

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

**Condensed Interim Financial Statements for the
Six months ended June 30, 2018 and
Report on review of Interim financial statements**

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Unaudited Condensed Interim Financial Statements
For the Six months ended June 30, 2018

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REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Nayifat Finance Company (A Saudi Closed Joint Stock Company) (the "Company") as of June 30, 2018 and the related condensed interim statement of comprehensive income for the three months and six months then ended and condensed interim statements of changes in shareholders' equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" (IAS 34) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.


Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34 as modified by SAMA for the accounting of zakat and income tax.

PricewaterhouseCoopers

By: 
Bader I. Benmohareb
License Number 471

July 24, 2018

NAYIFAT FINANCE COMPANY

(A Saudi Closed Joint Stock Company)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

(All amounts in Saudi Riyals in thousand unless otherwise stated)

	Note	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS			
Cash and cash equivalents	5	100,083	275,614
Short term deposits	5	136,682	11,371
Islamic financing receivables	6	1,429,665	1,517,562
Prepayments and other assets		58,605	60,514
Intangible assets		5,156	3,696
Property and equipment		36,395	36,007
Total assets		1,766,586	1,904,764
LIABILITIES			
Accounts payable and accruals		17,769	22,281
Islamic bank financing	7	741,688	914,221
Provision for zakat		115,142	106,950
Provision of employees' termination benefits		5,629	5,125
Total liabilities		880,228	1,048,577
SHAREHOLDERS' EQUITY			
Share capital	1	850,000	635,000
Proposed increase in share capital	1	-	215,000
Statutory reserve	9	1,024	1,024
Retained earnings		35,334	5,163
Total shareholders' equity		886,358	856,187
Total liabilities and shareholders' equity		1,766,586	1,904,764

The accompanying notes (1) through (14) form an integral part of these condensed interim financial statements.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME- UNAUDITED
FOR THE SIX MONTHS ENDED JUNE 30,
(All amounts in Saudi Riyals in thousand unless otherwise stated)

	Note	For the three months ended June 30		For the six months ended June 30	
		2018	2017	2018	2017
Revenue	8, 13	79,787	81,649	163,808	181,221
Expenses					
Finance costs – net		(13,054)	(19,294)	(26,220)	(37,099)
Reversal/(provision) for impairment- net	6.5, 13	(562)	(3,837)	2,397	(9,652)
Salaries and employees related expenses		(17,052)	(16,959)	(36,530)	(33,974)
Other general and administrative expenses	13	(7,405)	(5,589)	(13,634)	(13,080)
Depreciation and amortization		(1,154)	(557)	(2,211)	(1,102)
Other income and expenses - net	13	573	-	573	(2,650)
Net income		41,133	35,413	88,183	83,664
Other comprehensive income		-	-	-	-
Total comprehensive income		41,133	35,413	88,183	83,664
Basic and diluted earnings per share	10	0.48	0.42	1.04	0.98

The accompanying notes (1) through (14) form an integral part of these condensed interim financial statements.

NAYIFAT FINANCE COMPANY

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**CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - UNAUDITED
FOR THE SIX MONTHS ENDED JUNE 30,**

(All amounts in Saudi Riyals in thousand unless otherwise stated)

	Note	Share capital	Proposed increase in share capital	Statutory reserve	Retained earnings	Total
2018						
January 1, 2018		635,000	215,000	1,024	5,163	856,187
Transfer to share capital		215,000	(215,000)	-	-	-
Dividend paid		-	-	-	(42,500)	(42,500)
Total comprehensive income		-	-	-	88,183	88,183
Zakat charge		-	-	-	(15,512)	(15,512)
June 30, 2018		850,000	-	1,024	35,334	886,358
2017						
December 31, 2016		600,000	-	19,630	105,433	725,063
Adjustment on adoption of IFRS 9	6.3	-	-	-	(49,554)	(49,554)
January 1, 2017		600,000	-	19,630	55,879	675,509
Total comprehensive income		-	-	-	83,664	83,664
Zakat charge		-	-	-	(10,210)	(10,210)
June 30, 2017		600,000	-	19,630	129,333	748,963

The accompanying notes (1) through (14) form an integral part of these condensed interim financial statements.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED INTERIM STATEMENT OF CASH FLOWS- UNAUDITED
FOR THE SIX MONTHS ENDED JUNE 30,
(All amounts in Saudi Riyals in thousand unless otherwise stated)

	Note	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		88,183	83,664
Adjustments for non-cash items:			
Depreciation and amortization		2,211	1,102
Intangible assets write-off		-	2,650
Provision of employees' termination benefits - net		504	603
Reversal/ (provision) for impairment		(2,397)	9,652
Finance costs		26,220	37,099
		<u>114,721</u>	<u>134,770</u>
Changes in operating assets and liabilities:			
Islamic financing receivables		90,294	(5,416)
Prepayments and other receivables		1,909	(3,711)
Payables and accruals		(4,512)	6,041
Zakat paid		(7,321)	(4,506)
Finance costs paid		(30,689)	(36,374)
Net cash generated from operating activities		<u>164,402</u>	<u>90,804</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(1,948)	(327)
Additions to intangibles		(2,110)	(1,685)
Short term deposits		(125,311)	(248,913)
Net cash used in investing activities		<u>(129,369)</u>	<u>(250,925)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Islamic bank financing	7.1	85,386	344,399
Repayment of Islamic bank financing	7.1	(253,450)	(239,189)
Dividend paid		(42,500)	-
Net cash (used in)/ generated from financing activities		<u>(210,564)</u>	<u>105,210</u>
Net decrease in cash and cash equivalents		(175,531)	(54,911)
Cash and cash equivalents at the beginning of the period		275,614	156,770
Cash and cash equivalents at the end of the period	5	<u>100,083</u>	<u>101,859</u>

The accompanying notes (1) through (14) form an integral part of these condensed interim financial statements.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE MONTHS ENDED JUNE 30, 2018

(All amounts in Saudi Riyals in thousand unless otherwise stated)

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 Jumad Thani 1431H (corresponding to May 23, 2010). In accordance with the supervision of Law 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 1435H (corresponding to December 31, 2013), the Company is authorized to provide lease finance, consumer finance and small and medium enterprise finance 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

These condensed interim financial statements have been reviewed, not audited.

Increase in share capital by SR 215 million

On December 25, 2017, the Board of Directors recommended to increase the share capital of the Company to SR 850 million through capitalization of retained earnings and reserves. The said Board recommendation was subject to shareholders and other regulatory approvals, which were obtained during the first quarter of 2018. Accordingly, the weighted average number of shares to calculate earning per share has been retrospectively adjusted.

2. BASIS OF PREPARATION

- 2.1 The condensed interim financial statements of the Company as at and for the quarter ended June 30, 2018 have been prepared using the International Accounting Standard 34 "Interim Financial Reporting" as modified by SAMA for the accounting of zakat and income tax.
- 2.2 The condensed interim financial statements do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2017.
- 2.3 The accounting and risk management policies used in the preparation of these interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2017.

3. ADOPTION OF NEW STANDARDS AND AMENDMENTS

Standards and amendments effective from January 1, 2018

During 2017, the Company had early adopted IFRS 9 - Financial Instruments issued in July 2014. Therefore, do not have any effect on these condensed interim financial statements.

Other new accounting standards including IFRS 15 – Revenue from contracts with customers, and amendments to existing accounting standards, effective from January 1, 2018 do not have any significant effect on the Company's financial statements.

Standards and amendments effective after January 1, 2018

Based on the management initial assessment, new accounting standards including IFRS 16 – Leases, and amendments to existing accounting standards, effective after January 1, 2018 do not have any significant effect on the Company's financial statements.

4. USE OF JUDGEMENTS AND ESTIMATES

The preparation of interim financial statements 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 expense. Actual results may differ from these estimates. In preparing these condensed interim financial statements, the significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended December 31, 2017.

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FOR THE THREE MONTHS ENDED JUNE 30, 2018
(All amounts in Saudi Riyals in thousand unless otherwise stated)

5. CASH AND BANK BALANCES

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cash in hand	453	274
Cash at banks	99,630	275,340
Cash and cash equivalents	100,083	275,614
Short-term deposits – note 5.1	136,682	11,371
	236,765	286,985

5.1 This include SR 120 million (2017: Nil) held with local bank as a commission bearing deposit commission for which is based on prevailing market rates and SR 13.5 million (2017: SR 8.5) is held with local banks as non-commission bearing deposits.

6. ISLAMIC FINANCING RECEIVABLES

6.1 The business activities of the Company are in the Kingdom of Saudi Arabia and primarily represent Tawarruq Consumer Islamic financing (“Consumer”), therefore considered as single operating segment. This financing is generally provided for a period of one to five years, which is recoverable in equal monthly installments.

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Gross receivables	2,077,384	2,214,572
Unearned finance revenue	(598,084)	(638,004)
	1,479,300	1,576,568
Deferred initial direct costs (transaction cost)	14,493	17,225
Impairment provision	(64,128)	(76,231)
	1,429,665	1,517,562
Current	537,769	529,940
Non-current	891,896	987,622
	1,429,665	1,517,562

6.2 Stage wise analysis of Islamic financing receivables was as follow:

	Performing	Under- performing	Non- performing	Total
June 30, 2018				
Receivables	1,297,943	40,986	140,371	1,479,300
Deferred initial direct costs	12,592	448	1,453	14,493
Impairment provision – note 6.3	(11,855)	(1,284)	(50,989)	(64,128)
Net receivables	1,298,680	40,150	90,835	1,429,665
December 31, 2017				
Receivables	1,358,040	45,256	173,272	1,576,568
Deferred initial direct costs	15,432	507	1,286	17,225
Impairment provision – note 6.3	(13,908)	(1,056)	(61,267)	(76,231)
Net receivables	1,359,564	44,707	113,291	1,517,562

6.2.1 Non-performing Islamic finance receivables include SR 31 million (December 31, 2017: SR 28 million) and SR 25 million (December 31, 2017: SR 30 million) past due between 12 to 18 months and more than 18 months respectively. The management believes adequate provision has been recorded against such receivables.

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FOR THE THREE MONTHS ENDED JUNE 30, 2018

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6.3 Portfolio provision analysis

	Performing	Under-performing	Non-performing	Total
Balance at January 1, 2018	13,908	1,056	61,267	76,231
Transfer from performing	(597)	310	287	-
Transfer from under-performing	589	(974)	385	-
Transfer from non-performing	1,330	386	(1,716)	-
Financial assets – settled	(1,190)	(151)	(15,666)	(17,007)
New financial assets originated	1,647	12	-	1,659
Net re-measurement of loss allowance	(3,832)	645	30,387	27,200
	(2,053)	228	13,677	11,852
Write-offs during the year	-	-	(23,955)	(23,955)
Balance at June 30, 2018	11,855	1,284	50,989	64,128

	Performing	Under-performing	Non-performing	Total
Balance at December 31, 2016	154	205	53,898	54,257
Adjustment on adoption of IFRS 9	12,950	928	35,676	49,554
Balance at January 1, 2017	13,104	1,133	89,574	103,811
Transfer from performing	(1,573)	410	1,163	-
Transfer from under-performing	397	(767)	370	-
Transfer from non-performing	1,879	367	(2,246)	-
Financial assets – settled	(2,344)	(380)	(1,606)	(4,330)
New financial assets originated	3,638	84	2,092	5,814
Net re-measurement of loss allowance	(1,193)	209	20,383	19,399
	804	(77)	20,156	20,883
Write-offs during the year	-	-	(48,463)	(48,463)
Balance at December 31, 2017	13,908	1,056	61,267	76,231

6.4 Assignment of Islamic financing receivables

The Company assigned Islamic financing receivables amounting to SR 0.94 billion (December 31, 2017: SR 1.09 billion) to commercial banks for obtaining Islamic 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 Islamic bank financing.

6.5 Impairment provision - net

	For the six months end June 30	
	2018	2017
Impairment provision charge	11,852	19,866
Recoveries after written-off	(14,249)	(10,214)
	(2,397)	9,652

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FOR THE THREE MONTHS ENDED JUNE 30, 2018
(All amounts in Saudi Riyals in thousand unless otherwise stated)

7. ISLAMIC BANK FINANCING

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Current	403,315	487,622
Non-current	339,732	423,489
	<u>743,047</u>	<u>911,111</u>
Accrued finance cost	1,832	1,753
	<u>744,879</u>	<u>912,864</u>
Unamortized deferred charges – transaction costs	(6,323)	(6,582)
Unrealized loss on fair valuation of derivatives	3,132	7,939
	<u>741,688</u>	<u>914,221</u>

The Company has long-term financing facilities with banks to finance current and long term funding needs, primarily to finance Islamic finance receivables, amounting to SR 1.16 billion of which SR 0.74 billion was utilized as of June 30, 2018 (December 31, 2017: SR 0.91 billion). These financing are repayable in 36 to 48 monthly instalments. 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.

The financing bears commission charges at prevailing market rates. The Company has fixed the profit rates through derivatives i.e. Islamic profit rate swap agreement with the banks for notional amount of SR 507 million. The settlement dates are in line with the respective financing.

7.1 The movement schedule of Islamic bank financing was as follows:

	Principal	Finance cost	Total
Payable as at January 1, 2018	911,111	1,753	912,864
Proceeds / charge during the year	85,386	26,754	112,140
Payments during the year	<u>(253,450)</u>	<u>(26,675)</u>	<u>(280,125)</u>
Payable as at June 30, 2018	<u>743,047</u>	<u>1,832</u>	<u>744,879</u>
	Principal	Finance cost	Total
Payable as at January 1, 2017	988,546	2,963	991,509
Proceeds / charge during the year	428,704	64,262	492,966
Payments during the year	<u>(506,139)</u>	<u>(65,472)</u>	<u>(571,611)</u>
Payable as at December 31, 2017	<u>911,111</u>	<u>1,753</u>	<u>912,864</u>

8. REVENUE

	For the six months ended June 30	
	2018	2017
Income from Islamic financing	164,267	181,777
Fee and commission income	5,220	6,184
Amortization of transaction costs	<u>(5,680)</u>	<u>(6,740)</u>
	<u>163,808</u>	<u>181,221</u>

9. 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 at least 10% of net income until the reserve equals 30% (2017: 30%) of the share capital. This reserve is not available for distribution. Such transfer is made to the statutory reserve account on annual basis at year end.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE MONTHS ENDED JUNE 30, 2018
(All amounts in Saudi Riyals in thousand unless otherwise stated)

10. EARNINGS PER SHARE

	For the six months ended June 30	
	2018	2017
Net income	88,182	83,664
Weighted average number of shares ("000") – note 1	85,000	85,000
Basic and diluted EPS	1.04	0.98

11. CONTINGENCY AND COMMITMENTS

There is no significant change in status of contingency since last year end. Further, there is no significant capital commitment as at balance sheet date.

12. 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 Islamic Bank financing and the advantages and security afforded by a sound capital position. In relation to the capital structure of the Company, management closely monitors the compliance with regulations and Islamic Bank financing covenants and as at the statement of financial position date the Company was is in compliance with the prescribe requirements. At financial position date, the management analysis of gearing ratio was as follows:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Shareholders' equity	886,358	856,187
Islamic bank financing	741,688	914,221
Total capital structure	1,628,046	1,770,408
Gearing ratio	45.56%	51.64%

13. COMPARATIVES

Certain amounts in the comparative 2017 financial statements have been reclassified to conform with the last issued annual financial statements and current period presentation including the following:

- Recoveries against written off balances amounting SR 10.214 million have been reclassified from revenue to impairment provision.
- Intangible assets written off amounting to SR 2.65 million have been reclassified from other general and administrative expenses to other income and expenses.

However, the effect of these and other reclassifications was not significant.

14. DATE OF APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying condensed interim financial statements were approved for issue by the Board of Directors on July 23, 2018.