GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
AND INDEPENDENT AUDITORS' REPORT

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pwc

INDEPENDENT AUDITORS' REPORT

March 2, 2017

To the Shareholders of Gulf Finance Corporation:
(A Saudi Closed Joint Stock Company)

Scope of audit

We have audited the accompanying statement of financial position of Gulf Finance Corporation (the "Company") as of December 31, 2016 and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and the notes from 1 to 23 which form an integral part of the financial statements. These financial statements, which were prepared by the Company in accordance with the Regulations for Companies and International Financial Reporting Standards and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

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

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

- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of financial statements.

PricewaterhouseCoopers

By: ____________________
Mufaddal A. Ali
License Number 447

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محاسبون قانونيون
ترخيص رقم ٢٥
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GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31	
		2016	**2015**
Assets			
Current assets			
Cash and cash equivalents	5	**6,689,442**	37,856,494
Investment in finance lease-current portion	6	**112,515,764**	106,684,564
Advances, deposits, prepayments and other receivables	7	**5,730,018**	5,348,182
Derivative financial instruments	8	**1,618**	-
		124,936,842	149,889,240
Non-current assets			
Restricted deposits	12	**7,402,343**	1,642,456
Investment in finance lease-non-current portion	6	**74,604,982**	88,701,405
Property and equipment	9	**1,673,558**	1,459,803
Intangible assets	10	**2,976,312**	3,185,179
Derivative financial instruments	8	**7,464**	-
		86,664,659	94,988,843
Total assets		**211,601,501**	244,878,083
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	1	**100,000,000**	100,000,000
Statutory reserve	11	**648,578**	628,994
Retained earnings		**5,837,199**	5,660,941
Total shareholders' equity		**106,485,777**	106,289,935
Liabilities			
Current liabilities			
Current portion of long-term borrowings	12	**49,400,437**	30,187,192
Accounts payable		**3,416,614**	18,526,184
Due to related parties	13	**20,413,872**	51,014,714
Provision for zakat	14	**92,504**	140,000
Other liabilities and accruals	15	**4,702,104**	5,625,860
		78,025,531	105,493,950
Non-current liabilities			
Long-term borrowings	12	**25,897,818**	32,435,904
Post-employment benefits	16	**730,466**	658,294
Derivative financial instruments	8	**461,909**	-
		27,090,193	33,094,198
Total liabilities		**105,115,724**	138,588,148
Total shareholders' equity and liabilities		**211,601,501**	244,878,083

The notes on pages from 7 to 27 form an integral part of these financial statements.

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of comprehensive income
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31 2016	2015
Income			
Income from finance lease		**31,437,028**	23,564,596
Processing fee and other operating income		**1,306,000**	943,555
Other income		**835,381**	511,726
Total income		**33,578,409**	25,019,877
Expenses			
Finance charges	19	**(9,408,072)**	(3,304,133)
Other operating costs	20	**(4,317,999)**	(2,604,083)
General and administrative expenses	21	**(17,248,191)**	(13,908,260)
Impairment of investment in finance lease	6	**(2,316,958)**	(539,522)
Total expenses		**(33,291,220)**	(20,355,998)
Profit before zakat		**287,189**	4,663,879
Zakat	14	**(91,347)**	(67,981)
Profit for the year		**195,842**	4,595,898
Other comprehensive income		**-**	-
Total comprehensive income for the year		**195,842**	4,595,898

The notes on pages from 7 to 27 form an integral part of these financial statements.

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of changes in shareholders' equity
(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Total
Balance as at January 1, 2015	100,000,000	169,404	1,524,633	101,694,037
Total comprehensive income for the year	-	-	4,595,898	4,595,898
Transfer to statutory reserve	-	459,590	(459,590)	-
Balance as at December 31, 2015	**100,000,000**	**628,994**	**5,660,941**	**106,289,935**
Total comprehensive income for the year	**-**	**-**	**195,842**	**195,842**
Transfer to statutory reserve	**-**	**19,584**	**(19,584)**	**-**
Balance as at December 31, 2016	**100,000,000**	**648,578**	**5,837,199**	**106,485,777**

The notes on pages from 7 to 27 form an integral part of these financial statements.

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31, 2016	2015
Cash flow from operating activities			
Profit before zakat		**287,189**	4,663,879
Adjustments for:			
Depreciation on property and equipment	9	**592,269**	217,311
Amortization of intangible assets	10	**836,468**	228,230
Impairment and write-off of investment in finance lease	6	**2,547,067**	556,466
Finance charges	19	**9,408,072**	3,380,839
Amortisation of deferred charges	12	**986,761**	521,571
Provision for post-employment benefits	16	**177,146**	335,651
Interest income		**(108,299)**	-
Loss on disposal of property and equipment		**960**	-
Changes in working capital			
Investment in finance lease		**5,718,156**	(76,448,541)
Advances, deposits, prepayments and other receivables		**(104,642)**	104,509
Accounts payable		**(13,450,455)**	10,285,714
Other liabilities and accruals		**(2,975,310)**	532,187
Cash generated from / (utilized in) operating activities		**3,915,382**	(55,622,184)
Post-employment benefits paid		**(104,974)**	(20,223)
Zakat paid		**(138,843)**	(97,981)
Finance charges paid		**(8,562,806)**	(2,543,599)
Net cash utilized in operating activities		**(4,891,241)**	(58,283,987)
Cash flow from investing activities			
Additions to property and equipment	9	**(818,135)**	(1,422,344)
Additions to intangible assets	10	**(627,601)**	(3,413,409)
Proceeds from disposal of property and equipment		**11,151**	-
Net cash utilized in investing activities		**(1,434,585)**	(4,835,753)
Cash flow from financing activities			
Proceeds from borrowings	12	**68,000,000**	63,310,399
Repayments during the year	12	**(55,331,602)**	(22,796,986)
Restricted deposits		**(5,928,782)**	-
Deferred charges paid during the year		**(980,000)**	(790,613)
Due to related parties		**(30,600,842)**	50,029,884
Net cash (utilized in) generated from financing activities		**(24,841,226)**	89,752,684
Net change in cash and cash equivalents		**(31,167,052)**	26,632,944
Cash and cash equivalents at beginning of year		**37,856,494**	11,223,550
Cash and cash equivalents at end of year	5	**6,689,442**	37,856,494

The notes on pages from 7 to 27 form an integral part of these financial statements.

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Gulf Finance Corporation ("the Company") was a Saudi limited liability company formed under the laws of the Kingdom of Saudi Arabia and registered in the commercial register under No. 4030235277 on Dhul Qa'adah 28, 1433 (corresponding to October 14, 2012). On Sha'ban 26, 1435 (corresponding to September 24, 2014), the shareholders resolved to convert the legal status of the Company from a limited liability company to a closed joint stock company and obtained the necessary approval from the Ministry of Commerce & Industry (MOCI) and the notary public.

On December 15, 2013, and in accordance with the Article 6 of the Implementing Regulations of the Law of Supervision of Finance Companies, the Company submitted its application to Saudi Arabian Monetary Authority (SAMA) to obtain its license as a financing company. On Jumada'II 3, 1435 (corresponding to April 3, 2014), the Company obtained the preliminary approval on the license from SAMA. On Safar 16, 1436 corresponding to December 8, 2014, the Company obtained the license from SAMA to engage in the finance lease activities.

The share capital of the Company as of December 31, 2016 and December 31, 2015 was comprised of 1,000,000 shares stated at Saudi Riyals 10 per share owned as follows:

	No. of shares	Amount	Percentage of ownership
Shuaa Capital PJSC, a public joint stock company incorporated in the United Arab Emirates	**9,200,000**	**92,000,000**	**92%**
Gulf Finance Corporation PJSC, a private joint stock company incorporated in the United Arab Emirates	**500,000**	**5,000,000**	**5%**
Shuaa 1 for Commercial Brokerage (LLC incorporated in the United Arab Emirates)	**100,000**	**1,000,000**	**1%**
Shuaa 2 for Commercial Brokerage (LLC incorporated in the United Arab Emirates)	**100,000**	**1,000,000**	**1%**
Shuaa 3 for Commercial Brokerage (LLC incorporated in the United Arab Emirates)	**100,000**	**1,000,000**	**1%**
	10,000,000	**100,000,000**	100%

The Company's activities include:

(a) Wholesale and retail trade in cars and vehicles, trucks, tankers and heavy equipment, electrical and electronic devices and its spare parts in cash and installment; and

(b) Purchase of land for the construction of buildings and the investment of these buildings by selling or leasing them for the benefit of the Company, provided that the real estate shall be outside the boundaries of Makkah and Madinah.

The Company's head office is in Jeddah. The Company has the following branches:

Branch	CR Number	Date
Riyadh	1010369744	26/5/1434H
Dammam	2050091775	12/07/1434H

The results of operations, assets and liabilities of the above branches are included in the accompanying financial statements.

(All amounts in Saudi Riyals unless otherwise stated)

2. Statement of compliance and basis of preparation

Compliance with IFRS

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

Historical cost convention

The financial statements have been prepared on a historical cost basis except for the derivative financial instruments that are stated at fair value.

2.1 Adoption of new and revised standards

New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

The Company has adopted the following amendments and revisions to existing standards, if any, which were issued by the International Accounting Standards Board (IASB) effective for the financial reporting period commencing on or after January 1, 2016:

Standard	***Description***
IFRS 14	IFRS 14 is an interim standard which provides relief for first-time adopters of IFRS in relation to the accounting for certain balances that arise from rate-regulated activities.
IFRS 11	Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint Operation where the activities of the operation constitute a business.
IAS 16 & IAS 38	Amendments to IAS 16, 'Property plant and equipment' and IAS 38, 'Intangible assets' on clarification of acceptable methods of depreciation and amortisation.
IAS 27	Amendments to IAS 27, which will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates.
IAS 16 & IAS 41	Amendments to IAS 16 and IAS 41, IAS 41 Agriculture now distinguishes between bearer plants and other biological asset. Bearer plants must be accounted for as property plant and equipment and measured either at cost or revalued amounts, less accumulated depreciation and impairment losses.
IAS 1	Amendment to IAS 1, amendment is made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved.
FRS 10, IFRS 12 and IAS 28	Amendments made to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures clarify applying exception to consolidation.
Annual Improvements to IFRS 2012-2014:	
IFRS 5	When an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.
IFRS 7	Specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for derecognition.
IFRS 7	Additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.
IAS 19	When determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise.
IAS 34	What is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'.

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these financial statements.

(All amounts in Saudi Riyals unless otherwise stated)

2.1 Adoption of new and revised standards (continued)

New standards, amendments to the published approved accounting standards and new interpretations that are not yet effective and have not been early adopted by the Company

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

Standard/ Interpretation	*Description*	*Effective from periods beginning on or after the following date*
IFRS 10 & IAS 28	Amendment to IFRS 10 and IAS 28 on investment entities applying the consolidation exception	Not given yet
IAS 7	IAS Amendments to IAS 7, Statement of cash flows on disclosure initiative	January 1, 2017
IAS 12	Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses	January 1, 2017
IFRS 2	Amendments to IFRS 2, 'Share based payments', on clarifying how to account for certain types of share-based payment transactions	January 1, 2018
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Leases	January 1, 2019

3. Summary of significant accounting policies

The following is a summary of significant accounting policies applied by the Company:

3.1 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the purchase date, which are available to the Company without any restrictions.

3.2 Investment in finance lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance lease are recognized as receivables at the amount of the Company's net investments in the leases. Finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Gross investment in finance lease represents the gross lease payments receivable to the Company, and the net investment in finance lease represents the present value of these lease payments including any guaranteed residual value, discounted at interest rate implicit in the lease. The difference between the gross investment in finance lease and unearned finance income represents net investment in finance lease which is stated net of allowance for doubtful debts.

3.3 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced.

3.3 Property and equipment (continued)

All other repairs and maintenance are charged to statement of other comprehensive income during the reporting period in which they are incurred. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The estimated rates of depreciation of the principal classes of assets are as follows:

	Depreciation
• Computers and office equipment	33% - 100%
• Furniture and fixtures	33%
• Motor vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 and losses on disposals are determined by comparing proceeds with carrying amount. These are included in comprehensive income.

3.4 Intangible assets – computer software

Costs associated with maintaining software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.

The Company amortizes its intangible assets using straight-line method over their useful life of 5 years.

3.5 Accounts payable

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

3.6 Post-employment benefits

Employees' termination benefits required by Saudi Arabian Labor and Workman Law are accrued by the Company and charged to income statement. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on the employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia.

3.7 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in statement of comprehensive income the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in statement of comprehensive income as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3.8 Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in the financial statements are presented in Saudi Riyals since it is the reporting and functional currency of the Company.

Transactions and balances

Transactions in foreign currencies are translated into Saudi Riyals at the exchange rates prevailing at transaction date. At the end of each reporting period, monetary assets and liabilities, denominated in foreign currencies, are retranslated into Saudi Riyals at the exchange rates prevailing at that date. Foreign exchange gains or losses on settlement and translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss and other comprehensive income in the period in which they arise.

Non-monetary items carried at fair value which are denominated in foreign currencies are retranslated using the exchange rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.9 Zakat

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Provision for zakat for the Company is charged to the statement of comprehensive income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

3.10 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

3.11 Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3.12 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation to its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.13 Revenue recognition - Finance lease and other operating income

(i) Income from finance lease

Income from finance lease which is considered an integral part of the effective yield of a financial asset, are recognized over the period of credit using the effective interest rate method and results in constant periodic rate of return on the net receivable outstanding, unless recoverability is in doubt. The recognition of income from finance lease is suspended when the related financial asset becomes impaired.

(ii) Processing fee and other operating income

Processing fee and other operating income represents administration fees which include leases initiation and customer risk assessment. Processing fee income is recognized over the period of the lease using the effective rate method, which results in a constant periodic rate of return on the net investment outstanding.

(iii) Other operating income

It is recorded when earned and realized.

3.14 Investments and other financial assets

(i) Classification

The Company classifies its financial assets in the following categories:
- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

3.14 Investments and other financial assets (continued)

(ii) Reclassification

The Company may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iv) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in statement of comprehensive income.

Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for 'financial assets at fair value through profit or loss' – in profit or loss within other income or other expenses.
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in profit or loss and other changes in the carrying amount are recognized in other comprehensive income.
- for other monetary and non-monetary securities classified as available-for-sale - in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss as part of revenue from continuing operations when the Company's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/ (losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognized in the statement of profit or loss as part of revenue from continuing operations.

3.14 Investments and other financial assets (continued)

(v) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset including investment in finance lease or group of financial assets is impaired. A financial asset including investment in finance lease or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortized cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss.

Impairment losses on equity instruments that were recognized in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(vi) Income recognition

Interest income

Interest income is recognized using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

Dividends

Dividends are recognized as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

3.15 Derivative financial instruments

The Company uses derivatives financial instruments to hedge the exposure of interest rate risks arising from financial activities.

The contracts of the interest rate swaps are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognized in the statement income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the statement of income depends on the nature of the hedge relationship.

3.15 Derivative financial instruments (continued)

Interest rate swaps, if material, are presented as a non-current asset in case of favorable contracts or a non-current liability in case of unfavorable contracts if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months. Other derivatives are presented as current assets or current liabilities.

3.16 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include bank loans, accounts payable and due to a related party and are stated at their nominal value. Bank loans are subsequently measured at amortized cost applying the effective interest method.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income or expense is recognized on an effective interest basis for debt instruments, other than those financial instruments classified as fair value through profit or loss.

3.17 Reclassifications

Following reclassifications have been made in the comparative 2015 financial statements to conform to 2016 presentation:

(a) Statement of financial position

For better presentation, 'accounts payable' amounting to Saudi Riyals 27,789 has been presented in 'Other liabilities' within and 'other liabilities and accruals' on the face of statement of financial position.

(b) Statement of comprehensive income

For better presentation, 'finance cost' amounting to Saudi Riyals 76,706 has been presented in 'other' within 'general and administrative expenses' on the face of statement of comprehensive income.

(c) Statement of cash flow

For better presentation, 'net changes in deferred charges' amounting to Saudi Riyals 269,042 has been segregated into Saudi Riyals 521,571 and Saudi Riyals 790,613, and presented in 'amortisation of deferred charges' and 'deferred charges paid during the year' respectively on the face of statement of cash flow.

(d) Notes to the financial statements

For better presentation:

- balance amounting to Saudi Riyals 76,706 has been reclassified from 'accrued financial charges' to 'accrued expenses' and presented within "other liabilities and accrual" in the notes to the financial statements.
- balance amounting to Saudi Riyals 371,786 has been reclassified from 'salaries and allowances' to 'professional and consultancy fees' and presented within 'general and administrative expenses' in the notes to the financial statements.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments. Estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is 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.

(All amounts in Saudi Riyals unless otherwise stated)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Impairment of investment in finance lease

The Company reviews its investment in finance lease at each reporting date to assess whether an allowance for impairment should be recorded in statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Derivative financial instruments

The fair value of financial instruments that are not traded in an active markets is determined using valuation techniques. The Company uses its judgement to select a variety of methods to make assumptions that are mainly based on market conditions existing at the end of each reporting period. The fair value of such derivative has been stated in note 8.

5. Cash and cash equivalents

	2016	2015
Cash at banks	6,689,442	37,851,494
Cash in hand	-	5,000
	6,689,442	37,856,494

6. Investment in finance lease

	Note	December 31, 2016 Current	Non-current	Total
Gross investment in finance lease		139,587,363	84,989,889	224,577,252
Less: Unearned finance income and processing fees		(22,234,641)	(10,384,907)	(32,619,548)
		117,352,722	74,604,982	191,957,704
Less: Impairment of investment in finance lease	6.1	(4,836,958)	-	(4,836,958)
Net investment in finance lease		112,515,764	74,604,982	187,120,746

	Note	December 31, 2015 Current	Non-current	Total
Gross investment in finance lease		132,482,677	100,214,275	232,696,952
Less: Unearned finance income and processing fees		(23,278,113)	(11,512,870)	(34,790,983)
		109,204,564	88,701,405	197,905,969
Less: Impairment of investment in finance lease	6.1	(2,520,000)	-	(2,520,000)
Net investment in finance lease		106,684,564	88,701,405	195,385,969

The title of the assets sold under finance leases agreements are held in the name of the Company. All investment in finance leases are secured through personal guarantees. Investment in finance lease of Saudi Riyals 58.44 million (2015: Saudi Riyals 93.75 million) were collateralised for loans obtained from the banks (see Note 12).

(All amounts in Saudi Riyals unless otherwise stated)

6 Investment in finance lease (continued)

The interest rate inherent in the leases is fixed at the contract date of the entire lease term. The average effective interest rate contracted is approximately 10% to 19% per annum. The finance leases contracts term range between 10 months to 48 months (2015:10 months to 36 months).

		December 31, 2016			
	Year	Gross investment in finance lease	Unearned finance income and processing fees	Impairment of investment in finance lease	Net investment in finance lease
Total current portion	2017	139,587,363	(22,234,641)	(4,836,958)	112,515,764
Non-current portion	2018	67,642,419	(8,626,891)	-	59,015,528
	2019	15,699,607	(1,564,304)	-	14,135,303
	2020	1,647,863	(193,712)	-	1,454,151
Total non-current portion		84,989,889	(10,384,907)	-	74,604,982
Total		224,577,252	(32,619,548)	(4,836,958)	187,120,746

		December 31, 2015			
	Year	Gross investment in finance lease	Unearned finance income and processing fees	Impairment of investment in finance lease	Net investment in finance lease
Total current portion	2016	132,482,677	(23,278,113)	(2,520,000)	106,684,564
Non-current portion	2017	71,645,703	(9,826,359)	-	61,819,344
	2018	28,046,226	(1,668,207)	-	26,378,019
	2019	522,346	(18,304)	-	504,042
Total non-current portion		100,214,275	(11,512,870)	-	88,701,405
Total		232,696,952	(34,790,983)	(2,520,000)	195,385,969

6.1 The movement in impairment of investment finance lease is as follows:

	2016	2015
January 1	2,520,000	1,980,478
Charged during the year	2,316,958	539,522
December 31	4,836,958	2,520,000

The ageing of investment in finance lease which are past due but not considered impaired by the management is as follows:

	2016	2015
Less than 30 days	7,090,619	7,101,867
31-90 days	9,304,251	8,786,892
91-180 days	4,222,433	1,941,119
181-360 days	3,811,079	505,841
More than 360 days	191,013	-
	24,619,395	18,335,719
Less: Impairment of investment in finance lease	(4,836,958)	(2,520,000)
	19,782,437	15,815,719

The not yet due portion of the customers included in the above balances included in investment in finance lease is Saudi Riyals 56.1 million (2015: Saudi Riyals 65.5 million).

(All amounts in Saudi Riyals unless otherwise stated)

7. Advances, deposits, prepayments and other receivables

	2016	**2015**
Prepayments	**2,674,134**	2,993,079
Deposits	**1,747,194**	1,613,100
Employees' loans	**182,311**	123,148
Advances to suppliers	**7,622**	608,084
Other receivables	**1,118,757**	10,771
	5,730,018	5,348,182

7.1 Deposits include current portion of restricted deposits with a bank amounting to Saudi Riyals 1.68 million (2015: Saudi Riyal 1.4 million). See Note 12.

8. Derivative financial instruments

The Company is exposed to fluctuations in variable interest rates on its medium to long-term debt. See Note 12. The Company maintains an interest rate risk management strategy that uses derivative instruments such as interest rate swaps to economically convert a portion of its variable rate debt to fixed rate debt.

The Company has the following interest rate swap contracts outstanding at December 31, 2016:

	Less than one year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
Current assets	**1,618**	-	-	**1,618**
Non - current assets	-	7,464	-	**7,464**
Non - current liabilities	-	(275,301)	(186,608)	(461,909)
	1,618	(267,837)	(186,608)	(452,827)

The reducing balance interest rate swap contracts have cap options, which protect the Company against adverse interest rate fluctuations within specified range. According to the above interest rate swap contracts, the Company pays fixed rate interest per annum and receives floating rate of one month bank offered rate plus a margin per annum.

The fair value of interest rate swaps resulted in losses amounting to Saudi Riyals 452,827 (net) as of December 31, 2016, which has been accounted for in the statement of other comprehensive income within finance cost with a corresponding debit of Saudi Riyal 9,082 (out of which Saudi Riyal 7,464 is classified as non-current assets) within assets and a corresponding credit of Saudi Riyal 461,909 within liabilities.

9. Property and equipment

	January 1, 2016	**Additions**	**Transfer**	**Disposals**	**December 31, 2016**
Cost					
Computers and office equipment	**525,978**	**224,241**	**-**	**(37,462)**	**712,757**
Furniture and fixtures	**166,295**	**425,805**	**1,338,216**	**(166,295)**	**1,764,021**
Motor vehicles	**100,750**	**-**	**-**	**(55,000)**	**45,750**
Capital work in progress	**1,170,127**	**168,089**	**(1,338,216)**	**-**	**-**
	1,963,150	**818,135**	**-**	**(258,757)**	**2,522,528**
Accumulated depreciation			**-**		
Computers and office equipment	**(282,264)**	**(156,098)**	**-**	**38,049**	**(400,313)**
Furniture and fixtures	**(152,192)**	**(414,421)**	**-**	**157,035**	**(409,578)**
Motor vehicles	**(68,891)**	**(21,750)**	**-**	**51,562**	**(39,079)**
	(503,347)	**(592,269)**	**-**	**246,646**	**(848,970)**
Net book amount	**1,459,803**				**1,673,558**

(All amounts in Saudi Riyals unless otherwise stated)

9. Property and equipment (continued)

	January 1, 2015	Additions	Transfer	Disposals	December 31, 2015
Cost					
Computers and office equipment	283,930	242,048	-	-	525,978
Furniture and fixtures	156,126	10,169	-	-	166,295
Motor vehicles	100,750	-	-	-	100,750
Capital work in progress	-	1,170,127	-	-	1,170,127
	540,806	1,422,344	-	-	1,963,150
Accumulated depreciation					
Computers and office equipment	(148,785)	(133,479)	-	-	(282,264)
Furniture and fixtures	(93,548)	(58,644)	-	-	(152,192)
Motor vehicles	(43,703)	(25,188)	-	-	(68,891)
	(286,036)	(217,311)	-	-	(503,347)
Net book amount	254,770				1,459,803

Capital work in progress included lease hold improvements in respect of the new office premises that were completed and capitalised during the year.

10. Intangible assets

	January 1, 2016	Additions	December 31, 2016
Cost			
Computer software	**3,413,409**	**627,601**	**4,041,010**
Accumulated amortization			
Computer software	**(228,230)**	**(836,468)**	**(1,064,698)**
Net book amount	**3,185,179**		**2,976,312**

	January 1, 2015	Additions	December 31, 2015
Cost			
Computer software	-	3,413,409	3,413,409
Accumulated amortization			
Computer software	-	(228,230)	(228,230)
Net book amount	-		3,185,179

11. Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to allocate 10% of its net income each year to a statutory reserve, after any accumulated deficit is absorbed, until such reserve equals 30% of its share capital. This reserve is not currently available for distribution to the shareholders.

12. Long-term borrowings

	2016	2015
January 1	**63,235,220**	22,721,807
Acquired during the year	**68,000,000**	63,310,399
Repayment during the year	**(55,331,602)**	(22,796,986)
December 31	**75,903,618**	63,235,220
Less: Deferred charges	**(605,363)**	(612,124)
	75,298,255	62,623,096
Less: Current portion	**(49,400,437)**	(30,187,192)
Non-current portion	**25,897,818**	32,435,904

12 Long-term borrowings (continued)

The Company has obtained loan facilities from various commercial banks and other financial institutions. These loans are denominated in Saudi Riyals. The long-term borrowings bear markup ranging from 1 month bank rate plus a margin per annum. The aggregate maturities of these loans, based on their respective repayment schedules, are spread through 2019. The facilities are secured by promissory notes, restricted deposits (10% of drawn amount), an assignment of notes receivable of Saudi Riyals 58.44 million (2015: Saudi Riyals 93.75 million), corporate guarantee issued by the major shareholders for Saudi Riyals 125 million (2015: Saudi Riyals 115 million) and a letter of undertaking and acknowledgement signed jointly and severally by Chairman and CEO in respect of the granted facilities. The terms of the facility include certain covenants such as dividends' restrictions and changes in the Company's ownership and other covenants.

12.1 Movement in deferred charges is as follows:

	2016	**2015**
January 1	**612,124**	343,082
Paid during the year	**980,000**	790,613
Amortized during the year	**(986,761)**	(521,571)
December 31	**605,363**	612,124

12.2 Maturity profile of long-term borrowings:

Year ending December 31:

	2016	**2015**
2017	**49,400,437**	30,187,192
2018	**26,252,081**	21,441,705
2019	**251,100**	11,606,323
	75,903,618	63,235,220

12.3 The Company has undrawn financing facility at floating rate amounting to Saudi Riyals 27.3 million (2015: Saudi Riyals 123.2 million)

13. Related party matters

During 2016 and 2015, the Company transacted with the following related parties:

Name	**Relationship**
Shuaa Capital PJSC	Shareholder
Gulf Finance Corporation PJSC	Shareholder
Key management personnel	Connected persons

The significant transactions and related amounts are as follows:

	2016	**2015**
Funding	-	61,010,006
Allocation of software and related cost	**772,665**	3,466,457
Allocation of other operating expenses	**248,331**	95,039
Facility fees	**2,909,079**	202,952

Compensation of key management personnel

The remuneration of directors and other members of key management during the year are as follows:

	Note	**2016**	**2015**
Salaries paid to key management personnel		**3,120,856**	4,091,895
Bonus paid to key management personnel		-	349,535
End of service indemnities		**134,898**	163,902
Directors remuneration		**405,000**	371,786
Compensation for Chairman of the Board	13.1	**220,000**	-
		3,880,754	4,977,118

13.1 This represents an amount awarded to the Chairman of the Board of Directors for his efforts during 2016.

(All amounts in Saudi Riyals unless otherwise stated)

13 Related party matters (continued)

Due to related parties as of December 31 are comprised of the following:

	2016	2015
Shuaa Capital PJSC	**20,408,163**	51,014,714
Gulf Finance Corporation PJSC	**5,709**	-
	20,413,872	51,014,714

Due to a related party balance represents the payable to shareholders and will be settled within the next twelve months.

Gulf Finance Corporation PJSC has provided a guarantee on behalf of the Company to a syndicate of banks headed by Abu Dhabi Commercial Bank (ADCB) for a letter of credit facility extended to the Company amounting of AED 40,000,000. The Company pays a charge on letter of credit facility to ADCB on a monthly basis.

14. Zakat matters

14.1 Components of zakat base

The significant components of the zakat base, under zakat and income tax regulations, is principally comprised of shareholders' equity, provisions at the beginning of year, and adjusted net income, less deductions for the net book value of property and equipment, and certain other items.

The principal elements of the zakat base are as follows:

	2016	2015
Deductible assets	**197,861,664**	96,388,843
Non-current liabilities	**10,976,938**	33,094,198
Opening shareholders' equity	**106,289,935**	101,694,037
Adjusted net income before zakat	**3,688,988**	4,663,879

Some of these amounts have been adjusted in arriving at the Company's zakat charge for the year.

14.2 Provision for zakat

	2016	2015
January 1	**140,000**	170,000
Provision for the year	**91,347**	140,000
Prior year provision reversed	**-**	(72,019)
Paid during the year	**(138,843)**	(97,981)
December 31	**92,504**	140,000

14.3 Status of final assessments

The Company has filed its zakat declarations with the General Authority of Zakat and Tax (GAZT) upto 2015. The zakat declarations for 2013 to 2015 are still under review with the GAZT.

(All amounts in Saudi Riyals unless otherwise stated)

15. Other liabilities and accruals

	2016	2015
Advance payments from customers	**657,329**	3,625,971
Accrued expenses	**1,204,898**	1,211,566
Accrued finance charges	**1,152,973**	760,534
Other liabilities	**1,686,904**	27,789
	4,702,104	5,625,860

16. Post-employment benefits

	2016	2015
January 1	**658,294**	342,866
Charge for the year	**177,146**	335,651
Paid during the year	**(104,974)**	(20,223)
December 31	**730,466**	658,294

17. Operating leases arrangements

	2016	2015
Payments under operating leases recognized as an expense during the year	**722,689**	600,103

Operating lease payments represent rentals payable by the Company for certain office premises. Leases are negotiated for an average renewable term of 1 year and rentals are fixed for the same period.

18. Contingencies and commitments

	2016	2015
Capital commitment for leasehold improvements	-	155,489

19. Finance charges

	Note	2016	2015
Interest on bank borrowings		**8,875,555**	3,265,734
Bank Charges		**79,690**	38,399
Net loss on interest rate swap derivatives	8	**452,827**	-
		9,408,072	3,304,133

20. Other operating costs

	2016	2015
Insurance expenses	**3,762,253**	2,169,743
Tracker expenses	**492,650**	397,113
Other	**63,096**	37,227
	4,317,999	2,604,083

21. General and administrative expenses

	2016	2015
Salaries and allowances	**9,666,612**	9,413,458
Depreciation and amortisation	**1,428,737**	445,541
Computer expenses	**1,068,579**	575,285
Professional and consultancy fees	**1,714,476**	1,048,195
Rent	**722,689**	600,103
Travelling	**659,931**	760,215
Legal fees	**377,555**	153,357
Write-off of investment in finance lease	**230,109**	16,944
Communication	**171,550**	233,683
Advertisement	**76,860**	24,930
Printing and stationary	**50,919**	79,698
Repairs and maintenance	**36,056**	36,923
Other	**1,044,118**	519,928
	17,248,191	13,908,260

22. Financial risk management

The Company's activities are exposed to a variety of financial risks which mainly include market risk (including foreign exchange risk, interest rate risk and price risk) credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial statements. The Company uses derivatives financial instruments to hedge certain risk exposures The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

22.1 Market risk

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

Market risk comprises of three types of risk: currency risk, interest rate risk and price risk.

22.1.1 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. All the Company's purchases and finance lease arrangements are made in Saudi Riyals except for payable from shareholders which are in UAE Dirhams. Accordingly, the Company is not exposed to currency risk as both Saudi Riyals and UAE Dirhams are pegged against US Dollars and are exposed to similar fluctuations.

22.1.2 Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates is limited as all the Company's financial assets have fixed interest rates.

For financial liabilities, the Company maintains interest rate risk management strategy that uses derivative instruments such as interest rate swaps to economically convert a portion of its variable rate debt to a fixed rate debt. See notes 12 and 8.

(All amounts in Saudi Riyals unless otherwise stated)

22. Financial risk management (continued)

22.1.3 Price risk

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 interest 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. As at December 31, 2016 and 2015, the Company has no investments, and is not exposed to price risk.

22.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The risk is generally limited to principal amounts and accrued profit thereon, if any. The Company has established procedures to manage credit exposure including credit approvals, credit limits, collateral and guarantee requirements. The Company also manages risk through a credit department which evaluates customers' credit worthiness and obtains adequate securities where applicable.

All investing transactions are settled / paid for upon delivery. The Company's policy is to enter into financial instrument contract by following internal guidelines such as approving counterparties and approving credits.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location. Ten largest customers account for 14% (2015: 21%) of outstanding balance of investment in finance lease as at December 31, 2016.

Out of the total assets of Saudi Riyals 211.6 million (2015: Saudi Riyals 244.8 million) the assets which were subject to credit risk amounted to Saudi Riyals 204 million (2015: Saudi Riyals 236.3 million).

The maximum exposure to credit risk at the reporting date is:

	2016	2015
Net investment in finance lease	**187,120,746**	195,385,969
Other receivables	**1,118,757**	10,771
Cash and cash equivalents	**6,689,442**	37,851,494
Restricted deposits with banks	**9,079,537**	3,042,456
	204,008,482	236,290,690

The Company monitors the credit quality of receivables through diversification of activities to avoid undue concentration of risks with individuals or groups. For such purpose, the Company has established exposure limits for single lessees and industrial sectors. The Company has an effective rental monitoring system which allows it to evaluate customers' credit worthiness and identify potential problem accounts. An allowance for potential lease losses is maintained at a level which, in the judgment of management, is adequate to provide for potential losses on lease installment that can be reasonably anticipated. The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history. However, the rating for quality of Company's investments cannot be determined due to the fact that the customer base of the Company consist of small business for which such data is not readily available.

Concentration of the Company's customer into industrial sectors on the basis of percentage of the outstanding balance of investment in finance lease as at December 31 is as follows:

	2016	2015
Construction	**32%**	40%
Manufacturing	**29%**	24%
Transportation and warehousing	**15%**	17%
Others	**24%**	19%
	100%	100%

(All amounts in Saudi Riyals unless otherwise stated)

22. Financial risk management (continued)

The majority of finance lease receivable is secured mainly through personal guarantees and promissory notes. The title of the assets leased under finance agreements is held in the name of the Company as collateral, in case of default by the customer.

See Note 6 for ageing of net investment in finance lease which are past due.

The credit quality of the Company's bank balances are assessed with reference to external credit ratings which, in all cases, are above investment grade rating. The bank balances along with credit ratings are tabulated below:

	2016	**2015**
A+	**2,219**	5,515,837
A	**1,848,537**	536,670
A-	**4,838,686**	31,798,987
	6,689,442	37,851,494

22.3 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 stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's financial liabilities primarily consist of accounts payable, due to related parties, and bank borrowings. Even though significant portion of these are expected to be settled within 12 months from the reporting date. Accounts payable, accrued and other liabilities aggregating Saudi Riyals 8.1 million (2015: Saudi Riyals 24.2 million) have a short term maturity. The Company expects to have adequate liquid funds to settle its current liabilities through close monitoring of due to both current assets and current liabilities.

Following is the contractual maturities of financial liabilities as at December 31, 2016 and 2015:

Contractual maturities of financial liabilities At December 31, 2016	**Less than 6 months**	**6-12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
Non-Derivative					
Accounts payable	**3,416,614**	**-**	**-**	**-**	**3,416,614**
Other liabilities and accruals	**4,702,104**	**-**	**-**	**-**	**4,702,104**
Bank borrowings	**27,229,995**	**22,170,442**	**26,198,871**	**304,310**	**75,903,618**
	35,348,713	**22,170,442**	**26,198,871**	**304,310**	**84,022,336**
Derivative					
Interest rate swaps	**-**	**-**	**275,301**	**186,608**	**461,909**
	35,348,713	**22,170,442**	**26,474,172**	**490,918**	**84,484,245**

Contractual maturities of financial liabilities At December 31, 2015	**Less than 6 months**	**6-12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
Non-Derivative					
Accounts payable	18,526,184	-	-	-	18,526,184
Other liabilities and accruals	5,625,860	-	-	-	5,625,860
Bank borrowings	16,155,145	14,032,047	21,441,705	11,606,323	63,235,220
	40,307,189	14,032,047	21,441,705	11,606,323	87,387,264
Derivative					
Interest rate swaps	-	-	-	-	-
	40,307,189	14,032,047	21,441,705	11,391,348	87,387,264

(All amounts in Saudi Riyals unless otherwise stated)

22. Financial risk management (continued)

Also, the Company has undrawn financing facilities amounting to Saudi Riyals 27.3 million (2015: Saudi Riyals 123.3 million). See note 12. The Company can also arrange additional funds through support from its shareholders.

22.4 Capital risk management

The primary objective of the Company's capital management is to ensure that the Company maintains a strong capital structure, in order to support its business and to maximize shareholders' return.

The Company's capital structure consists of net debt (borrowings as detailed in Note 12 and 13 offset by cash and bank balances) and equity of the Company. The Company's policy is to maintain a strong capital base well above the minimum requirements to maintain investor, creditor and market confidence and to sustain future development of the business.

The capital structure of the Company in terms of the gearing ratio is as shown below:

	2016	2015
Total borrowings	**89,628,048**	76,393,440
Total shareholders' equity	**106,485,777**	106,289,935
Total capital structure	**196,113,825**	182,683,375
Gearing ratio	**45.70%**	41.82%

Borrowings consist of short and long term bank borrowings and due to related parties offset by cash and cash equivalents.

Equity includes all capital and reserves of the Company that are managed as capital.

22.5 Fair value of financial instruments

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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The Company's financial assets consist of cash and cash equivalents, other receivables, investments, statutory deposits, and financial liabilities consisting of due to shareholders, accrued expenses and other liabilities.

The fair values of financial assets and liabilities are not materially different from their carrying values at the statement of financial position date.

Determination of fair value and fair value hierarchy.

The Company, if applicable, uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the identical assets or liabilities (i.e. without modification or repacking).

Level 2: quoted prices in active markets for similar financial assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

22. Financial risk management (continued)

As at December 31, 2016 and 2015, all the financial instruments which are fair valued are level 2 instruments that includes derivative financial instruments, which have been calculated by the Company using mid-market quotation valuation. There were no transfers between levels during the years ended December 31, 2016 and 2015.

23. Approval of financial statements

These financial statements have been authorised for issue by the management on March 2, 2017.