Saudi ORIX Leasing Company
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

SAUDI ORIX LEASING COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Independent auditors' report to the shareholders of Saudi ORIX Leasing Company (A Saudi Closed Joint Stock Company)

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saudi ORIX Leasing Company (the "Company") as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by Saudi Arabian Monetary Authority ("SAMA") for Zakat and Tax.

What we have audited

The Company's financial statements comprise:

• the statement of financial position as at December 31, 2017;
• the statement of profit or loss for the year then ended;
• the statement of comprehensive income for the year then ended;
• the statement of cash flows for the year then ended;
• the statement of changes in equity for the year then ended; and
• the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards ("IFRS") as modified by Saudi Arabian Monetary Authority ("SAMA") for Zakat and Tax and the applicable requirements of the Regulation for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Independent auditors' report to the shareholders of Saudi ORIX Leasing Company (A Saudi Closed Joint Stock Company) (continued)

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

Further, in accordance with the applicable requirements of the Regulations for Companies in Saudi Arabia, we report that, based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the accompanying financial statements have not been prepared and presented, in all material respects, in accordance with the requirements of the applicable provisions of the Regulations for Companies.

PricewaterhouseCoopers

By: ______________________

Bader I. Benmohareb
License Number 471

February 6, 2018

Saudi ORIX Leasing Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2017	2016
ASSETS			
Non-current assets:			
Property and equipment	3	**984,667**	1,410,214
Intangible assets	3	**474,450**	614,010
Net investment in finance leases	4	**449,273,243**	564,578,204
Derivative financial instruments	10	**2,912,543**	3,198,068
		453,644,903	569,800,496
Current assets:			
Current maturity of net investment in finance leases	4	**770,371,921**	931,965,686
Advances, prepayments and other receivables	5	**10,824,982**	7,645,820
Cash and cash equivalents	6	**92,980,809**	84,014,097
		874,177,712	1,023,625,603
TOTAL ASSETS		**1,327,822,615**	1,593,426,099
EQUITY AND LIABILITIES			
EQUITY			
Share capital	7	**550,000,000**	550,000,000
Statutory reserve	7	**78,864,919**	73,855,250
Retained earnings		**229,487,278**	211,440,970
Cash flow hedge reserve	10	**2,912,543**	3,198,068
Total equity		**861,264,740**	838,494,288
LIABILITIES			
Non-current liabilities:			
Long-term loans	8	**212,829,739**	390,667,155
Employees' end of service benefits	9	**10,631,562**	10,581,146
		223,461,301	401,248,301
Current liabilities:			
Current maturity of long-term loans	8	**179,156,525**	283,302,933
Accounts payable	11	**28,032,756**	36,561,308
Accrued expenses and other liabilities	12	**35,907,293**	33,819,269
		243,096,574	353,683,510
Total liabilities		**466,557,875**	754,931,811
TOTAL EQUITY AND LIABILITIES		**1,327,822,615**	1,593,426,099
Commitments	18		

The accompanying notes (1) through (22) form an integral part of these financial statements.

Chief Executive Officer	Director	Chief Financial Officer

Saudi ORIX Leasing Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2017	2016
INCOME	13	**131,166,464**	162,409,570
EXPENSES			
Special commission expense	14	**14,567,914**	26,113,915
Provision for lease losses	4	**19,413,994**	33,141,116
Salaries and employee related expenses		**39,948,626**	42,020,325
General and administrative expenses	15	**6,425,126**	6,944,724
Depreciation and amortization	3	**714,111**	930,396
Total expenses		**81,069,771**	109,150,476
Profit for the year		**50,096,693**	53,259,094
Earnings per share - basic and diluted	17	**0.91**	0.97

The accompanying notes (1) through (22) form an integral part of these financial statements.

Chief Executive Officer

Director

Chief Financial Officer

Saudi ORIX Leasing Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Saudi Riyals unless otherwise stated)

	2017	2016
Profit for the year	**50,096,693**	53,259,094
Other comprehensive income		
Items to be reclassified to profit or loss in subsequent periods		
Cash flow hedges - effective portion of changes in fair value	**(285,525)**	(126,647)
Total comprehensive income for the year	**49,811,168**	53,132,447

The accompanying notes (1) through (22) form an integral part of these financial statements.

Chief Executive Officer

Director

Chief Financial Officer

Saudi ORIX Leasing Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**50,096,693**	53,259,094
Adjustments for:			
Depreciation of property and equipment	3	**574,551**	811,294
Amortisation of intangible assets	3	**139,560**	119,102
Special commission expense	14	**14,567,914**	26,113,915
Provision for lease losses	4	**19,413,994**	33,141,116
Gain on disposal of property and equipment		**(30,590)**	(17,028)
		84,762,122	113,427,493
Changes in operating assets and liabilities:			
Net investment in finance leases		**257,484,732**	407,271,613
Advances, prepayments and other receivables		**(4,015,968)**	1,491,404
Accounts payable		**(8,528,552)**	330,525
Accrued expenses and other liabilities		**983,346**	(6,286,094)
Employees' end of service benefits, net		**50,416**	(663,820)
Net cash generated from operating activities		**330,736,096**	515,571,121
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment and intangible assets	3	**(149,004)**	(456,673)
Proceeds from disposal of property and equipment		**30,590**	180,000
Net cash used in investing activities		**(118,414)**	(276,673)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans		**20,000,000**	377,500,000
Repayments of loans		**(300,894,533)**	(838,665,309)
Special commission paid		**(15,521,977)**	(27,097,569)
Income tax paid on behalf of non-Saudi shareholders	16	**(2,691,617)**	(8,657,687)
Zakat paid on behalf of Saudi shareholders	16	**(2,587,435)**	(2,175,972)
Dividends paid, net		**(19,955,408)**	(16,436,071)
Net cash used in financing activities		**(321,650,970)**	(515,532,608)
Net increase / (decrease) in cash and cash equivalents		**8,966,712**	(238,160)
Cash and cash equivalents at the beginning of the year		**84,014,097**	84,252,257
Cash and cash equivalents at the end of the year	6	**92,980,809**	84,014,097
Non-cash activities during the year:			
Fair value change on cash flow hedges		**(285,525)**	(126,647)
Zakat accrued on behalf of Saudi shareholders		**2,325,608**	1,843,449
Income tax accrued on behalf of non-Saudi shareholders		**4,759,700**	5,829,246

The accompanying notes (1) through (22) form an integral part of these financial statements.

Chief Executive Officer

Director

Chief Financial Officer

Saudi ORIX Leasing Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017
(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 2017		**550,000,000**	**73,855,250**	**211,440,970**	**3,198,068**	**838,494,288**
Total comprehensive income:						
Profit for the year		-	-	**50,096,693**	-	**50,096,693**
Other comprehensive income		-	-	-	**(285,525)**	**(285,525)**
Transfer to statutory reserve	7	-	**5,009,669**	**(5,009,669)**	-	-
Transactions with shareholders of the Company, recorded directly in shareholders' equity:						
Dividend paid		-	-	**(27,500,000)**	-	**(27,500,000)**
Zakat accrued	16	-	-	**(2,325,608)**	-	**(2,325,608)**
Zakat recovered		-	-	**878,624**	-	**878,624**
Income tax accrued	16	-	-	**(4,759,700)**	-	**(4,759,700)**
Income tax recovered		-	-	**6,665,968**	-	**6,665,968**
Total transactions with shareholders of the Company		-	-	**(27,040,716)**	-	**(27,040,716)**
Balance as at 31 December 2017		**550,000,000**	**78,864,919**	**229,487,278**	**2,912,543**	**861,264,740**
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	16	-	-	(1,843,449)	-	(1,843,449)
Zakat recovered		-	-	2,175,972	-	2,175,972
Income tax accrued	16	-	-	(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

The accompanying notes (1) through (22) form an integral part of these financial statements.

Chief Executive Officer

Director

Chief Financial Officer

(All amounts in Saudi Riyals unless otherwise stated)

1. CORPORATE INFORMATION

Saudi ORIX Leasing Company (the "Company") is a A Saudi 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 (2016: 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:

Branch Commercial Registration number	***Date***	***Location***
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") as modified by SAMA for the accounting of zakat and tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and Tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for Zakat and Tax ("SAMA Circular"), the Zakat and Tax are to be accrued on a quarterly basis through shareholders' equity under retained earnings.

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- Following new or amended standards effective from January 1, 2017 does not have effect on the Company's financial statements:

- Amendment to IAS 12, "Income taxes", regarding recognition of deferred tax assets for unrealized losses;
- Amendment to IAS 7, "Cash flow statements", regarding the disclosure initiative; and
- Annual improvements 2014-2016, IFRS 12, "Disclosure of interest in other entities".

b- Following new or amended standards effective after January 1, 2017, which were not early adopted by the Company, relevant but not have significant effect on the Company's financial statements:

- Annual improvements 2014-2016 regarding IFRS 7 "Financial instruments: Disclosures" and IAS 19 "Employee Benefits"; and
- IFRS 16 "Leases" (effective date January 1, 2019).

(All amounts in Saudi Riyals unless otherwise stated)

c- IFRS 9: Financial instruments (effective date 1 January 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 has assessed the implications of IFRS 9 and has developed an expected loss model to be implemented by 1 January 2018. Based on the Company's assessment, there will be additional disclosures in the financial statements however there will be no significant effect on recognition and measurement of financial instruments.

There are no new or amended standards effective from January 1, 2017 that have impact on the Company's financial statements. Further, new accounting standard or amendment to existing standards issued during the year and effective at a later date are not relevant to the Company's operations and therefore will not have any effect 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 2.5.17); and
(b) Zakat and tax (Note 2.5.14 and Note 16).

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 and intangible assets

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.

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.

Intangible assets comprise of computer softwares and licenses acquired by the Company and are measured at cost less accumulated amortization. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is calculated over the cost of the asset and are amortized on a straight-line basis over its estimated useful life, from the date on which it is available for use. The estimated useful life of intangible assets for the current and comparative periods is four years.

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.

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 investment in finance leases, 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 comprehensive income, 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.

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.

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.

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.

(All amounts in Saudi Riyals unless otherwise stated)

3. PROPERTY AND EQUIPMENT

	Leasehold improvements	Office furniture and fixtures	Motor vehicles	Information technology equipment	Total
Cost:					
Balance as at 1 January 2017	1,412,288	2,226,044	626,450	4,633,193	**8,897,975**
Additions during the year	58,019	12,809	-	78,176	**149,004**
Disposals during the year	-	-	(171,700)	-	**(171,700)**
Balance as at 31 December 2017	**1,470,307**	**2,238,853**	**454,750**	**4,711,369**	**8,875,279**
Accumulated depreciation:					
Balance as at 1 January 2017	959,710	1,996,945	448,512	4,082,594	**7,487,761**
Charge for the year	104,655	101,816	82,009	286,071	**574,551**
Disposals during the year	-	-	(171,700)	-	**(171,700)**
Balance as at 31 December 2017	**1,064,365**	**2,098,761**	**358,821**	**4,368,665**	**7,890,612**
Net book value:					
As at 31 December 2017	**405,942**	**140,092**	**95,929**	**342,704**	**984,667**
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:					
As at 31 December 2016	452,578	229,099	177,938	550,599	1,410,214

The Company also holds computer software and licenses with a cost amounting to SR 1,539,231 (2016: SR 1,539,231) and written down value amounting to SR 474,450 (2016: SR 614,010). Amortization charge for the year amounts to SR 139,560 (2016: SR 119,102).

4. NET INVESTMENT IN FINANCE LEASES

	2017	2016
Lease receivables:		
- Performing	**1,478,024,872**	1,818,370,876
- Non-performing (more than six months past due)	**205,755,815**	190,808,170
Residual value	**886,978,876**	922,696,055
Gross investment in finance leases	**2,570,759,563**	2,931,875,101
Non-refundable security deposits	**(881,381,047)**	(921,376,067)
Prepaid lease rentals	**(95,947,408)**	(142,641,210)
Unearned lease finance income	**(185,833,301)**	(202,775,285)
Net investment in finance leases	**1,407,597,807**	1,665,082,539
Provision for lease losses	**(187,952,643)**	(168,538,649)
	1,219,645,164	1,496,543,890
Current maturity	**(770,371,921)**	(931,965,686)
	449,273,243	564,578,204

(All amounts in Saudi Riyals unless otherwise stated)

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:

	2017		**2016**	
	MLPs	PV of MLPs	MLPs	PV of MLPs
Not later than one year	**1,158,367,332**	**770,371,921**	1,386,917,206	931,965,686
Later than one year but not later than five years	**1,407,546,351**	**632,725,138**	1,544,957,895	733,116,853
Later than five years	**4,845,880**	**4,500,748**	-	-
	2,570,759,563	**1,407,597,807**	2,931,875,101	1,665,082,539

4.2 The Company's implicit rate of return on leases generally ranges between approximately 8% and 14% (2016: 8% and 14%) per annum. These are secured against leased assets and down payments which are generally up to 20% (2016: up to 20%) of the cost of leased asset.

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

	2017	**2016**
Balance at the beginning of the year	**168,538,649**	135,397,533
Provision for the year, net	**19,413,994**	33,141,116
Balance at the end of the year	**187,952,643**	168,538,649

5. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	2017	**2016**
Advances and prepayments:		
Advance to suppliers	**104,700**	456,900
Prepaid rent	**634,903**	709,769
Prepaid charges	**2,204,587**	2,433,731
Prepaid insurance of leased assets, net	**2,961,259**	-
Prepaid visa cost	**56,299**	38,422
Loans and advances to staff	**2,520,938**	1,770,393
Other receivables from lessees	**703,793**	714,630
Other	**1,638,503**	1,521,975
	10,824,982	7,645,820

6. CASH AND CASH EQUIVALENTS

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

	2017	**2016**
Cash at banks	**92,959,194**	38,998,466
Term deposits of less than three month maturity	**-**	45,000,000
Cash in hand	**21,615**	15,631
	92,980,809	84,014,097

(All amounts in Saudi Riyals unless otherwise stated)

7. SHARE CAPITAL AND STATUTORY RESERVE

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

2017	2016	Shareholders	2017	2016
Number of shares				
20,900,000	20,897,250	The Saudi Investment Bank ("SAIB")	**209,000,000**	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	Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi	**-**	27,500
55,000,000	55,000,000		**550,000,000**	550,000,000

7.1 In 2017, Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi has transferred his stake of 2,750 shares (0.005% from total shares) to The Saudi Investment Bank.

7.2 The portion of Saudi to non-Saudi shareholders (including non-Saudi shareholders in SAIB) is 66.2% to 33.8% (2016: 66.2% to 33.8%).

7.3 As required by Regulations for Companies and Company's by-laws, 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% threshold of the capital. The reserve is not available for distribution.

8. LONG-TERM LOANS

	Note	2017	2016
Long-term loans	8.1	**40,845,143**	283,353,312
Foreign currency loans	8.2	**350,250,000**	388,636,364
	8.4	**391,095,143**	671,989,676
Accrued special commission		**1,231,545**	2,423,178
Less: unamortised transaction costs		**(340,424)**	(442,766)
Less: current maturity		**(179,156,525)**	(283,302,933)
		212,829,739	390,667,155

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 a foreign bank amounting to USD 100 million repayable by December 2019 and carries special commission rate of LIBOR plus bank margin payable on quarterly and bi-annually basis.

8.3 The loan facilities (revolving & non-revolving) available from commercial banks amounted to SR 1,478 million (2016: SR 1,736 million) of which SR 391 million (2016: SR 672 million) were utilized.

8.4 The schedule for movement of bank borrowings was as follows:

	Borrowings	Special commission	Total
Payable as at January 1, 2017	**671,989,676**	**2,423,178**	**674,412,854**
Proceeds / charge during the year	**20,000,000**	**12,871,852**	**32,871,852**
Payments during the year	**(300,894,533)**	**(14,063,485)**	**(314,958,018)**
Payable as at December 31, 2017	**391,095,143**	**1,231,545**	**392,326,688**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Saudi Riyals unless otherwise stated)

9. EMPLOYEES' END OF SERVICE BENEFITS

	2017	2016
Balance at the beginning of the year	**10,581,146**	11,244,966
Charged during the year	**1,953,924**	2,369,470
Paid during the year	**(1,903,508)**	(3,033,290)
Balance at the end of the year	**10,631,562**	10,581,146

10. DERIVATIVE FINANCIAL INSTRUMENTS

	Note	2017	2016
Interest rate swaps- cash flow hedge	20.4	**2,912,543**	3,198,068

As at 31 December 2017, the Company held Interest Rate Swaps ("IRS") of a notional value of around SR 373.8 million (2016: SR 607.3 million), in order to reduce its exposure to interest rate risks against long-term loans.

Net fair value of cash flows hedge of SR 2,912,543 (2016: SR 3,198,068) represents the positive mark to market value of SR 2,912,543 of the interest rate swaps as of 31 December 2017 (2016: positive mark to market value of SR 3,236,359 and negative mark to market value of SR 38,291). The cash flow hedge reserve represents the effective portion of cash flow hedges.

11. ACCOUNTS PAYABLE

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

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2017	2016
Proposed lease related payables	12.1	**13,962,628**	12,788,806
Employee related payables		**3,882,456**	4,362,400
Zakat and income tax accrued on behalf of shareholders		**2,860,969**	1,891,519
Insurance claims to be settled		**3,530,762**	2,877,164
Leased assets insurance premium payable		**-**	3,094,230
Legal and professional charges		**881,576**	598,631
Other	12.2	**10,788,902**	8,206,519
		35,907,293	33,819,269

12.1 These include advance down payments and front-end fees of proposed lease contracts not executed as at statement of financial position date, and other lease contract services related payables.

12.2 This include charity payable of SR 6.9 million (2016: SR 4.6 million).

13. INCOME

Income of SR 131.17 million includes lease income adjusted by net insurance costs and front-end fee.

14. SPECIAL COMMISSION EXPENSE

	2017	2016
Special commission expense on:		
Long-term loans	**12,655,929**	24,242,860
Short-term loan	**197,014**	489,359
	12,852,943	24,732,219
Amortisation of transaction costs and bank charges	**1,714,971**	1,381,696
	14,567,914	26,113,915

(All amounts in Saudi Riyals unless otherwise stated)

15. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
License, legal and professional charges	**2,380,423**	2,848,018
Rent and premises related expenses	**1,155,672**	1,307,793
Communication expenses	**923,809**	1,072,709
Insurance of own assets	**466,765**	472,647
Office repair and maintenance cost	**503,489**	359,815
Travelling and transportation	**388,769**	325,183
Printing and stationery	**207,397**	278,596
Advertising and promotion expenses	**75,651**	109,455
Other	**323,151**	170,508
	6,425,126	6,944,724

16. ZAKAT AND INCOME TAX

a) Zakat

Movement in provision:	2017	2016
Balance as at 1 January	**1,891,519**	2,224,042
Provided during the year	**2,325,608**	1,843,449
Payment during the year	**(2,587,435)**	(2,175,972)
Balance as at 31 December	**1,629,692**	1,891,519

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 adjusted profit and zakat base:	2017	2016
Profit for the year	**50,096,693**	53,259,094
Adjustments:		
Provision for end of service benefits, net	**50,416**	(663,820)
Other adjustments	**848,654**	493,814
Adjusted profit for the year	**50,995,763**	53,089,088
Shareholders' equity at beginning	**807,796,220**	778,645,892
Opening provisions and adjustments	**10,581,146**	11,244,964
Borrowings, net	**391,077,763**	409,444,065
Book value of long-term assets	**(3,552,333)**	(3,969,876)
Net investment in finance leases	**(1,219,645,164)**	(1,496,543,890)
Zakat base	**37,253,395**	(248,089,757)
Share of Saudi shareholders - 66.2% for higher of adjusted profit or Zakat base	**33,759,195**	**35,144,976**

Zakat charge for the year	2017	2016
Zakat @ 2.5% on share of Saudi shareholders	**843,980**	878,624
Zakat under protest (see note (c) below)	**321,302**	548,485
Prior year adjustment	**1,160,326**	416,340
Net amount charged to retained earnings	**2,325,608**	1,843,449

(All amounts in Saudi Riyals unless otherwise stated)

(b) Income tax

Movement in provision:	**2017**	**2016**
Balance as at 1 January	**(836,806)**	1,991,635
Provided during the year	**4,759,700**	5,829,246
Payment during the year	**(2,691,617)**	(8,657,687)
Balance as at 31 December	**1,231,277**	(836,806)

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 2017 and 2016 has been calculated based on adjusted profit for the years ended 31 December as follows:

	2017	**2016**
Share of non-Saudi shareholders to adjusted profit (33.8%)	**17,236,568**	17,944,113
Income tax payable @ 20%	**3,447,314**	3,588,823
Income tax under protest (see note (c) below)	**1,312,386**	2,240,339
Prior year adjustment	**-**	84
	4,759,700	5,829,246

(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 procedural grounds. The Company has settled its liability for the years ended 31 December 2001 and 31 December 2002 amounting to SR 1,708,811.

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 2017, there is a potential risk of an additional claim of SR 189 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.

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 2017, 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.

17. 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.

18. COMMITMENTS

	2017	**2016**
Finance lease contracts not yet executed	**-**	16,103,859
Operating lease commitments for office premises – 2 years	**3,700,000**	3,700,000
Bank guarantees issued on behalf of the Company	**6,708,811**	6,708,811

19. 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.

20. 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.

20.1 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.

20.2 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.

20.2.1 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:

	2017	**2016**
Foreign currency loan - USD	**350,250,000**	388,636,364

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 1.75 million (2016: SR 1.94 million) mainly as a result of net foreign exchange gain/ loss on translation of foreign currency loan.

20.2.2 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 2017 which were not hedged.

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. 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 5.2 million (2016: SR 8.4 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.

20.2.3 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.

20.3 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 1,328 million (2016: SR 1,593 million), the assets which were subject to credit risk amounted to SR 1,320 million (2016: SR 1,588 million). The management analyze the credit risk in the following categories:

	2017	2016
Net investment in finance leases	**1,219,645,164**	1,496,543,890
Bank balances	**92,959,194**	83,998,466
Other	**7,775,777**	7,205,066
	1,320,380,135	1,587,747,422

20.3.1 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.

(All amounts in Saudi Riyals unless otherwise stated)

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

	2017	2016
Neither past nor due	**826,110,661**	971,431,614
Past due 1-30 days	**190,312,642**	294,413,532
Past due 31-90 days	**148,772,501**	213,783,224
	1,165,195,804	1,479,628,370
Past due 91-180 days	**75,669,824**	27,349,738
Past due 181-365 days	**41,424,572**	41,941,912
Past due over 1 year	**125,307,607**	116,162,519
	242,402,003	185,454,169
	1,407,597,807	1,665,082,539
Less: Provision for lease losses	**(187,952,643)**	(168,538,649)
Net of provision	**1,219,645,164**	1,496,543,890
Total portfolio coverage ratio	**13.35%**	10.12%
Over 90 days past due coverage ratio	**77.54%**	90.88%

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.

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:

	2017		2016	
	SR	%	SR	%
Manufacturing	**452,671,278**	**32.16**	519,951,818	31.23
Services - construction & contracting	**183,902,639**	**13.06**	268,909,098	16.15
Services – miscellaneous	**486,246,261**	**34.54**	575,852,802	34.58
Trading	**278,439,496**	**19.78**	293,583,463	17.63
Other	**6,338,133**	**0.45**	6,785,358	0.41
	1,407,597,807	**100**	1,665,082,539	100

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 58.9 million as at 31 December 2017 (31 December 2016: SR 60.3 million).

20.3.2 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.

(All amounts in Saudi Riyals unless otherwise stated)

20.4 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:

31 December 2017	**Within 3 months**	**4 to 12 months**	**2 to 5 years**	**No fixed maturity**	**Total**
Accounts payable	**28,032,756**	**-**	**-**	**-**	**28,032,756**
Accrued expenses and other liabilities	**35,907,293**	**-**	**-**	**-**	**35,907,293**
Long-term loans	**30,065,869**	**158,313,550**	**215,054,983**	**-**	**403,434,402**
Employees' end of service benefits	**-**	**-**	**-**	**10,631,562**	**10,631,562**
	94,005,918	**158,313,550**	**215,054,983**	**10,631,562**	**478,006,013**
31 December 2016					
Accounts payable	36,561,308	-	-	-	36,561,308
Accrued expenses and other liabilities	33,819,269	-	-	-	33,819,269
Long-term loans	59,721,161	237,623,644	401,737,423	-	699,082,228
Employees' end of service benefits	-	-	-	10,581,146	10,581,146
	130,101,738	237,623,644	401,737,423	10,581,146	780,043,951

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.

				Maturity analysis			
	Positive fair value	**Negative fair value**	**Notional amount Total**	**Within 3 months**	**4-12 months**	**2-5 years**	**Monthly average**
31 December 2017 Cash flow hedge reserve	**2,912,543**	**-**	**373,841,667**	**17,758,333**	**143,083,334**	**213,000,000**	**331,300,000**
31 December 2016 Cash flow hedge reserve	3,236,359	(38,291)	607,300,585	37,703,053	195,755,865	373,841,667	471,234,707

(All amounts in Saudi Riyals unless otherwise stated)

20.5 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 2,912,543 (2016: SR 3,198,068) which falls under level 2 in the fair value hierarchy.

20.6 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 2017 and 2016. At statement of financial position date, gearing ratio analysis was as follows:

	2017	**2016**
Equity	**861,264,740**	838,494,288
Liabilities	**466,557,875**	754,931,811
Total capital structure	**1,327,822,615**	1,593,426,099
Gearing ratio	**35.14%**	47.38%

(All amounts in Saudi Riyals unless otherwise stated)

21. 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:

Transactions:	**2017**	**2016**
The Saudi Investment Bank - *shareholder*		
Dividend paid – net	**9,245,436**	8,325,518
Loan obtained	**-**	100,000,000
Loan principal repayment	**-**	100,000,000
Special commission and other bank charges paid	**177,068**	509,476
Rent and premises related payment	**2,350,000**	2,350,000
Syndicate-lease related – payments	**35,451,001**	39,977,052
Syndicate-lease related - receipts	**855,458**	13,706,801
Trade Development & Investment Group, KSA - *shareholder*		
Dividend paid – net	**8,375,291**	7,748,179
ORIX Corporation, Japan – *shareholder*		
Dividend paid – net	**2,031,979**	314,513
ORIX Leasing Pakistan Limited - *shareholder*		
Dividend paid - net	**184,725**	28,592
Support services for internal audit	**86,843**	80,650
Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi – *Ex-shareholder*		
Dividend paid – net	**-**	1,211
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	**28,479,928**	29,870,578
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	**8,537,213**	8,395,370
Termination benefits	**450,878**	446,700
Directors' meeting attendance fee	**900,000**	900,000

Balances:	**2017**	**2016**
The Saudi Investment Bank- *shareholder*		
Current accounts	**42,348,003**	8,925,134
Syndicated lease payable	**-**	847,800
Syndicated lease receivable	**9,217**	4,822
ORIX Corporation, Japan- *shareholder*		
Other receivables	**-**	1,200
The Mediterranean and Gulf Cooperative Insurance & Reinsurance Company, KSA- *affiliate*		
Advance against insurance premium, net	**8,794,043**	1,280,077

(All amounts in Saudi Riyals unless otherwise stated)

Balances (continued):	**2017**	**2016**
Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi – *Ex-shareholder*		
Outstanding receivable for vehicle leased	-	1,161,108
Amlak International for Real Estate Development and Finance Company, KSA- *affiliate*		
Rent and premise related advance on subletting	**397,959**	397,959
Key Management Personnel		
Loans to key management of the Company	**432,736**	156,601
Directors' meeting attendance fee payable	**900,000**	900,000

22. SUBSEQUENT EVENT AND BOARD OF DIRECTORS' APPROVAL

22.1 There was no significant subsequent event which require disclosure in these financial statements.

22.2 These financial statements were approved and authorised for issue by the Board of Directors on 20 Jumada Al Awal 1439H (corresponding to February 6, 2018).