

Directors' Report

For the Year Ended

31 December 2014

Saudi ORIX Leasing Company

The Board of Directors of Saudi ORIX Leasing Company ("the Company" or "Saudi ORIX") is pleased to present its thirteenth annual report with audited financial statements of the Company for the year ended December 31, 2014.

Introduction

Saudi ORIX 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 providing, 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, hospital equipment (health centers) and commercial real estate. 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 2014 was the thirteenth completed financial year since the Company commenced activities. The Company's profitability grew at Compound rate of 54% in last thirteen years and plans to enhance its business in year 2015 given the continuous growth of the Saudi economy, by expanding its geographical coverage and by increasing the volume of its financing business 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,

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access, 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. Credit Rating

Saudi ORIX's credit rating has been assessed by Moody's as following:

Category	Rating
Outlook	Stable
Corporate Family Rating	Ba1
Issuer Rating	Ba2

5. Financial Highlights

The Company posted net income of SR 116.95 million for the year 2014 as compared to SR 100.20 million for the previous year. Total revenues (Lease finance income) for the year ended December 31, 2014 reached SR 218.60 million as compared to total revenue (Lease finance income) of SR 188.77 million in 2013. Operating expenses increased to SR 66.35 million as against SR 60.12 million in 2013. Special Commission Expense increased on the back of increased funding to SR 36.76 million as against SR 30.87 million in 2013. The Company made provisions for lease losses of SR 16.69 million during the year taking the accumulated provision to SR 110.24 million at the yearend; equal to 4.92% of net

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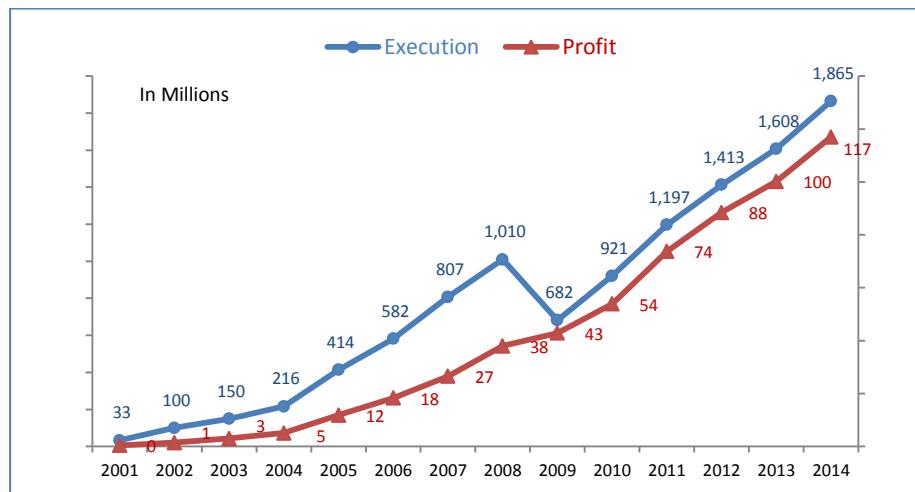
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investment in lease finance [before provision]. The net investment in finance leases [before provision] stood at SR 2,241.49 million as compared to SR 1,826.54 million in the previous year.

During the year, no doubtful balance was written off by the Company (2013: SR 1.69 million).

Since incorporation, gross business written (execution) and net profit made annually by Saudi ORIX has been depicted below:



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

SR' millions	2014	2013	2012	2011	2010
Net investment in finance leases	2,131	1,733	1,402	1,159	946
Total assets	2,212	1,842	1,628	1,238	992
Total short and long term loans and debt	1,317	1,160	1,027	737	551
Shareholders' Equity	728	538	465	401	346
Total revenues (Lease finance income)	218.6	188.8	159.5	133.1	118.2
Special commission expense and amortization of transaction cost	36.7	30.9	23.3	16.0	25.1
Other operating income	1.5	2.4	3.1	0.8	1.3
Operating expenses	66.3	60.1	50.9	44.2	40.5

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Net income	116.9	100.2	88.4	73.8	53.9
Earnings per share-SAR (restated for bonus shares)	2.58	2.23	1.96	1.64	1.20
Dividends per share-SAR	0.50	0.75	0.75	0.75	0.75
Non-Performing Leases - NIL	27.2	23.7	21.7	11.1	7.4
Non-Performing Leases - NIL[%]*	1.21%	1.30%	1.46%	0.91%	0.74%
Coverage [times]	4.18	4.25	4.80	5.62	3.15
Capital Adequacy Ratio [%]					
Tier-1	29.80%	26.08%	28.30%	28.68%	30.43%
Total	31.05%	27.33%	29.55%	29.93%	31.68%
Average Return on Equity [%]	18.47%	19.96%	20.42%	19.75%	16.51%
Average Return on Assets [%]	5.77%	5.78%	6.17%	6.62%	5.50%

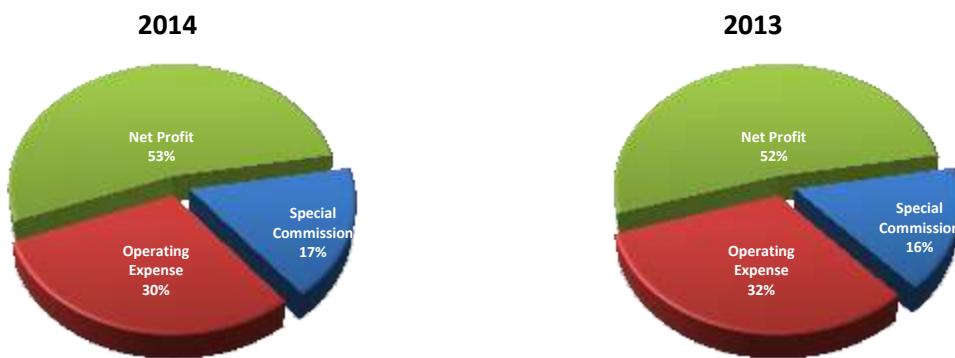
* Net Investment in Leases [NIL] as percentage of total NIL.

6. Geographical Concentration

The Company only operates in the Kingdom of Saudi Arabia.

7. Key Income Statement Items as a Percentage of Total Income

The table below shows the variation in the key income statement lines between 2014 and 2013:



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SR millions	2014	2013	% Change
Total income (including other income)	220.1	191.2	15.1
Special commission	36.8	30.9	19.1
Operating expenses	66.3	60.1	10.3
Net Income	116.6	100.2	16.4

8. Financial Reporting Standards & Audit

In compliance with the Implementing Regulations of the Law on Supervision of Finance Companies, the annual audited financial statements for the year ended 31 December 2014 of Saudi ORIX have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For all periods up to and including the year ended 31 December 2013, the Company prepared its financial statements in accordance 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"). The financial statements for the year ended 31 December 2014 are the first the Company has prepared in accordance with IFRS.

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.

9. Effectiveness of Internal Control System

The Board of Directors assisted by the Audit Committee is responsible for ensuring the existence of an effective and efficient internal control system in the Company.

Management is responsible for the appropriate design and functioning of the system, and the Risk Management, Internal Audit and Compliance Departments for the continuous monitoring and evaluation of the system. The external auditors are responsible for determining the adequacy of the system of internal controls to decide on the level of reliance they can place on the effectiveness of Company's internal controls and to design their audit procedures.

All employees are ultimately responsible for operating and maintaining an efficient internal control system at their respective levels.

The Company's Internal Control System is subject to constant evaluations and improvement to allow for the identification of any gaps and meet the required level of effectiveness, key controls include:

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- Existence of a series of policies and procedures, which are subject to regular updates and reviews to verify their sufficiency and adequacy.
- Most of the Company's operations are executed automatically through a sophisticated electronic system, which minimizes errors and fraud opportunities.
- All work and major important decisions are supervised through committees created for this purpose and to protect the safety and quality of the Company's assets.
- Existence of departments specialized in fields of audit, compliance control and risk management.
- Existence of the Audit Committee in order to contribute to reinforcing the independence of internal and external auditors. This Committee receives regular reports about the activities of the departments subject to auditing. The Audit committee relays its findings to the Board on a regular basis.
- Regular supervision of the efficiency and sufficiency of the Internal Control System based on an approved annual plan. Aspects of Internal Control are regularly supervised and tested.
- Great attention is paid to the Internal Control System's results and every identified issue is taken into consideration in order to avoid repetition of mistakes.

The Board is of the opinion that the functioning of the internal control system is appropriate and nothing has come to the attention of the Audit Committee that causes it to believe that the system of internal control has not been properly designed or implemented or that effective and efficient internal controls have not been in place throughout the year 2014.

10. Ethical Standards and Code of Conduct

Saudi ORIX's ethical standards and Code of Conduct represent a standard and a guide for high ethical principles and professional business dealings practices. Through its Code of Conduct, the Company is committed to instill and maintain a culture of professionalism where the utmost ethical standards prevail. The Company's Code of Conduct is based on fundamental principles of integrity; confidentiality and professionalism. It applies to the management, employees and any other person that may represent the Company. Saudi ORIX operates under the governing authority of its Board of Directors, who respectively, oversees the implementation and effectiveness of its ethical standards and Code of Conduct.

11. Loans

The following is the loans detail of Saudi ORIX:

SR millions	Dec 31, 2014	Dec 31, 2013
Opening balance of loans	923.7	793.2
Proceeds from loans	1,646.0	1,659.9
Repayments of loans	(1,491.0)	(1,529.4)
Closing balance of loans	1,078.8	923.7

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Apart from above, Saudi ORIX issued 03 years Sukuk amounting to SAR 240 million on December 26, 2012.

Further details are provided in Note 9, 10 and 13 of the audited Financial Statements.

12. 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. 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.

B. 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.

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.

13. Proposed Cash Dividend and Bonus Shares

The board of directors proposes dividend for the year 2014 amounting to SR 27.5 million (2013: SR 25.5 million) representing 5% (2013: 7.5%) of the Company's capital which is subject to shareholders approval at the Ordinary General Assembly Meeting.

As required by IFRS, dividends and appropriations to reserves, except for appropriations which are required by law, made subsequent to the statement of financial position date to be considered as non-adjusting events and are to be recorded in the financial statements in the year in which they are approved / transfers are made. Therefore, the dividend proposed by the board of directors shall be recorded in the financial year ending 31 December 2015.

14. Significant Shareholding

In the Extraordinary General Meeting held on November 23, 2014, the shareholders of Saudi ORIX approved issuance of bonus share amounting to SR 110 million and right shares at par amounting to SR 100 million. The right shares were fully subscribed by the shareholders.

Shareholding pattern as at December 31, 2014 is as follows:

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Shareholders	01 January 2014		Issue of bonus shares	Issue of right shares	31 December 2014		Change in holding
	Shares Held	%			Shares Held	%	
The Saudi Investment Bank	12,918,300	37.995	4,179,450	3,799,500	20,897,250	37.995	0
Trade Development & Investment Group Limited	10,880,000	32.000	3,520,000	3,200,000	17,600,000	32.000	0
Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi	1,700	0.005	550	500	2,750	0.005	0
ORIX Corporation – Japan	9,350,000	27.500	3,025,000	2,750,000	15,125,000	27.500	0
ORIX Leasing Pakistan Limited – Pakistan	850,000	2.500	275,000	250,000	1,375,000	2.500	0
	34,000,000		11,000,000	10,000,000	55,000,000		

15. 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 transactions and balances relating to related parties have been summarized in Note 25 of the audited Financial Statements.

16. Board of Directors

Name	Membership Status	Directorship in other Joint Stock Companies
Dr. Saleh Abdulaziz Al Omair	Non-Executive	None
Abdulmalek Abdullah Al-Sanea	Non-Executive	- The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (MedGulf)
Saleh Abdullah Al-Augla	Non-Executive	None
Majed Abdulghani Fakieh	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

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Tariq Mutlaq Almutlaq	Non-Executive	- Almutlaq Group Company - Sahara Petrochemical Company
Hiroshi Nishio	Non-Executive	None in Saudi Arabia
Harukazu Yamaguchi	Non-Executive	None in Saudi Arabia
Kazuhito Inoue	Non-Executive	None in Saudi Arabia

Directors Attendance at Board of Directors Meetings

Name	Sessions Attended	January 30, 2014	April 14, 2014	July 17, 2014	November 23, 2014
Dr. Saleh Abdulaziz Al Omair	4	✓	✓	✓	✓
Abdulmalek Abdullah Al-Sanea	4	✓	✓	✓	✓
Saleh Abdullah Al-Augla	3	✓	✓	-*	✓
Majed Abdulghani Fakieh	3	✓	✓	✓	-*
Mohammed Omran Al Omran	3	✓	-*	✓	✓
Tariq Mutlaq Almutlaq	4	✓	✓	✓	✓
Yuki Oshima **	0	-*	-	-	-
Harukazu Yamaguchi	0	-*	-*	-*	-*
Hiroshi Nishio **	1	-	✓	-*	-*
Kazuhito Inoue	4	✓	✓	✓	✓

* Absent directors were present through proxy.

** The Board confirmed ORIX Corporation's request to replace Mr. Yuki Oshima with Mr. Hiroshi Nishio in their meeting held on April 14, 2014.

Board Committees

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

(I) Credit and Risk Management Committee

The Credit and Risk Management Committee is appointed by the Board of Directors. The Credit and Risk Management Committee assists the Board of Directors within the powers determined by the

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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:

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 is responsible for the authorisation of investments and disposals and for the maintenance of the contingent liquidity reserve. The Investment Committee consists of four members as mentioned below:

Dr. Saleh Abdulaziz Al-Omair (Chairman)

Mohammed Omran Al Omran

Abdulmalek Abdullah Al-Sanea

Saleh Abdullah Al-Augla

17. Board of Directors and Senior Executive Compensation

The following is the details of remuneration and compensation paid to the Chairman and members of the Board and top five executives of the Company:

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Details	Executive Board Members	Non-Executive Board Members	Five Executive Managers [Heads] in the Company receiving highest compensation including CEO & CFO
Salaries & Compensations	Nil	Nil	3,815
Allowances	Nil	Nil	1,199
Annual & Periodical Remunerations	Nil	Nil	2,003
Incentives	Nil	Nil	Nil
Any other Compensations or benefits (in kind paid monthly or annually)	Nil	1,800	Nil

18. Directors and Senior Executive Interest (*including their spouse and minor children*)

Board Members:

All Board members of the Company are directors nominated by shareholders. Neither any of directors, including any person related to them, hold any share in the Company nor have any other interest in the Company.

Senior Management:

None of senior management holds any share in the Company. Further, the CEO and the CFO, including any person related to them, apart from the remuneration, do not have any other interest in the Company.

19. External Auditors

At the Annual General Meeting of the Company's shareholders held on 14/06/1435 (corresponding to 14/04/2014). Messrs. KPMG Al Fozan & Al Sadhan were appointed as external auditors for the year ended 31 December 2014 for remuneration of SR 150,000/- for the annual audit and SR 20,000/- for each quarter review.

20. Payment of Zakat, Income Tax & Others

a) Saudi Shareholders

Zakat payable on the current year's share of income of Saudi Shareholders is estimated at SR 1.97 million (2013: SR 1.67) which will be deducted from their share of proposed dividends.

b) Non-Saudi Shareholders

Income tax payable on the current year's share of income of foreign shareholders is estimated at SR 9.08 million (of which SR 5.91 million has already been paid as advance tax) (2013: SR 7.89 million) which will be deducted from their share of proposed dividends.

c) Governmental Agencies

The below table displays the major payments made to governmental agencies during the year:

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Payment (SAR '000)	2014	2013
Zakat & Income Tax	10,332	10,590
GOSI	1,929	966
SAGIA	20	20
Visas and passports related	144	154
Total	12,425	11,730

Other matters:

The Zakat and Tax assessments for the years 2001 to 2004 are under appeal with relevant authorities.

Note 19 of the audited Financial Statements covers details of Zakat and Tax status.

21. Investments or Reserves for the benefit of Employees

Except for the reserve allocated for End of Service Benefits for the employees amounting to SR 9.46 million as at December 31, 2014 (2013: SR 7.35 million), there are no investments or reserves held for the benefits of employees.

22. Social Responsibility

The company derives its activities related to its social responsibility from its commitment to contributing towards a better future by caring for the local communities working for the company.

Training programs for youths

As an ongoing commitment for developing youths to enter the professions, the Company supports training courses for students from different universities. During 2014, a total of 02 students (2013: 05 students) were trained for finance & accounts as well as other functional areas of the Company.

23. Applicable Laws and Regulations

Saudi ORIX has adhered to the provisions of the Saudi Companies' Law and other applicable laws, rules and regulations. During 2014, no penalty was imposed on the Company by any regulatory authority.

In compliance with the recently promulgated finance lease laws and regulations, Saudi ORIX filed a license application with SAMA in October 2013, and, in February 2014, SAMA granted a finance lease license to Saudi ORIX.

24. Declaration

The Board of Directors hereby confirms that;

- Proper books of accounts have been maintained.
- The Company prepares its financial statements in accordance International Financial Reporting Standard [“IFRS”] as required by the recently promulgated finance lease laws and regulations.
- Internal Audit Control was properly and efficiently implemented.
- The Company has no existing contracts in which a Director, CEO, CFO or any of their associate has a material interest.
- There is no doubt over the Company's ability to continue as a going concern.

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The following provisions of the Corporate Governance Regulations issued by Capital Market Authority (CMA) have not been complied with:

Article	Requirement	Reason for non-compliance
5 (c)	A notice for the General Assembly meeting's time, place and agenda shall be posted on the Exchange's and Company's website and in two well-known newspapers.	The shares of the Company are not listed and the Company has five shareholders to whom notice has been circulated.
5 (i)	The Company shall provide the Authority with a copy of minutes of the General Assembly meeting.	The shares of the Company are not listed.
5 (j)	The Exchange shall be immediately informed of the results of the General Assembly.	The shares of the Company are not listed.
6 (b)	In voting in the General Assembly for the nomination of the board members, the accumulative voting method shall be applied.	The Company has five shareholders and there is an agreement between the shareholders to nominate specified number of directors.
12 (e)	The independent members of the Board of Directors shall not be less than two members, or one-third of the members, whichever is greater.	The shares of the Company are not listed.
15 (b)	The General Assembly shall, upon a recommendation of the Board of Directors, issue rules for nominating members of the Nomination and Remuneration Committee, term of membership and its working method.	The shares of the Company are not listed.

25. Future Prospects

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

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