

## Directors' Report

For the Year Ended  
31 December 2012

Saudi **ORIX** Leasing Company

---

The Board of Directors of Saudi ORIX Leasing Company ("the Company" or "Saudi ORIX") is pleased to present its eleventh annual report with audited financial statements of the Company for the year ended December 31, 2012.

### Introduction

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. The Company operates through its head office and four branches across the Kingdom.

The Objective of the Company is to provide medium term asset financing to all productive sectors of the economy with particular emphasis to serving the needs of small to medium size enterprises thereby assisting in extending and expanding the credit delivery mechanism in the Kingdom.

### 1. Business Segments

Saudi ORIX is a single product Company and is currently offering only Finance lease facilities to its customers.

Assets leased by the Company mainly include machinery, construction equipment, transportation assets, stevedoring equipment and hospital equipment health centers. The sectors broadly covered by the Company include construction & contracting, hospitals, travel and tourism companies, manufacturing and trading companies all over the Kingdom.

### 2. Strategy

The year 2012 was the eleventh completed financial year since the Company commenced activities. The Company's profitability grew at Compound rate of 62% in last eleven years and, plans to enhance its business in year 2013 given the continuous growth of the Saudi economy, by expanding its geographical coverage and by increasing the volume of execution/ disbursements while maintaining quality portfolio with minimal non-performing exposures. Furthermore, the Company's focus has always been to develop excellent long term relationship with lessees, suppliers, lenders and employees.

### 3. Risk Management

Risk management is a vital factor of Saudi ORIX's activities. The Company manages a process of ongoing risk identification and measurement through the use of risk limits and other controls and a number of committees and departments, established to coordinate day to day risk management. Following is the summary of main risks:

#### **Operational Risk:**

Operational risk is the risk of losses arising from inadequate internal operating procedures, including failures, defects or errors of information, resulting from either human error or technological failings. Saudi ORIX manages the operational risk through a control framework and by monitoring and responding to potential risks. Other activities to mitigate operational risk include segregation of duties, access,

## Directors' Report

For the Year Ended  
31 December 2012

Saudi ORIX Leasing Company

authorization and reconciliation procedures, process automation, staff training and education and assessment procedures.

### **Liquidity Risk:**

Liquidity risk includes the conditions where Saudi ORIX will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To address its liquidity risk, Saudi ORIX uses contractual maturity analysis and cash flow forecasts. Saudi ORIX strives to create a diversified lease portfolio with manageable correlation risk between its assets and liabilities and an average lease duration period of three years.

### **Credit Risk:**

Credit risk is the risk of financial loss if a counter party fails to meet its contractual obligations. Saudi ORIX's credit risk exposures arise principally from its finance leasing activities. Such risks are monitored on regular basis and are subject to quarterly or more frequent review. Saudi ORIX follows a cascaded credit approval structure for finance leases in order to minimize credit risk.

### **Due Diligence Risk:**

A key component of the approval of any proposed lease finance transaction is the due diligence carried out in respect of each prospective customer. Saudi ORIX has detailed risk assessment procedures designed to reduce the risk inherent in entering into lease finance transactions.

The focus during the year for the Credit Risk Management department has been greater scrutiny of credit quality whilst considering risk-based returns, selective asset growth that has led to higher levels of diversification and lower levels of concentration and the implementation of new processes to manage client excesses more efficiently.

## 4. Financial Highlights

The Company posted net income of SR 88.44 million for the year 2012 as compared to SR 73.76 million for the previous year. Total revenues (Lease finance income) for the year ended December 31, 2012 reached SR 159.53 million as compared to total revenue (Lease finance income) of SR 133.10 million in 2011. Operating expenses increased to SR 50.93 million as against SR 44.19 million in 2011. Special Commission Expense increased on the back of increased funding to SR 23.27 million as against SR 15.97 million in 2011. The Company made provisions for lease losses of SR 12.88 million during the year taking the accumulated provision to SR 78.34 million at the year end; equal to 5.29% of net investment in lease finance [before provision]. The net investment in finance leases [before provision] stood at SR 1,480.70 million as compared to SR 1,226.10 million in the previous year.

Company's last five years financial highlights are as follows:

SR' millions	2012	2011	2010	2009	2008
Net investment in finance leases	1,402	1,159	946	949	1,097
Total assets	1,628	1,238	992	970	1,152
Total short and long term loans	1,027	737	551	603	823

## Directors' Report

For the Year Ended

31 December 2012

Saudi **ORIX** Leasing Company

and debt					
Shareholders' Equity	465	401	346	307	271
Total revenues (Lease finance income)	159.5	133.1	118.2	115.4	117.5
Special commission expense and amortisation of transaction cost	23.3	16.0	25.1	32.7	38.2
Other operating income	3.1	0.8	1.3	1.9	0.8
Operating expenses	50.9	44.2	40.5	41.8	42.1
Net income	88.4	73.8	53.9	42.9	38.0

Earnings per share-SAR	2.60	2.46	2.16	1.72	1.90*
Dividends per share-SAR	0.75	0.75	0.75	0.75	-
Non-Performing Leases - NIL	21.7	11.1	7.4	16.0	11.2
Non-Performing Leases - NIL[%]**	1.46%	0.91%	0.74%	1.60%	0.99%
Coverage [times]	3.62	6.03	7.82	3.05	3.27
Capital Adequacy Ratio [%]					
Tier-1	28.30%	28.68%	30.43%	28.09%	N/A
Total	29.55%	29.93%	31.68%	29.34%	N/A
Average Return on Equity	21.62%	20.90%	17.52%	15.34%	15.04%
Average Return on Assets	6.17%	6.62%	5.50%	4.04%	3.67%

\* Par value of a share upto 2008 was SR 50 that was reduced to SR 10 during the year 2009. Actual EPS as per the audited financial statements for the year ended December 31, 2008 was SR 9.49.

\*\* Net Investment in Leases [NIL] as percentage of total NIL.

### 5. Geographical Concentration

The Company only operates in the Kingdom of Saudi Arabia.

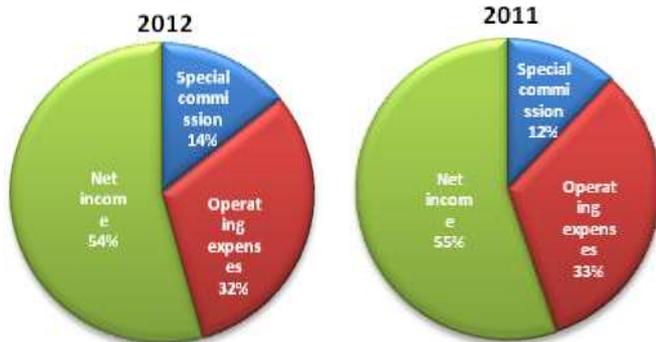
## Directors' Report

For the Year Ended  
31 December 2012

Saudi ORIX Leasing Company

### 6. Key Income Statement Items as a Percentage of Total Income

The table below shows the variation in the key income statement lines between 2012 and 2011:



SR millions	2012	2011	% Change
Total income (including other income)	162.6	133.9	21.4
Special commission	23.3	16.0	45.6
Operating expenses	50.9	44.1	15.4
Net Income	88.4	73.8	19.8

### 7. Financial Reporting Standards & Audit

Saudi ORIX prepares its financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia. It comprises accounting standards issued by the Saudi Organization for certified public accountants ("SOCPA"). For matters where 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.

Proper books of account have been maintained. The Company has an Internal Audit department that submits its reports to the Audit Committee which in turn reports to the Board of Directors. This Committee oversees the proper functioning and independence of the Internal Audit department and considers its recommendations. The Committee has periodic discussions with the management, internal and external auditors on matters affecting the financial statements, internal controls and various governance and control issues and has advised the Board of Directors accordingly. The Board will decide what it visualizes regarding these recommendations. The Board of Directors is keen to provide safety for the Internal Audit System with regard to its structure and the regularity of its implementation.

### 8. Safety of Internal Control System

The Board has established an audit committee. In addition to maintaining a satisfactory control environment and independence of the internal audit function, it reviews the specific internal audit findings and ensures prompt resolution by management. The Audit committee relays its findings to the Board on a regular basis. The Board believes that the functioning of the internal audit system is appropriate and there are no remarks or mistakes pointing that the system of internal control has not been properly designed and implemented.

## Directors' Report

For the Year Ended  
31 December 2012

Saudi ORIX Leasing Company

### 9. Loans

The following is the loans detail of Saudi ORIX:

SR millions	Dec 31, 2012	Dec 31, 2011
Opening balance of loans	737.4	551.6
Proceeds from loans	996.0	539.6
Repayments of loans	(939.9)	(353.8)
<b>Closing balance of loans</b>	<b>793.5</b>	<b>737.4</b>

Apart from above, Saudi ORIX issued 03 years Sukuk amounting to SAR 240 million on December 26, 2012. Further details are provided in Note 7, 10 and 11 of the audited Financial Statements.

### 10. Dividend Policy

#### **A. Objective:**

The main objective of the dividend policy is to provide a return to shareholders to meet their investment expectations with due consideration given to capital management and growth requirements of the Company.

#### **B. Type:**

The dividend may be paid in cash to shareholders or distributed via the issue of bonus shares or a combination of cash and bonus shares.

#### **C. Declaration Frequency:**

Dividend, if any, is declared annually. The Board reviews and decides the dividend based on forecasted or actual full-year results.

#### **D. Review Frequency:**

The Board reviews the Dividend Policy for each year on an annual basis. The review is on the agenda of the Board meeting where the previous year's approved annual financial results and the current year's budget are presented.

#### **E. Guiding Principles:**

In reviewing and setting the annual dividend policy the Board and senior management will be guided by the following principles:

##### *I. Dividend sustainability*

To build long term shareholder value and market confidence in the Company's future, the amount and frequency of dividends to be paid should be evaluated based on the Company's ability to continue paying at an equal or increased level in the foreseeable future.

## Directors' Report

For the Year Ended

31 December 2012

Saudi **ORIX** Leasing Company

### II. Growth of the Company:

The amount, frequency and type of dividends paid should not impede the ability of the Company to meet its strategic growth plans.

### III. Capital management:

During the annual review and while setting the dividend policy for the year, the Board and senior management takes into consideration that the Company maintains sufficient levels of capital levels to support the Company's strategic growth objectives.

## 11. Proposed Cash Dividend and Bonus Shares

The board of directors proposes dividend for the year 2012 amounting to SR 25.5 million representing 7.5% of the Company's capital which is subject to shareholders approval at the Extraordinary General Assembly Meeting.

## 12. Significant Shareholding

In 2012, the Company increased paid up share capital to 340 million by issuance of bonus shares amounting SR 40 million through capitalizing retained earnings. Shareholding pattern as at December 31, 2012 is as follows:

Shareholders	01		31		Change
	January		December		in
	2012		2012		holding
	Shares		Shares		
	Held	%	Held	%	%
The Saudi Investment Bank	11,398,500	37.995	12,918,300	37.995	0
Trade Development & Investment Group Limited	9,600,000	32.000	10,880,000	32.000	0
Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi	1,500	0.005	1,700	0.005	0
ORIX Corporation – Japan	8,250,000	27.500	9,350,000	27.500	0
ORIX Leasing Pakistan Limited – Pakistan	750,000	2.500	850,000	2.500	0
	<b>30,000,000</b>		<b>34,000,000</b>		

## 13. 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 related parties have been summarized in Note 22 of the audited Financial Statements.

## Directors' Report

For the Year Ended

31 December 2012

Saudi **ORIX** Leasing Company

### 14. Board of Directors

Name	Membership Status	Directorship in other Joint Stock Companies
Dr. Saleh Abdulaziz Al Omair	Non-Executive	- Saudi Fransi Bank - Arabia Insurance Cooperative Company
Abdulmalek Abdullah Al-Sanea	Non-Executive	None
Saleh Abdullah Al-Augla	Non-Executive	None
Majed Abdulghani Fakeeh	Non-Executive	- Amlak International for Real Estate Development and Finance Co.
Mohammed Omran Al Omran	Non-Executive	- Saudi Telecom Company - Credit Suisse Saudi Arabia - Al-Rajhi Co. for Cooperative Insurance - Saudi British Bank
Tariq Mutlaq Almutlaq	Non-Executive	- Almutlaq Group Company - ACWA Power International Company – Utilities - Sahara Petrochemical Company – Petrochemicals - National Instalment Company – Lease Financing of Durable Goods - Alwaha Petrochemical Company
Hideo Ichida*	Non-Executive	None in Saudi Arabia
Humayun Murad	Non-Executive	None in Saudi Arabia
Kazuhito Inoue	Non-Executive	None in Saudi Arabia

\* The Board confirmed ORIX Corporation's request to replace Mr. Hideo Ichida with Mr. Yuki Oshima in their meeting held on December 10, 2012.

## Directors' Report

For the Year Ended  
31 December 2012

Saudi **ORIX** Leasing Company

### Directors Attendance at Board of Directors Meetings

Name	Sessions Attended	January 31, 2012	April 09, 2012	September 03, 2012	December 10, 2012
Dr. Saleh Abdulaziz Al Omair	4	√	√	√	√
Abdulmalek Abdullah Al-Sanea	4	√	√	√	√
Saleh Abdullah Al-Augla	4	√	√	√	√
Majed Abdulghani Fakeeh	4	√	√	√	√
Mohammed Omran Al Omran	2	_*	_*	√	√
Tariq Mutlaq Almutlaq	4	√	√	√	√
Hideo Ichida	_*	_*	_*	_*	_*
Humayun Murad	3	√	√	_*	√
Kazuhito Inoue	3	√	√	√	_*

\* Absent directors were present through proxy.

### Board Committees

The Board of Directors has three Committees, the Executive Credit Committee, the Audit Committee and the Investment Committee.

#### (I) Executive Credit Committee

The Executive Credit Committee is appointed by the Board of Directors. The Executive Credit Committee assists the Board of Directors within the powers determined by the Board, and deal with all matters referred by the Board. The Committee consists of four members as mentioned below:

Dr. Saleh Abdulaziz Al Omair (Chairman)
Abdulmalek Abdullah Al-Sanea
Saleh Abdullah Al-Augla
Mohammed Omran Al Omran

#### (II) Audit Committee

The Audit Committee is appointed by the Board of Directors consisting of three non-executive directors to institutionalize and improve the audit process and control environment. The Audit Committee consists of three members as mentioned below:

## Directors' Report

For the Year Ended  
31 December 2012

Saudi **ORIX** Leasing Company

Mohammed Omran Al Omran (Chairman)
Kazuhito Inoue
Saleh Abdullah Al-Augla

### (III) Investment Committee

The Investment Committee meets as required and reports directly to the Board. The Investment Committee comprised Dr. Saleh Abdulaziz Al-Omair (Chairman), Mohammed Omran Al Omran, Abdulmalek Abdullah Al-Sanea and Saleh Abdullah Al-Augla. The Investment Committee is responsible for the authorisation of investments and disposals and for the maintenance of the contingent liquidity reserve.

## 15. Board of Directors and Senior Executive Compensation

(SAR 000)

Details	Executive Board Members	Non-Executive Board Members	Seven Executive Managers [Heads] in the Company receiving highest compensation including CEO & CFO
Salaries & Compensations	Nil	Nil	4,029
Allowances	Nil	Nil	1,102
Annual & Periodical Remunerations	Nil	Nil	Nil
Incentives	Nil	Nil	1,761
Any other Compensations or benefits (in kind paid monthly or annually)	Nil	1,350	Nil

## 16. Directors and Senior Executive Interest (including their spouse and minor children)

### **Board Members:**

Apart from one thousand qualification shares held by each Board Member, none of director holds any share in the Company.

### **Senior Management:**

None of senior management holds any share in the Company.

## 17. External Auditors

At the Annual General Meeting of the Company's shareholders held on 13/07/1433 (03/06/2012). Messrs Ernst & Young were appointed as external auditors for the year ended 31 December 2012 for a total remuneration of SR 212,500/- (inclusive of quarterly review of the Financial Statements).

## 18. Payment of Zakat, Income Tax & Others

a) Saudi Shareholders

## Directors' Report

For the Year Ended

31 December 2012

Saudi **ORIX** Leasing Company

Zakat attributable to Saudi Shareholders for the year is estimated at SR 1.49 million (2011: SR 1.10) which will be deducted from their share of dividends.

b) Non-Saudi Shareholders

Income tax payable on the current year's share of income of foreign shareholders is estimated at SR 6.94 million (2011: SR 5.70 million) which will be deducted from their share of dividends.

Other matters:

The Zakat and Tax assessments for the years 2001 to 2004 are under appeal with relevant authorities. Note 15 of the audited Financial Statements covers details of Zakat and Tax status.

### 19. Investments or Reserves for the benefit of Employees

Except for the provision for End of Service Benefits for the employees, there are no investments or reserves held for the benefits of employees.

### 20. Applicable Regulations

Saudi ORIX has adhered to the provisions of the Saudi Companies' Law and other applicable laws, rules and regulations. During 2012, no penalty was imposed on the Company by any regulatory authority.

### 21. Declaration

The Board of Directors hereby confirms that;

- Proper books of accounts have been maintained.
- The Company prepares its financial statements in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants ["SOCPA"]. For matters where there is no guidance in SOCPA, the relevant International Financial Reporting Standard ["IFRS"] is adopted.
- Internal Audit Control was properly and efficiently implemented.
- There is no doubt over the Company's ability to continue as a going concern.

### 22. Future Prospects

The Company has achieved a strong position in the market in the last eleven years, and is keenly aware of market opportunities available given the growth taking place in the Kingdom of Saudi Arabia.

### Acknowledgement

The Board takes this opportunity to express gratitude to the government of the Kingdom of Saudi Arabia, and in particular the Saudi Arabian Monetary Agency, Saudi Arabian General Investment Authority, Capital Market Authority and the Ministry of Commerce for their continuing proactive support. The Board also places on record appreciation for Saudi and international shareholders for their confidence and support and to the Saudi ORIX team for their tireless effort and professionalism.

May Allah lead us to success.

For and on behalf of the Board of Directors

Chairman