

The Board of Directors of Saudi ORIX Leasing Company (“the Company” or “Saudi ORIX”) is pleased to present its Eighteenth annual report with audited financial statements of the Company for the year ended December 31, 2019.

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 (2018: five branches) across the Kingdom.

The objective of the Company is to provide medium term financing to all productive sectors of the economy with particular emphasis on small and medium size enterprises thereby assisting in providing, extending and expanding the credit delivery mechanism in the Kingdom.

1. Business Segments

Saudi ORIX offers Finance lease and Commodity Murabaha Financing facilities to its customers, operating in construction & contracting, manufacturing, trading, food and allied industries, health care, education and transportation sectors. Assets leased by the Company mainly include vehicles, construction equipment, Information technology equipment, hospital equipment, plant and machinery and commercial real estate.

2. Strategy

For the year 2019, and given the economic and sector's conditions, Saudi ORIX business strategy remained to focus on recoveries and execute business with low to moderate risk with an effort to maintain book size. Further, the strategy focused on diversification towards sectors targeted by National Transformation Plan (NTP) 2020 such as Healthcare, Educational and transportation service, Energy and Tourism.

As for 2020, the business strategy will focus the measures and efforts to increase the volume of small ticket transactions which will help to enhance the customer base and overall financing rate, hence the profitability. The Company is looking to continue utilizing the security benefit of Kafalah program as well as the flexibility offered by Murabaha financing to expand the customer base. Further, sector diversification will remain in focus with target on Healthcare, Educational and Transportation service, Energy, tourism, etc.

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 are established to coordinate day to day risk management. Following is the summary of main risks:

Credit Risk:

Credit risk is the risk that the counter party to a financial transaction will fail to discharge its obligation, resulting in financial loss of the principal amount as well as interest income. Since financing is the main line of business of the Company, credit risk can be considered as the biggest contributor to overall risk profile. In order to minimize credit risk, Saudi ORIX follows standard forms and checklist to obtain operational and financial information for the customer and follows cascaded structure for credit review

and approval. Moreover, Saudi ORIX diversifies its risk and has set prudent exposure limits for individual clients, groups and asset classes.

Liquidity Risk:

Liquidity risk is the risk that 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 and aims to create a diversified investment portfolio with manageable correlation risk between its assets and liabilities, with an average financing terms of around three years and a half.

Market Risk:

Market risk refers to the risk resulting from changes in commission rates and foreign exchange rates. Saudi ORIX's exposure to the risk of changes in interest rates is primarily against its financing obligations with floating rate, which is mitigated through interest rate swaps i.e. hedging. With respect to exchange risk, Saudi ORIX does not hold any investment in foreign currency and on the other hand, all the foreign currency borrowings are in US Dollars and due to official pegging of Saudi Riyal with US Dollar, Saudi ORIX is not exposed to foreign exchange risk, unless Saudi Riyal depreciates against US Dollar.

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 measures to mitigate operational risk include segregation of duties, access authorization and reconciliation procedures, process automation, staff training and education and assessment procedures.

4. Geographical Concentration

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

5. Financial Highlights

The Company's total revenues for the year ended December 31, 2019 were SR 108.15 million as compared to SR 111.33 million in 2018. Operating expenses slightly increased to SR 55 million as against SR 54 million in 2018 mainly due to increase in provision for impairment on financial assets. Net investment in finance leases/Murabaha [before provision] was SR 1,239.41 million as compared to SR 1,272.50 million in the previous year. During the year, an amount of SR 27.67 million as doubtful balance was written off by the Company (2018: Nil).

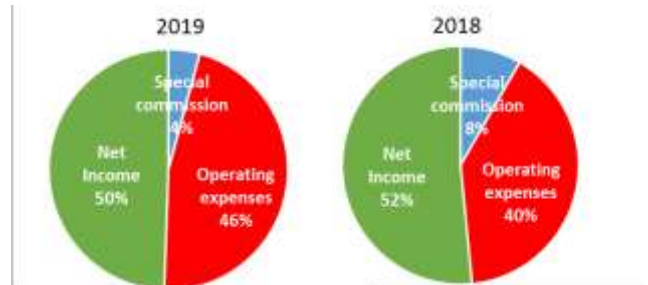
SR' millions	2019	2018	2017	2016	2015
Net investment in finance leases/Murabaha	1,043	1,051	1,220	1,497	1,937
Total assets	1,141	1,210	1,328	1,593	2,036
Total short/ long term loans and debt ¹	114	264	392	672	1,133
Shareholders' Equity	875	855	856	838	809
Total revenues	108.2	111.3	131.2	162.4	216.7
Special commission expense	4.6	9.3	14.6	26.1	36.4
Operating expenses	50.1	44.6	66.5	83.0	76.1
Net income before Zakat & Tax	53.5	57.4	50.1	53.3	104.2
Zakat & Tax (Current & Prior)	46.1	-	-	-	-
Net income after Zakat & Tax	7.4	57.4	50.1	53.3	104.2

¹ in addition, there was an overdraft of SR 29 million from banks.

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

The table below shows the variation in the key income statement lines for the year 2019 and 2018:

SR millions	2019	2018	% Change
Total income	108.2	111.3	(2.8)
Special commission	4.6	9.3	(50.5)
Operating expenses ¹	50.1	44.6	12.3
Net Income before Zakat & Tax	53.5	57.4	(6.8)



¹ Operating expenses include provisions for lease losses amounting to SR 2.46 million (2018: SR 0.483 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 2019 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 to assess 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 been reported by Audit Committee, causing it to believe that the system of internal control is not designed properly or implemented effectively.

10. Ethical Standards and Code of Conduct

Saudi ORIX 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

Borrowing details are provided in Notes to the audited Financial Statements. The following is the summary of borrowing activities:

SR millions	Dec 31, 2019	Dec 31, 2018
Opening balance of loans	263.8	392.3
Proceeds from loans	205.0	57.9
Repayments of loans	(354.6)	(186.4)
Closing balance of loans	114.2	263.8

In addition, there was an overdraft of SR 29 million from banks.

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:

1. 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 2019

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.

13. Significant Shareholding

There has been no change during the year and Shareholding pattern as at December 31, 2019 is as follows:

Shareholders	31 December 2019	
	Shares Held	%
The Saudi Investment Bank	20,900,000	38.00
Trade Development & Investment Group Limited	17,600,000	32.00
ORIX Corporation – Japan	15,125,000	27.50
ORIX Leasing Pakistan Limited – Pakistan	1,375,000	2.50
	55,000,000	100

14. Related Party Transactions

In the ordinary course of its activities, the Company transacts business with related parties which are summarized in Note 27 of the audited Financial Statements.

15. Board of Directors

Directors Attendance at Board Meetings

Name	Feb 26, 2019	May 7, 2019	Sep 25, 2019	Dec 17, 2019
Mohammed Omran Al Omran	√	√	√	√
Shaheen Amin	√	√	√	√
Sahil Al Omair	√	√	√	√
Khalid Abalkhail	√	√	√	√
Abdulelah Ahmed Al Ahmed	√	√	√	√
Salman Bader Al Fughom	Proxy	√	√	√
Alaa Rasheed Abukhadra	√	√	√	√
Harukazu Yamaguchi	Proxy	Proxy	Proxy	Proxy
Takashi Nakayama	Proxy	Proxy		
Fumihiko Sato ¹			Proxy	
Kiyokazu Ishinabe ²				Proxy

All directors are non-executive except Mr. Shaheen Amin

¹ The Board confirmed ORIX Corporation's request to replace Mr. Takashi Nakayama with Mr. Fumihiko Sato through resolution of the Board of Directors passed by Circulation on April 22, 2019 subject to SAMA's approval, which was obtained on May 6, 2019.

² The Board confirmed ORIX Corporation's request to replace Mr. Fumihiko Sato with Mr. Kiyokazu Ishinabe through resolution of the Board of Directors passed by Circulation on September 26, 2019 subject to SAMA's approval, which was obtained on October 15, 2019.

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.

Compensation

Board and other Key management personnel's total compensation for the year 2019 was SR 9.97 million.

17. External Auditors

Messrs. PricewaterhouseCoopers were reappointed as external auditors for the year ended 31 December 2019 by shareholders in AGM held on May 7, 2019, upon recommendation of Audit Committee and Board of Directors.

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 7.47 million. Zakat liability for prior years have been agreed with General Authority of Zakat & Tax at SR 36.82 million, which have been charged to Profit & Loss account for the year as per guidelines issued by SAMA. Prior years' zakat liability has been partially recovered from shareholders while remaining amount, booked as receivable from shareholders, will be recovered from future dividends.

Directors' Report

For the Year Ended 31 December 2019

Saudi ORIX Leasing Company

b) Non-Saudi Shareholders

Income tax payable on the current year's share of income of foreign shareholders is estimated at SR 1.82 million.

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 adheres to the provisions of the Saudi Companies' Law, Finance Lease Laws, Finance Companies Control Laws and Implementing Regulations, SAMA guidelines, and other applicable laws, rules and regulations.

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, except for treatment of Zakat & Tax which is modified as per SAMA's guidance;
- The Company has no existing contracts in which a Director, CEO, CFO or any of their associate has a material interest; and
- 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 eighteen years, and is keen on continuing its successful journey and gradually increase its profitability in line with the expected improvement in the economy of Saudi Arabia over the coming years.

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