NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2016 TOGETHER WITH THE
INDEPENDENT AUDITORS' REPORT

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

Financial statements for the year ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

February 1, 2017

To the Shareholders of Nayifat Finance Company
(A Saudi Closed Joint Stock Company)

Scope of audit

We have audited the accompanying statement of financial position of Nayifat Finance Company (a Saudi Closed Joint Stock Company) (the "Company") as at December 31, 2016 and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended and notes from (1) to (26) which form an integral part of these financial statements. These financial statements, which were prepared by the Company in accordance with the Regulations for Companies and presented to us with all information and explanations which we required, 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 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 policies 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, such financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards ("IFRS"); and

- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of financial statements.

PricewaterhouseCoopers

By: ______________________
Khalid A. Mahdhar
License Number 368

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2016
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	2016	2015
Assets			
Cash and bank balances	4	**169,604**	93,215
Islamic financing receivables	5	**1,588,886**	1,704,930
Prepayments and other receivables	6	**22,948**	29,734
Intangible assets	7	**3,257**	630
Property and equipment	8	**37,800**	7,395
Total assets		**1,822,495**	1,835,904
Liabilities and shareholders' equity			
Liabilities			
Accounts payable and accruals	9	**25,610**	14,061
Bank financing	10	**980,259**	1,151,573
Provision for zakat	11	**87,567**	69,405
Provision of employees' termination benefits	12	**3,996**	3,000
Total liabilities		**1,097,432**	1,238,039
Shareholders' equity			
Share capital	13	**600,000**	500,000
Statutory reserve	14	**19,630**	13,910
Retained earnings		**105,433**	83,955
Total shareholders' equity		**725,063**	597,865
Total liabilities and shareholders' equity		**1,822,495**	1,835,904
Contingency and commitments	21		

The accompanying notes (1) through (26) form an integral part of these financial statements.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	2016	2015
Revenue	15	**339,046**	295,212
Expenses			
Finance cost and charges	16	**(70,020)**	(57,000)
Provision for impairment	5.2	**(30,765)**	(25,725)
Salaries and employees related expenses	17	**(66,130)**	(61,166)
General and administrative expenses	18	**(21,154)**	(24,142)
Depreciation and amortization	7, 8	**(2,383)**	(1,812)
Income before zakat		**148,594**	125,367
Zakat charge	11	**(21,396)**	(17,880)
Net income		**127,198**	107,487
Other comprehensive income		**-**	-
Total comprehensive income		**127,198**	107,487
Basic and diluted earnings per share	19	**2.12**	1.79

The accompanying notes (1) through (26) form an integral part of these financial statements.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
January 1, 2016		**500,000**	**13,910**	**83,955**	**597,865**
Transfer to share capital	1	**100,000**	**(7,000)**	**(93,000)**	**-**
Total comprehensive income		**-**	**-**	**127,198**	**127,198**
Transfer to statutory reserve		**-**	**12,720**	**(12,720)**	**-**
December 31, 2016		**600,000**	**19,630**	**105,433**	**725,063**
January 1, 2015		400,000	28,736	61,642	490,378
Transfer to share capital		100,000	(25,575)	(74,425)	-
Total comprehensive income		-	-	107,487	107,487
Transfer to statutory reserve		-	10,749	(10,749)	-
December 31, 2015		500,000	13,910	83,955	597,865

The accompanying notes (1) through (26) form an integral part of these financial statements.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	2016	2015
Cash flows from operating activities			
Income before zakat		**148,594**	125,367
Adjustments for non-cash items:			
Depreciation and amortization	7,8	**2,383**	1,812
Provision of employees' termination benefits	12	**1,237**	1,034
Provision for impairment	5.2	**30,765**	25,725
Finance cost and charges	16	**70,020**	57,000
Changes in operating assets and liabilities:			
Islamic financing receivables		**85,279**	(610,081)
Prepayments and other receivables		**6,787**	4,755
Accounts payable and accruals		**11,549**	1,301
Employees' termination benefits paid	12	**(241)**	(429)
Finance cost and charges paid		**(68,071)**	(57,000)
Zakat paid	11	**(3,234)**	(2,886)
Net cash generated from / (used in) operating activities		**285,068**	(453,402)
Cash flows from investing activities			
Additions to property and equipment	8	**(32,472)**	(6,280)
Additions to intangibles	7	**(2,943)**	(399)
Short-term deposits	4	**1,083**	(5,417)
Net cash used in investing activities		**(34,332)**	(12,096)
Cash flows from financing activities			
Proceeds from bank financing		**312,000**	862,686
Repayment of bank financing		**(485,264)**	(380,114)
Net cash (used in) / generated from financing activities		**(173,264)**	482,572
Net increase in cash and cash equivalents		**77,472**	17,074
Cash and cash equivalents at the beginning of the year	4	**79,298**	62,224
Cash and cash equivalents at the end of the year	4	**156,770**	79,298

The accompanying notes (1) through (26) form an integral part of these financial statements.

1. GENERAL INFORMATION

Nayifat Finance Company (the "Company") was registered as a Closed Joint Stock Company under Commercial Registration ("CR") Number 1010176451 issued in Riyadh on 9 JumadThani 1431H (corresponding to 23 May 2010). In accordance with the Law of Supervision of Finance Companies, the Saudi Arabian Monetary Authority (SAMA) granted a license to operate as financing company under the name of Nayifat Finance Company.

As per the SAMA license No. 5A/S/201312 dated 28 Safar 1435 (corresponding to December 31, 2013), the Company is authorized to provide lease finance, consumer finance and small and medium enterprise finance to in the Kingdom of Saudi Arabia.

The Company's registered office is located in Riyadh at the following address:

Nayifat Finance Company
P.O. Box 27389
Riyadh 11417
Kingdom of Saudi Arabia

During the year, SAMA gave its approval to the increase Company's share capital from Saudi Riyal ("SR") 500 million to SR 600 million, through transfer of statutory reserve and retained earnings, which was proposed by the Board of Directors of the Company and approved by the General Assembly on April 4, 2016 which is reflected in the statement of changes in equity. The weighted average number of shares has been adjusted, retrospectively, to incorporate the effect of this capitalization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis, except as disclosed in these notes to the financial statements.

2.2 Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SR"), which is the Company's functional and presentation currency.

2.3 Cash and cash equivalents

Cash and cash equivalents consist of cash balances and short-term bank deposits with original maturities of three months or less, which are available to the Company without any restrictions.

2.4 Short-term deposits

Short-term deposits include placements with banks and other short-term highly liquid investments with original maturities of more than three months but not more than one year from the purchase date.

2.5 *Islamic financing receivables*

Islamic financing receivables comprising of Tawarruq, Murabaha and Ijarah originated by the Company, are initially recognized at fair value including transaction costs when cash is advanced to customers. Subsequently, these financial assets are measured at amortized cost. For presentation purposes, the unearned finance income and provision for impairment are deducted from gross receivables.

Tawarruq
A contract whereby the Company sells a commodity or an asset to its customer on a deferred payment basis. The selling price by Company comprises the cost plus an agreed profit margin. The customer sells the same commodity or an asset to a third party at market price to raise the needed cash.

Murabaha
A contract whereby the Company sells to customers a commodity or an asset, which the Company has purchased and acquired, based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

Ijara
Ijara is an agreement whereby the Company, acting as a lessor, purchases or constructs an asset for lease according to the customer (lessee) request, based on his promise to lease the asset for an agreed rent and for a specific period. Ijara could end by transferring the ownership of the leased asset to the lessee. Ijara Islamic financing receivable represents net investment in assets leased for period, which either approximate or cover major part of the estimated useful lives of such assets. The documentation includes a separate undertaking from the Company to sell the leased assets to the lessee upon maturity of the lease.

2.6 Repossessed assets held for sale

The Company, in the ordinary course of business, acquires real estate or other assets against settlement of finances due. Such assets are considered as assets held for sale and are initially recorded at the lower of receivables value or the current fair value of the related assets, less any costs to sell, at the time of possession. No depreciation is charged on such assets.

Subsequent to initial recognition, any subsequent write down to fair value, less cost to sell, are charged to the statement of income. Any subsequent gain in the fair value less cost to sell of these assets to the extent this does not exceed the cumulative write down is recognized as income together with any gain/loss on disposal.

2.7 Intangible assets

Recognition and measurement
Software acquired by the Company is measured at cost less accumulated amortization and any accumulated impairment losses, if any. Subsequent expenditures on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Amortization
Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Software is amortized on a straight-line basis in statement of comprehensive income over its estimated useful life, from the date on which it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software for the current and comparative periods is three years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.8 Property and equipment

Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the asset) is recognized within other income in statement of comprehensive income.

Subsequent costs
Subsequent expenditures are capitalized only when it is probable that the future economic benefits of the expenditures will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

Depreciation
Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives of the current and comparative periods were as follows:

Building and freehold improvements	3 to 10 years
Leasehold improvements	5 years or period of lease whichever is lesser
Furniture and office equipment	3 to 10 years

2.9 Accounts payable and accruals

Liabilities are obligations to pay for goods and services received, whether or not billed to the Company. Liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.10 Bank financing and related cost

Bank financing are recognized initially at fair value, net of transactions cost. Bank financing are subsequently carried at amortized cost; any difference between the proceeds (net of transaction cost) and the redemption value is recognized in the statement of comprehensive income or loss over the period of the financing using the effective commission method.

General and specific financing cost directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other financing costs are recognized in statement of comprehensive income or loss in the period in which they are incurred.

2.11 Zakat

In accordance with the regulations of the Zakat and Income Tax, the Company is subject to zakat. Provisions for zakat is charged to the statement of comprehensive income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

2.12 Provisions

Provisions are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.13 Financial assets and liabilities

Initial recognition and measurement
A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial assets and liabilities categorized as financing
After initial recognition, all financial assets and liabilities categorized as financing are measured at amortized cost using Effective Profit Rate (EPR) method. The EPR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any gain or loss on de-recognition of financial asset is recognized in statement of comprehensive income. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Offsetting of financial assets and liabilities
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS.

2.14 Impairment of financial and non-financial assets

Financial assets at amortized cost
At each reporting date, the Company assesses whether there is objective evidence that financial assets at amortized cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired primarily includes:

- default or delinquency by the counter-party;
- indications that a counter-party will enter bankruptcy or under significant financial difficulties; or
- restructuring of receivables on terms that the Company would not consider otherwise.

All individually significant receivables are assessed for specific impairment based on the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Other financial assets with similar characteristics of credit risk are collectively assessed for impairment based on probability of default calculated on historical trend and other factors.

Impairment losses and subsequent changes therein are recognized in statement of comprehensive income.

Financial assets are written-off only in circumstances where there are no realistic prospects of recovery.

Non-financial assets
Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. 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 the increased carrying amount should 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. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

2.15 Revenue recognition

Income from Islamic financing receivables is recognized in the statement of comprehensive income using the effective yield method, using the applicable effective profit rate ("EPR"), on the outstanding balance over the term of the contract.

The calculation of the EPR includes transaction costs and fees & commission income received that are an integral part of the EPR. Transaction costs include incremental costs that are directly attributable to the acquisition of the financial asset.

Other income are recognized on accrual basis as the services are rendered.

2.16 *Expenses*

Selling and marketing expenses are those arising from Company's efforts underlying the selling and marketing activities. All other expenses which not separately disclosed are classified under administrative expenses.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

2.17 New standards or amendments to existing standards

There is no new standard or amendment to the existing standard which was effective during the year and may have significant effect on the Company's financial statements. Further, the Company has chosen not to early adopt the following published new standards and revisions to existing standard which are relevant to the operations of the Company:

- IFRS 9: Financial instruments (effective date January 1, 2018)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The Company is in process to assess the implications of IFRS 9.

- IFRS 16: Leases (effective date January 1, 2019)

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its lease as operating leases or finance leases, and to account for those two types of lease differently. IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. Management believe that there will be no significant impact of this new standard as the Company's operating lease activities are not significant.

The other new or amended standards including IFRS 15 Revenue from customers (effective from January 1, 2018) are not expected to have a significant impact on the Company's financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

1- Provision for impairment - note 2.14 and note 5.2
2- Provision for zakat - note 11

4. CASH AND BANK BALANCES

	2016	2015
Cash in hand	**50**	29
Current accounts with banks	**156,720**	79,269
Cash and cash equivalents	**156,770**	79,298
Short-term deposits – note 4.1	**12,834**	13,917
	169,604	93,215

4.1 This include SR 8.5 million held with a local bank as non-commission bearing deposit.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

5. ISLAMIC FINANCING RECEIVABLES

5.1 The business activities of the Company are in the Kingdom of Saudi Arabia and primarily represent Tawarruq Consumer Islamic financing ("Consumer").

	2016	2015
Gross receivables	**2,336,715**	2,516,096
Unearned finance income	**(718,189)**	(787,283)
	1,618,526	1,728,813
Deferred initial direct costs	**24,617**	29,472
Impairment provision	**(54,257)**	(53,355)
	1,588,886	1,704,930

Analysis of credit quality of Islamic financing receivables is as follows:

	2016	2015
Performing	**1,419,273**	1,555,080
Non performing - Past due and impaired	**199,253**	173,733
	1,618,526	1,728,813

Performing balances has a satisfactory history of repayments and were outstanding for less than 90 days. Non performing balances of SR 90 million (2015: SR 55 million) were outstanding for more than 360 days. The specific and collective provision as at year end date were SR 10.7 million and SR 44 million respectively.

For additional details of financial risk management refer to note 23 of these financial statements.

5.2 Movement in impairment provision was as follows:

	2016	2015
January 1	**53,355**	45,622
Charge for the year	**30,765**	25,725
Write-off during the year	**(29,863)**	(17,992)
December 31	**54,257**	53,355

5.3 ***Assignment of Islamic financing receivables***

The Company assigned Islamic financing receivables amounting to SR 1.25 billion (December 31, 2015: SR 1.46 billion) to commercial banks for obtaining bank financing. These Islamic financing receivables have not been derecognized from the statement of financial position as the Company retains substantially all the risks and rewards, primarily credit risk. The amount received on assignment of Islamic financing receivables has been recognized as bank financing (Refer note 10).

6. PREPAYMENTS AND OTHER RECEIVABLES

	2016	2015
Repossessed assets held for sale – real estate	**20,669**	20,669
Advances and prepayments	**2,279**	4,065
Advance to Chairman of the Executive Committee	**-**	5,000
	22,948	29,734

(All amounts in thousands of Saudi Riyals unless otherwise stated)

7. INTANGIBLE ASSETS

	2016	2015
Cost:		
January 1	**1,644**	1,285
Additions during the year	**2,943**	399
Write-off during the year	**-**	(40)
December 31	**4,587**	1,644
Accumulated amortization:		
January 1	**(1,014)**	(669)
Charge during the year	**(316)**	(384)
Write-off during the year	**-**	39
December 31,	**(1,330)**	(1,014)
Net book value as at December 31	**3,257**	630

8. PROPERTY AND EQUIPMENT

2016	Freehold land	Building and freehold improvements	Leasehold improvements	Furniture and office equipment	Total
Cost					
January 1, 2016	928	-	5,827	3,961	10,716
Additions during the year	27,000	4,512	268	692	32,472
December 31, 2016	27,928	4,512	6,095	4,653	43,188
Accumulated depreciation					
January 1, 2016	-	-	1,530	1,791	3,321
Charge for the year	-	-	1,145	922	2,067
December 31, 2016	-	-	2,675	2,713	5,388
Net book value at December 31, 2016	27,928	4,512	3,420	1,940	37,800

2015	Freehold land	Building and freehold improvements	Leasehold improvements	Furniture and office equipment	Total
Cost					
January 1, 2015	928	-	1,415	2,093	4,436
Additions during the year	-	-	4,412	1,868	6,280
December 31, 2015	928	-	5,827	3,961	10,716
Accumulated depreciation					
January 1, 2015	-	-	775	1,118	1,893
Charge for the year	-	-	755	673	1,428
December 31, 2015	-	-	1,530	1,791	3,321
Net book value at December 31, 2015	928	-	4,297	2,170	7,395

9. ACCOUNTS PAYABLE AND ACCRUALS

	2016	2015
Accounts payable	**872**	762
Accrued employees' costs	**13,431**	6,336
Accrued finance cost and charges	**2,963**	2,484
Accrued expenses	**2,568**	3,881
Others – note 9.1	**5,776**	598
	25,610	14,061

9.1 This include unidentified collections amounting to SR 5.7 million (2015: Nil).

(All amounts in thousands of Saudi Riyals unless otherwise stated)

10. BANK FINANCING

	2016	2015
Current	429,647	517,817
Non-current	558,899	643,993
	988,546	1,161,810
Unamortized deferred charges	(8,287)	(10,237)
	980,259	1,151,573

The Company has long-term financing facilities with local banks to finance funding needs, , amounting to SR 1.25 billion against which SR 989 million facility was utilized as of December 31,2016 (2015: SR 1.16 billion). These facilities are repayable in 36 to 48 monthly instalments. The financing bear profit charges at prevailing market rates except in certain facilities where the Company has fixed the profit rate.

The Company assigned Islamic financing receivables amounting to SR 1.25 billion (December 31, 2015: SR 1.46 billion) to commercial banks for obtaining bank financing. The key covenants related to bank financing are to maintain a certain gearing ratio, financing to receivable ratio and certain restriction on dividend pay-out. The Company was in compliance with these covenants as at balance sheet date.

11. PROVISION FOR ZAKAT

11.1 Provision of zakat is calculated at 2.5% based on adjusted net income or zakat base, whichever is higher. The calculation of estimated adjusted net income and zakat base is as follows:

	2016	2015
Income for the year	148,594	125,367
Provision for impairment	30,765	25,725
Provision of employees' termination benefits	1,237	1,034
Adjusted net income	180,596	152,126
Adjustments opening balance		
Share capital	500,000	400,000
Statutory reserves	13,910	28,736
Retained earnings	83,955	61,642
Provision for impairment	53,355	45,622
Provision of employees' termination benefits	3,000	2,396
Zakat provision	69,405	54,411
Property and equipment and others	(48,381)	(29,733)
Zakat base	855,840	715,200
Zakat for the year @ 2.5%	21,396	17,880

11.2 The movement in the zakat provision is as follows:

	2016	2015
January 1	69,405	54,411
Charge for the year	21,396	17,880
Payments made during the year	(3,234)	(2,886)
December 31	87,567	69,405

11.3 Status of assessments

The Company has submitted its zakat declarations to the General Authority of Zakat and Tax (GAZT) up to the year ended December 31, 2015 and has received final zakat assessments for the years from 2002 to 2007. In those assessments, the GAZT added back credit balances that have completed one full Hijri year and as a result, an additional zakat liability has arisen which the Company has provided for. However, there is an exposure of approximately SR 52 million for the years from 2008 to 2016 as a result of not adding non-current portion of "financing" into the Zakat calculation as the management believes that it's not required to be added back based on the Board of Grievances' (BOG) interpretation of the relevant Fatwa.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

12. PROVISION OF EMPLOYEES' TERMINATION BENEFITS

	2016	2015
January 1	3,000	2,395
Charge for the year	1,237	1,034
Payments made during the year	(241)	(429)
December 31	3,996	3,000

13. SHARE CAPITAL

Shareholders	Holding	No. of shares	Amount
2016			
Falcom Financial Services	75.9%	45,515,136	455,151,360
Other Saudi individuals and company	24.1%	14,484,864	144,848,640
	100%	60,000,000	600,000,000
2015			
Falcom Financial Services	75.9%	37,923,280	379,233
Other Saudi individuals and company	24.1%	12,076,720	120,767
	100%	50,000,000	500,000

14. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia, the Company is required to set aside a statutory reserve, after absorption of accumulated losses, if any, by the appropriation of 10% of net income until the reserve equals 30% (2015: 50%) of the share capital. This reserve is not available for distribution. Accordingly, the Company has transferred 10% of its net income for the year to the statutory reserve account.

15. INCOME FROM ISLAMIC FINANCING

	2016	2015
Income from Islamic financing	341,599	292,770
Fee and commission income	12,833	17,951
Amortization of transaction costs	(15,386)	(15,509)
	339,046	295,212

16. FINANCE COST AND CHARGES

	2016	2015
Finance cost on bank financing	58,842	46,501
Amortization of deferred charges	6,217	6,638
Bank charges	4,961	3,861
	70,020	57,000

17. SALARIES AND EMPLOYEES RELATED EXPENSES

	2016	2015
Salaries and employee related costs	49,351	44,953
Management fees and bonus	16,779	16,213
	66,130	61,166

18. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Insurance	8,001	4,305
Rentals	3,111	3,078
Professional charges	2,217	2,374
Utilities, telephone and communication	2,174	1,686
Repairs, maintenance and office supplies	1,809	1,442
IT support charges	1,753	3,995
Loss on sale of assets	-	1,121
Travel and transportation	347	535
Marketing	168	1,129
Others	1,574	4,477
	21,154	24,142

19. EARNINGS PER SHARE

	Note	2016	2015
Net income (a)		127,198	107,487
Weighted average number of shares in thousands (b)	1	60,000	60,000
Basic and diluted EPS c = (a/b)		2.12	1.79

20. RELATED PARTY TRANSACTIONS AND BALANCES

20.1 Significant related party transactions during the year were as follows:

Related party	Nature of transaction	2016	2015
Major shareholder	Commodities/ securities dealings account - deposit made	3,000	13,080
Chairman of the Executive Committee	Management fee for providing services to the Company	1,200	1,200
	Bonus paid	2,500	2,500
Key management personnel	Compensation for the year	16,994	17,122
Other related party	Purchase of land and building for head office	31,512	-

20.2 Key management personnel of the Company include all directors, executive and non-executive, and senior management.

20.3 Significant balances of related parties at year-end were as follows:

	Note	2016	2015
Due from related parties			
Major Shareholder	4	4,334	5,417
Chairman of the Executive Committee	6	-	5,000

21. CONTINGENCY AND COMMITMENTS

Contingency
The contingency related to zakat and income tax is disclosed in note 11 to these financial statements.

Capital commitments
There are no significant capital commitments at balance sheet date.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

21. CONTINGENCY AND COMMITMENTS (continued)

Operating leases commitments

The operating lease commitments for the Company's office premises are as follows:

	2016	2015
Less than one year	**2,488**	2,933
More than a year and less than five years	**7,117**	7,833
Over five years	**835**	-
Total	**10,439**	10,766

22. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

Valuation Models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy of financial assets and liabilities

All financial assets and liabilities of the Company are categorised as held at amortized cost which approximate their fair value and accordingly fair value hierarchy disclosure is not applicable.

23. FINANCIAL RISK MANAGEMENT

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and supervising the Company's risk management framework. The Board of Directors has established the Risk Management Committee, to oversee the development and maintenance of risk management processes, policies, strategies, risk methodologies and reporting them to the Board.

In addition, the Audit Committee of the Company also reviews the internal audit risk assessment, discuss the Company's policy with respect to risk assessment and risk management. The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Risk Management Committee oversees the company risks and report to the Board.

i) 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 maximum exposure to credit risk is equal to the carrying amount of financial assets. The management analyses credit risk in the following categories:

Islamic financing receivables (IFR)

IFR is exposed to significant credit risk. The Company has established procedures to manage credit exposure including evaluation of credit worthiness, formal credit approvals, assigning credit limits, and obtaining collateral such as personal guarantees. The overall underwriting decision is based on the following key parameters:

- Dual credit score i.e. SIMAH and Application scoring system
- Minimum income level and maximum Debt Burden of the borrower
- Loan repayment history with other financial institutions sourced from SIMAH
- Salary certificate from the employer and last three months bank statement where the customer's monthly salary is credited.

All the customers provide standing instructions to credit Nayifat account towards monthly installments. In addition, the customers also provide Direct Debit Mandate as a stand by repayment mode. The company also receives repayments through SADAD.

The company has an approved Collection policy and procedure manual establishing a collection strategy to follow up with delinquent customers. The company has strengthened its legal department to actively involve in collection process.

The concentration risk is the risk that the Company is exposed to if they invested all their assets in one sector or one industry. The company strategy is to finance Saudi nationals under the following categories:

- Consumers employed in secured working environment
- Steady income group with largely guaranteed employment or minimum loss of employment.
- Employees of selected large scale private sector companies.

The Company's operations are mainly in the Kingdom of Saudi Arabia and the Company provides financing to individuals of government and private sectors. The Company manages its credit risk exposure through diversification of principal activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.

The main consideration for the impairment assessment include whether any monthly contractual payments are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company's collective provision methodology is based on the default probability calculated on actual forward flow rates of past twenty four months. Management believes that adequate provision has been accounted for, where required addressing the credit risk. Further, based on historical results the actual write-offs are less than 2% of the receivables originated and now the Company is carrying over 3% cumulative provision on its receivables. Moreover, the Company in the ordinary course of providing finance subject to additional personal guarantees for security to mitigate credit risk associated with Islamic financing receivables. As at balance sheet date, the Company has adequate collaterals or guarantees to cover the credit risk exposure after recorded impairment provisions. For additional details relating to IFR and related risk refer note 2.14 and note 5 to these financial statements.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

Cash and bank balances and other receivables

These are placed with Saudi banks having good credit ratings, and therefore are not subject to significant credit risk. Other receivables are not significant and also not exposed to significant credit risk.

ii) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Company also has revolving credit facilities from commercial banks that it can access to meet future liquidity needs. The company established Liquidity contingency policy and set aside SR 35 million as liquidity contingency fund.

As at balance sheet date, based on the following maturity profile of financial assets and liabilities, the management believes that the Company is not exposed to liquidity risk.

2016	Less than 3 months	3 to12 months	1 to 5 years	Total 2016
Financial assets - commission bearing				
Islamic financing receivables	270,384	505,000	1,507,073	2,282,457
Financial assets - non commission bearing				
Cash and bank balances	156,770	-	-	156,770
Other assets	2,277	20,669	-	22,946
Short term deposits	12,834	-	-	12,834
	442,265	525,669	1,507,073	2,475,007
Financial liabilities - commission bearing				
Bank financing	124,339	344,459	583,207	1,052,005
Financial liabilities - non commission bearing				
Payable and accruals	8,602	1,000	16,008	25,610
	132,941	345,459	599,215	1,077,615
Net financial assets:				
Commission bearing	146,045	160,541	923,866	1,230,452
Non commission bearing	163,279	19,669	(16,008)	166,940
	309,324	180,210	907,858	1,397,392

(All amounts in thousands of Saudi Riyals unless otherwise stated)

2015	Less than 3 months	3 to12 months	1 to 5 years	Total 2015
Financial assets - commission bearing				
Islamic financing receivables	104,573	369,787	1,246,453	1,720,813
Financial assets - non commission bearing				
Cash and bank balances	79,298	-	-	79,298
Other assets	-	25,669	-	25,669
Short term deposits	5,417	8,500	-	13,917
	189,288	403,956	1,246,453	1,839,697
Financial liabilities - commission bearing				
Bank financing	78,042	439,775	643,993	1,161,810
Financial liabilities - non commission bearing				
Payable and accruals	12,061	-	-	12,061
	90,103	439,775	643,993	1,173,871
Net financial assets:				
Commission bearing	26,531	(69,988)	602,460	559,003
Non commission bearing	72,654	34,169	-	106,823
	99,185	(35,819)	602,460	665,826

iii) Profit rate risk

Profit rate risk is the impact on future earnings of the company resulting from increase in the market interest rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to interest rate adjustment within a specified period. The most important source of such risk is the Company's financing receivables and bank financing. The profit rate is fixed for the financing receivables but the bank borrowings are subject to increase in the market borrowing rates.

The financial liabilities of SR 494 million are based on floating rates and thus, a 100 basis points change in commission rates could have an approximately SR 5 million annual effect on the Company's profitability.

The Company's management monitors the fluctuations in commission rates on regular basis and take appropriate measures to minimize the profit rate risk by adjusting lending rate for future contracts.

iv) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Company has no exposure to foreign currency risk as it mainly deals in Saudi Riyals which is also the functional currency of the Company.

24. CAPITAL MANAGEMENT

The Company's objective when managing capital are to safeguard Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits to other stakeholders and to maintain optimal capital structure to reduce the cost of capital.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of bank financing and the advantages and security afforded by a sound capital position. In relation to the capital structure of the Company, management closely monitor the compliance of regulations and bank financing covenants and as at balance sheet is in compliance with the prescribe requirements. At balance sheet date, the management analysis of gearing ratio was as follows:

	2016	**2015**
Shareholders' equity	**725,063**	597,865
Bank financing	**980,259**	1,151,573
Total capital structure	**1,705,322**	1,749,438
Gearing ratio	**57.48%**	65.82%

25. COMPARATIVE FIGURES

During the year, certain prior year amounts have been reclassified to confirm current year's presentation. The impact of reclassifications was not material to the overall presentation of the financial statements.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved and authorised for issue by the Board of Directors of the Company on February 1, 2017.