

**ALAMTHAL FINANCING AND LEASING COMPANY LTD.
(LIMITED LIABILITY COMPANY)**

**FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2013**

**ALAMTHAL FINANCING AND LEASING COMPANY LTD.
(LIMITED LIABILITY COMPANY)**

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FOR THE YEAR ENDED DECEMBER 31, 2013**

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AUDITORS' REPORT

To the Shareholders
Alamthal Financing and Leasing Company Ltd.
(a Saudi limited liability company)
Riyadh, Kingdom of Saudi Arabia

Scope of Audit

We have audited the accompanying balance sheet of Alamthal Financing and Leasing Company Ltd. (a Saudi limited liability company) (the "Company") as at December 31, 2013, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes from 1 to 21 which form an integral part of these financial statements as prepared by the Company in accordance with Article 175 of the Regulations for Companies and submitted to us with all the necessary information and explanations. These financial statements 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 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 standards used 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, the accompanying financial statements, taken as a whole, present fairly, in all material respects, the financial position of the Company as at December 31, 2013, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Company and comply with the relevant provisions of the Regulations for Companies and the articles of associations of the Company as these relate the preparation and presentation of these financial statements.

Emphasis of a Matter

Without qualifying our opinion, we draw attention to the following:

- 1- As disclosed in note 1 to the accompanying financial statements, the Company has submitted a request to Saudi Arabian Monetary Agency on Safar 2, 1435H (corresponding to December 5, 2013) to obtain a license to practice the operating lease activity in the Kingdom of Saudi Arabia. The regulatory procedures with respect to obtain the license are still under review by Saudi Arabian Monetary Agency until the date of preparation of these financial statements.
- 2- As disclosed in notes 1 and 19 to the accompanying financial statements, the shareholders resolved in their meeting on June 10, 2013 to increase the share capital of the Company from SR 20 million to SR 100 million. Subsequent to the balance sheet date on February 10, 2014, the shareholders have also resolved to amend their previous resolution which was dated on June 10, 2013 to increase the share capital of the Company to become SR 200 million instead of SR 100 million while retaining all the shareholders in the proportions of their share in share capital of the Company without change. The regulatory procedures with respect to amend the articles of association and the commercial registration of the Company have not finished yet.
- 3- As disclosed in note 11 to the accompanying financial statements, the loan from shareholders amounting SR 104 million matured but was not yet paid as at December 31, 2013, and there is no resolution from shareholders to extend its maturity date.

Deloitte & Touche
Bakr Abulkhair & Co.



Bakr A. Abulkhair
(License No. 101)

Jumada Al-Awal 26, 1435
March 27, 2014

ALAMTHAL FINANCING AND LEASING COMPANY LTD.
(LIMITED LIABILITY COMPANY)

BALANCE SHEET
AS AT DECEMBER 31, 2013

	Notes	2013 SR	2012 SR
ASSETS			
Cash and cash equivalent	3	37,882,410	31,588,320
Receivable from finance lease contracts, net	4	252,407,814	162,217,780
Vehicles held for sale, net		1,764,503	191,500
Due from a related party	5	1,007,630	702,983
Advances to suppliers		354,905	4,311,182
Prepaid expenses and other assets	6	8,404,597	8,543,305
Property and equipment, net	7	4,874,873	6,752,401
TOTAL ASSETS		306,696,732	214,307,471
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Trade payables		10,045,472	736,425
Accrued expenses and other liabilities	8	3,286,911	3,690,572
Provision for zakat and income tax	9	13,939,576	9,111,987
Bank loans	10	35,856,378	49,818,347
Loan from shareholders	11	104,000,000	104,000,000
End-of-service benefits	12	5,252,237	4,707,269
Total liabilities		172,380,574	172,064,600
Shareholders' equity			
Share capital	1	20,000,000	20,000,000
Proposed increase in share capital	1 & 19	80,000,000	-
Additional share capital	15	20,000,000	-
Statutory reserve	13	3,739,910	3,049,148
Subordinated loan from the shareholders	14	10,000,000	20,000,000
Retained earnings / (accumulated deficit)		576,248	(806,277)
Total shareholders' equity		134,316,158	42,242,871
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		306,696,732	214,307,471

The accompanying notes form an integral part of these financial statements

**ALAMTHAL FINANCING AND LEASING COMPANY LTD.
(LIMITED LIABILITY COMPANY)**

**STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Notes	2013 SR	2012 SR
Finance lease revenue		30,958,776	25,233,793
Finance charges	5	(2,528,996)	(3,692,334)
Net revenue		28,429,780	21,541,459
Gain on insurance cost recovered from customers		263,727	448,818
Commissions revenue		707,378	690,230
Gross profit		29,400,885	22,680,507
General and administrative expenses	16	(23,053,682)	(21,825,894)
Operating income		6,347,203	854,613
Other income	17	1,540,513	1,624,105
Provision for lease contracts impairment, net	4	(980,100)	(827,719)
NET INCOME FOR THE YEAR		6,907,616	1,650,999

The accompanying notes form an integral part of these financial statements

ALAMTHAL FINANCING AND LEASING COMPANY LTD.
(LIMITED LIABILITY COMPANY)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013 SR	2012 SR
OPERATING ACTIVITIES		
Net income for the year	6,907,616	1,650,999
Adjustments for:		
Depreciation	2,488,241	2,868,804
Provision for lease contracts impairment, net	980,100	827,719
Income from sale of property and equipment	-	(124,105)
End-of-service benefits	906,715	1,315,884
Changes in operating assets and liabilities:		
Receivable from finance lease contracts	(91,170,134)	31,647,184
Vehicles held for sale	(1,573,003)	(128,020)
Advances to suppliers	3,956,277	(2,304,998)
Due from a related party	(304,647)	(22,766)
Prepaid expenses and other assets	138,708	(2,240,466)
Trade payables	9,309,047	686,994
Accrued expenses and other liabilities	(403,661)	7,422
End-of-service benefits paid	(361,747)	(300,663)
Zakat and income tax paid	(6,740)	-
Net cash (used in) from operating activities	(69,133,228)	33,883,988
INVESTING ACTIVITIES		
Purchase of property and equipment	(610,713)	(109,290)
Proceeds from sale of property and equipment	-	257,500
Net cash (used in) from investing activities	(610,713)	148,210
FINANCING ACTIVITIES		
Bank overdraft	-	(4,008,090)
Proceeds from bank loans	10,000,000	-
Repayments of bank loans	(23,961,969)	(19,095,616)
Proceeds from subordinated loan from a shareholder	10,000,000	-
Proceeds from proposed increase in share capital	60,000,000	-
Proceeds from additional share capital	20,000,000	-
Net cash from (used in) financing activities	76,038,031	(23,103,706)
Net change in cash and cash equivalent	6,294,090	10,928,492
Cash and cash equivalent, January 1	31,588,320	20,659,828
CASH AND CASH EQUIVALENT, DECEMBER 31	37,882,410	31,588,320
Non-cash transactions:		
Subordinated loan from shareholders transferred to proposed increase in share capital (Note 1 & 14)	20,000,000	-
Accrued zakat and income tax charged to shareholders' equity (Note 9)	4,834,329	4,859,405
Loan from shareholders charged to bank loans (Note 11)	-	26,000,000

The accompanying notes form an integral part of these financial statements

ALAMTHAL FINANCING AND LEASING COMPANY LTD.
(LIMITED LIABILITY COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013

	Notes	Share capital SR	Proposed increase in share capital SR	Additional share capital SR	Statutory reserve SR	Subordinated loan from the shareholders SR	(Accumulated deficit) / retained earnings SR	Total SR
Balance at January 1, 2012		20,000,000	-	-	2,884,048	20,000,000	2,567,229	45,451,277
Net income for the year		-	-	-	-	-	1,650,999	1,650,999
Transfer to statutory reserve	13	-	-	-	165,100	-	(165,100)	-
Zakat and income tax	9	-	-	-	-	-	(4,859,405)	(4,859,405)
Balance at December 31, 2012		20,000,000	-	-	3,049,148	20,000,000	(806,277)	42,242,871
Proposed increase in share capital	1 & 19	-	60,000,000	-	-	-	-	60,000,000
Additional share capital	15	-	-	20,000,000	-	-	-	20,000,000
Transferred from Subordinated loan from shareholders to proposed increase in share capital	14	-	20,000,000	-	-	(20,000,000)	-	-
Proceeds from subordinated loan from shareholders	14	-	-	-	-	10,000,000	-	10,000,000
Net income for the year		-	-	-	-	-	6,907,616	6,907,616
Transfer to statutory reserve	13	-	-	-	690,762	-	(690,762)	-
Zakat and income tax	9	-	-	-	-	-	(4,834,329)	(4,834,329)
Balance at December 31, 2013		20,000,000	80,000,000	20,000,000	3,739,910	10,000,000	576,248	134,316,158

The accompanying notes form an integral part of these financial statements

**ALAMTHAL FINANCING AND LEASING COMPANY LTD.
(LIMITED LIABILITY COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. ORGANIZATION AND ACTIVITY

Alamthal Financing and Leasing Company Ltd. (the "Company") is a Saudi limited liability company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010160349 dated on Rabi Al-Thani 28, 1421H (corresponding to July 30, 2000).

The share capital amounting to SR 20,000,000 consists of 20,000 shares of SR 1,000 each. The Company's shareholders and their respective holdings in the share capital of the Company as at December 31 were as follows:

<u>Shareholders</u>	<u>No. of shares</u>	<u>Share capital SR</u>
Al Bilad Establishment for Trading and Economy	10,000	10,000,000
FAL Holding Arabia Co. Ltd.	8,000	8,000,000
Banque Saudi Fransi	2,000	2,000,000
	<u>20,000</u>	<u>20,000,000</u>

On October 13, 2013, one of the shareholders which is Banque Saudi Fransi, waived all its shares in Alamthal Financing and Leasing Company Ltd. to Falcom Company for Financial Services. The regulatory procedures for the amendment in the articles of association and the commercial register of the Company have been completed.

The Company's shareholders and their respective holdings in the share capital of the Company after the withdrawal are as follows:

<u>Shareholders</u>	<u>No. of shares</u>	<u>Percentage of ownership</u>	<u>Share capital SR</u>
Al Bilad Establishment for Trading and Economy	10,000	50%	10,000,000
FAL Holding Arabia Co. Ltd.	8,000	40%	8,000,000
Falcom Company for Financial Services	2,000	10%	2,000,000
	<u>20,000</u>	<u>100%</u>	<u>20,000,000</u>

On June 10, 2013, the shareholders resolved to increase the share capital of the Company from SR 20 million to SR 100 million through increasing the share of Falcom Company for financial services in the Company from 10% to 20% and through new shareholders entering by subscription in share equaling 5% of the total shares in the Company for each of Mr. Fahed Bin Mohammad Bin Saleh Alathel and Fal Real Estate Company and by reducing the portions of the shareholders of Al-Bilad Establishment for Trading and Economy and FAL Holding Arabia Co. Ltd. by the percentages of 5% and 15% respectively, accordingly, all the current and the new shareholders have paid their portion in the residual amount of subscription of increase in share capital amounted to SR 80 million including repayment of SR 20 million in cash and transferring the subordinated loan from the shareholders amounted to SR 60 million to the proposed increase in share capital because the regulatory procedures with respect to amend the article of association and the commercial registration of the Company have not finalized yet.

**ALAMTHAL FINANCING AND LEASING COMPANY LTD.
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. ORGANIZATION AND ACTIVITY (Continued)

The shareholders and their portions in the share capital of the Company after the increase in share capital will be as follows:

<u>Shareholders</u>	<u>Number of shares</u>	<u>Percentage of ownership</u>	<u>Share capital SR</u>
Al Bilad Establishment for Trading and Economy	4,500,000	45%	45,000,000
FAL Holding Arabia Co. Ltd.	2,500,000	25%	25,000,000
Falcom Company for Finance Services	2,000,000	20%	20,000,000
FAL Real Estate Co.	500,000	5%	5,000,000
Mr. Fahed Bin Mohammad Bin Saleh Alathel	500,000	5%	5,000,000
	<u>10,000,000</u>	<u>100%</u>	<u>100,000,000</u>

The Company has submitted a request to Saudi Arabian Monetary Agency on Safar 2, 1435H (corresponding to December 5, 2013) to obtain a license to practice the operating lease activity in the Kingdom of Saudi Arabia. The regulatory procedures with respect to obtain the license are still under review by Saudi Arabian Monetary Agency until the date of preparation of these financial statements.

The Company has the following branches:

<u>Branch</u>	<u>Commercial registration number</u>
Khobar	1010160349/2
Jeddah	1010160349/3

The results, assets and liabilities of these branches are included in these financial statements.

The Company was established to undertake, leasing, and financing of dealer equipment and vehicles under general investment authority No. 102030104467 dated on Zul Hijjah 17, 1430 H. (corresponding to December 5, 2009).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA). The following is a summary of significant accounting policies applied by the Company:

Accounting convention

The financial statements are prepared under the accrual basis and historical cost convention except for vehicles held for sale which are stated at fair value or cost whichever is lower.

**ALAMTHAL FINANCING AND LEASING COMPANY LTD.
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting standards 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 date of the financial statements, and the reported amounts of revenues and expenses during the year. 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 equivalent

Cash and cash equivalent include cash on hand and cash at banks and time deposit with original maturities of three months or less from the date of acquisition.

Receivable from finance lease contracts, net

Gross amounts due under finance leases include the total of future lease payments on finance leases. The difference between such amounts and the cost of the leased asset plus lease origination costs is recorded as unearned finance income and is deducted, for presentation purposes from the gross amounts due under finance leases. Lease finance income is recognized over the term of the lease using a method which approximates the effective commission rate method.

Lease origination costs include the initial direct costs incurred by the Company in negotiating and arranging a lease.

Specific and collective impairment for lease contracts is determined and charged to cost of operation based on management's assessment as to whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amount. This assessment also includes such considerations as changes in the composition and volume of the gross amounts due under finance lease contracts, the fair value of guarantees (vehicles), historical loss experience on uncollectible leases, the relationship of the reserve to the finance lease contracts portfolio, general economic conditions and the financial condition of the customers including the collectibility of the outstanding lease finance receivables. For presentation purposes, the provision for lease losses is deducted from the gross amounts due from finance lease contracts. Amounts due under finance leases are written off only in circumstances where effectively all possible means of recovery have been exhausted.

Vehicles held for sale

Vehicles held for sale represent the returned cars from customers and are stated at fair value or cost whichever is lower.

ALAMTHAL FINANCING AND LEASING COMPANY LTD.
(LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. The estimated rates of depreciation of the principal classes of assets are as follows:

	<u>Percentage</u>
Leasehold improvements	10-20
Vehicles	25
Furniture, fixtures and office equipment	10-20
Computers and software	20-25

Impairment of assets value

The carrying amounts of tangible assets are reviewed regularly to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the assets or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the statement of income immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets or cash-generating unit in prior years. The reversal of an impairment loss is recognized in the statement of income.

End-of-service benefits

End-of-service benefits, required by Saudi Arabian Labor Law, are provided in the financial statements based on the employees' length of service.

Operating leases

Rental accrual expenses under operating leases are charged to statement of income on a straight-line basis over the period of the related lease.

Rental income under operating leases are charged to statement of income on a straight-line basis over the period of the related lease.

ALAMTHAL FINANCING AND LEASING COMPANY LTD.
(LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Zakat and income tax

The Company is subject to the Regulations of the Directorate of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is charged to Saudi shareholders' equity account while income tax is charged to foreign shareholders' equity account. (Zakat and income tax) are provided on an accruals basis. The zakat charge is computed on the zakat base. Income tax is computed on adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

Foreign currencies translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Saudi Riyals at the exchange rates prevailing at the year end. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income.

3. CASH AND CASH EQUIVALENT

	2013 SR	2012 SR
Cash on hand	25,000	45,000
Cash at banks	7,857,410	31,543,320
Short-term deposit	30,000,000	-
	<u>37,882,410</u>	<u>31,588,320</u>

The balance of short-term deposit matures during three months or less from the date of acquisition.

4. RECEIVABLE FROM FINANCE LEASE CONTRACTS, NET

Receivable from finance leases, net as at December 31 is summarized as follows:

	2013 SR	2012 SR
Gross amounts due on performing lease contracts	316,787,660	195,700,734
Gross amounts due on non-performing lease contracts	8,189,953	9,036,873
	<u>324,977,613</u>	<u>204,737,607</u>
Deduct: Unearned finance revenues	(46,717,001)	(24,950,674)
Unearned insurance revenue	(13,834,490)	(4,768,215)
Provision for lease contracts impairment	(12,018,308)	(12,800,938)
Receivable from finance lease contracts, net	<u>252,407,814</u>	<u>162,217,780</u>

The Company currently generates substantially all of its revenues from leasing motor vehicles in the Kingdom of Saudi Arabia. Gross amounts due in relation to the finance lease contracts are due primarily from domestic individual and corporate customers.

ALAMTHAL FINANCING AND LEASING COMPANY LTD.
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013

4. RECEIVABLE FROM FINANCE LEASE CONTRACTS, NET (Continued)

The movement in the provision for lease contracts impairment were as follows:

	2013 SR	2012 SR
Balance at January 1	12,800,938	16,823,047
Charge for the year	2,132,033	1,250,230
Recoveries	(1,151,933)	(422,511)
Balances written-off	(1,762,730)	(4,849,828)
Balance at December 31	<u>12,018,308</u>	<u>12,800,938</u>

The credit risks on gross amounts due in relation to the finance leases are mitigated by the retention of title on leased vehicles. Individual lease contracts generally are for terms not exceeding sixty months.

The maturity of gross amounts due from finance lease contracts outstanding as of December 31 were as follows:

	2013 SR	2012 SR
Within one year	168,344,830	128,268,368
From one to two years	88,582,516	68,905,404
From two to three years	54,109,030	6,593,637
From three to four years	10,641,718	851,498
From four to five years	3,299,519	118,700
	<u>324,977,613</u>	<u>204,737,607</u>

Economic sector risk concentrations for amounts due under finance lease contracts, net of unearned finance revenues, and specific and portfolio provision for lease impairment are as follows:

	Performing lease contracts, net SR	Non- performing lease contracts, net SR	Provision for lease contracts impairment SR	Receivable from finance lease contracts, net SR
As at December 31, 2013:				
Consumers	15,753,713	4,404,382	(3,338,194)	16,819,901
Companies	<u>240,482,456</u>	<u>3,785,571</u>	<u>(8,680,114)</u>	<u>235,587,913</u>
	<u>256,236,169</u>	<u>8,189,953</u>	<u>(12,018,308)</u>	<u>252,407,814</u>
As at December 31, 2012:				
Consumers	10,777,278	5,373,244	(4,484,209)	11,666,313
Companies	<u>155,204,567</u>	<u>3,663,629</u>	<u>(8,316,729)</u>	<u>150,551,467</u>
	<u>165,981,845</u>	<u>9,036,873</u>	<u>(12,800,938)</u>	<u>162,217,780</u>

ALAMTHAL FINANCING AND LEASING COMPANY LTD.
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013

5. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Company transacted with the following related parties. The terms of those billings and charges are approved by management:

Name	Relationship
Al Bilad Establishment for Trading and Economy	Shareholder
FAL Holding Arabia Co. Ltd.	Shareholder
Falcom Company for Financial Services	Shareholder
FAL Real Estate Co.	Shareholder
Mr. Fahad Alathel	Shareholder
FAL Motors Company Ltd.	Affiliate

The significant transactions and the related amounts are as follows:

	2013 SR	2012 SR
Proposed increase in share capital	80,000,000	-
Additional share capital	20,000,000	-
Subordinated loan from Falcom Co. for Financial Services	10,000,000	-
Rent expenses *	2,500,000	2,500,000
Finance charges	738,111	2,075,914
Expenses paid on behalf	23,247	73,393

* Rent expenses related to Mr. Fahad Alathel (shareholder) against rent of Company's building.

Due from related party as at December 31 comprises of the following:

	2013 SR	2012 SR
FAL Motors Company Ltd.	1,007,630	702,983

The Company has interest bearing loans amounting to SR 104 million obtained from shareholders. The total outstanding loans as at December 31, 2013 is SR 114,000,000 (2012: SR 124,000,000) Note (11) and (14).

6. PREPAID EXPENSES AND OTHER ASSETS

	2013 SR	2012 SR
Employees' receivables	3,032,961	3,028,656
Recoverable claims	1,551,390	845,637
Recoverable penalties	1,248,110	775,408
Prepaid insurance	1,081,015	1,232,619
Prepaid expenses	1,074,068	830,955
Accounts receivables	243,647	1,742,987
Deferred commission	68,300	-
Other assets	105,106	87,043
	8,404,597	8,543,305

ALAMTHAL FINANCING AND LEASING COMPANY LTD.
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013

7. PROPERTY AND EQUIPMENT, NET

Cost	Leasehold	Vehicles	Furniture,	Computers	Work in	Total
	improvements	SR	fixtures and office equipment	and software	progress	SR
January 1, 2013	11,825,021	-	6,513,489	8,020,870	-	26,359,380
Additions	34,200	53,500	86,982	75,626	360,405	610,713
December 31, 2013	11,859,221	53,500	6,600,471	8,096,496	360,405	26,970,093
Accumulated depreciation						
January 1, 2013	7,652,459	-	5,560,265	6,394,255	-	19,606,979
Charge for year	1,131,259	13,380	406,940	936,662	-	2,488,241
Disposals	8,783,718	13,380	5,967,205	7,330,917	-	22,095,220
December 31, 2013	3,075,503	40,120	633,266	765,579	360,405	4,874,873
Net book value	4,172,562	-	953,224	1,626,615	-	6,752,401

Work in progress represent works under preparations and furniture for the Company's new branches in Riyadh and Al-Madina Al-Monawara cities.

ALAMTHAL FINANCING AND LEASING COMPANY LTD.
(LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013

8. ACCRUED EXPENSES AND OTHER LIABILITIES

	2013 SR	2012 SR
Accrued salaries, wages and benefits	1,254,770	889,861
Accrued borrowing expenses	770,819	170,042
Accrued bonuses	750,000	323,750
Accrued professional fees	386,500	170,000
Advances from customers	56,795	2,084,198
Other	68,027	52,721
	<u>3,286,911</u>	<u>3,690,572</u>

9. PROVISION FOR ZAKAT AND INCOME TAX

A) Zakat

The principle elements of the zakat base are as follows:

	2013 SR	2012 SR
Shareholders' equity beginning of the period	22,242,871	25,451,277
Adjusted net income	8,794,431	3,673,497
Subordinated loans from shareholders	124,000,000	124,000,000
Bank loans	35,856,378	42,913,963
Provisions	4,354,522	16,192,323
Non-current assets	(6,524,506)	(6,752,401)
Zakat base	<u>188,723,696</u>	<u>205,478,659</u>
Proportional Zakat base	<u>181,993,350</u>	-
Zakat provision – 2.5%	<u>4,549,834</u>	<u>4,817,447</u>

Some of these amounts above have been adjusted in arriving to zakat base and adjusted net income.

B) Income tax

	2013 SR	2012 SR
Adjusted net income	8,794,431	3,673,497
Proportional tax base	19,483	-
Foreign shareholders' share – 6.22%	19,483	228,492
Foreign shareholders' share in provisions	-	(18,701)
Foreign shareholders' share	<u>19,483</u>	<u>209,791</u>
Income tax provision – 20%	3,897	41,958
Tax on corporations	280,598	-
Total zakat and income tax provision	<u>4,834,329</u>	<u>4,859,405</u>

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9. PROVISION FOR ZAKAT AND INCOME TAX (Continued)

C) The provision for zakat and income tax movement is as follows:

	2013 SR	2012 SR
Balance at January 1	9,111,987	4,252,582
Charged for the year	4,834,329	4,859,405
Paid during the year	(6,740)	-
Balance at December 31	<u>13,939,576</u>	<u>9,111,987</u>

The Company obtained the final assessments for the year 2005 and 2006 with a total amount due of SR 3,229,448. During the year 2010, the Company filed an objection for these assessments and management is currently following up on those objections.

The Company filed its zakat and income tax return for the years from 2007 till 2012 which are still under review by the zakat department. The management believes that adequate provision were provided to meet any liability that might arise against any probable settlement under the final zakat assessments.

10. BANK LOANS AND FACILITIES

The Company has obtained banks facilities amounting to SR 148 million (2012: SR 148 million) from local Banks in the form of overdraft and long and short-terms loans to finance working capital requirements and the Company's other operations. The outstanding balance as at December 31, 2013 amounted to SR 35.8 million (2012: SR 49.8 million).

During the year 2012, one of the shareholders which is Banque Saudi Fransi waived all its shares in the share capital of Company to Falcom Company for Financial Services (shareholder) which have resulted a rescheduling the repayment of the loan provided to the Company from Banque Saudi Fransi amounting to SR 26 million over 24 quarterly installments ending on June 30, 2017 (Note 11). The outstanding balance as at December 31, 2013 amounted to SR 18.2 million (2012: SR 26 million).

The movement of loans for the year ending December 31, is as follows:

	2013 SR	2012 SR
Loans balance, beginning of the year	49,818,347	42,913,963
Additions during the year	10,000,000	-
Loans transferred from previous shareholder	-	26,000,000
Repayments from loans	(23,961,969)	(19,095,616)
	<u>35,856,378</u>	<u>49,818,347</u>
Less the current portion	(22,856,378)	(23,961,969)
	<u>13,000,000</u>	<u>25,856,378</u>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)
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10. BANK LOANS AND FACILITIES (Continued)

Long and short-terms loans are scheduled for repayment as follows:

<u>Year</u>	<u>2013 SR</u>	<u>2012 SR</u>
2013	-	23,961,969
2014	22,856,378	12,856,378
2015	5,200,000	5,200,000
2016	5,200,000	5,200,000
2017	2,600,000	2,600,000
	<u>35,856,378</u>	<u>49,818,347</u>

The loans bears interest at prevailing rates between Saudi local banks (RIBOR) plus annual profit margin between 1.7% to 3%, facilities are being repaid in equal monthly and quarterly payments ending on June 2017. The loans are secured by promissory notes signed by shareholders and secured by personal guarantees of the shareholders.

11. LOAN FROM SHAREHOLDERS

During year 2007, the shareholders granted a short-term revolving loan to the Company amounting to SR 130 million which was used to settle outstanding loans from local banks. The loan was contributed by the Shareholders in respect to their ownership percentage in the Company. The original maturity date for the loan was December 31, 2013. The interest is payable on four equal quarterly payments starting September 1, 2013 based on the three months RIBOR plus 0.5%.

Based on the shareholders' resolution for amendment in the Article and Association dated October 13, 2012, one of the shareholders which is Banque Saudi Fransi waived all its shares in the Company to Falcom Company for Financial Services (Shareholder) which resulted in rescheduling the repayment of the loan provided to the Company from Banque Saudi Fransi amounting to SR 26 million over 24 quarterly installments, Note (10). The outstanding balance of the loan has been transferred to bank loans.

The outstanding loans balance obtained from shareholders as at December 31, 2013 amounted to SR 104 million (2012: SR 104 million) matured and was not yet paid as of December 31, 2013 and there are no shareholders resolution about extending its maturity date.

12. END-OF-SERVICE BENEFITS

	<u>2013 SR</u>	<u>2012 SR</u>
Balance at January 1		
Charged for the year	4,707,269	3,692,048
Paid during the year	906,715	1,315,884
	(361,747)	(300,663)
Balance at December 31	<u>5,252,237</u>	<u>4,707,269</u>

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13. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

14. SUBORDINATED LOAN FROM THE SHAREHOLDERS

The Company's shareholders have provided subordinated loan amounted to SR 20,000,000 to the Company in amounts equal to the shareholders' respective ownership percentages. The subordinated shareholder loan is interest free and have no specified date of repayment and/or maturity. At the discretion and approval of the Company's shareholders, the loan may become partially or wholly repayable to the shareholders in the event of a reduction in the Company's requirements for external borrowings, or may be applied in increasing the authorized, issued, and fully paid up share capital in accordance with ratios determined by the Company's shareholders.

On June 10, 2013, the shareholders resolved to increase the share capital of the Company from SR 20 million to SR 100 million and consider the subordinated loan from the shareholders amounting to SR 20 million as part of subscription amount in the increase of the share capital of the Company, according to each shareholder's share in the subordinated loan. The regulatory procedures for increase the share capital of the Company have not been completed yet.

During the year of 2013, the shareholder Falcom Co. for Financial Services has granted the Company a subordinated loan amounting to SR 10,000,000 with no interest and no specified date of repayment.

15. ADDITIONAL SHARE CAPITAL

One of the shareholders (Falcom Co. for Financial Services) has paid SR 20 million to increase the share capital of the Company as required by Saudi Arabian Monetary Agency which relating to increase in share capital of the Companies which operate in finance segment and this amount will be used to cover Falcom's share in the additional increase in share capital (Note 19).

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)
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16. GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
	SR	SR
Salaries, wages and other benefits	12,853,437	12,041,467
Rent	3,099,773	3,034,524
Depreciation (Note 7)	2,488,241	2,868,804
Professional fees	1,384,400	768,958
Bonuses	827,175	634,750
GOSI	584,563	549,042
Fees and subscriptions	372,577	441,456
Programs maintenance	225,000	413,807
Utilities	209,422	256,138
Communications	93,936	233,148
Others	915,158	583,800
	<u>23,053,682</u>	<u>21,825,894</u>

17. OTHER INCOME

	2013	2012
	SR	SR
Rents *	1,500,000	1,500,000
Interest on short-term deposit	40,513	-
Income from sale of property and equipment	-	124,105
	<u>1,540,513</u>	<u>1,624,105</u>

* The revenues above represents a portion of Company's building rented to external party with annual rental amounting to SR 1.5 million.

18. CONTINGENTS LIABILITIES

- A. Contingents to extend credit facilities represent the unused portion of authorizations to extend credit, principally in the form of finance leases. With respect to the credit risk on liabilities to extend facilities, the Company is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of contingents' liabilities, which cannot be readily quantified, is expected to be considerably less than the total unused facilities as most liabilities upon customers maintaining specific credit standards. The total outstanding liabilities to extend credit facilities do not necessarily represent future cash flow and could expire or terminate without being funded.
- B. As at December 31, 2013 and 2012, the Company's commitments to extend credit on lease contracts amounted to SR 741,800 and SR 5,228,549, respectively.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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18. CONTINGENTS LIABILITIES (Continued)

The commitments represent non-cancelable operating leases for the Company's office premises are as follows:

	2013 SR	2012 SR
Less than one year	3,324,408	2,794,980
More than a year and less than five years	4,438,816	6,325,128
Total	<u>7,763,224</u>	<u>9,120,108</u>

During the current year, SR 3,099,773 (2012: SR 3,034,524) was recorded as an expense in the statement of income in respect of operating leases.

19. SUBSEQUENT EVENTS

On February 10, 2014, the shareholders have resolved to amend their previous resolution which was dated on June 10, 2013 to increase the share capital of the Company to become SR 200 million instead of SR 100 million while retaining all the shareholders in the proportions of their share in share capital of the Company without change. An amount of SR 20 million has been paid during 2013 and has been recorded as an additional share capital as of December 31, 2013 (Note 15).

The shareholders and their portions in share capital of the Company after the incremental will be as follow:

<u>Shareholders</u>	<u>Number of shares</u>	<u>Percentage of ownership</u>	<u>Share capital SR</u>
Al Bilad Establishment for Trading and Economy	9,000,000	45%	90,000,000
FAL Holding Arabia Co. Ltd.	5,000,000	25%	50,000,000
Falcom Company for Finance Services	4,000,000	20%	40,000,000
FAL Real Estate Co.	1,000,000	5%	10,000,000
Mr. Fahed Bin Mohammad Bin Saleh Alathel	1,000,000	5%	10,000,000
	<u>20,000,000</u>	<u>100%</u>	<u>200,000,000</u>

20. FINANCIAL INSTRUMENTS, MANAGEMENT RISKS AND FAIR VALUE

Credit risk

Credit risk is the risk that one party of 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 title on leased assets, and personal guarantees. Individual lease contracts generally are for terms not exceeding sixty months.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)
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**20. FINANCIAL INSTRUMENTS, MANAGEMENT RISKS AND FAIR VALUE
(Continued)**

Credit risk (Continued)

Concentrations of credit risk arise 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 similarly affected 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 attempting to diversify its 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 personal guarantees.

The Company follows a credit classification mechanism as a tool to manage the quality of credit risk of the lease portfolio. The Company grades the individual customer based on both subjectivity and payment history taking into consideration in business cases factors such as customer credit standing, financial strength, security and quality of management. The Company monitors customers' grading on a regular basis.

Commission rate risk

Commission rate risk is the uncertainty of future earnings resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to 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 commission rates, if any, are reflected in the results of operations.

Commission rate gap is a common measure of commission 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 Company monitors the fluctuations in commission rates and believes that the commission rate risk is not material.

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.

Management monitors the maturity profile of the Company's assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date to ensure that adequate liquidity is maintained.

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**20. FINANCIAL INSTRUMENTS, MANAGEMENT RISKS AND FAIR VALUE
(Continued)**

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and U.S. dollars. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not material.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

21. COMPARATIVE FIGURES

Certain figures for 2012 have been reclassified to conform with the presentation in the current year.