

SAUDI ORIX LEASING COMPANY
(Closed Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2012

AUDITORS' REPORT TO THE SHAREHOLDERS OF SAUDI ORIX LEASING COMPANY

Scope of Audit

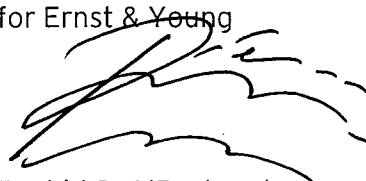
We have audited the accompanying balance sheet of Saudi ORIX Leasing Company, a Closed Saudi Joint Stock Company (the "Company") as of 31 December 2012 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. 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 the Kingdom of 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

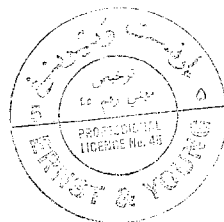
Unqualified Opinion

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

- i) present fairly, in all material respects, the financial position of the Company as of 31 December 2012 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young


Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366




Riyadh: 16 Rabi Al Awal 1434H
(28 January 2013)

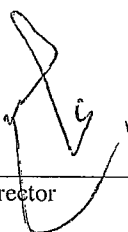
Saudi ORIX Leasing Company
(Closed Joint Stock Company)


BALANCE SHEET

As at 31 December 2012

	Notes	2012 SR	2011 SR
ASSETS			
Cash and cash equivalents	3	218,650,229	70,928,689
Net investment in finance leases	4	1,402,364,637	1,159,109,794
Advances, prepayments and other receivables	5	5,278,250	5,917,380
Fixed assets	6	2,178,931	1,795,252
TOTAL ASSETS		1,628,472,047	1,237,751,115
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Short term loans	7	303,999,828	99,996,871
Current maturity of long term loans	7	131,222,838	214,264,565
Accounts payable	8	85,192,968	62,125,800
Accrued expenses and other liabilities	9	44,109,347	32,749,773
Long term loans	10	357,838,627	422,442,742
Sukuk	11	234,197,620	-
Employees' terminal benefits		6,436,034	5,332,046
Fair value of derivatives	12	134,513	77,490
TOTAL LIABILITIES		1,163,131,775	836,989,287
SHAREHOLDERS' EQUITY			
Share capital	13	340,000,000	300,000,000
Statutory reserve	13	36,390,432	27,546,717
Reserve for the issue of bonus shares		-	40,000,000
Retained earnings		63,584,353	10,792,601
Cash flow hedge reserve	12	(134,513)	(77,490)
Proposed dividend		25,500,000	22,500,000
TOTAL SHAREHOLDERS' EQUITY		465,340,272	400,761,828
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,628,472,047	1,237,751,115


Chief Executive Officer


Director


Chief Financial Officer

The attached notes 1 to 24 form an integral part of these financial statements.

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

STATEMENT OF INCOME

For the year ended 31 December 2012

	<i>Notes</i>	2012 SR	2011 SR
INCOME			
Lease finance income		159,530,305	133,098,464
<i>Less:</i>			
Special commission expense and amortisation of transaction cost		23,270,310	15,972,773
		<u>136,259,995</u>	<u>117,125,691</u>
Net lease finance income		136,259,995	117,125,691
<i>Add:</i>			
Other operating income	17	3,105,639	828,517
		<u>139,365,634</u>	<u>117,954,208</u>
TOTAL OPERATING INCOME		139,365,634	117,954,208
OPERATING EXPENSES			
Salaries and employee related expenses		33,150,142	30,538,341
Rent and premises related expenses, net		1,211,185	996,240
Depreciation	6	720,907	657,603
General and administrative expenses	14	2,971,151	2,768,912
Provision for lease losses	4	12,875,103	9,228,132
		<u>50,928,488</u>	<u>44,189,228</u>
TOTAL OPERATING EXPENSES		50,928,488	44,189,228
		<u>88,437,146</u>	<u>73,764,980</u>
NET INCOME FOR THE YEAR		88,437,146	73,764,980
		<u>2.60</u>	<u>2.17</u>
Basic and diluted earnings per share	16	2.60	2.17

The attached notes 1 to 24 form an integral part of these financial statements.

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	2012 SR	2011 SR
Cash flows from operating activities:		
Net income for the year	88,437,146	73,764,980
<i>Adjustments to reconcile net income to net cash used in / from operating activities:</i>		
Amortisation of transaction cost	280,440	282,002
Depreciation of fixed assets	720,907	657,603
Provision for lease losses	12,875,103	9,228,132
Gain on disposal of fixed assets	(7,000)	(14,759)
Operating cash flows before changes in operating assets and liabilities	102,306,596	83,917,958
Changes in operating assets and liabilities		
Net investment in finance leases	(256,129,946)	(222,775,620)
Advances, prepayments and other receivables	639,130	(2,152,000)
Accounts payable	23,067,168	9,719,253
Accrued expenses and other liabilities	7,538,451	(6,780,387)
Employees' terminal benefits, net	1,103,988	1,199,628
Net cash used in operating activities	(121,474,613)	(136,871,168)
Cash flows from investing activities:		
Purchase of fixed assets	(1,104,586)	(825,217)
Proceeds from disposal of fixed assets	7,000	118,890
Net cash used in investing activities	(1,097,586)	(706,327)
Cash flows from financing activities:		
Proceeds from loans	995,980,171	539,584,859
Repayments of loans	(939,868,023)	(353,780,321)
Sukuk issued	240,000,000	-
Transaction cost paid	(3,894,266)	(21,185)
Income tax paid on behalf of non-Saudi shareholders	(5,306,166)	(4,663,154)
Zakat paid on behalf of Saudi shareholders	(1,245,824)	(915,561)
Dividends paid, net	(15,372,153)	(12,699,899)
Net cash from financing activities	270,293,739	167,504,739
Net increase in cash and cash equivalents	147,721,540	29,927,244
Cash and cash equivalents at the beginning of the year	70,928,689	41,001,445
Cash and cash equivalents at the end of the year	218,650,229	70,928,689
Supplemental disclosures		
Special commission paid	22,254,854	25,120,939
Non-cash activity during the year		
Fair value change on cash flow hedges	(57,023)	209,960
Zakat accrued on behalf of Saudi shareholders	1,494,097	1,096,133
Income tax accrued on behalf of non-Saudi shareholders	6,935,429	5,702,595

The attached notes 1 to 24 form an integral part of these financial statements.

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2012

	Share capital SR	Statutory reserve SR	Reserve for the issue of bonus shares SR	Retained earnings SR	Cash flow hedge reserve SR	Proposed dividend SR	Total SR
Balance as at 1 January 2011	250,000,000	20,170,219	50,000,000	7,652,746	(287,450)	18,750,000	346,285,515
Net income for the year	-	-	-	73,764,980	-	-	73,764,980
Transfer to statutory reserve	-	7,376,498	-	(7,376,498)	-	-	-
Net change in fair value	-	-	-	-	209,960	-	209,960
Net dividends paid	-	-	-	-	-	(12,699,899)	(12,699,899)
Issue of bonus shares (note 13)	50,000,000	-	(50,000,000)	-	-	-	-
Zakat accrued (note 15)	-	-	-	(1,096,133)	-	-	(1,096,133)
Zakat recovered	-	-	-	915,561	-	(915,561)	-
Income tax accrued (note 15)	-	-	-	(5,702,595)	-	-	(5,702,595)
Income tax recovered	-	-	-	5,134,540	-	(5,134,540)	-
Transfer to reserve for the issue of bonus shares	-	-	40,000,000	(40,000,000)	-	-	-
Proposed dividend	-	-	-	(22,500,000)	-	22,500,000	-
Balance as at 31 December 2011	300,000,000	27,546,717	40,000,000	10,792,601	(77,490)	22,500,000	400,761,828
Net income for the year	-	-	-	88,437,146	-	-	88,437,146
Transfer to statutory reserve	-	8,843,715	-	(8,843,715)	-	-	-
Net change in fair value	-	-	-	-	(57,023)	-	(57,023)
Net dividends paid	-	-	-	-	-	(15,372,153)	(15,372,153)
Issue of bonus shares (note 13)	40,000,000	-	(40,000,000)	-	-	-	-
Zakat accrued (note 15)	-	-	-	(1,494,097)	-	-	(1,494,097)
Zakat recovered	-	-	-	1,245,824	-	(1,245,824)	-
Income tax accrued (note 15)	-	-	-	(6,935,429)	-	-	(6,935,429)
Income tax recovered	-	-	-	5,882,023	-	(5,882,023)	-
Proposed dividend	-	-	-	(25,500,000)	-	25,500,000	-
Balance as at 31 December 2012	340,000,000	36,390,432	-	63,584,353	(134,513)	25,500,000	465,340,272

	Saudi Shareholders SR	Non-Saudi shareholders SR	Total SR
Analysis of retained earnings			
Balance as at 1 January 2011	6,576,139	1,076,607	7,652,746
Net income for the year	48,832,417	24,932,563	73,764,980
Transfer to the statutory reserve	(4,883,242)	(2,493,256)	(7,376,498)
Zakat/income tax recovered	915,561	5,134,540	6,050,101
Zakat/income tax provision	(1,096,133)	(5,702,595)	(6,798,728)
Transfer to reserve for the issue of bonus shares	(26,480,000)	(13,520,000)	(40,000,000)
Proposed dividend	(14,895,000)	(7,605,000)	(22,500,000)
Balance as at 31 December 2011	8,969,742	1,822,859	10,792,601
Net income for the year	58,545,391	29,891,755	88,437,146
Transfer to the statutory reserve	(5,854,539)	(2,989,176)	(8,843,715)
Zakat/income tax recovered	1,245,824	5,882,023	7,127,847
Zakat/income tax provision	(1,494,097)	(6,935,429)	(8,429,526)
Proposed dividend	(16,881,000)	(8,619,000)	(25,500,000)
Balance as at 31 December 2012	44,531,321	19,053,032	63,584,353

The attached notes 1 to 24 form an integral part of these financial statements.

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

1. THE COMPANY AND NATURE OF OPERATIONS

Saudi ORIX Leasing Company (the "Company") is a closed joint stock company established under the regulations for companies in the Kingdom of Saudi Arabia. The Company operates under commercial registration number 1010163957 issued in Riyadh on 21 Shawal 1421H (corresponding to 16 January 2001), and non-industrial license number 99 dated 27 Safar 1421H (corresponding to 31 May 2000) issued by the Ministry of Commerce and Industry, through its four branches (2011: four branches) in the Kingdom of Saudi Arabia. The Company had 140 (2011: 123) employees as at 31 December 2012.

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

Saudi ORIX Leasing Company
343, Al Ma'ather Street
Head Office
P.O. Box 22890, Riyadh 11416
Kingdom of Saudi Arabia

The objective of the Company is to provide lease financing for movable and immovable assets.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of presentation

These financial statements, expressed in Saudi Riyals are prepared in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia. Generally accepted accounting standards in Saudi Arabia comprise accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). For matters where there is no guidance in the SOCPA accounting standards, the relevant International Financial Reporting Standard ("IFRS") is adopted.

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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.

Net investment in finance leases

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 security deposits on leases with the right to set off against the residual value of leased assets and for presentation purposes, these deposits along with prepaid lease rentals are deducted from gross investment in finance leases.

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

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

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision for lease losses

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

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

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

	<i>Years</i>
Leasehold improvements	10
Office furniture and fixtures	5
Motor vehicles	5
Information technology equipment	4

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure for repair and maintenance are charged to income. Betterments that increase the value or materially extend the life of the related assets are capitalised.

Sukuk, short-term and long-term loans

Loans and borrowings are special commission bearing, which are recognised initially at cost, less attributable transaction costs, if any. Subsequent to initial recognition, special commission bearing borrowings are stated at amortised cost with any difference between cost and redemption value recognised in the statement of income over the period of the borrowings on an effective special commission rate basis.

Impairment and uncollectibility of assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognised in the income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employees' terminal benefits

Employees' terminal benefits are payable as a lump sum to all employees employed under the terms and conditions of Saudi Labor and Workmen Law on termination of their employment contracts. 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 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.

Derivative financial instruments and hedge accounting

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

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

Zakat and income tax

The Company's Saudi shareholders are subject to zakat and its non-Saudi shareholders are subject to income tax in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT") as applicable in the Kingdom of Saudi Arabia. An estimate of zakat and income tax arising there from 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.

Foreign currency translation

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the respective transactions. At balance sheet 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.

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair value. Fair value is determined on the basis of objective evidence at the balance sheet date.

Offsetting

Financial assets and liabilities are offset and are reported net in the balance sheet 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.

3. CASH AND CASH EQUIVALENTS

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

	2012 SR	2011 SR
Cash at banks	218,634,159	70,913,689
Cash in hand	16,070	15,000
	<u>218,650,229</u>	<u>70,928,689</u>

4. NET INVESTMENT IN FINANCE LEASES

	2012 SR	2011 SR
Lease receivables		
- Performing	1,882,411,970	1,575,442,154
- Non-performing	27,719,626	14,220,639
Residual value	704,831,758	544,565,995
<i>Gross investment in finance leases</i>	<u>2,614,963,354</u>	<u>2,134,228,788</u>
Non-refundable security deposits	(704,051,628)	(543,789,780)
Prepaid lease rentals	(231,391,217)	(194,170,108)
Unearned lease finance income	(198,815,773)	(170,173,467)
<i>Net investment in finance leases</i>	<u>1,480,704,736</u>	<u>1,226,095,433</u>
Provision for lease losses	(78,340,099)	(66,985,639)
	<u>1,402,364,637</u>	<u>1,159,109,794</u>

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:

	2012		2011	
	MLPs	PV of MLPs	MLPs	PV of MLPs
Not later than one year	1,115,137,023	748,463,531	953,383,903	641,950,239
Later than one year but not later than five years	1,499,826,331	732,241,205	1,174,012,193	583,814,718
Later than five years	-	-	6,832,692	330,476
	<u>2,614,963,354</u>	<u>1,480,704,736</u>	<u>2,134,228,788</u>	<u>1,226,095,433</u>

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2012

4. NET INVESTMENT IN FINANCE LEASES (Continued)

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

	2012 SR	2011 SR
Balance at the beginning of the year	66,985,639	57,757,507
Provision for the year	12,875,103	9,228,132
Balance written off during the year	(1,520,643)	-
	<u>78,340,099</u>	<u>66,985,639</u>

5. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	2012 SR	2011 SR
Loans and advances to staff	2,037,486	1,976,011
Advances against letter of credit (note 18)	1,118,904	1,382,643
Prepaid rent	731,835	656,218
Prepaid insurance	279,118	311,072
Other receivables from lessees	124,292	681,000
Prepaid visa cost	99,153	91,212
Receivable from insurance companies	84,797	178,032
Others	802,665	641,192
	<u>5,278,250</u>	<u>5,917,380</u>

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2012

6. FIXED ASSETS

	Leasehold improvements SR	Office furniture and fixtures SR	Motor vehicles SR	Information technology equipment SR	2012 Total SR	2011 Total SR
<i>Cost:</i>						
Balance at the beginning of the year	879,985	1,700,073	756,750	3,044,216	6,381,024	5,772,014
Additions during the year	81,870	86,877	46,500	889,339	1,104,586	825,217
Disposals	-	-	(34,000)	-	(34,000)	(216,207)
Balance at the end of the year	961,855	1,786,950	769,250	3,933,555	7,451,610	6,381,024
<i>Depreciation:</i>						
Balance at the beginning of the year	384,792	1,506,563	462,813	2,231,604	4,585,772	4,040,245
Charge for the year	91,637	103,946	130,802	394,522	720,907	657,603
Disposals	-	-	(34,000)	-	(34,000)	(112,076)
Balance at the end of the year	476,429	1,610,509	559,615	2,626,126	5,272,679	4,585,772
<i>Net book value:</i>						
At 31 December 2012	485,426	176,441	209,635	1,307,429	2,178,931	
At 31 December 2011	495,193	193,510	293,937	812,612		1,795,252

Saudi ORIX Leasing Company
(Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2012

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

	2012 SR	2011 SR
Short term loans	303,999,828	99,996,871
Current maturity of long term loans (note 10)	<u>131,222,838</u>	<u>214,264,565</u>

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

The Company has an overdraft facility of SR 40 million from a local bank, which has not been drawn down as of the balance sheet date. The facility carries special commission rate equal to SIBOR plus bank margin payable on monthly basis. The facility is secured by the assignment of lease contract receivables.

8. ACCOUNTS PAYABLE

These represent payables against purchase of assets leased by the Company.

9. ACCRUED EXPENSES AND OTHER LIABILITIES

	2012 SR	2011 SR
Proposed lease related payables (a)	22,845,063	12,714,608
Zakat & income tax accrued on behalf of shareholders	6,042,635	4,165,099
Salaries and employee related expenses	5,680,282	5,538,567
Accrued special commission expense	3,707,118	3,646,970
Sukuk related accruals	1,943,587	-
Insurance claims to be settled	1,093,660	1,161,471
Legal and professional charges	463,937	675,533
Insurance premium payable	402,086	2,258,933
Others	1,930,979	2,588,592
	<u>44,109,347</u>	<u>32,749,773</u>

a. These include advance security deposits, prepaid lease payments and front-end fees of lease contracts not executed as at balance sheet date, and other payables for lessees.

10. LONG TERM LOANS

	2012 SR	2011 SR
Long term loans (a)	410,734,691	541,182,316
International Finance Corporation loan (b)	78,806,758	96,249,942
Less: unamortised transaction costs	(479,984)	(724,951)
	<u>489,061,465</u>	<u>636,707,307</u>
Less: current maturity (note 7)	<u>(131,222,838)</u>	<u>(214,264,565)</u>
	<u>357,838,627</u>	<u>422,442,742</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2012

10. LONG TERM LOANS (Continued)

- a. These long-term loans carry special commission rate equal to SIBOR plus bank margins or fixed rates payable on quarterly basis and semi-annual basis. These facilities are secured by the assignment of lease contract receivables. Under the terms of the arrangements, the Company has to adhere to certain financial and non-financial covenants.
- b. The Company has facilities from International Finance Corporation (“IFC”), amounting to USD 37 million (SR 138.75 million). These loans are repayable over a period of 7 to 7.5 years from the date of first drawdown (i.e. 10 July 2006) in equal half yearly installments with a grace period of 24 months. These facilities carry fixed special commission rates and are secured against assignment of lease contract receivables. Residual front end fee of SR 363,083(2011: SR 555,585) has been netted off from the loan amount and is amortised over the term of loan on an effective yield basis.

11. SUKUK

On 26 December 2012, the Company issued a Sukuk amounting to SR 240 million at par value. The Sukuk is to be listed on Tadawul – Saudi Stock Exchange. The Sukuk bears a return based on three month SIBOR plus 165 basis points payable quarterly in arrears. The Sukuk is due for maturity at par on its expiry date of 26 December 2015. The Sukuk is shown net of related transaction cost.

12. DERIVATIVES

As at 31 December 2012, the Company held Interest Rate Swaps (“IRS”) of a notional value of around SR 116 (2011: SR 121 million), in order to reduce its exposure to interest rate risks against long term loans.

Fair value of cash flows hedge of SR 134,513 (2011: SR 77,490) represents the negative mark to market values of the interest rate swaps as of 31 December 2012. The cash flow hedge reserve represents the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the statement of income when the hedged transaction impacts the income or loss.

13. SHARE CAPITAL AND STATUTORY RESERVE

In 2012, the Company increased its paid up share capital to SR 340 million (2011: SR 300 million) by issuing bonus shares amounting to SR 40 million (2011: SR 50 million) through the capitalisation of retained earnings. The pattern of shareholding as of 31 December 2012 is as follows:

<i>Shareholders</i>	<i>Ownership percentage</i>	<i>Number of shares</i>	<i>Share capital (Amount in SR)</i>
The Saudi Investment Bank (“SAIB”)	37.995%	12,918,300	129,183,000
Trade Development & Investment Group Limited	32.000%	10,880,000	108,800,000
Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi	0.005%	1,700	17,000
ORIX Corporation – Japan	27.500%	9,350,000	93,500,000
ORIX Leasing Pakistan Limited – Pakistan	2.500%	850,000	8,500,000
		34,000,000	340,000,000

The portion of Saudi to non-Saudi shareholders (including non-Saudi shareholders in SAIB) is 66.2% to 33.8% (2011: 66.2% to 33.8%).

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the year is transferred to a statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The reserve is not available for distribution.

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31 December 2012

14. GENERAL AND ADMINISTRATIVE EXPENSES

	2012 SR	2011 SR
License, legal and professional charges	807,728	1,207,917
Communication expenses	722,944	604,446
Office repair and maintenance cost	359,473	210,022
Printing and stationery	331,076	201,096
Advertising and promotion expenses	220,547	157,695
Travelling and transportation	205,517	177,584
Insurance of own assets	49,033	49,659
Others	274,833	160,493
	<u>2,971,151</u>	<u>2,768,912</u>

15. ZAKAT AND INCOME TAX

a) Zakat

Charge for the year

The zakat charge of SR 1,494,097 (2011: SR 1,096,133) for the year consists of the current year provision and is based on the following:

	2012 SR	2011 SR
Shareholders' equity at beginning	385,389,675	333,585,616
Opening provisions and adjustments	4,774,250	3,985,819
Borrowings, net	415,040,702	415,073,742
Book value of long term assets	(3,476,975)	(2,929,501)
Net investment in finance leases	(1,402,364,637)	(1,159,109,794)
	<u>(600,636,985)</u>	<u>(409,394,118)</u>
Adjusted net income for the year	90,277,794	75,276,382
	<u>(510,359,191)</u>	<u>(334,117,736)</u>

As the zakat base for the years 2012 and 2011 are negative, zakat is calculated based on adjusted net income for the years ended 31 December, attributable to the ultimate Saudi shareholders as follows:

	2012 SR	2011 SR
Adjusted net income attributable to Saudi shareholders	59,763,900	49,832,964
Zakat @ 2.5%	1,494,097	1,245,824
Zakat under protest	-	(149,691)
	<u>1,494,097</u>	<u>1,096,133</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2012

15. ZAKAT AND INCOME TAX (Continued)

Movement in provision

	2012 SR	2011 SR
Balance as at 1 January	1,710,234	1,529,662
Provided during the year	1,494,097	1,096,133
Payment during the year	(1,245,824)	(915,561)
	<u>1,958,507</u>	<u>1,710,234</u>
Balance as at 31 December	<u>1,958,507</u>	<u>1,710,234</u>

b) *Income tax*

Charge for the year

Income tax liability for the years 2012 and 2011 has been calculated based on adjusted net income for the years ended 31 December as follows:

	2012 SR	2011 SR
Adjusted net income attributable to Non-Saudi shareholders	30,325,359	25,393,866
Income tax payable @ 20%	6,065,072	5,078,773
Income tax under protest (see note (c) below)	870,357	623,822
	<u>6,935,429</u>	<u>5,702,595</u>

Movement in provision

	2012 SR	2011 SR
Balance as at 1 January	2,454,865	1,415,424
Provided during the year	6,935,429	5,702,595
Payment during the year	(5,306,166)	(4,663,154)
	<u>4,084,128</u>	<u>2,454,865</u>
Balance as at 31 December	<u>4,084,128</u>	<u>2,454,865</u>

c) *Status of assessments*

Zakat assessment for the period ended 31 December 2001 and for the years ended 31 December 2002, 31 December 2003 and 31 December 2004 have been assessed at SR 3.8 million in excess of the provision made in these financial statements. This is principally due to the fact that the Department of Zakat and Income Tax ("DZIT") has not allowed a deduction from zakat base of the net investment in finance leases.

The Company has appealed against this treatment but its appeal was disallowed early in 2010 by the Preliminary Appeal Committee. The Company has filed an appeal to the Higher Appeal Committee. There is a potential risk of an additional claim of SR 81.4 million, if the same principle were to be applied for all subsequent periods up to 31 December 2012.

Saudi ORIX Leasing Company
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2012

15. ZAKAT AND INCOME TAX (Continued)

c) *Status of assessments (continued)*

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

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

Further, the Company has protested the disallowances of the provision for lease losses in the adjusted profits and has filed an appeal against the same. For the year ended 31 December 2012, in order to avoid any penalty due to late payments, the Company has in addition to the zakat and income tax liability indicated in the returns, paid / provided income tax of SR 870,357 (2011: SR 623,822). This payment / provision has been made "under protest" on behalf of the shareholders.

16. BASIC AND DILUTED EARNINGS PER SHARE

The basic and diluted earnings per share is calculated by dividing the net income for the year attributable to the shareholders by 34 million shares.

The basic and diluted earnings per share for the comparative year has been retrospectively adjusted to reflect the effect of the capital increase.

17. OTHER OPERATING INCOME

	2012 SR	2011 SR
Liabilities written back	1,548,621	-
Others	1,557,018	828,517
	<u>3,105,639</u>	<u>828,517</u>

18. COMMITMENTS

	2012 SR	2011 SR
Finance lease contracts not yet executed	57,714,914	175,111,281
Operating lease commitments for office premises	7,862,517	462,500
Letter of credit	78,806,250	75,211,264
Bank guarantees issued on behalf of the Company	6,708,811	6,708,811

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2012

19. SEGMENT REPORTING

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

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

20. CAPITAL ADEQUACY

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

	31 December 2012		31 December 2011	
	Total capital ratio %	Tier I capital ratio %	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratios	29.55%	28.30%	29.93%	28.68%

21. RISK MANAGEMENT

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such as security deposits and personal guarantees. Individual lease contracts generally are for terms not exceeding forty-eight months.

Concentrations of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company manages its credit risk exposure through diversification of leasing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.

The credit risks on gross amounts due in relation to the investment in finance leases is mitigated by the retention of title on leased assets and security deposits.

The Company follows a credit classification mechanism, primarily driven by days delinquency as a tool to manage the quality of credit risk of the lease portfolio. The Company presently maintains four grades which differentiate between performing and non-performing portfolios and allocates provisions accordingly.

Special commission rate risk

Special commission rate risk is the uncertainty of future earnings resulting from fluctuations in special commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to special commission rate adjustment within a specified period. The most important source of such rate risk is the Company's borrowings, and leasing activities, where fluctuations in special commission rates, if any, are reflected in the results of operations.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2012

21. RISK MANAGEMENT (Continued)

Special commission rate risk (continued)

Special commission rate gap is a common measure of rate risk. A positive gap occurs when more assets than liabilities are subject to rate changes during a prescribed period of time. A negative gap occurs when liabilities exceed assets subject to rate changes during a prescribed period of time.

The effective special commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate of a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The Company's exposure to the risk of changes in special commission rates, before the effect of any hedging, relates primarily to the Company's long term debt and sukuk obligations with floating special commission rate amounting to SR 502 million (2011: 359 million).

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

The contractual maturities of liabilities have been determined on the basis of the remaining period at the balance sheet 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 summarises the maturity profile of the Company's liabilities based on contractual undiscounted payments.

	<i>Within 3 months SR</i>	<i>3 to 12 months SR</i>	<i>1 to 5 years SR</i>	<i>No fixed maturity SR</i>	<i>Total SR</i>
31 December 2012					
<i>Liabilities</i>					
Short term loans	304,206,598	-	-	-	304,206,598
Accounts payable	85,192,968	-	-	-	85,192,968
Accrued expenses and other liabilities	44,109,347	-	-	-	44,109,347
Long term loans	42,550,812	100,902,784	371,703,443	-	515,157,039
Sukuk	2,190,527	6,659,791	257,665,164	-	266,515,482
Employees' terminal benefits	-	-	-	6,436,034	6,436,034
	478,250,252	107,562,575	629,368,607	6,436,034	1,221,617,468
31 December 2011					
<i>Liabilities</i>					
Short term loans	100,469,628	-	-	-	100,469,628
Accounts payable	62,125,800	-	-	-	62,125,800
Accrued expenses and other liabilities	32,749,773	-	-	-	32,749,773
Long term loans	139,234,324	89,371,760	437,453,583	-	666,059,667
Employees' terminal benefits	-	-	-	5,332,046	5,332,046
	334,579,525	89,371,760	437,453,583	5,332,046	866,736,914

The Company has unutilised bank facilities of SR 674 million (2011: SR 250 million) as at balance sheet date to meet liquidity requirements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 December 2012

21. RISK MANAGEMENT (Continued)

Liquidity risk (continued)

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

	<i>Less than 12 months</i>	<i>More than 12 months</i>	2012 SR	<i>Less than 12 months</i>	<i>More than 12 months</i>	2011 SR
Cash and cash equivalents	218,650,229	-	218,650,229	70,928,689	-	70,928,689
Net investment in finance leases	708,864,341	693,500,296	1,402,364,637	606,878,380	552,231,414	1,159,109,794
Advances, prepayment and other receivables	5,278,250	-	5,278,250	5,917,380	-	5,917,380
Fixed assets	-	2,178,931	2,178,931	-	1,795,252	1,795,252
Total assets	932,792,820	695,679,227	1,628,472,047	683,724,449	554,026,666	1,237,751,115
Short term loans and current maturity of long term loans	435,222,666	-	435,222,666	314,261,436	-	314,261,436
Accounts payable	85,192,968	-	85,192,968	62,125,800	-	62,125,800
Accrued expenses and other liabilities	44,109,347	-	44,109,347	32,749,773	-	32,749,773
Long term loans	-	357,838,627	357,838,627	-	422,442,742	422,442,742
Sukuk	-	234,197,620	234,197,620	-	-	-
Employees' terminal benefits	-	6,436,034	6,436,034	-	5,332,046	5,332,046
Fair value of derivatives	-	134,513	134,513	-	77,490	77,490
Total liabilities	564,524,981	598,606,794	1,163,131,775	409,137,009	427,852,278	836,989,287
Net	368,267,839	97,072,433	465,340,272	274,587,440	126,174,388	400,761,828

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

	2012 SR	2011 SR
<i>Balances:</i>		
Advances, prepayments and other receivables	627,439	496,800
Directors' remuneration payable	1,350,000	1,350,000
Short term loan	64,000,000	-
Accrued special commission	26,816	-
Rent and premise related advance on subletting to an affiliate	344,898	344,898
<i>Transactions:</i>		
Rent and premises related expenses	2,255,000	1,880,000
Rent and premises related income on subletting to an affiliate	1,167,348	1,167,348
Special commission expenses and other bank charges	1,270,801	64,928
Key management remuneration	6,891,945	6,029,499

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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23. COMPARATIVE FIGURES

Prior year figures have been reclassified wherever necessary to conform to current year presentation.

24. BOARD OF DIRECTORS' APPROVAL

The Board of Directors has proposed cash dividend of SR 0.75 per share (2011: SR 0.75 per share) for the year ended 31 December 2012 each which is subject to the approval of shareholders.

These financial statements were approved by the Board of Directors on 16 Rabi Al Awal 1434H (corresponding to 28 January, 2013).