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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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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 31 December 2018, 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 the accounting of Zakat and Tax.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of income 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 the accounting of 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.

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.

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 *(continued)*

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.

PricewaterhouseCoopers

By: ______________________

Bader I. Benmohareb
License Number 471

27 February 2019

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018
(All amounts in Saudi Riyals unless otherwise stated)

ASSETS	Notes	2018	2017
Non-current assets:			(Restated)
Property and equipment	3	**710,976**	984,667
Intangible assets	3	**362,480**	474,450
Equity investments designated at FVOCI	6.1	**892,850**	-
Net investment in finance leases	4	**359,164,812**	449,273,243
Net investment in murabaha finance	5	**12,599,093**	-
Derivative financial instruments	11	**-**	2,912,543
		373,730,211	453,644,903
Current assets:			
Current maturity of net investment in finance leases	4	**676,027,127**	770,371,921
Current maturity of net investment in murabaha finance	5	**3,565,692**	-
Advances, prepayments and other receivables	6	**18,249,628**	10,824,982
Derivative financial instruments	11	**1,657,447**	-
Cash and cash equivalents	7	**136,854,497**	92,980,809
		836,354,391	874,177,712
TOTAL ASSETS		**1,210,084,602**	1,327,822,615
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	8	**550,000,000**	550,000,000
Statutory reserve	8	**84,608,524**	78,864,919
Retained earnings		**218,715,570**	224,170,627
Cash flow hedge reserve	11	**1,657,447**	2,912,543
Total equity		**854,981,541**	855,948,089
LIABILITIES			
Non-current liabilities:			
Long-term loans	9	**37,777,578**	212,829,739
Employees' end of service benefits	10	**16,415,563**	15,948,213
		54,193,141	228,777,952
Current liabilities:			
Current maturity of long-term loans	9	**225,831,866**	179,156,525
Accounts payable	12	**34,290,169**	28,032,756
Accrued expenses and other liabilities	13	**40,787,885**	35,907,293
		300,909,920	243,096,574
Total liabilities		**355,103,061**	471,874,526
TOTAL EQUITY AND LIABILITIES		**1,210,084,602**	1,327,822,615
Commitments	19		

The accompanying notes (1) through (24) 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 INCOME FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2018	2017
REVENUE	14	**111,330,568**	131,166,464
EXPENSES			
Special commission expense	15	**9,308,909**	14,567,914
Provision for impairment on financial assets	4,5	**483,435**	19,413,994
Salaries and employee related expenses		**37,302,506**	39,948,626
General and administrative expenses	16	**6,290,732**	6,425,126
Depreciation and amortization	3	**508,932**	714,111
Total expenses		**53,894,514**	81,069,771
Income for the year		**57,436,054**	50,096,693
Earnings per share - basic and diluted	18	**1.04**	0.91

The accompanying notes (1) through (24) 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 OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2018	2017 (Restated)
Income for the year		**57,436,054**	50,096,693
Other comprehensive income			
Items that will not be reclassified to statement of income in subsequent periods			
Actuarial gains/ (losses) on employees' end of service benefits	10	**339,455**	(836,124)
Items that are or maybe reclassified to statement of income in subsequent periods			
Cash flow hedges - effective portion of changes in fair value	11	**(1,255,096)**	(285,525)
Total comprehensive income for the year		**56,520,413**	48,975,044

The accompanying notes (1) through (24) 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 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income for the year		**57,436,054**	50,096,693
Adjustments for:			
Depreciation of property and equipment	3	**389,062**	574,551
Amortisation of intangible assets	3	**119,870**	139,560
Special commission expense	15	**9,308,909**	14,567,914
Provision for impairment on financial assets	4,5	**483,435**	19,413,994
Gain on disposal of property and equipment		**(20,467)**	(30,590)
		67,716,863	84,762,122
Changes in operating assets and liabilities:			
Net investment in finance leases & murabaha finance		**135,092,861**	257,484,732
Advances, prepayments and other receivables		**(8,342,742)**	(4,015,968)
Accounts payable		**6,257,413**	(8,528,552)
Accrued expenses and other liabilities		**3,571,449**	983,346
Employees' end of service benefits, net	10	**806,805**	50,416
Net cash generated from operating activities		**205,102,649**	330,736,096
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment and intangible assets	3	**(123,271)**	(149,004)
Proceeds from disposal of property and equipment		**20,467**	30,590
Net cash used in investing activities		**(102,804)**	(118,414)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	9	**50,000,000**	20,000,000
Repayments of loans	9	**(178,095,143)**	(300,894,533)
Special commission and other bank charges paid		**(9,595,032)**	(15,521,977)
Income tax paid on behalf of non-Saudi shareholders	17	**(3,569,774)**	(2,691,617)
Zakat paid on behalf of Saudi shareholders	17	**-**	(2,587,435)
Dividends paid, net of zakat and income tax recovered		**(19,866,208)**	(19,955,408)
Net cash used in financing activities		**(161,126,157)**	(321,650,970)
Net increase in cash and cash equivalents		43,873,688	8,966,712
Cash and cash equivalents at the beginning of the year		92,980,809	84,014,097
Cash and cash equivalents at the end of the year	7	**136,854,497**	92,980,809

The accompanying notes (1) through (24) 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 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Share capital	Statutory reserve	Retained earnings (Restated)	Cash flow hedge reserve	Total equity
Balance as at 31 December 2017 (Restated)		**550,000,000**	**78,864,919**	**224,170,627**	**2,912,543**	**855,948,089**
Adoption of IFRS 9	4.3	-	-	(32,712,144)	-	(32,712,144)
Restated balance as at 1 January 2018 (Unaudited)		**550,000,000**	**78,864,919**	**191,458,483**	**2,912,543**	**823,235,945**
Total comprehensive income:						
Income for the year		-	-	57,436,054	-	57,436,054
Other comprehensive income	10,11	-	-	339,455	(1,255,096)	(915,641)
Transfer to statutory reserve	8	-	5,743,605	(5,743,605)	-	-
Transactions with shareholders of the Company, recorded directly in shareholders' equity:						
Dividend paid	23	-	-	(27,500,000)	-	(27,500,000)
Zakat accrued	17	-	-	(991,501)	-	(991,501)
Zakat recovered		-	-	2,874,092	-	2,874,092
Income tax accrued	17	-	-	(3,917,108)	-	(3,917,108)
Income tax recovered		-	-	4,759,700	-	4,759,700
Total transactions with shareholders of the Company		-	-	(24,774,817)	-	(24,774,817)
Balance as at 31 December 2018		**550,000,000**	**84,608,524**	**218,715,570**	**1,657,447**	**854,981,541**
Balance as at 1 January 2017 (Audited)		550,000,000	73,855,250	211,440,970	3,198,068	838,494,288
Restatement of employees' end of service benefits	10	-	-	(4,480,527)	-	(4,480,527)
Restated balance as at 1 January 2017 (Unaudited)		550,000,000	73,855,250	206,960,443	3,198,068	834,013,761
Total comprehensive income						
Income for the year		-	-	50,096,693	-	50,096,693
Other comprehensive income	10,11	-	-	(836,124)	(285,525)	(1,121,649)
Transfer to statutory reserve	8	-	5,009,669	(5,009,669)	-	-
Transactions with shareholders of the Company, recorded directly in shareholders' equity:						
Dividend paid	23	-	-	(27,500,000)	-	(27,500,000)
Zakat accrued	17	-	-	(2,325,608)	-	(2,325,608)
Zakat recovered		-	-	878,624	-	878,624
Income tax accrued	17	-	-	(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 (Restated)		550,000,000	78,864,919	224,170,627	2,912,543	855,948,089

The accompanying notes (1) through (24) form an integral part of these financial statements.

Chief Executive Officer | Director | Chief Financial Officer

(All amounts are in Saudi Riyals unless stated otherwise)

1. CORPORATE INFORMATION

Saudi ORIX Leasing Company (the "Company") is 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 (2017: five branches) in the Kingdom of Saudi Arabia.

On 01 Rabi Al-Awwal 1440 (corresponding to 10 November 2018), the Company received no objection certificate from SAMA to conduct commodity murabaha business 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 & murabaha financing 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 endorsed in Kingdom of Saudi Arabia and 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 11 April 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.

2.2.1 Changes in accounting policies and disclosures

2.2.1.1 *New standards, amendments and interpretations adopted by the Company from 1 January 2018:*

(a) Financial instruments

(i) Initial recognition

The Company initially recognizes financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

(ii) Classification

IFRS 9 contains three principal classification categories for financial assets. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables, and available for sale. The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income (FVOCI);
- those to be measured subsequently at fair value through profit or loss (FVTPL); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

(iii) Measurement

At initial recognition, the Company measures financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of the financial asset. Transactions costs of financial assets carried at fair value through profit or loss (FVTPL) are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. There are three measurement categories into which the Company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and profit are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of the hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Profit from these financial assets is calculated using the effective yield method.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, profit on financial instrument (revenue) and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Profit from these financial assets is included in finance income using the effective yield method.
- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the profit or loss statement within other gains/ (losses) in the period in which it arises. Profit from these financial assets is included in the finance income.

Subsequent measurement of equity instruments

The Company measures all equity investments at fair value. The Company's management has elected to present fair value gains and losses on equity investments that are not held for trading in other comprehensive income (FVOCI). The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Currently, the Company holds only one equity investment.

There is no subsequent reclassification of fair value gains and losses to profit or loss following the de-recognition of the investment and no impairment is recognised in profit or loss. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on derecognition of the investment.

Dividends from such investments are recognized in profit or loss as other income when the Company's right to receive payments is established unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income.

(iv) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39 for financial assets carried at amortised cost.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the company in accordance with the contract and all the cash flows that the company expects to receive, discounted at the original effective interest rate used in measuring the lease receivable in accordance with IAS 17 Leases. While calculating the cash flows expected to receive, probability of default and loss given default (i.e. the magnitude of the loss if there is a default) is considered and the related assessment is based on historical overdue data adjusted by factors that are specific to the lessees and forward-looking information which includes macro-economic factors.

Lease receivables

For investment in finance leases, "lease receivables", the Company applies the simplified approach as permitted by IFRS 9, which requires lifetime expected credit losses to be recognised from the initial recognition.

Murabaha receivables

The financial assets of the Company are categorized as follows:

1. Performing: these represent the financial assets that have not deteriorated significantly in credit quality since initial recognition or customers that have a low risk of default and a strong capacity to meet contractual cash flows.

   The Company's Murabaha receivables primarily represent corporate loans and the company commenced murabaha business during the year, therefore management believes that past due information is the most appropriate basis for assessing the increase in credit risk and based on management experience and analysis of other business, the balances which are less than 30 days past due do not result in significant increase in credit risk and are considered as performing.

   The Company measures the loss allowance for performing financial assets at an amount equal to 12-month expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. 12-month expected credit losses are the portion of expected credit losses that results from default events on the financial assets that are possible within 12 months after the reporting date.

2. Underperforming: these represent the financial assets that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss event and is presumed if the customer is more than 30 days past due in making a contractual payment / installment.

   The Company measures the loss allowance for underperforming financial assets at an amount equal to lifetime expected credit losses i.e. expected credit losses that result from all possible default events over the life of the financial asset.

3. Non-performing: these represent financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is considered when the customer fails to make a contractual payment / installment within 90 days after they fall due.

   The Company measures the loss allowance for non-performing financial assets at an amount equal to lifetime expected credit losses.

Write-offs

Financial assets are written-off only when:

- the lease or other receivable is at least three years past due, and
- there is no reasonable expectation of recovery.

Where financial assets are written-off, the Company continues to engage enforcement activities to attempt to recover the receivables due. Where recoveries are made, after write-off, are recognised as other income in the statement of profit or loss.

(v) Financial liabilities - subsequent classification and measurement

All financial liabilities are subsequently measured at amortised cost using the effective yield method or FVTPL. The company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The effective yield rate is the rate that discounts the estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

(vi) Derecognition of financial instruments

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Company derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Other new accounting standards including IFRS 15 - Revenue from contracts with customers, and amendments to existing accounting standards, effective from 1 January 2018 do not have any significant effect on the Company's financial statements.

(b) Employees end of service benefits

The Company has changed its accounting policy to recognize the obligation for employee end of service benefits. The new accounting policy will be in line with the requirements of IFRS and provide more reliable and relevant information. The change in accounting policy has been applied retrospectively and accordingly the statement of changes in equity as of 1 January 2017 has been restated. The previous and new accounting policies are presented below:

New accounting policy:
Employee termination benefits are payable as a lump sum to all employees, under the terms and conditions of Saudi Labor Laws applicable on the Company, on termination of their employment contracts. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the Kingdom of Saudi Arabia.

The calculation of obligation is performed using the projected unit credit method to make a reliable estimate of the ultimate cost to the Company of the benefit payable to employees. Actuarial gains or losses on re-measurement of obligation are recognized immediately in the statement of other comprehensive income. Actuarial gains and losses represent changes in the present value of the obligation resulting from experience adjustments and the effects of changes in actuarial assumptions.

Previous accounting policy:
Employee termination benefits are payable as a lump sum to all employees, under the terms and conditions of Saudi Labor Laws applicable to the Company, on termination of their employment contracts. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the Kingdom of Saudi Arabia.

The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date.

2.2.1.2 New standards, amendments and interpretations not yet adopted by the Company effective after 1 January 2018:

Based on the management initial assessment, new accounting standards including IFRS 16 – Leases, and amendments to existing accounting standards, effective after 1 January 2018 do not have any significant effect on the Company's financial statements.

2.3 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 impairment on financial assets (Note 2.2.1.1); and
(b) Zakat and tax (Note 2.4.13 and Note 17).

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

2.4.1 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.

2.4.2 Net investment in finance leases & Murabaha finance

Finance Lease
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.

Murabaha finance
Murabaha is an islamic form of financing wherein the Company, based on request from its customers, purchases specific commodities and sells them to the customers at a price equals to the company's cost plus profit, payable on deferred basis in instalments.

2.4.3 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.

2.4.4 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.

2.4.5 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.

2.4.6 *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.

2.4.7 *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.

2.4.8 *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.

2.4.9 *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.

2.4.10 *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.

2.4.11 *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.

2.4.12 *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.

2.4.13 *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"), 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.

2.4.14 *Revenue Recognition-Finance leases & Murabaha finance*

Finance lease and murabaha finance income are recognised using the effective yield method. The effective yield is the rate that exactly discounts the estimated future cash flows through the expected life (or where appropriate, a short period) of the financial asset or liability to its carrying amount.

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

2.4.15 *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.

2.4.16 *Comparative*

Certain comparative figures have been reclassified and restated where a change in accounting policy has been applied to conform to current year's presentation; however, the effect of those reclassifications is not significant.

(All amounts are in Saudi Riyals unless stated otherwise)

3. PROPERTY AND EQUIPMENT

	Leasehold improvements	Office furniture and fixtures	Motor vehicles	Information technology equipment	Total
Cost:					
Balance as at 1 January 2018	**1,470,307**	**2,238,853**	**454,750**	**4,711,369**	**8,875,279**
Additions during the year	**47,950**	**20,731**	**-**	**46,690**	**115,371**
Disposals during the year	**-**	**-**	**(50,000)**	**-**	**(50,000)**
Balance as at 31 December 2018	**1,518,257**	**2,259,584**	**404,750**	**4,758,059**	**8,940,650**
Accumulated depreciation:					
Balance as at 1 January 2018	**1,064,365**	**2,098,761**	**358,821**	**4,368,665**	**7,890,612**
Charge for the year	**70,602**	**72,140**	**46,862**	**199,458**	**389,062**
Disposals during the year	**-**	**-**	**(50,000)**	**-**	**(50,000)**
Balance as at 31 December 2018	**1,134,967**	**2,170,901**	**355,683**	**4,568,123**	**8,229,674**
Net book value:					
As at 31 December 2018	**383,290**	**88,683**	**49,067**	**189,936**	**710,976**
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

The Company also holds computer software and licenses with a cost amounting to SR 1,547,131 (2017: SR 1,539,231) and written down value amounting to SR 362,480 (2017: SR 474,450). Amortization charge for the year amounts to SR 119,870 (2017: SR 139,560).

(All amounts are in Saudi Riyals unless stated otherwise)

4. NET INVESTMENT IN FINANCE LEASES

4.1 Reconciliation between gross and net investment in finance leases are as follows:

	2018	**2017**
Lease receivables	**1,500,131,126**	1,683,780,687
Residual value	**852,213,410**	886,978,876
Gross investment in finance leases	**2,352,344,536**	2,570,759,563
Non-refundable security deposits	**(844,187,681)**	(881,381,047)
Prepaid lease rentals	**(71,176,466)**	(95,947,408)
Net receivables	**1,436,980,389**	1,593,431,108
Unearned lease finance income	**(180,670,339)**	(185,833,301)
Net investment in finance leases	**1,256,310,050**	1,407,597,807
Provision for lease losses	**(221,118,111)**	(187,952,643)
	1,035,191,939	1,219,645,164
Current maturity	**(676,027,127)**	(770,371,921)
	359,164,812	449,273,243

4.2 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:

	2018		2017	
	MLPs	**PV of MLPs**	MLPs	PV of MLPs
Not later than one year	**1,089,293,605**	**676,027,127**	1,158,367,332	770,371,921
Later than one year and less than five years	**1,251,412,884**	**574,955,439**	1,407,546,351	632,725,138
Later than five years	**11,638,047**	**5,327,484**	4,845,880	4,500,748
	2,352,344,536	**1,256,310,050**	2,570,759,563	1,407,597,807

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

	Note	**2018**	**2017**
Balance as at the beginning of the period (*as per IAS 39*)		**187,952,643**	168,538,649
Adjustment on adoption of IFRS 9	4.3.1	**32,712,144**	-
Balance at the beginning of the period (*as per IFRS 9*)	4.3.2	**220,664,787**	168,538,649
Provision for the period, net		**453,324**	19,413,994
Balance at the end of the period	4.3.2	**221,118,111**	187,952,643

4.3.1 In accordance with the transitional provisions in IFRS 9 paragraph 7.2.15, the Company has elected not to restate prior periods and hence comparative figures have not been restated for application of IFRS 9. Accordingly, the difference between previous carrying amount of the provision for impairment calculated on incurred loss model and the provision for impairment calculated on the expected loss model has been recognised in the opening retained earnings and presented in the statement of changes in equity.

(All amounts are in Saudi Riyals unless stated otherwise)

4.3.2 Portfolio provision analysis for investment in finance leases

31 December 2018	**Net investment in finance lease**	**Provision**	**Expected Loss rates**
Not yet due	**743,447,451**	**1,674,437**	**0.0% - 0.58%**
1-90 days	**217,098,792**	**2,216,732**	**0.59% - 3.20%**
91-180 days	**35,491,935**	**1,317,671**	**3.21% - 10.71%**
181-365 days	**7,433,012**	**2,104,042**	**10.72% - 48.77%**
Above 365 days and Specific accounts	**252,838,860**	**213,805,229**	**48.78% - 100%**
	1,256,310,050	**221,118,111**	

1 January 2018	**Net investment in finance lease**	**Provision**	**Expected Loss rates**
Not yet due	819,005,383	2,167,576	0.0% - 0.58%
1-90 days	314,955,478	3,226,278	0.59% - 3.20%
91-180 days	6,315,593	483,746	3.21% - 10.71%
181-365 days	5,081,999	1,807,892	10.72% - 48.77%
Above 365 days and Specific accounts	262,239,354	212,979,295	48.78% - 100%
	1,407,597,807	220,664,787	

5. MURABAHA FINANCE

Reconciliation between gross and net murabaha finance is as follows:

	2018	**2017**
Murabaha finance receivables	**19,478,268**	-
Unearned murabaha finance income	**(3,283,372)**	-
Net investment in murabaha finance	**16,194,896**	-
Provision for murabaha receivables	**(30,111)**	-
	16,164,785	-
Current maturity	**(3,565,692)**	-
	12,599,093	-

During 2018, the Company started Murabaha finance after obtaining license from SAMA. As at 31 December 2018, the outstanding balances are considered performing. The provision on the outstanding balance was recognised based on expected credit loss.

6. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	2018	**2017**
Advance to suppliers	**10,399,306**	104,700
Prepaid charges	**2,867,291**	2,204,587
Loans and advances to staff	**2,298,272**	2,520,938
Prepaid insurance of leased assets, net	-	2,961,259
Prepaid rent	**636,382**	634,903
Value Added Tax, refund	**445,075**	-
Prepaid visa cost	**122,525**	56,299
Other receivables from lessees	**558,594**	703,793
Advance for investment – (note 6.1)	-	892,850
Other	**922,183**	745,653
	18,249,628	10,824,982

6.1 During 2017, the Company made an advance for investment amounting to SR 892,850 for 89,285 shares at SR 10 for each share representing 2.3% ownership in the share capital of "Saudi Leasing for Contract Registration Company". During 2018, upon incorporation of the Company, the amount has been classified it as Equity investment at FVOCI.

(All amounts are in Saudi Riyals unless stated otherwise)

7. CASH AND CASH EQUIVALENTS

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

	2018	2017
Cash at banks	**96,833,497**	92,959,194
Term deposits of less than three month maturity	**40,000,000**	-
Cash in hand	**21,000**	21,615
	136,854,497	92,980,809

8. SHARE CAPITAL AND STATUTORY RESERVE

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

2018	2017	Shareholders	2018	2017
(No of shares)				
20,900,000	20,900,000	The Saudi Investment Bank ("SAIB")	**209,000,000**	209,000,000
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
55,000,000	55,000,000		**550,000,000**	550,000,000

8.1 The portion of Saudi to non-Saudi shareholders (including non-Saudi shareholders in SAIB) is 69.05% to 30.95% (2017: 66.2% to 33.8%).

8.2 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.

9. LONG-TERM LOANS

	Note	2018	2017
Long-term loans	9.1	**50,000,000**	40,845,143
Foreign currency loans	9.2	**213,000,000**	350,250,000
	9.3	**263,000,000**	391,095,143
Accrued special commission		**779,719**	1,231,545
	9.4	**263,779,719**	392,326,688
Less: unamortised transaction costs		**(170,275)**	(340,424)
		263,609,444	391,986,264
Less: current maturity		**(225,831,866)**	(179,156,525)
		37,777,578	212,829,739

9.1 The Company received a fixed rate loan amounting to SR 50 million from Social Development Bank ("SDB") in relation to Small and Medium Enterprises General Authority ("Monsha'at") program for financing of small and medium enterprises in the Kingdom of Saudi Arabia. The loan is payable in monthly installments over three years starting from 1 April 2019.

9.2 The Company has a facility from a foreign bank amounting to USD 70 million repayable by December 2019 and carries special commission rate of LIBOR plus bank margin payable on quarterly and bi-annually basis.

9.3 The loan facilities (revolving & non-revolving) available from commercial banks amounted to SR 1,253 million (31 December 2017: SR 1,478 million) of which SR 263 million (31 December 2017: SR 391 million) were utilised.

(All amounts are in Saudi Riyals unless stated otherwise)

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

	Borrowings	**Special commission**	**Total**
Payable as at 1 January 2018	**391,095,143**	**1,231,545**	**392,326,688**
Proceeds/ charge during the year	**50,000,000**	**7,891,219**	**57,891,219**
Payments during the year	**(178,095,143)**	**(8,343,045)**	**(186,438,188)**
Payable as at 31 December 2018	**263,000,000**	**779,719**	**263,779,719**

	Borrowings	**Special commission**	**Total**
Payable as at 1January 2017	671,989,676	2,423,178	674,412,854
Proceeds/ charge during the year	20,000,000	12,852,944	32,852,944
Payments during the year	(300,894,533)	(14,044,577)	(314,939,110)
Payable as at 31 December 2017	391,095,143	1,231,545	392,326,688

10. EMPLOYEES' END OF SERVICE BENEFITS

	2018	**2017** (Restated)
Balance at the beginning of the year	**15,948,213**	10,581,146
Restatement (change in accounting policy - note 2.2.1.1.b)	-	4,480,527
Restated balance	**15,948,213**	15,061,673
Provided during the year	**2,011,504**	1,953,924
Paid during the year	**(1,204,699)**	(1,903,508)
Actuarial (gains)/ losses through OCI	**(339,455)**	836,124
Balance at the end of the year	**16,415,563**	15,948,213

10.1 Principal actuarial assumptions at the reporting date are as follows:

	2018	**2017**
Discount rate	3.5%	3.5%
Salary increment	2.5%	2.5%
Retirement age	60	60

10.2 Sensitivity of the actuarial assumptions

A change of 1% in discount rate and salary increment would have increased or decreased the employees' end of service benefits by SR 0.59 million & SR 0.7 million respectively.

11. DERIVATIVE FINANCIAL INSTRUMENTS

	Note	**2018**	**2017**
Interest rate swaps- cash flow hedge	21.4	**1,657,447**	2,912,543

As at 31 December 2018, the Company held Interest Rate Swaps ("IRS") of a notional value of around SR 213 million (2017: SR 373.8 million), in order to reduce its exposure to interest rate risks against long-term loans.

Net fair value of cash flows hedge of SR 1,657,447 (2017: SR 2,912,543) represents the positive mark to market value of the interest rate swaps as of 31 December 2018. The cash flow hedge reserve represents the effective portion of cash flow hedges.

12. ACCOUNTS PAYABLE

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

(All amounts are in Saudi Riyals unless stated otherwise)

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2018	2017
Proposed lease related payables	13.1	**16,915,792**	14,712,035
Employee related payables		**7,793,786**	3,882,456
Zakat and income tax accrued on behalf of shareholders		**4,199,804**	2,860,969
Insurance claims to be settled		**4,155,841**	3,530,762
Leased assets insurance premium payable		**886,840**	-
Legal and professional charges		**603,488**	881,576
Other	13.2	**6,232,334**	10,039,495
		40,787,885	35,907,293

13.1 These include advance down payments and front-end fees of proposed lease contracts unexecuted as at statement of financial position date and other lease contract services related payables of executed and unexecuted contracts.

13.2 This include charity payable of SR 2.8 million (2017: SR 6.9 million).

14. REVENUE

	Note	2018	2017
Finance lease	14.1	**104,844,390**	126,365,304
Murabaha finance	14.1	**200,372**	-
Other income	14.2	**6,285,806**	4,801,160
		111,330,568	131,166,464

14.1 Finance lease and murabaha finance income are stated net of insurance costs.

14.2 Other income mainly includes front-end fees and income earned on short-term time deposits.

15. SPECIAL COMMISSION EXPENSE

	2018	2017
Special commission expense on:		
Long-term loans	**7,835,854**	12,655,929
Short-term loan	**55,365**	197,015
	7,891,219	12,852,944
Amortisation of transaction costs and bank charges	**1,417,690**	1,714,970
	9,308,909	14,567,914

16. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
License, legal and professional charges	**1,991,118**	2,380,423
Rent and premises related expenses	**1,104,796**	1,155,672
Communication expenses	**990,756**	923,809
Insurance of owned assets	**343,119**	466,765
Office repair and maintenance cost	**501,543**	503,489
Travelling and transportation	**392,741**	388,769
Printing and stationery	**226,915**	207,397
Other	**739,744**	398,802
	6,290,732	6,425,126

(All amounts are in Saudi Riyals unless stated otherwise)

17. ZAKAT AND INCOME TAX

a) Zakat

Movement in provision:	**2018**	**2017**
Balance as at 1 January	**1,629,692**	1,891,519
Provided during the year	**991,501**	2,325,608
Payment during the year	**-**	(2,587,435)
Balance as at 31 December	**2,621,193**	1,629,692

Charge for the year

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

Computation of adjusted income and zakat base:	**2018**	**2017**
Income for the year	**57,436,054**	50,096,693
Adjustments:		
Provision for employees' end of service benefits, net	**806,805**	50,416
Other adjustments	**519,303**	848,654
Adjusted income for the year	**58,762,162**	50,995,763
Shareholders' equity at beginning	**825,535,546**	807,796,220
Employees' end of service benefits	**15,948,213**	10,581,146
Borrowings, net	**212,999,307**	391,077,763
Book value of fixed assets for zakat	**(3,231,515)**	(3,552,333)
Net investment in finance leases & murabaha finance – note 4.1 / 5	**(1,051,356,724)**	(1,219,645,164)
Zakat base	**58,656,989**	37,253,395
Zakat base attributable to Saudi shareholders	**39,244,556**	26,390,522
Share of Saudi shareholders – (higher of adjusted income at 66.2% for 270 days & 69.05% for 95 days or zakat base) [2017-66.2%]	**39,336,438**	33,759,195

Zakat charge for the year	**2018**	**2017**
Zakat @ 2.5% on share of Saudi shareholders	**983,411**	843,980
Zakat under protest (see note (c) below)	**8,090**	321,302
Prior year adjustment	**-**	1,160,326
Net amount charged to retained earnings	**991,501**	2,325,608

b) Income tax

Movement in provision:	**2018**	**2017**
Balance as at 1 January	**1,231,277**	(836,806)
Provided during the year	**3,917,108**	4,759,700
Payment during the year	**(3,569,774)**	(2,691,617)
Balance as at 31 December	**1,578,611**	1,231,277

Charge for the year

Non-Saudi shareholders are subject to income tax at 20% on the adjusted net income. Income tax liability for the years 2018 and 2017 has been calculated based on adjusted income for the years ended 31 December as follows:

	2018	**2017**
Share of non-Saudi shareholders to adjusted income (33.8% for 270 days & 30.95% for 95 days) [2017-33.8%]	**19,425,724**	17,236,568
Income tax payable @ 20%	**3,885,145**	3,447,314
Income tax under protest (see note (c) below)	**31,963**	1,312,386
	3,917,108	4,759,700

(All amounts are in Saudi Riyals unless stated otherwise)

c) Status of assessments

Zakat assessments for the years ended 31 December 2003 - 2005, have been assessed at SR 8.0 million in excess of the zakat provision in these financial statements. The Company has appealed against the assessments.

Further, during the year, the General Authority of Zakat and Tax ("GAZT") has issued the assessment relating to years 2008 through 2016 and raised additional Zakat and income tax liabilities, which was principally due to the fact that (i) the GAZT has not allowed the deduction of the net investment in finance leases from the zakat base and (ii) inadvertent errors / omission of taking into account the additional zakat and tax paid under protest and consequent levy of penalty charge against such amounts. The Company has filed appeal against this treatment.

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 2018, there is a potential risk of an additional claim of SR 209.41 million.

Further, the Company has protested the disallowances of the provision for impairment on financial assets in the adjusted income and has filed an appeal against the same. For the year-ended 31 December 2018, in order to avoid any penalty due to late payments, the Company has, in addition to the zakat and income tax liability has provided in these financial statements 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 impairment on financial assets were to be disallowed.

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 in full for the potential zakat liability, should it be payable.

Subsequent event:

Subsequent to the year end, the Company received and signed off the settlement agreement with GAZT for the financial years ended 31 December 2014 through 2017. As per the settlement agreement, the Company is required to pay Zakat of SR 16 million (which was calculated based on 10% of accounting profit before Zakat) in equal instalments over the period of five years. The Saudi shareholders has confirmed to pay the amount to the Company.

18. BASIC AND DILUTED EARNINGS PER SHARE

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

19. COMMITMENTS

	2018	2017
Finance lease and murabaha contracts not yet executed	30,701,975	-
Operating lease commitments for office premises - 2 years	3,700,000	3,700,000
Bank guarantees issued on behalf of the Company	5,000,000	6,708,811

20. SEGMENT REPORTING

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

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

21. RISK MANAGEMENT

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

21.1 Risk management structure

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

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

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

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

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

21.2 Market risk

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

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

21.2.1 Currency risk

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

	2018	2017
Foreign currency loan (borrowed in USD)	**213,000,000**	350,250,000

Sensitivity analysis

The Company has currency risk in US Dollar, at reporting date, if the Saudi Riyal had strengthened/ weakened by 1% against the US Dollar with all other variables held constant, income for the year would have been higher/ lower by the amount of SR 2.13 million (2017: SR 3.50 million) mainly as a result of net foreign exchange gain/ loss on translation of foreign currency loan.

(All amounts are in Saudi Riyals unless stated otherwise)

21.2.2 Special commission rate risk

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

There were no financial liabilities subject to special commission rate risk as at 31 December 2018 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 income 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 income by SR 3.4 million (2017: SR 5.2 million).

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

21.2.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or 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.

21.3 Credit risk

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

Out of the total assets of SR 1,210 million (2017: SR 1,328 million), the assets which were subject to credit risk of financial assets amounted to SR 1,188 million (2017: SR 1,313 million). The management analyze the credit risk in the following categories:

	2018	2017
Net investment in finance leases	**1,035,191,939**	1,219,645,164
Net investment in murabaha finance	**16,164,785**	-
Bank balances	**136,833,497**	92,959,194
	1,188,190,221	1,312,604,358

21.3.1 Net investment in finance leases & murabaha finance

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

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

The 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.

(All amounts are in Saudi Riyals unless stated otherwise)

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 and murabaha finance is given below:

	2018		2017	
	SR	%	SR	%
Manufacturing	**413,713,286**	**32.51**	452,671,278	32.16
Services - construction & contracting	**150,916,488**	**11.86**	183,902,639	13.06
Services - miscellaneous	**431,994,887**	**33.95**	486,246,261	34.54
Trading	**270,931,392**	**21.29**	278,439,496	19.78
Other	**4,948,893**	**0.39**	6,338,133	0.46
	1,272,504,946	**100**	1,407,597,807	100

Collateral held as security and other credit enhancements

The credit risks on gross amounts due in relation to the investment in finance leases & murabaha financing 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 75.9 million as at 31 December 2018 (31 December 2017: SR 58.9 million).

21.3.2 Bank balances and other receivables

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

21.4 Liquidity risk

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

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

31 December 2018	**Within 3 months**	**4 to 12 months**	**2 to 5 years**	**No fixed maturity**	**Total**
Accounts payable	**34,290,169**	**-**	**-**	**-**	**34,290,169**
Accrued expenses and other liabilities	**40,787,885**	**-**	**-**	**-**	**40,787,885**
Long-term loans	**2,264,638**	**226,395,103**	**38,330,464**	**-**	**266,990,205**
Employees' end of service benefits	**-**	**-**	**-**	**16,415,563**	**16,415,563**
	77,342,692	**226,395,103**	**38,330,464**	**16,415,563**	**358,483,822**
31 December 2017					
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	-	-	-	15,948,213	15,948,213
	94,005,918	158,313,550	215,054,983	15,948,213	483,322,664

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. 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.

(All amounts are in Saudi Riyals unless stated otherwise)

	Positive fair value	Negative fair value	Notional amount Total	Maturity analysis Within 3 months	4-12 months	2-5 years
31 December 2018						
Cash flow hedge reserve	**1,657,447**	**-**	**213,000,000**	**-**	**213,000,000**	**-**
31 December 2017						
Cash flow hedge reserve	2,912,543	-	373,841,667	17,758,333	143,083,334	213,000,000

21.5 Fair values of financial assets and financial liabilities

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

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

All financial assets and financial liabilities are measured at amortized cost except derivative financial instruments. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values. The net fair value of derivative financial instruments is positive SR 1,657,447 (2017: SR 2,912,543) which falls under level 2 in the fair value hierarchy.

21.6 Financial Instruments

In accordance with the requirements of IAS 39, financial assets and liabilities of the Company were classified as held to maturity and measured at amortised cost except for the derivative financial instruments which were measured at fair value. On adoption to IFRS 9, all financial assets and liabilities of the Company were classified and measured at amortised cost, except for derivative financial instrument which continues to be measured at fair value, the breakdown of those were as follows:

	2018	2017
Financial assets		
Net investment in finance leases	**1,256,310,050**	1,407,597,807
Net investment in murabaha finance	**16,194,896**	-
Financial liabilities		
Long term loans	**263,609,444**	391,986,264
Accounts payable	**34,290,169**	28,032,756
Accrued expenses and other liabilities	**40,787,885**	35,907,293

21.7 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 2018 and 2017. At statement of financial position date, gearing ratio analysis was as follows:

	2018	2017
Equity	**854,981,541**	855,948,089
Liabilities	**355,103,061**	471,874,526
Total capital structure	**1,210,084,602**	1,327,822,615
Gearing ratio	**29.35%**	35.54%

(All amounts are in Saudi Riyals unless stated otherwise)

22. RELATED PARTY TRANSACTIONS

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

Transactions:	**2018**	**2017**
The Saudi Investment Bank - *shareholder*		
Dividend paid – net	**8,560,050**	9,245,436
Special commission and other bank charges paid	**126,125**	177,068
Rent and premises related payment	**2,350,000**	2,350,000
Lease participation – payments*	**32,267,346**	35,451,001
Lease participation – management fee and others *	**767,656**	855,458
Zakat & income tax accrued	**879,908**	1,606,594
Trade Development & Investment Group, KSA - *shareholder*		
Dividend paid – net	**7,280,744**	8,375,291
Zakat accrued	**473,965**	1,254,128
ORIX Corporation, Japan – *shareholder*		
Dividend paid – net	**3,689,963**	2,031,979
Income tax accrued	**3,258,508**	3,872,537
ORIX Leasing Pakistan Limited - *shareholder*		
Dividend paid - net	**335,451**	184,725
Support services for internal audit	**-**	86,843
Income tax accrued	**296,228**	352,049
The Mediterranean and Gulf Cooperative Insurance & Reinsurance Company, KSA- *affiliate*		
Premium for insurance and other related payments-net	**10,340,927**	28,479,928
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	**8,366,401**	8,537,213
End of service benefits	**449,314**	450,878
Directors' meeting attendance fee	**900,000**	900,000
Balances:		
The Saudi Investment Bank- *shareholder*		
Current accounts	**72,136,880**	42,348,003
Lease participation payable	**429**	9,217
The Mediterranean and Gulf Cooperative Insurance & Reinsurance Company, KSA- *affiliate*		
Advance against insurance premium, net	**5,906,182**	8,794,043
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		
Employees' end of service benefits (key management personnel)	**2,686,152**	2,528,444
Loans to key management of the Company	**489,118**	432,736
Directors' meeting attendance fee payable	**900,000**	900,000

* The Company has certain lease transactions, in which the related party has a non-recourse participation. The Company charges a fee for administration of the portfolio. The value of such portfolio was SR 48 million as at 31 December 2018 (2017: SR 75 million).

23. Dividends

The Board of Directors, through a circular resolution, on 15 April 2018 has proposed a dividend of SR 0.5 per share for the year ended 31 December 2017 (2016: SR 0.5 per share), amounting to SR 27.5 million (2016: SR 27.5 million).

24. SUBSEQUENT EVENT AND BOARD OF DIRECTORS' APPROVAL

24.1 Except to Zakat and income tax (note 17), there was no significant subsequent event which require disclosure or amendment in these financial statements.

24.2 These financial statements were approved and authorised for issue by the Board of Directors on 21 Jumada Al Awal 1440H (corresponding to 26 February 2019).