SAUDI ORIX LEASING COMPANY
(Closed Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2011

ERNST & YOUNG

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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 2011 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 2011 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

5 PROFESSIONAL LICENCE No. 45 ERNST & YOUNG

Riyadh: 8 Rabi Al Awal 1433H
(31 January 2012)

BALANCE SHEET

As at 31 December 2011

	Notes	*2011* SR	*2010* SR
ASSETS			
Cash and cash equivalents	3	**70,928,689**	41,001,445
Net investment in finance leases	4	**1,159,109,794**	945,562,306
Advances, prepayments and other receivables	5	**5,917,380**	3,765,380
Fixed assets	6	**1,795,252**	1,731,769
TOTAL ASSETS		**1,237,751,115**	992,060,900
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Short term loans	7	**99,996,871**	-
Current maturity of long term loans	7	**214,264,565**	122,929,629
Accounts payable	8	**62,125,800**	52,406,547
Accrued expenses and other liabilities	9	**32,749,773**	38,310,147
Long term loans	10	**422,442,742**	427,709,194
Employees' terminal benefits		**5,332,046**	4,132,418
Fair value of derivatives	11	**77,490**	287,450
TOTAL LIABILITIES		**836,989,287**	645,775,385
SHAREHOLDERS' EQUITY			
Share capital	12	**300,000,000**	250,000,000
Statutory reserve	12	**27,546,717**	20,170,219
Reserve for the issue of bonus shares	22	**40,000,000**	50,000,000
Retained earnings		**10,792,601**	7,652,746
Cash flow hedge reserve	11	**(77,490)**	(287,450)
Proposed dividend		**22,500,000**	18,750,000
TOTAL SHAREHOLDERS' EQUITY		**400,761,828**	346,285,515
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,237,751,115**	992,060,900

The attached notes 1 to 22 form an integral part of these financial statements.

STATEMENT OF INCOME
For the year ended 31 December 2011

	Notes	*2011* *SR*	*2010* *SR*
INCOME			
Lease finance income		**133,098,464**	118,200,998
Investment income		**-**	3,688
Total lease finance and investment income		**133,098,464**	118,204,686
Less:			
Special commission expense including amortisation of transaction cost		**15,972,773**	25,059,280
Net lease finance and investment income		**117,125,691**	93,145,406
Add:			
Other operating income		**828,517**	1,329,829
TOTAL OPERATING INCOME		**117,954,208**	94,475,235
OPERATING EXPENSES			
Salaries and employee related expenses		**30,538,341**	26,709,293
Rent and premises related expenses, net		**996,240**	1,258,509
Depreciation	6	**657,603**	691,628
General and administrative expenses	13	**2,768,912**	2,839,739
Provision for lease losses		**9,228,132**	9,044,796
TOTAL OPERATING EXPENSES		**44,189,228**	40,543,965
NET INCOME FOR THE YEAR		**73,764,980**	53,931,270
Basic and diluted earnings per share	15	**2.46**	1.80

The attached notes 1 to 22 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 2011

	2011 SR	2010 SR
Cash flows from operating activities:		
Net income for the year	**73,764,980**	53,931,270
Adjustments to reconcile net income to net cash from operating activities:		
Amortisation of transaction cost	**282,002**	170,643
Depreciation	**657,603**	691,628
Provision for lease losses	**9,228,132**	9,044,796
Gain on disposal of fixed assets	**(14,759)**	(7,200)
Operating cash flows before changes in operating assets and liabilities	**83,917,958**	63,831,137
Changes in operating assets and liabilities		
Net investment in finance leases	**(222,775,620)**	(6,085,554)
Advances, prepayments and other receivables	**(2,152,000)**	(620,225)
Accounts payable	**9,719,253**	28,975,413
Accrued expenses and other liabilities	**(6,780,387)**	4,525,223
Employees' terminal benefits	**1,199,628**	866,166
Net cash (used in) from operating activities	**(136,871,168)**	91,492,160
Cash flows from investing activities:		
Purchase of fixed assets	**(825,217)**	(293,916)
Proceeds from disposal of fixed assets	**118,890**	7,200
Net cash used in investing activities	**(706,327)**	(286,716)
Cash flows from financing activities:		
Proceeds from loans	**539,584,859**	150,000,000
Repayment of loans	**(353,780,321)**	(201,800,052)
Transaction cost paid	**(21,185)**	(973,651)
Income tax paid on behalf of non-Saudi shareholders	**(4,663,154)**	(3,747,784)
Zakat paid on behalf of Saudi shareholders	**(915,561)**	(510,811)
Dividends paid, net	**(12,699,899)**	(9,542,515)
Net cash from (used in) financing activities	**167,504,739**	(66,574,813)
Net increase in cash and cash equivalents	**29,927,244**	24,630,631
Cash and cash equivalents at the beginning of the year	**41,001,445**	16,370,814
Cash and cash equivalents at the end of the year	**70,928,689**	41,001,445
Supplemental disclosures		
Special commission paid	**25,120,939**	21,116,429
Non-cash activity during the year		
Zakat accrued on behalf of Saudi shareholders	**1,096,133**	1,065,252
Income tax accrued on behalf of non-Saudi shareholders	**5,702,595**	4,330,298

The attached notes 1 to 22 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2011

	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 2010	250,000,000	14,777,092	-	24,052,668	(604,481)	18,750,000	306,975,279
Net income for the year	-	-	-	53,931,270	-	-	53,931,270
Transfer to statutory reserve	-	5,393,127	-	(5,393,127)	-	-	-
Net change in fair value	-	-	-	-	317,031	-	317,031
Net dividends paid	-	-	-	-	-	(9,542,515)	(9,542,515)
Zakat accrued (note 14)	-	-	-	(1,065,252)	-	-	(1,065,252)
Zakat recovered	-	-	-	1,692,747	-	(1,692,747)	-
Income tax accrued (note 14)	-	-	-	(4,330,298)	-	-	(4,330,298)
Income tax recovered	-	-	-	7,514,738	-	(7,514,738)	-
Transfer to reserve for the issue of bonus shares	-	-	50,000,000	(50,000,000)	-	-	-
Proposed dividend	-	-	-	(18,750,000)	-	18,750,000	-
Balance as at 31 December 2010	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 12)	50,000,000	-	(50,000,000)	-	-	-	-
Zakat accrued (note 14)				(1,096,133)	-	-	(1,096,133)
Zakat recovered	-	-	-	915,561	-	(915,561)	-
Income tax accrued (note 14)	-	-	-	(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**

Analysis of retained earnings	*Saudi Shareholders SR*	*Non-Saudi shareholders SR*	*Total SR*
Balance as at 1 January 2010	19,328,893	4,723,775	24,052,668
Net income for the year	35,702,501	18,228,769	53,931,270
Transfer to the statutory reserve	(3,570,250)	(1,822,877)	(5,393,127)
Zakat/income tax recovered	1,692,747	7,514,738	9,207,485
Zakat/income tax provision	(1,065,252)	(4,330,298)	(5,395,550)
Transfer to reserve for the issue of bonus shares	(33,100,000)	(16,900,000)	(50,000,000)
Proposed dividend	(12,412,500)	(6,337,500)	(18,750,000)
Balance as at 31 December 2010	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**

The attached notes 1 to 22 form an integral part of these financial statements.

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 (2010: three branches) in the Kingdom of Saudi Arabia. The Company had 123 (2010: 118) employees as at 31 December 2011.

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.

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:

	Years
Leasehold improvements	10
Motor vehicles	5
Office furniture and fixtures	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.

Short-term and long-term loans

These loans include special commission bearing borrowings 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.

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:

	2011 *SR*	*2010* *SR*
Cash at banks	**70,913,689**	40,986,508
Cash in hand	**15,000**	14,937
	70,928,689	41,001,445

4. NET INVESTMENT IN FINANCE LEASES

	2011 *SR*	*2010* *SR*
Lease receivables		
- Performing	**1,575,442,154**	1,277,979,091
- Non-performing	**14,220,639**	9,446,031
Residual value	**544,565,995**	469,618,659
Gross investment in finance leases	**2,134,228,788**	1,757,043,781
Non-refundable security deposits	**(543,789,780)**	(468,815,602)
Prepaid lease rentals	**(194,170,108)**	(159,440,618)
Unearned lease finance income	**(170,173,467)**	(125,467,748)
Net investment in finance leases	**1,226,095,433**	1,003,319,813
Provision for lease losses	**(66,985,639)**	(57,757,507)
	1,159,109,794	945,562,306

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:

	2011 *SR*		*2010* *SR*	
	MLPs	*PV of MLPs*	*MLPs*	*PV of MLPs*
Not later than one year	**953,383,903**	**641,950,239**	833,402,928	577,201,944
Later than one year but not later than five years	**1,174,012,193**	**583,814,718**	922,196,983	425,940,746
Later than five years	**6,832,692**	**330,476**	1,443,870	177,123
	2,134,228,788	**1,226,095,433**	1,757,043,781	1,003,319,813

4. NET INVESTMENT IN FINANCE LEASES (Continued)

Economic sector risk concentrations for amounts due under net investment in finance leases are as follows:

	Performing lease contracts, net	*Non-performing lease contracts, net*	*Allowance for lease losses*	*Investment in finance leases, net*
As at 31 December 2011				
Manufacturing	419,202,651	9,015,519	(4,250,919)	423,967,251
Construction & contracting	313,290,370	996,540	(199,383)	314,087,527
Services	296,273,372	703,428	(703,428)	296,273,372
Trading	176,205,705	67,038	(67,038)	176,205,705
Others	10,009,873	330,937	(330,937)	10,009,873
Collective impairment provision	-	-	(61,433,934)	(61,433,934)
	1,214,981,971	**11,113,462**	**(66,985,639)**	**1,159,109,794**
As at 31 December 2010				
Manufacturing	357,152,034	6,086,051	(5,697,617)	357,540,468
Construction & contracting	247,069,391	58,707	(58,707)	247,069,391
Services	258,372,502	829,434	(727,314)	258,474,622
Trading	120,083,869	67,038	(67,038)	120,083,869
Others	13,256,273	344,514	(339,479)	13,261,308
Collective impairment provision	-	-	(50,867,352)	(50,867,352)
	995,934,069	7,385,744	(57,757,507)	945,562,306

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

	2011 SR	*2010 SR*
Balance at the beginning of the year	**57,757,507**	48,712,711
Provision for the year	**9,228,132**	9,044,796
	66,985,639	57,757,507

5. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	2011 SR	*2010 SR*
Loans and advances to staff	**1,976,011**	1,673,404
Advance against letter of credit (note 16)	**1,382,643**	-
Other receivables from lessees	**681,000**	723,052
Prepaid rent	**656,218**	793,875
Prepaid insurance	**311,072**	80,036
Receivable from insurance companies	**178,032**	-
Prepaid visa cost	**91,212**	60,291
Others	**641,192**	434,722
	5,917,380	3,765,380

6. FIXED ASSETS

	Leasehold improvements SR	*Office furniture and fixtures SR*	*Motor vehicles SR*	*Information technology equipment SR*	***2011 Total SR***	*2010 Total SR*
Cost:						
Balance at the beginning of the year	901,540	1,668,423	662,150	2,539,901	**5,772,014**	5,512,098
Additions during the year	41,051	95,967	94,600	593,599	**825,217**	293,916
Disposals	(62,606)	(64,317)	-	(89,284)	**(216,207)**	(34,000)
Balance at the end of the year	879,985	1,700,073	756,750	3,044,216	**6,381,024**	5,772,014
Depreciation:						
Balance at the beginning of the year	316,107	1,394,643	335,958	1,993,537	**4,040,245**	3,382,617
Charge for the year	86,423	146,735	126,855	297,590	**657,603**	691,628
Disposals	(17,738)	(34,815)	-	(59,523)	**(112,076)**	(34,000)
Balance at the end of the year	384,792	1,506,563	462,813	2,231,604	**4,585,772**	4,040,245
Net book value:						
At 31 December 2011	**495,193**	**193,510**	**293,937**	**812,612**	**1,795,252**	
At 31 December 2010	585,433	273,780	326,192	546,364		1,731,769

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

	2011 *SR*	*2010* *SR*
Short term loans	**99,996,871**	-
Current maturity of long term loans (note 10)	**214,264,565**	122,929,629

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

	2011 *SR*	*2010* *SR*
Proposed lease related payables (a)	**12,714,608**	12,706,037
Zakat & income tax accrued on behalf of shareholders	**4,165,099**	2,945,086
Accrued special commission expense	**3,646,970**	13,077,138
Insurance premium payable	**2,258,933**	1,557,040
Insurance claims to be settled	**1,161,471**	1,059,538
Salaries and employee related expenses	**5,538,567**	4,550,145
Legal and professional charges	**675,533**	506,268
Others	**2,588,592**	1,908,895
	32,749,773	38,310,147

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

	2011 *SR*	*2010* *SR*
Long term loans (a)	**541,182,316**	444,749,647
International Finance Corporation loan (b)	**96,249,942**	106,874,944
Less: unamortised transaction costs	**(724,951)**	(985,768)
	636,707,307	550,638,823
Less: current maturity (note 7)	**(214,264,565)**	(122,929,629)
	422,442,742	427,709,194

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 555,585 (2010: SR 783,841) has been netted off from the loan amount and is amortised over the term of loan on an effective yield basis.

11. DERIVATIVES

As at 31 December 2011, the Company held Interest Rate Swaps ("IRS") of a notional value of around SR 121 million (2010: SR 34 million), in order to reduce its exposure to interest rate risks against long term loans.

Fair value of cash flows hedge of SR 77,490 (2010: SR 287,450) represents the negative mark to market values of the interest rate swaps as of 31 December 2011. 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.

12. SHARE CAPITAL AND STATUTORY RESERVE

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

Shareholders	*Ownership percentage*	*Number of shares*	*Share capital (Amount in SR)*
The Saudi Investment Bank ("SAIB")	37.995%	11,398,500	113,985,000
Trade Development & Investment Group Limited	32.000%	9,600,000	96,000,000
Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi	0.005%	1,500	15,000
ORIX Corporation – Japan	27.500%	8,250,000	82,500,000
ORIX Leasing Pakistan Limited – Pakistan	2.500%	750,000	7,500,000
		30,000,000	**300,000,000**

The portion of Saudi to non-Saudi shareholders (including non-Saudi shareholders in SAIB) is 66.2% to 33.8% (2010: 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.

13. GENERAL AND ADMINISTRATIVE EXPENSES

	2011 *SR*	*2010* *SR*
License, legal and professional charges	**1,207,917**	1,235,182
Communication expenses	**604,446**	555,280
Office repair and maintenance cost	**210,022**	255,506
Printing and stationery	**201,096**	183,315
Travelling and transportation	**177,584**	123,817
Advertising and promotion expenses	**157,695**	218,587
Insurance of own assets	**49,659**	53,757
Others	**160,493**	214,295
	2,768,912	2,839,739

14. ZAKAT AND INCOME TAX

a) Zakat

Charge for the year
The zakat charge of SR 1,096,133 (2010: SR 1,065,252) for the year consists of the current year provision and is based on the following:

	2011 *SR*	*2010* *SR*
Shareholders' equity at beginning	**333,585,616**	297,432,764
Opening provisions and adjustments	**3,985,819**	2,958,210
Borrowings, net	**415,073,742**	441,220,157
Book value of long term assets	**(1,940,377)**	(1,927,461)
Net investment in finance leases	**(1,159,109,794)**	(945,562,306)
	(408,404,994)	(205,878,636)
Adjusted net income for the year	**75,276,382**	55,320,909
Zakat base	**(333,128,612)**	(150,557,727)

As the zakat base for the years 2011 and 2010 are negative, zakat is calculated based on adjusted net income for the years ended 31 December, attributable to the ultimate Saudi shareholders as follows:

	2011 *SR*	*2010* *SR*
Adjusted net income attributable to Saudi shareholders	**49,832,964**	36,622,442
Zakat @ 2.5%	**1,245,824**	915,561
Zakat under protest (see note (c) below)	**(149,691)**	149,691
Net amount charged to retained earnings	**1,096,133**	1,065,252

14. ZAKAT AND INCOME TAX (Continued)

Movement in provision

	2011 *SR*	*2010* *SR*
Balance as at 1 January	**1,529,662**	1,380,574
Provided during the year	**1,096,133**	1,065,252
Payment during the year	**(915,561)**	(510,811)
Refundable amount adjusted against Zakat payment	**-**	(405,353)
Balance as at 31 December	**1,710,234**	1,529,662

b) Income tax

Charge for the year
Income tax liability for the years 2011 and 2010 has been calculated based on adjusted net income for the year ended 31 December as follows:

	2011 *SR*	*2010* *SR*
Adjusted net income attributable to Non-Saudi shareholders	**25,393,866**	18,594,349
Income tax payable @ 20%	**5,078,773**	3,718,869
Income tax under protest (see note (c) below)	**623,822**	611,429
	5,702,595	4,330,298

Movement in provision

	2011 *SR*	*2010* *SR*
Balance as at 1 January	**1,415,424**	427,557
Provided during the year	**5,702,595**	4,330,298
Payment during the year	**(4,663,154)**	(3,747,784)
Refundable amount adjusted against Zakat payment	**-**	405,353
Balance as at 31 December	**2,454,865**	1,415,424

14. ZAKAT AND INCOME TAX (Continued)

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 5.5 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 83.5 million, if the same principle were to be applied for all subsequent periods up to 31 December 2011.

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 2011, in order to avoid any penalty due to late payments, the Company has in addition to the zakat and income tax liability indicated in the returns, provided /paid income tax of SR 623,822 (2010: SR 611,429) and reversed excess provision for zakat of SR 149,691 provided in 2010. These payments / provisions have been made "under protest" on behalf of the shareholders.

15. 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 30 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.

16. COMMITTMENTS

	2011 *SR*	*2010* *SR*
Finance lease contracts not yet executed	**175,111,281**	114,784,926
Operating lease commitments for office premises	**462,500**	2,291,998
Letter of credit	**75,211,264**	-
Bank guarantees issued on behalf of the Company	**6,708,811**	1,708,811

Increase in outstanding letter of credit is attributed to a new syndicated lease arrangement that the Company is in the process of finalising as of the year end. The gross lease amount of the syndicated arrangement is expected to be SR 75 million. Advances against letter of credit as disclosed in note 5 represents related bank charges, which will be adjusted against the lease.

17. 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.

18. 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 to reflect their relative risk.

	31 December 2011		*31 December 2010*	
	Total capital ratio %	***Tier I capital ratio %***	*Total capital ratio %*	*Tier I capital ratio %*
Capital adequacy ratios	**29.93%**	**28.68%**	31.68%	30.43%

19. 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.

For details of the composition of the investment in finance leases portfolio refer to note 4.

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 investment and leasing activities, where fluctuations in special commission rates, if any, are reflected in the results of operations.

19. RISK MANAGEMENT (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 obligations with floating special commission rate amounting to SR 359 million (2010: 223 million) having an overall effective commission rate of 3.33% (2010: 4.30%).

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.

31 December 2011	*Within 3 months SR*	*3 to 12 months SR*	*1 to 5 years SR*	*No fixed maturity SR*	*Total SR*
Liabilities					
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**
31 December 2010					
Liabilities					
Short term loans	-	-	-	-	-
Accounts payable	52,406,547	-	-	-	52,406,547
Accrued expenses and other liabilities	38,310,147	-	-	-	38,310,147
Long term loans	40,154,849	102,646,575	467,280,556	-	610,081,980
Employees' terminal benefits	-	-	-	4,132,418	4,132,418
	130,871,543	102,646,575	467,280,556	4,132,418	704,931,092

The Company has unutilised bank facilities of SR 250 million (2010: SR 474 million) as at balance sheet date to meet liquidity requirements.

19. 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.

	Less than 12 months	*More than 12 months*	***2011 SR***	*Less than 12 months*	*More than 12 months*	*2010 SR*
Cash and cash equivalents	70,928,689	-	**70,928,689**	41,001,445	-	41,001,445
Net investment in finance leases	606,878,380	552,231,414	**1,159,109,794**	577,201,944	368,360,362	945,562,306
Advances, prepayment and other receivables	5,917,380	-	**5,917,380**	3,765,380	-	3,765,380
Fixed assets	-	1,795,252	**1,795,252**	-	1,731,769	1,731,769
Total assets	683,724,449	554,026,666	**1,237,751,115**	621,968,769	370,092,131	992,060,900
Short term loans and current maturity of long term loans	314,261,436	-	**314,261,436**	122,929,629	-	122,929,629
Accounts payable	62,125,800	-	**62,125,800**	52,406,547	-	52,406,547
Accrued expenses and other liabilities	32,749,773	-	**32,749,773**	38,310,147	-	38,310,147
Long term loans	-	422,442,742	**422,442,742**	-	427,709,194	427,709,194
Employees' terminal benefits	-	5,332,046	**5,332,046**	-	4,132,418	4,132,418
Fair value of derivatives	-	77,490	**77,490**	-	287,450	287,450
Total liabilities	409,137,009	427,852,278	**836,989,287**	213,646,323	432,129,062	645,775,385
Net	274,587,440	126,174,388	**400,761,828**	408,322,446	(62,036,931)	346,285,515

20. 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 with technical assistance from ORIX Corporation, Japan and ORIX Leasing Pakistan Limited at no cost under an arrangement. Other amounts relating to its shareholders and associates included in the financial statements which have been transacted are as follows:

	2011 SR	*2010 SR*
<u>Balances:</u>		
Advances, prepayments and other receivables	**496,800**	462,500
Directors' award payable	**1,350,000**	1,350,000
<u>Transactions:</u>		
Rent and premises related expenses	**1,880,000**	1,897,500
Rent and premises related income on subletting to an affiliate	**1,167,348**	1,167,348
Special commission expenses on overdrafts and bank charges	**64,928**	504,045

21. COMPARATIVE FIGURES

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

22. BOARD OF DIRECTORS' APPROVAL

The Board of Directors has proposed cash dividend of SR 0.75 per share (2010: SR 0.75 per share) for the year ended 31 December 2011 and a bonus issue of 4,000,000 shares (2010: 5,000,000 shares) at nominal value of SR 10 each which are subject to the approval of shareholders.

These financial statements were approved by the Board of Directors on 8 Rabi Al Awal 1433H (corresponding to 31 January, 2012).