalty due to late payments, the Company has, in addition to the zakat and income tax liability indicated in the returns, provided for zakat and income tax "under protest" on behalf of the shareholders, in respect of the zakat and income tax likely to arise if the provision for lease losses were to be disallowed.

18. BASIC AND DILUTED EARNINGS PER SHARE

The basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the shareholders by weighted average number of shares (55,000,000) at the end of the year.

19. COMMITMENTS

	<u>2016</u>	<u>2015</u>
Finance lease contracts not yet executed	<u>16,103,859</u>	88,806,073
Operating lease commitments for office premises	<u>3,700,000</u>	3,700,000
Bank guarantees issued on behalf of the Company	<u>6,708,811</u>	6,708,811

20. SEGMENT REPORTING

A segment is a distinguishable component that is engaged in providing products or services (a business segment), which is subject to risks and rewards that are different from those of other segments.

The Company essentially monitors its business as a single business segment and accordingly it is Management's opinion that segment reporting would not be relevant. The Company only operates in the Kingdom of Saudi Arabia.

21. RISK MANAGEMENT

Risk is inherent in the Company's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability. The Company's activities are exposed to a variety of financial risks which mainly include market risk, credit risk and liquidity risk.

21.1 Risk management structure

Board of Directors

The Board of Directors is responsible for establishing the Company's policies, including risk management framework, and to review the performance of the Company to ensure compliance with these policies.

Credit and risk management committee

The credit and risk management committee is appointed by the Board of Directors. The credit and risk management committee assists the Board in reviewing overall risks which the Company might face, evaluate and review operational and non-operational risks and decide on mitigating factors related therewith.

Audit committee

The audit committee is appointed by the Board of Directors. The audit committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof and the soundness of the internal controls of the Company.

Internal audit

All key operational, financial and risk management processes are audited by the Internal Audit. Internal audit examines the adequacy of the relevant policies and procedures, the Company's compliance with the internal policies and regulatory guidelines. Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

The risks faced by the Company and the way these risks are mitigated by management are summarized below.

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21.2 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises of three types of risk: currency risk, special commission rate risk and other price risk.

21.2.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried in Saudi Riyal. The Company incurs currency risk on borrowing in foreign currency that is entered in a currency other than Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations as the majority of the monetary assets and liabilities are in Saudi Riyals or currencies which are pegged to the Saudi Riyal and consequently the Company does not hedge its foreign currency exposure. The Company's exposure to foreign currency transactions are as follows:

	<u>2016</u>	<u>2015</u>
Foreign currency loan	<u>388,636,364</u>	<u>139,772,728</u>

Sensitivity analysis

The Company has currency risk in US Dollar, at reporting date, if the Saudi Riyal had strengthened/ weakened by 0.5% against the US Dollar with all other variables held constant, profit for the year would have been higher/ lower by the amount of SR 1.94 million (2015: SR 0.70 million) mainly as a result of net foreign exchange gain/ loss on translation of foreign currency loan.

21.2.2 Special commission rate risk

Special commission rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market special commission rates. The Company's exposure to the risk of changes in market special commission rates relates primarily to the Company's long-term debt obligations with floating special commission rates.

There were no financial liabilities subject to special commission rate risk as at 31 December 2016 which were not hedged (2015: financial liabilities of SR 395 million which were subject to special commission rate risks).

Sensitivity analysis for variable rate financial instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. But the Company does designate derivatives (special commission rate swap) as a hedging instrument under a fair value hedge accounting model. The Company does not have any variable rate financial assets. Therefore a change in special commission rate of fixed rate financial assets at the reporting date would not affect profit for the year.

Had there been no hedge arrangements, a change of 100 basis points in special commission rate of variable rate financial liabilities would have increased or decreased profit by SR 8.4 million (2015: SR 11.2 million).

The sensitivity analysis prepared is not necessarily indicative of the effects on profit or loss for the year and financial assets / liabilities of the Company.

21.2.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have any financial instruments which are subject to other price risk.

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21.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Out of the total assets of SR 1,593 million (2015: SR 2,036 million), the assets which were subject to credit risk amounted to SR 1,588 million (2015: SR 2,030 million). The management analyze the credit risk in the following categories:

	<u>2016</u>	<u>2015</u>
Net investment in finance leases	1,496,543,890	1,936,956,619
Bank balances	83,998,465	84,235,823
Others	7,205,066	8,426,194
	<u>1,587,747,421</u>	<u>2,029,618,636</u>

21.3.1 Net investment in finance leases

The investment in finance leases generally expose to significant credit risk. Therefore, the Company has established a number of procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral and personal guarantees.

The Company also follows a credit classification mechanism, primarily driven by days delinquency as a tool to manage the quality of credit risk of the lease portfolio. Lease receivables which are overdue for more than 6 months and where future cash flows are estimated to differ, are graded into four sub-categories according to Company's internal rating system i.e. Overdue/Watch, Substandard, Doubtful and Loss.

The ageing of net investment in finance leases is as under:

	<u>2016</u>	<u>2015</u>
Neither past nor due	971,431,614	1,264,880,309
Past due 1-30 days	294,413,532	463,881,429
Past due 31-90 days	213,783,224	224,482,683
Past due 91-180 days	27,349,738	30,221,653
Past due 181-365 days	41,941,912	46,437,495
Past due over 1 year	116,162,519	42,450,583
	<u>1,665,082,539</u>	<u>2,072,354,152</u>
Less: Provision for lease losses	<u>(168,538,649)</u>	<u>(135,397,533)</u>
Net of provision	<u>1,496,543,890</u>	<u>1,936,956,619</u>
Total portfolio coverage ratio	<u>10.12%</u>	<u>6.53%</u>

The portfolio that is neither past due nor impaired has satisfactory history of repayment, where applicable. As at statement of financial position date, the Company has adequate collaterals to cover the overall credit risk exposure after making an impairment provision.

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Concentration risk

Concentrations of credit risk arises 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 manages its credit risk exposure through diversification of leasing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. An analysis by class of business of the Company's net investment in finance leases is given below:

	2016		2015	
	SR	%	SR	%
Manufacturing	519,951,818	31.23	549,327,695	26.5
Services – construction & contracting	268,909,098	16.15	461,022,627	22.2
Services – miscellaneous	575,852,802	34.58	749,742,358	36.2
Trading	293,583,463	17.63	306,959,465	14.8
Others	6,785,358	0.41	5,302,007	0.3
	<u>1,665,082,539</u>	<u>100</u>	<u>2,072,354,152</u>	<u>100</u>

Collateral held as security and other credit enhancements

The credit risks on gross amounts due in relation to the investment in finance leases is mitigated by the retention of title on leased assets. Further, the Company has obtained bank guarantee from some of its customers amounting to SR 60.3 million as at 31 December 2016 (31 December 2015: SR 66.4 million).

21.3.2 Bank balances and other receivables

Funds are placed with banks having good credit ratings and therefore are not subject to significant credit risk. Other receivables are neither significant nor exposed to significant credit risk.

21.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The contractual maturities of liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Company's availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The table below summarizes the maturity profile of the Company's liabilities based on contractual undiscounted cash flows:

	Within 3 months	3 to 12 months	1 to 5 years	No fixed maturity	Total
31 December 2016					
Liabilities:					
Accounts payable	36,561,308	-	-	-	36,561,308
Accrued expenses and other liabilities	36,242,447	-	-	-	36,242,447
Long-term loans	57,297,983	237,623,644	401,737,423	-	696,659,050
Employees' end of service benefits	-	-	-	10,581,146	10,581,146
	<u>130,101,738</u>	<u>237,623,644</u>	<u>401,737,423</u>	<u>10,581,146</u>	<u>780,043,951</u>
31 December 2015					
Liabilities:					
Short-term loans	20,037,106	-	-	-	20,037,106
Accounts payable	36,230,783	-	-	-	36,230,783
Accrued expenses and other liabilities	45,791,057	-	-	-	45,791,057
Long-term loans	121,434,078	395,038,072	634,815,213	-	1,151,287,363
Employees' end of service benefits	-	-	-	11,244,966	11,244,966
	<u>223,493,024</u>	<u>395,038,072</u>	<u>634,815,213</u>	<u>11,244,966</u>	<u>1,264,591,275</u>

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The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Company's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

	Positive fair value	Negative fair value	Notional amount Total	Maturity analysis			Monthly average
				Within 3 months	3-12 months	1-5 years	
31 December 2016							
Cash flow hedge reserve	<u>3,236,359</u>	<u>(38,291)</u>	<u>607,300,585</u>	<u>37,703,053</u>	<u>195,755,865</u>	<u>373,841,667</u>	<u>471,234,707</u>
31 December 2015							
Cash flow hedge reserve	<u>3,325,918</u>	<u>(1,203)</u>	<u>494,779,459</u>	<u>53,953,052</u>	<u>208,525,830</u>	<u>232,300,577</u>	<u>389,543,306</u>

21.5 Fair values of financial assets and financial liabilities

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial assets and financial liabilities are measured at amortized cost except derivative financial instruments. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values. The net fair value of derivative financial instruments is positive SR 3,198,068 (2015: SR 3,324,715) which falls under level 2 in the fair value hierarchy.

21.6 Capital risk management

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain optimal capital structure to reduce the cost of capital. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to its shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015. At statement of financial position date, gearing ratio analysis was as follows:

	2016	2015
Equity	<u>838,494,288</u>	<u>809,470,607</u>
Liabilities	<u>754,931,811</u>	<u>1,226,150,097</u>
Total capital structure	<u>1,593,426,099</u>	<u>2,035,620,704</u>
Gearing ratio	<u>47.38%</u>	<u>60.23%</u>

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22. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Company transacts business with related parties which are related to its shareholders. The Company is provided technical assistance from ORIX Corporation, Japan and ORIX Leasing Pakistan Limited at no cost under an arrangement. Significant related party transactions and balances are as follows:

<u>Transactions:</u>	<u>2016</u>	<u>2015</u>
The Saudi Investment Bank - shareholder		
Dividend paid - net	8,325,518	8,394,891
Loan obtained	100,000,000	-
Loan principal repayment	100,000,000	50,000,000
Special commission and other bank charges paid	509,476	407,743
Rent and premises related payment	2,350,000	2,350,000
Syndicate-lease related - payments	39,977,052	58,946,887
Syndicate-lease related - receipts	13,706,801	60,358,163
Trade Development & Investment Group, KSA - shareholder		
Dividend paid - net	7,748,179	7,845,395
ORIX Corporation, Japan - shareholder		
Dividend paid - net	314,513	77,200
ORIX Leasing Pakistan Limited - shareholder		
Dividend paid - net	28,592	7,019
Support services for internal audit	80,650	38,450
Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi - shareholder		
Dividend paid - net	1,211	1,226
Security deposit received for vehicle leased	200,000	-
The Mediterranean and Gulf Cooperative Insurance & Reinsurance Company, KSA- affiliate		
Premium for insurance and other related payments-net	29,870,578	30,556,580
Amlak International for Real Estate Development and Finance Company, KSA - affiliate		
Rent and premises related income on subletting to an affiliate	1,591,837	1,591,837
Key Management Personnel		
Salaries and other short-term employee benefits	6,065,370	8,051,750
Termination benefits	446,700	459,822
Directors' meeting attendance fee	900,000	1,800,000
<u>Balances:</u>	<u>2016</u>	<u>2015</u>
The Saudi Investment Bank- shareholder		
Current accounts	8,925,134	15,469,387
Syndicated lease payable	847,800	29,811
Syndicated lease receivable	4,822	-
ORIX Corporation, Japan- shareholder		
Other receivables	1,200	161,183
The Mediterranean and Gulf Cooperative Insurance & Reinsurance Company, KSA- affiliate		
Advance against insurance premium, net	1,280,077	288,281
Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi - shareholder		
Outstanding receivable for vehicle leased	1,161,108	-

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Balances (continued):

**Amlak International for Real Estate Development and Finance
Company, KSA- affiliate**

Rent and premise related advance on subletting	397,959	397,959
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Key Management Personnel

Loans to key management of the Company	156,601	115,052
Directors' meeting attendance fee payable	900,000	1,800,000

23. BOARD OF DIRECTORS' APPROVAL

These financial statements were approved and authorised for issue by the Board of Directors on 9 Jumada Al Awal 1438H (corresponding to February 6, 2017).