

Saudi ORIX Leasing Company
(Closed Joint Stock Company)
FINANCIAL STATEMENTS
31 December 2015
together with
Independent Auditor's Report



KPMG Al Fozan & Partners
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Licence No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Saudi ORIX Leasing Company
(A Saudi Closed Joint Stock Company)
Riyadh, Saudi Arabia

We have audited the accompanying financial statements of **Saudi ORIX Leasing Company** - A Saudi Closed Joint Stock Company (the "Company") which comprise the statement of financial position as at 31 December 2015 and the related statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended and the attached notes 1 through 26 which form an integral part of these financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with Article 123 of the Regulations 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. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of the financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

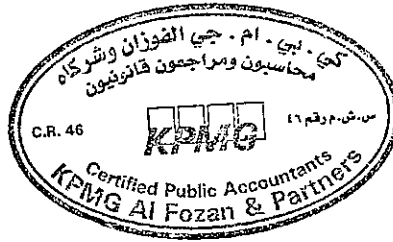
In our opinion, the financial statements taken as a whole:

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- ii) comply with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of the financial statements.

**For KPMG Al Fozan & Partners
Certified Public Accountants**

Abdullah Hamad Al Fozan
Licence No. 348

Riyadh on: 23 Rabi'II 1437H
Corresponding to: 2 February 2016



Saudi ORIX Leasing Company (Closed Joint Stock Company)

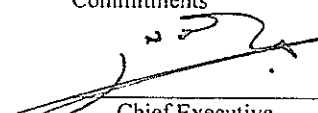
STATEMENT OF FINANCIAL POSITION

As at 31 December

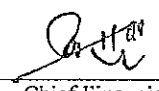
	Notes	2015 SR	2014 SR
ASSETS			
Non-current assets			
Property and equipment	3	2,178,321	2,210,085
Intangible assets	3	482,598	619,057
Derivative financial instruments	12	3,324,715	-
Net investment in finance leases	4	817,708,369	1,025,661,700
		<u>823,694,003</u>	<u>1,028,490,842</u>
Current assets			
Current maturity of net investment in finance leases	4	1,119,248,250	1,105,589,409
Advances, prepayments and other receivables	5	8,426,194	11,274,389
Cash and cash equivalents	6	84,252,257	66,671,899
		<u>1,211,926,701</u>	<u>1,183,535,697</u>
TOTAL ASSETS		<u>2,035,620,704</u>	<u>2,212,026,539</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	7	550,000,000	550,000,000
Statutory reserve	7	68,529,341	58,105,514
Retained earnings	8	187,616,551	120,779,677
Cash flow hedge reserve	12	3,324,715	(1,054,345)
TOTAL EQUITY		<u>809,470,607</u>	<u>727,830,846</u>
LIABILITIES			
Non-current liabilities			
Long term loans	9	620,482,904	554,906,751
Employees' end of service benefits	11	11,244,966	9,457,827
Derivative financial instruments	12	-	1,054,345
		<u>631,727,870</u>	<u>565,418,923</u>
Current liabilities			
Short term loans	13	20,000,000	135,000,000
Sukuk	10	-	237,989,789
Current maturity of long term loans	9	492,400,387	388,923,829
Accounts payable	14	36,230,783	112,367,793
Accrued expenses and other liabilities	15	45,791,057	44,495,359
		<u>594,422,227</u>	<u>918,776,770</u>
TOTAL LIABILITIES		<u>1,226,150,097</u>	<u>1,484,195,693</u>
TOTAL EQUITY AND LIABILITIES		<u>2,035,620,704</u>	<u>2,212,026,539</u>

Commitments

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Chief Executive
Officer


Director


Chief Financial
Officer

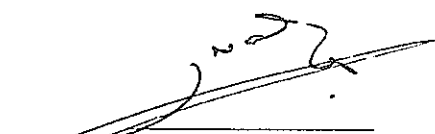
The attached notes 1 to 26 form an integral part of these financial statements.

Saudi ORIX Leasing Company (Closed Joint Stock Company)


STATEMENT OF PROFIT OR LOSS

For the year ended 31 December

	<i>Notes</i>	2015 SR	2014 SR
INCOME			
Income from operations			
Finance lease		213,542,519	218,598,467
Income from other activities			
Other income		3,156,866	1,457,317
Total income		<u>216,699,385</u>	<u>220,055,784</u>
EXPENSES			
Special commission expense	16	36,400,781	36,760,683
Salaries and employee related expenses		43,053,544	42,669,012
Rent and premises related expenses, net		1,226,256	1,341,352
Depreciation and amortization	3	1,069,043	978,025
General and administrative expenses	17	5,556,291	4,664,256
Provision for lease losses	4	25,155,200	16,694,003
Total expenses		112,461,115	103,107,331
PROFIT FOR THE YEAR		<u>104,238,270</u>	<u>116,948,453</u>
Earnings per share - basic and diluted	19	<u>1.90</u>	<u>2.58</u>



 Chief Executive
 Officer



 Director



 Chief Financial
 Officer


The attached notes 1 to 26 form an integral part of these financial statements.


Saudi ORIX Leasing Company (Closed Joint Stock Company)


STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	<u>2015</u> <u>SR</u>	<u>2014</u> <u>SR</u>
Profit for the year	104,238,270	116,948,453
Other comprehensive income		
<i>Items that are or may be reclassified to profit or loss in subsequent periods</i>		
Cash flow hedges -- effective portion of changes in fair value	4,379,060	(599,541)
Total comprehensive income for the year	<u>108,617,330</u>	<u>116,348,912</u>



Chief Executive
Officer

Director

Chief Financial
Officer

The attached notes 1 to 26 form an integral part of these financial statements.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December

	2015 SR	2014 SR
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	104,238,270	116,948,453
<i>Adjustments for:</i>		
Depreciation of property and equipment	905,835	799,540
Amortisation of intangible assets	163,208	178,485
Special commission expense	36,400,781	36,760,683
Provision for lease losses	25,155,200	16,694,003
Loss / (gain) on disposal of property and equipment	1,918	(17,450)
Operating cash flows before changes in operating assets and liabilities	<u>166,865,212</u>	<u>171,363,714</u>
Changes in operating assets and liabilities		
Net investment in finance leases	169,139,290	(414,950,726)
Advances, prepayments and other receivables	2,629,390	16,927,180
Accounts payable	(76,137,010)	14,196,662
Accrued expenses and other liabilities	2,889,921	6,572,680
Employees' end of service benefits, net	1,787,139	2,107,880
Net cash from / (used in) operating activities	<u>267,173,942</u>	<u>(203,782,610)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure incurred - property and equipment and intangible assets	(927,489)	(1,052,534)
Proceeds from disposal of property and equipment	24,750	17,450
Net cash used in investing activities	<u>(902,739)</u>	<u>(1,035,084)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	797,491,250	1,645,996,670
Repayments of loans	(743,330,372)	(1,491,005,589)
Redemption of Sukuk	(240,000,000)	-
Proceeds from right share issue	-	100,000,000
Special commission paid	(34,361,426)	(34,933,552)
Income tax paid on behalf of non-Saudi shareholders	(10,185,281)	(8,656,056)
Zakat paid on behalf of Saudi shareholders	(1,974,853)	(1,676,180)
Dividends paid, net	(16,330,163)	(15,949,231)
Net cash (used in) / from financing activities	<u>(248,690,845)</u>	<u>193,776,062</u>
Net increase / (decrease) in cash and cash equivalents	17,580,358	(11,041,632)
Cash and cash equivalents at the beginning of the year	66,671,899	77,713,531
Cash and cash equivalents at the end of the year	<u>84,252,257</u>	<u>66,671,899</u>
Non-cash activities during the year		
Fair value change on cash flow hedges	4,379,060	(599,541)
Zakat accrued on behalf of Saudi shareholders	1,759,612	1,974,798
Income tax accrued on behalf of non-Saudi shareholders	8,887,794	9,080,186

Chief Executive
Officer

Director

Chief Financial
Officer

The attached notes I to 26 form an integral part of these financial statements.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Share capital SR	Statutory reserve SR	Retained earnings SR	Cash flow hedge reserve SR	Total equity SR
Balance as at 1 January 2015	550,000,000	58,105,514	120,779,677	(1,054,345)	727,830,846
Transfer to statutory reserve	-	10,423,827	(10,423,827)	-	-
Total comprehensive income	-	-	-	-	-
Profit for the year			104,238,270	-	104,238,270
<i>Other comprehensive income</i>					
Effective portion of changes in fair value of cash flow hedges	-	-	-	4,379,060	4,379,060
<i>Transactions with owners of the Company, recorded directly in equity</i>					
Dividend paid	-	-	(27,500,000)	-	(27,500,000)
Zakat accrued (note 18)	-	-	(1,759,612)	-	(1,759,612)
Zakat recovered	-	-	1,974,853	-	1,974,853
Income tax accrued (note 18)	-	-	(8,887,794)	-	(8,887,794)
Income tax recovered	-	-	9,194,984	-	9,194,984
Total transactions with owners 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
Balance as at 1 January 2014	340,000,000	46,410,669	152,530,284	(454,804)	538,486,149
Transfer to statutory reserve	-	11,694,845	(11,694,845)	-	-
Total comprehensive income	-	-	-	-	-
Profit for the year	-	-	116,948,453	-	116,948,453
<i>Other comprehensive income</i>					
Effective portion of changes in fair value of cash flow hedges	-	-	-	(599,541)	(599,541)
<i>Transactions with owners of the Company, recorded directly in equity</i>					
Issue of bonus shares	110,000,000	-	(110,000,000)	-	-
Issue of right shares	100,000,000	-	-	-	100,000,000
Dividend paid	-	-	(25,500,000)	-	(25,500,000)
Zakat accrued (note 18)	-	-	(1,974,798)	-	(1,974,798)
Zakat recovered	-	-	1,676,180	-	1,676,180
Income tax accrued (note 18)	-	-	(9,080,186)	-	(9,080,186)
Income tax recovered	-	-	7,874,589	-	7,874,589
Total transactions with owners of the Company	210,000,000	-	(137,004,215)	-	72,995,785
Balance as at 31 December 2014	550,000,000	58,105,514	120,779,677	(1,054,345)	727,830,846

Chief Executive
Officer

Director

Chief Financial
Officer

The attached notes 1 to 26 form an integral part of these financial statements.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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 Agency, through its five branches (31 December 2014: four branches) in the Kingdom of Saudi Arabia. The Company had 154 (31 December 2014: 159) employees as at 31 December 2015.

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*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as required by the Implementing Regulation of the Finance Companies Control Law.

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*

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2015 and earlier application is permitted; however, the Company has not early applied the following new or amended standards in preparing these financial statements:

- IFRS 9 Financial instruments – 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, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following new or amended standards are not expected to have a significant impact on the Company's financial statements.

- Amendments to IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation and amortization
- Amendments to IAS 1 – Disclosure initiative
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer plants
- Annual improvements to IFRSs 2012 – 2014 Cycle – Various standards listed below:
 - IFRS 5 Non-current assets held for sale and discontinued operations – Changes in method for disposal
 - IFRS 7 Financial instruments: disclosures – Continuing involvement for servicing contracts and offsetting disclosures in condensed interim financial statements
 - IAS 19 Employee benefits – Discount rate in a regional market sharing the same currency
 - IAS 34 Interim financial reporting – Disclosure of information 'elsewhere in the interim financial report'

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) determining the residual values and useful lives of property and equipment (Note 2.5.1);
- b) provision for lease losses (Note 2.5.3);
- c) valuation of derivatives (Note 2.5.7); and
- d) impairment (Note 2.5.17).

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 The principal accounting policies adopted in the preparation of these financial statements 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.

	<i>Years</i>
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.

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.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5.3 Provisions

Provisions for lease losses

The Company reviews its lease receivables on a monthly basis to assess whether specific provisions for impairment should be recorded in the statement of profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

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. Lease receivables are charged off, when in the opinion of management, the likelihood of any future collection is believed to be minimal.

Other 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.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5.6 *Derivative financial instruments and hedge accounting*

The Company uses derivative financial instruments to hedge its loan exposure to interest rate. 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.

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.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 Department of Zakat and Income Tax (the "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 and uncollectibility of 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:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 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.

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.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

3. PROPERTY AND EQUIPMENT

	<i>Leasehold improvements SR</i>	<i>Office furniture and fixtures SR</i>	<i>Motor vehicles SR</i>	<i>Information technology equipment SR</i>	<i>Total SR</i>
<i>Cost:</i>					
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
<i>Depreciation:</i>					
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
<i>Net book value:</i>					
At 31 December 2015	574,886	340,753	459,975	802,707	2,178,321
<i>Cost:</i>					
Balance as at 1 January 2014	1,176,647	1,952,905	915,230	3,747,259	7,792,041
Additions during the year	5,749	75,831	67,350	348,136	497,066
Disposals during the year	-	-	(40,600)	-	(40,600)
Balance as at 31 December 2014	1,182,396	2,028,736	941,980	4,095,395	8,248,507
<i>Depreciation:</i>					
Balance as at 1 January 2014	577,830	1,693,592	307,071	2,700,989	5,279,482
Charge for the year	116,369	82,687	152,811	447,673	799,540
Disposals during the year	-	-	(40,600)	-	(40,600)
Balance as at 31 December 2014	694,199	1,776,279	419,282	3,148,662	6,038,422
<i>Net book value:</i>					
At 31 December 2014	488,197	252,457	522,698	946,733	2,210,085

The company also holds certain computer software and licenses with a cost amounting to SR 1,288,718 (2014: SR 1,261,968) and written down value amounting to SR 482,598 (2014: SR 619,057). Amortization charge for the year amounts to SR 163,208 (2014: SR 178,485).

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

4. NET INVESTMENT IN FINANCE LEASES

	2015 SR	2014 SR
Lease receivables		
- Performing	2,406,359,544	2,716,510,856
- Non-performing	103,684,737	34,326,157
Residual value	<u>875,742,310</u>	<u>984,909,692</u>
<i>Gross investment in finance leases</i>	3,385,786,591	3,735,746,705
Non-refundable down payment	(874,746,821)	(984,096,850)
Prepaid lease rentals	(187,958,787)	(211,042,433)
Unearned lease finance income	<u>(250,726,831)</u>	<u>(299,113,980)</u>
<i>Net investment in finance leases</i>	2,072,354,152	2,241,493,442
Provision for lease losses	<u>(135,397,533)</u>	<u>(110,242,333)</u>
	1,936,956,619	2,131,251,109
Current maturity	<u>(1,119,248,250)</u>	<u>(1,105,589,409)</u>
	<u>817,708,369</u>	<u>1,025,661,700</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:

	2015 SR		2014 SR	
	<i>MLPs</i>	<i>PV of MLPs</i>	<i>MLPs</i>	<i>PV of MLPs</i>
Not later than one year	1,597,193,212	1,119,248,250	1,546,072,759	1,105,589,409
Later than one year but not later than five years	1,756,862,099	945,891,180	2,150,461,386	1,122,027,486
Later than five years	31,731,280	7,214,722	39,212,560	13,876,547
	<u>3,385,786,591</u>	<u>2,072,354,152</u>	<u>3,735,746,705</u>	<u>2,241,493,442</u>

4.2 The Company's implicit rate of return on leases ranges between approximately 8.00% and 14.00% (2014: 8.00% and 14.00%) per annum. These are secured against leased assets and down payments which are generally upto 20.00% (2014: upto 20.00%) of the cost of leased asset, in case of finance leases.

4.3 Lease rentals received during the year aggregate to SR. 1,405 million (2014: SR. 1,322 million).

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

	2015 SR	2014 SR
Balance at the beginning of the year	110,242,333	93,548,330
Provision for the year, net	<u>25,155,200</u>	<u>16,694,003</u>
Balance at the end of the year	<u>135,397,533</u>	<u>110,242,333</u>

The provision for lease losses includes SAR 62.0 million (2014: SAR 97.1 million) evaluated on a collective impairment basis.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

5. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	2015 SR	2014 SR
<i>Advances and prepayments</i>		
Advance to suppliers - unsecured	2,753,555	66,510
Prepaid rent	727,975	761,513
Prepaid charges	1,368,521	725,653
Prepaid insurance	63,672	503,512
Prepaid visa cost	54,259	102,148
<i>Other receivables- Considered good</i>		
Loans and advances to staff	2,322,387	2,540,916
Other receivables from lessees	168,586	370,601
Others	967,239	6,203,536
	<u>8,426,194</u>	<u>11,274,389</u>

6. CASH AND CASH EQUIVALENTS

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

	2015 SR	2014 SR
Cash at banks	84,235,823	66,657,221
Cash in hand	16,434	14,678
	<u>84,252,257</u>	<u>66,671,899</u>

7. SHARE CAPITAL AND STATUTORY RESERVE

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

2015 <i>Number of shares</i>	2014 <i>Number of shares</i>	<i>Shareholders</i>	2015 (SR)	2014 (SR)
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% (2014: 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 50% of the capital. The reserve is not available for distribution.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

7. SHARE CAPITAL AND STATUTORY RESERVE (CONTINUED)

7.3 Reconciliation of fully paid ordinary shares:

	<i>Number of shares</i>	<i>Issued share capital SR</i>
Balance as at 1 January 2015	55,000,000	550,000,000
Balance as at 31 December 2015	55,000,000	550,000,000
Balance as at 1 January 2014	34,000,000	340,000,000
Issue of bonus shares	11,000,000	110,000,000
Issue of right shares at par	10,000,000	100,000,000
Balance as at 31 December 2014	55,000,000	550,000,000

8. RETAINED EARNINGS

Analysis of retained earnings for Saudi and non-Saudi shareholders is as follows:

	<i>Saudi Shareholders SR</i>	<i>Non-Saudi shareholders SR</i>	<i>Total SR</i>
Balance as at 1 January 2015	83,728,003	37,051,674	120,779,677
Profit for the year	69,005,735	35,232,535	104,238,270
Transfer to the statutory reserve	(6,900,573)	(3,523,254)	(10,423,827)
Zakat/income tax recovered	1,974,853	9,194,984	11,169,837
Zakat/income tax provision	(1,759,612)	(8,887,794)	(10,647,406)
Dividend paid	(18,205,000)	(9,295,000)	(27,500,000)
Balance as at 31 December 2015	127,843,406	59,773,145	187,616,551
Balance as at 1 January 2014	104,049,732	48,480,552	152,530,284
Profit for the year	77,419,876	39,528,577	116,948,453
Transfer to the statutory reserve	(7,741,987)	(3,952,858)	(11,694,845)
Issue of bonus shares	(72,820,000)	(37,180,000)	(110,000,000)
Zakat/income tax recovered	1,676,180	7,874,589	9,550,769
Zakat/income tax provision	(1,974,798)	(9,080,186)	(11,054,984)
Dividend paid	(16,881,000)	(8,619,000)	(25,500,000)
Balance as at 31 December 2014	83,728,003	37,051,674	120,779,677

9. LONG TERM LOANS

	<i>2015 SR</i>	<i>2014 SR</i>
Secured		
Long term loans (a)	973,382,257	903,085,016
Foreign Currency Loans	139,772,728	40,909,091
Less: unamortised transaction costs	(271,694)	(163,527)
	1,112,883,291	943,830,580
Less: current maturity (note 13)	(492,400,387)	(388,923,829)
	620,482,904	554,906,751

- a. 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.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

9. LONG TERM LOANS (CONTINUED)

- b. The Company has a facility from International Finance Corporation (“IFC”), amounting to USD 20 million (SR 75 million) and from a bank amounting to USD 30 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 on 3 December 2018 and carries special commission at an annual rate of LIBOR plus bank margin payable on quarterly basis.

10. SUKUK

On 26 December 2012, the Company issued a Sukuk amounting to SR 240 million at par value and was listed on Tadawul – Saudi Stock Exchange. The Sukuk had a return based on three month SIBOR plus 165 basis points payable quarterly in arrears. The Sukuk was redeemed at par on its expiry date of 27 December 2015.

11. EMPLOYEES’ END OF SERVICE BENEFITS

	2015 SR	2014 SR
Balance at the beginning of the year	9,457,827	7,349,947
Charged during the year	2,374,931	2,509,381
Paid during the year	(587,792)	(401,501)
Balance at the end of the year	<u>11,244,966</u>	<u>9,457,827</u>

12. DERIVATIVE FINANCIAL INSTRUMENTS

	2015 SR	2014 SR
Interest rate swaps- cash flow hedge	<u>3,324,715</u>	<u>(1,054,345)</u>

As at 31 December 2015, the Company held Interest Rate Swaps (“IRS”) of a notional value of around SR 494.8 million (2014: SR 742.1 million), in order to reduce its exposure to interest rate risks against long term loans.

Net fair value of cash flows hedge of SR 3,324,715 (2014: SR (1,054,345)) represents the positive mark to market value of SR 3,325,918 and negative mark to market value of SR 1,203 of the interest rate swaps as of 31 December 2015 (2014: positive mark to market value of SR 85,371 and negative mark to market value of SR 1,139,716). The cash flow hedge reserve represents the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the statement of profit or loss when the hedged transaction impacts the income or loss.

13. SHORT TERM LOANS AND CURRENT MATURITY OF LONG TERM LOANS

	2015 SR	2014 SR
Short term loans - secured	<u>20,000,000</u>	<u>135,000,000</u>
Current maturity of long term loans (note 9)	<u>492,400,387</u>	<u>388,923,829</u>

The loan facilities available from commercial banks amounted to SR 1,942 million (2014: SR 1,598 million). 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.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

14. 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.

15. ACCRUED EXPENSES AND OTHER LIABILITIES

	2015 SR	2014 SR
Proposed lease related payables (a)	22,133,819	17,806,320
Salaries and employee related expenses	7,118,675	8,079,921
Zakat and income tax accrued on behalf of shareholders	4,215,677	5,728,405
Accrued special commission expense	3,413,858	3,445,353
Insurance claims to be settled	2,245,350	2,227,528
Insurance premium payable	3,204,151	2,857,402
Legal and professional charges	350,977	410,276
Sukuk related accruals	-	50,000
Others	3,108,550	3,890,154
	<u>45,791,057</u>	<u>44,495,359</u>

a. 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.

16. SPECIAL COMMISSION EXPENSE

	2015 SR	2014 SR
Special commission expense on:		
- Long term loans	25,872,311	21,066,412
- Sukuk	6,708,089	6,801,227
- Short term loans	796,535	5,535,362
Amortisation of transaction costs and others	2,991,124	3,324,603
Bank charges	32,722	33,079
	<u>36,400,781</u>	<u>36,760,683</u>

17. GENERAL AND ADMINISTRATIVE EXPENSES

	2015 SR	2014 SR
License, legal and professional charges	2,262,162	1,528,806
Communication expenses	928,028	908,816
Office repair and maintenance cost	552,101	654,407
Printing and stationery	371,292	369,898
Advertising and promotion expenses	464,604	584,916
Travelling and transportation	294,394	316,874
Insurance of own assets	411,787	64,276
Others	271,923	236,263
	<u>5,556,291</u>	<u>4,664,256</u>

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

18. ZAKAT AND INCOME TAX

a) Zakat

Charge for the year

The zakat charge of SR 1,759,612 (2014: SR 1,974,798) for the year consists of the current year provision amounting to SR 1,759,632 (2014: SR 1,974,873) and prior year adjustment of SR 20 (2014: SR 75) and is based on the following:

	2015 SR	2014 SR
Shareholders' equity at beginning	728,885,191	513,440,953
Opening provisions and adjustments	9,457,827	7,349,947
Borrowings, net	580,139,923	683,800,770
Book value of long term assets	(4,456,283)	(4,379,643)
Net investment in finance leases	(1,936,956,619)	(2,131,251,109)
	<u>(622,929,961)</u>	<u>(931,039,082)</u>
Adjusted profit for the year	<u>106,322,204</u>	<u>119,327,682</u>
Zakat base (negative)	<u>(516,607,757)</u>	<u>(811,711,400)</u>

As the zakat base for the years 2015 and 2014 are negative, zakat is calculated based on adjusted profit for the years ended 31 December, attributable to the ultimate Saudi shareholders as follows:

	2015 SR	2014 SR
Adjusted profit attributable to Saudi shareholders	<u>70,385,299</u>	<u>78,994,925</u>
Zakat @ 2.5%	1,759,632	1,974,873
Prior year adjustment	(20)	(75)
Net amount charged to retained earnings	<u>1,759,612</u>	<u>1,974,798</u>

Movement in provision

	2015 SR	2014 SR
Balance as at 1 January	2,439,283	2,140,665
Provided during the year	1,759,612	1,974,798
Payment during the year	(1,974,853)	(1,676,180)
Balance as at 31 December	<u>2,224,042</u>	<u>2,439,283</u>

b) Income tax

Charge for the year

Income tax liability for the years 2015 and 2014 has been calculated based on adjusted profit for the years ended 31 December as follows:

	2015 SR	2014 SR
Adjusted profit attributable to Non-Saudi shareholders	<u>35,936,905</u>	<u>40,332,756</u>
Income tax payable @ 20%	7,187,381	8,066,551
Income tax under protest (see note (c) below)	1,700,492	1,128,515
Prior year adjustment	(79)	(114,880)
	<u>8,887,794</u>	<u>9,080,186</u>

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

18. ZAKAT AND INCOME TAX (CONTINUED)

Movement in provision

	2015 SR	2014 SR
Balance as at 1 January	3,289,122	2,864,992
Provided during the year	8,887,794	9,080,186
Payment during the year	<u>(10,185,281)</u>	<u>(8,656,056)</u>
Balance as at 31 December	<u>1,991,635</u>	<u>3,289,122</u>

c) *Status of assessments*

Zakat assessment 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 provision made in these financial statements. This is principally due to the fact that the Department of Zakat and Income Tax ("DZIT") has not allowed a deduction from zakat base of the net investment in finance leases.

The Company has appealed against this treatment but its appeal was disallowed early in 2010 by the Preliminary Appeal Committee and in 2015 by the Appellate Committee for Zakat and Tax Appeals. The Company has filed an appeal to the Higher Appeal Committees and is in the process of filing appeal to Board of Grievances. There is a potential risk of an additional claim of SR 145 million, if the same principle were to be applied for all subsequent periods up to 31 December 2015.

On the basis of expert opinion received, the Company considers it unlikely that the present position of DZIT will be upheld throughout the appeal process, because the issue of deduction of net investment in leases has industry wide implications not only for leasing companies but also for mortgage finance business and any other finance related business where the main assets are receivables. The matter is now before the appropriate regulatory authorities for discussion, as the present treatment by the DZIT is highly discriminatory for Saudi shareholders and detrimental to the growth of financial intermediation in the Country with adverse consequence for Saudi economy.

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 issued written proportionate guarantees 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 2015, 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, paid / provided income tax "under protest" on behalf of the shareholders, in respect of the income tax likely to arise if the provision for lease losses were to be disallowed.

19. 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 at the end of the year.

20. COMMITMENTS

	2015 SR	2014 SR
Finance lease contracts not yet executed	<u>88,806,073</u>	<u>115,644,775</u>
Operating lease commitments for office premises	<u>3,700,000</u>	<u>3,700,000</u>
Letter of credit	<u>-</u>	<u>8,000,643</u>
Bank guarantees issued on behalf of the Company	<u>6,708,811</u>	<u>6,708,811</u>

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

21. 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.

22. CAPITAL ADEQUACY

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base. Capital adequacy ratios measure capital adequacy by comparing the Company's eligible capital with its statement of financial position assets, commitments and notional amount of derivatives, if any, at a weighted amount, as monitored by the Company's management, to reflect their relative risk.

	31 December 2015		31 December 2014	
	Total capital ratio %	Tier I capital ratio %	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratios	35.40	34.15	30.73	29.48

23. 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.

23.1 Risk management structure

Board of Directors

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

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 and risk management, 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.

23.2 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, interest rate risk and other price risk.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

23. RISK MANAGEMENT (CONTINUED)

23.2.1 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:

	2015 SR	2014 SR
Foreign currency loan	<u>139,772,728</u>	<u>40,909,091</u>

Sensitivity analysis

The Company has major 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 0.70 million (2014: SR 0.20 million) mainly as a result of net foreign exchange gain / loss on translation of foreign currency loan.

23.2.2 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. Financial liabilities includes balances of SR 395 million (2014: SR 401 million) which are subject to special commission rate risks. Applicable special commission rates for the same have been disclosed in their respective notes.

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 3.53 million (2014: SR 5.14 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.

23.2.3 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 it's 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.

23.3 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. The Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such as down payments and personal guarantees. Individual lease contracts generally are for terms not exceeding forty-eight months.

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.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

23. RISK MANAGEMENT (CONTINUED)

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.

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 and down payments.

The Company 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 in to four sub-categories according to Company's internal rating system i.e. Overdue/Watch, Substandard, Doubtful and Loss.

Out of the total assets of SR 2,036 million (2014: SR 2,212 million) the assets which were subject to credit risk amounted to SR 2,030 million (2014: SR 2,209 million). Significant concentrations of the Company's risk assessed by industry segment and geographical region are set out in notes 23.3.1 and 23.3.2.

	2015 SR	2014 SR
Net investment in finance leases	1,936,956,619	2,131,251,109
Advances, prepayments and other receivables	8,426,194	11,274,389
Cash and cash equivalents	84,235,823	66,657,221
	<u>2,029,618,636</u>	<u>2,209,182,719</u>

The ageing of receivables is as under:

	2015 SR	2014 SR
Net investment in finance leases:		
Neither past nor due	1,264,880,309	1,735,344,466
Past due 1-30 days	463,881,429	321,701,574
Past due 31-90 days	224,482,683	118,855,575
Past due 91-180 days	30,221,653	38,417,621
Past due 181-365 days	46,437,495	5,137,923
Over 01 year	42,450,583	22,036,283
	<u>2,072,354,152</u>	<u>2,241,493,442</u>
Less: Provision for lease losses	<u>(135,397,533)</u>	<u>(110,242,333)</u>
Net of provision	<u>1,936,956,619</u>	<u>2,131,251,109</u>
Coverage ratio	<u>6.53%</u>	<u>4.92%</u>

The portfolio that is neither past due nor impaired has satisfactory history of repayment, where applicable.

The Company has a provision of SR 135.40 million (2014: SR 110.24 million) against these past dues. In addition, finance lease receivables are secured against leased assets.

The credit quality of Company's bank balances are assessed with reference to external credit ratings which all are above investment grade rating.

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

23. RISK MANAGEMENT (CONTINUED)

23.3.1 Segment by class of business

An analysis by class of business of the Company's net investment in finance leases is given below:

	2015		2014	
	SR	%	SR	%
Segments				
Manufacturing	549,327,695	26.5	600,019,463	26.8
Services – Construction & contracting	461,022,627	22.2	494,681,264	22.1
Services - Miscellaneous	749,742,358	36.2	788,818,463	35.1
Trading	306,959,465	14.8	352,118,820	15.7
Others	5,302,007	0.3	5,855,432	0.3
	2,072,354,152	100	2,241,493,442	100

23.3.2 Geographical segment analysis

The Company's operations are restricted to Kingdom of Saudi Arabia only.

23.3.3 Collateral held as security and other credit enhancements

The company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risk associated with the net investment in finance lease is mitigated because the net investment in finance lease is secured against leased assets. The carrying value of net investment in finance lease before taking provision for lease losses amounts to SR 2,072 million (31 December 2014: SR 2,241 million). Furthermore, the company has obtained bank guarantee from some of its customers amounting to SR 66.4 million as at 31 December 2015 (31 December 2014: SR 181.2 million).

23.4 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:

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

23. RISK MANAGEMENT (CONTINUED)

	<i>Within 3 months SR</i>	<i>3 to 12 months SR</i>	<i>1 to 5 years SR</i>	<i>No fixed maturity SR</i>	<i>Total SR</i>
31 December 2015					
<i>Liabilities</i>					
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>
31 December 2014					
<i>Liabilities</i>					
Short term loans	135,445,520	-	-	-	135,445,520
Accounts payable	112,367,793	-	-	-	112,367,793
Accrued expenses and other liabilities	44,495,359	-	-	-	44,495,359
Long term loans	85,068,164	319,756,539	566,357,175	-	971,181,878
Sukuk	2,233,425	246,755,768	-	-	248,989,193
Employees' end of service benefits	-	-	-	9,457,827	9,457,827
	<u>379,610,261</u>	<u>566,512,307</u>	<u>566,357,175</u>	<u>9,457,827</u>	<u>1,521,937,570</u>

The Company has unutilised bank facilities of SR 802.4 million (2014: SR 504.2 million) as at statement of financial position date to meet liquidity requirements.

The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analysed 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.

	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount Total</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Monthly average</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>
31 December 2014							
Cash flow hedge reserve	<u>85,371</u>	<u>(1,139,716)</u>	<u>742,066,667</u>	<u>43,361,385</u>	<u>369,584,157</u>	<u>329,121,125</u>	<u>637,473,571</u>

23.5 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).

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

23. RISK MANAGEMENT (CONTINUED)

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 3,324,715 (2014: negative SR 1,054,345) which falls under level 2 in the fair value hierarchy.

23.6 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 a strong capital base to support the sustained development of its business. 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 2015 and 2014.

24. RELATED PARTY TRANSACTIONS

24.1 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. Amounts relating to its shareholders, associates and key management included in the financial statements which have been transacted are as follows:

	2015 SR	2014 SR
<u>Transactions:</u>		
Saudi Investment Bank- shareholder		
Dividend paid-net	8,394,891	7,937,699
Loan obtained	-	180,000,000
Loan principal repayment	50,000,000	155,000,000
Special commission and other bank charges paid	407,743	1,894,395
Rent and premises related payment	2,350,000	2,350,000
Syndicate-lease related - payments	58,946,887	37,805,488
Syndicate-lease related - receipts	60,358,163	59,837,998
Trade Development & Investment Group, KSA- shareholder		
Dividend paid-net	7,845,395	7,349,768
ORIX Corporation, Japan- shareholder		
Dividend paid-net	77,200	575,287
ORIX Leasing Pakistan Limited- shareholder		
Dividend paid-net	7,019	52,298
Support services for internal audit	38,450	42,690
Mr. Musaed Mohammed Al Mineefi- shareholder		
Dividend paid-net	1,226	1,148
The Mediterranean and Gulf Cooperative Insurance & Reinsurance Company, KSA- associate		
Premium for insurance and other related payments-net	30,556,580	26,116,843

Saudi ORIX Leasing Company (Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2015

24. RELATED PARTY TRANSACTIONS (CONTINUED)

	2015 SR	2014 SR
Amlak International, KSA- associate		
Rent and premises related income on subletting to an affiliate	1,591,837	1,591,837
Key Management Compensation		
Salaries and other short-term employee benefits	8,051,750	6,852,555
Termination benefits	459,822	698,674
Directors' meeting attendance fee	1,800,000	1,800,000
Balances:		
Saudi Investment Bank- shareholder		
Current accounts	15,469,387	41,151,781
Short term loan	-	50,000,000
Accrued special commission	-	105,556
Syndicated lease receivable	-	4,666,256
Syndicated lease payable	29,811	-
ORIX Corporation, Japan- shareholder		
Other receivables	161,183	195,411
The Mediterranean and Gulf Cooperative Insurance & Reinsurance Company, KSA- associate		
Accrued insurance expenses	288,281	579,250
Amlak International, KSA- associate		
Rent and premise related advance on subletting	397,959	397,961
Key Management Personnel		
Loans to key management of the company	115,052	188,857
Directors' meeting attendance fee payable	1,800,000	1,800,000

24.2 The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (2014: nil).

25. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The Board of Directors on 2 February 2016 proposed a dividend of SR 0.5 per share (2014: SR 0.5 per share) for the year ended 31 December 2015 amounting to SR 27.5 million (2014: SR 27.5 million) for approval of members at the Extraordinary General Meeting. These financial do not reflect the impact of this proposed dividend.

26. BOARD OF DIRECTORS' APPROVAL

These financial statements were approved by the Board of Directors on 23 Rabi'II 1437H (corresponding to 2 February 2016).