

The Board of Directors of Saudi ORIX Leasing Company ("the Company" or "Saudi ORIX") is pleased to present its fifteenth annual report with audited financial statements of the Company for the year ended December 31, 2016.

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), non-industrial license number 99 dated 27 Safar 1421H (corresponding to 31 May 2000) issued by the Ministry of Commerce and Industry and Finance company license number 7/A Sh/201403 dated 27 /04/ 1435H (corresponding to 27 February 2014) issued by Saudi Arabian Monetary Authority. The Company operates through its head office and five branches (2015: five 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, broadly covering construction & contracting, manufacturing, trading and transportation sectors. Assets leased by the Company mainly include vehicles, equipment for construction, Information technology, hospital etc., plant and machinery and commercial real estate.

2. Strategy

The current economic situation and prognosis of key economic indicators pose a challenge in terms of maintaining the book-size and responding to that, management set an aggressive business target for 2017 with a business strategy that primarily will focus exposure diversification towards sectors driven by demographics of the country. Over a longer term, diversification efforts will focus further, the business sectors targeted for development as part of National Transformation Plan and proposed under the deregulation scheme. Marketing strategy envisages aggressive reach out and follow ups for potential clients in the target sectors, with an additional support of advertising and participation in exhibitions.

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:

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.

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.

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

4. Financial Highlights

The Company's revenues (Lease finance income) for the year ended December 31, 2016 were SR 159.98 million as compared to total revenue (Lease finance income) of SR 213.54 million in 2015 due to decline in business volume. Operating expenses increased to SR 83.0 million as against SR 76.1 million in 2015 mainly due to increase in provisions for lease losses. Special Commission Expense decreased to SR 26.11 million as against SR 36.40 million in 2015, due to less utilization of funds. The provisions for lease losses during the year 2016 was SR 33.14 million (2015: 25.16 million) taking the accumulated provision to SR 168.54 million at the year-end; equal to 10.12% of net investment in lease finance [before provision]. The net investment in finance leases [before provision] was SR 1,665.08 million as compared to SR 2,072.35 million in the previous year. During the year, no doubtful balance was written off by the Company (2015: Nil).

SR' millions	2016	2015	2014	2013	2012
Net investment in finance leases	1,497	1,937	2,131	1,733	1,402
Total assets	1,593	2,036	2,212	1,842	1,628
Total short/ long term loans and debt	672	1,133	1,317	1,160	1,027
Shareholders' Equity	838	809	728	538	465
Total revenues (Lease finance income)	160.0	213.5	218.6	188.8	159.5
Special commission expense and amortization of transaction cost	26.1	36.4	36.8	30.9	23.3
Other operating income	2.4	3.2	1.5	2.4	3.1
Operating expenses	83.0	76.1	66.3	60.1	50.9
Net income	53.3	104.2	116.9	100.2	88.4

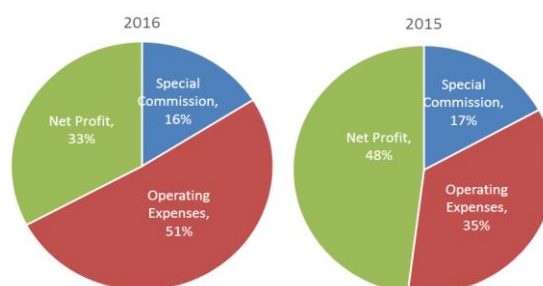
5. Geographical Concentration

The Company only operates in the Kingdom of Saudi Arabia with head office in Riyadh and other marketing offices in Dammam, Jubail, Jeddah, Makkah and Khamis Mushait.

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

The table below shows the variation in the key income statement lines between 2016 and 2015:

SR millions	2016	2015	% Change
Total income	162.4	216.7	(25.06)
Special commission	26.1	36.4	(28.30)
Operating expenses	83.0	76.1	9.07
Net Income	53.3	104.2	(48.85)



The operating expenses includes provisions for lease losses amounting to SR 33.14 million (2015: SR 25.16 million).

7. Financial Reporting Standards & Audit

Saudi ORIX maintains proper books of accounts and, 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 2016 of Saudi ORIX have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Company has an Internal Audit department that performs audits as per approved annual plan and reports to Audit committee, established by the Board of Directors. The Audit Committee is entrusted with the responsibilities of assisting the Board of Directors in fulfilling its responsibilities for developing and maintaining system of internal control, and the company's process for monitoring compliance with laws and regulations and the code of conduct. The Committee is also responsible for recommendation of external auditors and rotation thereof, review of financial statements prior to their approval by the Board of Directors, and discussion with external auditors over audited financial statements, management letter and conduct of audit.

8. Compliance, Anti-Money Laundering & Counter Terrorism Financing

The Board and Management believe that the existence of Compliance and Anti-Money Laundering & Counter Terrorism Financing functions are an integral part of sound management framework, therefore, has established a separate department that identifies and assesses the compliance risk, monitors and reports non-compliance issues. It mainly focuses on prevention of risks, consolidating relations with regulatory entities, establishing mechanisms and frameworks to ensure prevention of crimes and safeguard professional values and practices.

9. Effectiveness of Internal Control System

Management is responsible for the appropriate design and implementation of the system, and the Risk Management, Internal Audit and Compliance Departments for the continuous monitoring and evaluation of the system. All employees are ultimately responsible for operating and maintaining an efficient internal control system at their respective levels. The external auditors are responsible for determining the adequacy of the system of internal controls to decide the level of reliance they can place on the Company's internal controls, to design their audit procedures accordingly.

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

- 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 automated using sophisticated systems, which minimizes errors and fraud opportunities.
- All work related and major important decisions are supervised through committees created for this purpose and to safeguard the Company's assets.
- Existence of departments specialized in fields of audit, compliance control and risk management.

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 2016.

10. Ethical Standards and Code of Conduct

SOLC is committed to instill and maintain a culture of professionalism through its Code of Conduct which 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 summary of borrowing activities:

SR millions	Dec 31, 2016	Dec 31, 2015
Opening balance of loans	1,132.9	1,078.8
Proceeds from loans	377.5	797.4
Repayments of loans	(838.8)	(743.3)
Closing balance of loans	671.6	1,132.9

Borrowing details are provided in Note 8, 10 and 11 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 to capital management and growth requirements of the Company. The dividend may be paid in cash to shareholders or distributed via issuance of bonus shares or a combination of cash and bonus shares.

B. Guiding Principles:

Following are the guiding principles for reviewing and setting the annual dividend policy by the Board and senior management:

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.

Directors' Report

For the Year Ended 31 December 2016

Saudi ORIX Leasing Company

13. Significant Shareholding

There was no change in the shareholding during the year. Shareholding pattern as at December 31, 2016 is as follows:

Shareholders	31 December 2016	
	Shares Held	%
The Saudi Investment Bank	20,897,250	37.995
Trade Development & Investment Group Limited	17,600,000	32.000
Mr. Musaed Bin Mohammad Bin AbdulAziz Al Mineefi	2,750	0.005
ORIX Corporation – Japan	15,125,000	27.500
ORIX Leasing Pakistan Limited – Pakistan	1,375,000	2.500
	55,000,000	100

14. 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 agreement. Other transactions and balances relating to related parties have been summarized in Note 22 of the audited Financial Statements.

15. Board of Directors

Directors Attendance at Board Meetings

Name	Feb 02, 2016	Apr 25, 2016	Jun 12, 2016	Sep 27, 2016	Dec 4, 2016
Mohammed Omran Al Omran	√	√	√	√	√
Abdulmalek Abdullah Al-Sanea	√	√	√	√	√
Hiroshi Nishio	1	√	1	√	√
Harukazu Yamaguchi	1				
Shaheen Amin ²		√	√	√	√
Abdulrahman Al-Zuwaidi	√	√	√	√	√
Kazuhito Inoue	√	√	√		
Hideaki Yokoyama ³				√	√
Sahil Al Omair	√	√	√	√	√
Khalid Abalkhail	√	√	√	√	√
Abdilelah Ahmed Al Ahmed	√	√	√	√	√

All directors are Non-executive

¹ Absent directors were present through proxy.

² The Board confirmed ORIX Corporation's request to replace Mr. Harukazu Yamaguchi, with Mr. Shaheen Amin through resolution of the Board of Directors passed by Circulation on February 10, 2016 [SAMA NOC dated 16/4/1437 corresponding 26 January 2016].

³ The Board confirmed ORIX Corporation's request to replace Mr. Kazuhito Inoue with Mr. Hideaki Yokoyama through resolution passed by Circulation on August 15, 2016, subject to SAMA's approval which was obtained on October 30, 2016. The Meeting held on Sep 27, 2016 was attended by Mr. Yokoyama as ORIX representative through invitation.

Directors' Compensation

The members of the board has received SR 2.27 million against the salaries and other compensation.

Board Committees

The Board of Directors has established the following committees.

- A. Credit and Risk Management Committee ("CRM Committee"): Following are the main responsibilities of CRM Committee;
- To assist the Board in reviewing overall risks which the Company might face and to decide on mitigating factors related therewith.
 - To evaluate and review operational and non-operational risks and related mitigating factors.
 - To review and approve credit exposures for lessees.
- B. Audit Committee: The Committee, consisting of three non-executive directors, with majority being independent members, is established to institutionalize and improve the audit process and control environment. The Committee assists the Board to ensure integrity of periodic Financial Statements and effectiveness of
- external Audit, with respect to the appointment, rotation, qualifications and independence of External Auditors and the conduct of audit,
 - the system of internal controls,
 - the Internal Audit function and Compliance function.
- C. Nomination and Remuneration Committee: The Board has established Nomination and Remuneration Committee ("NRM Committee") to set policies and standards for the remunerations of Board members and Company's senior executives.

16. 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 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.

17. External Auditors

At the Annual General Meeting of the Company's shareholders held on 18Rajab 1437H (corresponding to 25th April 2016), Messrs PwC were appointed as external auditors for the year ended 31 December 2016.

18. Payment of Zakat and Income Tax**a) Saudi Shareholders**

Zakat payable on the current year's share of income of Saudi Shareholders is estimated at SR 1.84 million 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 5.83 million (of which SR 6.67 million has already been paid as advance tax).

19. 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.

20. Applicable Laws and Regulations

Saudi ORIX has adhered to the provisions of the Saudi Companies' Law and other applicable laws, rules and regulations. During 2016, 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 International Financial Reporting Standard ["IFRS"] as required by the 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.

22. Future Prospects

The Company has achieved a strong position in the market in the last fifteen years, and is keenly aware of market opportunities available 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 Authority, Saudi Arabian General Investment 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