

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

Unaudited Condensed Interim Financial Statements for the three-months
and nine-months periods ended September 30, 2019 and
Independent Auditors' Review Report

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Unaudited Condensed Interim Financial Statements
For the three months and nine months periods ended September 30, 2019

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REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim statement of financial position of Nayifat Finance Company (A Saudi Closed Joint Stock Company) (the "Company") as of September 30, 2019 and the related interim statement of comprehensive income for the three months and nine months periods then ended, and the interim statements of changes in shareholders' equity and cash flows for the nine months period then ended, and other explanatory notes (the "condensed interim financial statements"). 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 endorsed in the Kingdom of Saudi Arabia. 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 condensed 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 endorsed in the Kingdom of Saudi Arabia.

PriceWaterhouseCoopers

Omar M. Al Sagga
License Number 369

October 24, 2019



NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals in thousand unless otherwise stated)

	Note	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS			
Cash and cash equivalents	5	82,879	111,231
Term and margin deposits	5	98,105	86,729
Islamic financing receivables	6	1,647,905	1,455,387
Investments at fair value through OCI		893	893
Prepayments and other receivables		44,899	55,610
Intangible assets		7,327	6,405
Property and equipment	3	45,479	36,914
Total assets		1,927,487	1,753,169
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable and accruals		30,017	20,148
Islamic bank financings and lease liabilities	7, 3	784,079	683,391
Zakat payable	8.2	28,852	53,302
Provision for zakat	8.1	16,232	42,130
Provision of employees' end of service benefits		7,409	6,450
Total liabilities		866,589	805,421
SHAREHOLDERS' EQUITY			
Share capital		850,000	850,000
Statutory reserve		18,261	18,261
Retained earnings		192,637	79,487
Total shareholders' equity		1,060,898	947,748
Total liabilities and shareholders' equity		1,927,487	1,753,169

The accompanying notes (1) through (16) form an integral part of these condensed interim financial statements.


 Chief Financial Officer


 Managing Director
 and
 Chief Executive Officer


 Chairman of
 Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
(All amounts in Saudi Riyals in thousand unless otherwise stated)

	Note	For the three months period ended September 30		For the nine months period ended September 30	
		2019	2018 (Restated)	2019	2018 (Restated)
Revenue	9	102,473	76,717	281,057	240,525
Expenses					
Finance costs		(14,391)	(12,789)	(42,238)	(39,009)
Reversal of impairment, net	6.4	7,002	6,719	15,373	9,116
Salaries and employees related expenses	11	(24,649)	(19,944)	(68,468)	(56,474)
Other general and administrative expenses	12	(16,283)	(6,506)	(35,275)	(20,140)
Depreciation and amortization		(2,566)	(1,240)	(7,291)	(3,451)
Total expenses		(50,887)	(33,760)	(137,899)	(109,958)
Other income		640	1,645	1,903	2,218
Net income for the period before zakat		52,226	44,602	145,061	132,785
Zakat					
Charge for the period	8.1, 2.3(ii)	(5,500)	(7,756)	(16,232)	(23,268)
Reversal of prior period	8.1, 2.3(ii)	-	-	26,821	-
		(5,500)	(7,756)	10,589	(23,268)
Net income for the period		46,726	36,846	155,650	109,517
Other comprehensive income		-	-	-	-
Total comprehensive income		46,726	36,846	155,650	109,517
Basic and diluted earnings per share	10	0.55	0.43	1.83	1.29

The accompanying notes (1) through (16) form an integral part of these condensed interim financial statements.


Chief Financial Officer


Managing Director
and
Chief Executive Officer


Chairman of
Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

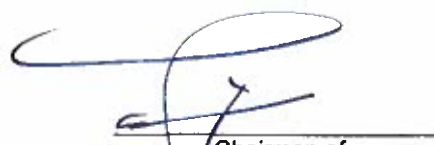
INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30,
(All amounts in Saudi Riyals in thousand unless otherwise stated)

	Note	Share capital	Proposed increase in share capital	Statutory reserve	Retained earnings	Total
2019						
Balance as at December 31, 2018 (Audited)		850,000	-	18,261	79,487	947,748
Net income for the period		-	-	-	155,650	155,650
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	155,650	155,650
Dividend paid		-	-	-	(42,500)	(42,500)
Balance as at September 30, 2019 (Unaudited)		850,000	-	18,261	192,637	1,060,898
2018						
Balance as at December 31, 2017 (Audited)		635,000	215,000	1,024	5,163	856,187
Transfer to share capital		215,000	(215,000)	-	-	-
Net income for the period (restated)	2.3(ii)	-	-	-	109,517	109,517
Other comprehensive income		-	-	-	-	-
Total comprehensive income (restated)		-	-	-	109,517	109,517
Dividend Paid		-	-	-	(42,500)	(42,500)
Balance as at September 30, 2018 (Unaudited)		850,000	-	1,024	72,180	923,204

The accompanying notes (1) through (16) form an integral part of these condensed interim financial statements.


Chief Financial Officer


Managing Director
and
Chief Executive Officer


Chairman of
Board of Directors

NAYIFAT FINANCE COMPANY
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INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30,
(All amounts in Saudi Riyals in thousand unless otherwise stated)

	Notes	2019	2018
Cash flows from operating activities			
Net income for the period before zakat		145,061	132,785
Adjustments for non-cash items:			
Depreciation and amortization		7,291	3,451
Provision of employees' end of service benefits		1,242	2,340
Reversal of impairment, net		(15,373)	(9,116)
Finance costs		42,238	39,009
Changes in operating assets and liabilities:			
Islamic financing receivables		(177,145)	107,841
Prepayments and other receivables		10,530	3,726
Accounts payable and accruals		9,869	(1,659)
Rentals paid	3.3	(2,448)	-
Zakat paid	8.2	(39,759)	(7,320)
Employees' end of service benefits paid		(283)	(2,166)
Finance cost and charges paid		(42,860)	(44,416)
Net cash (used in) / generated from operating activities		(61,637)	224,475
Cash flows from investing activities			
Additions to property and equipment		(4,985)	(2,593)
Additions to intangible assets		(1,384)	(3,470)
Term and margin deposits		(11,376)	(125,450)
Net cash used in investing activities		(17,745)	(131,513)
Cash flows from financing activities			
Proceeds from financings		402,375	120,386
Repayment of financings		(308,845)	(386,941)
Dividend paid		(42,500)	(42,500)
Net cash generated from / (used in) financing activities		51,030	(309,055)
Net change in cash and cash equivalents		(28,352)	(216,093)
Cash and cash equivalents at the beginning of the period		111,231	275,614
Cash and cash equivalents at the end of the period	5	82,879	59,521
Supplemental non-cash information:			
Islamic financing receivables write-offs	6.3	25,614	33,247
Recognition of Right-of-use asset upon adoption of IFRS 16	3	10,409	-
Recognition of lease liabilities asset upon adoption of IFRS 16	3	7,780	-

The accompanying notes (1) through (16) form an integral part of these condensed interim financial statements.


Chief Financial Officer


Managing Director
and
Chief Executive Officer


Chairman of
Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2019

(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 JumadThani 1431H (corresponding to May 23, 2010). In accordance with the Law of Supervision of Finance Companies, the Saudi Arabian Monetary Authority (SAMA) granted license to the Company to operate as a financing company under the name of Nayifat Finance Company.

As per the SAMA license No. 5/AS/201312 renewed on dated 23 Dhu'l-Hijjah1439 (corresponding to September 3, 2018), expiring on 26 Safar 1445 (corresponding to September 12, 2023), the Company is authorized to provide lease finance, consumer finance, small and medium enterprise finance and credit cards finance in the Kingdom of Saudi Arabia.

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

Nayifat Finance Company
7633 Al Ulaya – Al Woroud Dist
Unit No 1555
Riyadh 12253 - 2105
Kingdom of Saudi Arabia

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

2. BASIS OF PREPARATION

- 2.1 The condensed interim financial statements of the Company as at and for the period ended September 30, 2019 have been prepared in accordance with International Accounting Standard "Interim Financial Reporting"- ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

The financial statements of the Company as at and for the period and year ended March 31, 2019 and December 31, 2018, respectively, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to zakat and income tax).

On 18 July 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of comprehensive income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in the Kingdom of Saudi Arabia and with the and other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8, Accounting Policies, Changes in Accounting Estimates and Errors as disclosed in note 2.3(ii) and the effects of this change are disclosed in note 8.4 to the condensed interim financial statements.

The condensed interim statement of financial position is stated broadly in order of liquidity.

- 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, 2018. The interim results may not be an indicator of the annual results of the Company.
- 2.3 The Company has not early adopted any new standards, interpretation or amendments that have been issued but which are not yet effective. The accounting and risk management policies adopted in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2018, except for:

(i) IFRS 16 "Leases"

The Company has adopted IFRS 16 'Leases' ("IFRS 16") on its effective date January 1, 2019. The effect of adoption of new accounting policy is disclosed in note 3 of these condensed interim financial statements and the accounting policies affected by the new standard are as follows:

NAYIFAT FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2019

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

(a) Company as a lessee: Policy applicable from January 1, 2019

Leases are recognised as a right-of-use asset and a corresponding liability, at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Generally, the Company uses the incremental borrowing rate as the discount rate.

Lease payments included in the measurement of lease liabilities comprise the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Subsequently, the lease liabilities are measure at amortised cost using the effective interest rate method. They are re-measured when there is a change in future lease payments arising from a change in rate, or if Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liabilities are re-measured in this way, a corresponding comprehensive income adjustment is made to the carrying amount of the right-of-use asset, or is recorded in statement of comprehensive income if the carrying amount of right-of-use asset reduced to zero.

Right-of-use assets

Right-of-use assets are initially measured at cost, comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Refundable security deposits are not included in the initial measurement of a right-of-use asset. However, the difference between the nominal amount of the refundable security deposits and its fair value at the commencement of the lease represent, an additional lease payment which is prepaid and accordingly added to the initial carrying amount of the right-of-use asset and released to the statement of comprehensive income over the lease term as part of the depreciation of those assets.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition the right-to-use assets is periodically reduced by impairment losses, if any, and adjusted for certain re-measurement of lease liabilities.

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Short-term and low value leases

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office equipment and furniture.

NAYIFAT FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2019

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

(b) Company as a lessee: Policy applicable before January 1, 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

(ii) Change in the accounting policy in relation to accounting for Zakat:

As mentioned above, the basis of preparation has been changed for the period ended September 30, 2019 based on instructions from SAMA dated July 18, 2019. Till period ended March 31, 2019, zakat and income tax was recognized in the statement of changes in shareholders' equity as per the SAMA circular no 381000074519 dated 11 April 2017. As per SAMA instructions dated July 18, 2019, zakat and income tax shall be recognized in the interim statement of comprehensive income. The Company has accounted for this change in the accounting for zakat retrospectively and the effects of the above change are disclosed in note 8.4 to the condensed interim financial statements. The change has resulted in reduction of reported income of the Company for the period ended September 30, 2018 by SR 23.2 million and had no impact on the interim statement of cash flows for the period ended September 30, 2018.

Zakat

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the interim statement of comprehensive income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

3. ADOPTION OF IFRS 16

The Company leases various properties, equipment and vehicles. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Company has adopted the new standard IFRS 16 from January 1, 2019, using the modified retrospective approach, and therefore, the comparative information has not been restated and continues to be reported under IAS 17 - Leases ("IAS 17") and IFRIC 4 - Determining whether an Arrangement contains a Lease ("IFRIC 4"). Accordingly, the information presented in these financial statements for 2018 is not comparable in relation to and due to adoption of IFRS 16.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases, which have previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5%.

Right-of use assets were measured at the amount equal to the lease liability. Therefore, there was no impact on the retained earnings.

NAYIFAT FINANCE COMPANY
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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2019**

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

Right-of-use assets are adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the condensed interim statement of financial position as at December 31, 2018. Due to adoption of IFRS 16, Property and equipment increased by SR 10.4 million on January 1, 2019 and prepayments were reduced by SR 2.6 million.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4.

3.1 The interim statement of financial position includes the following amounts relating to leases:

	September 30, 2019 (Unaudited)	January 1, 2019 (Unaudited)	December 31, 2018 Audited
Right-of-use assets			
Buildings	7,770	10,409	-
	<u>7,770</u>	<u>10,409</u>	<u>-</u>
Lease liabilities			
Non-current	3,509	4,985	-
Current	1,823	2,795	-
	<u>5,332</u>	<u>7,780</u>	<u>-</u>

The table below shows the reconciliation of future lease payments discounted using the incremental borrowing rate with the lease liabilities related to right-of-use assets.

	September 30, 2019 (Unaudited)	January 1, 2019 (Unaudited)
Future lease payments	5,765	8,440
Discounting impact at incremental borrowing rate	(433)	(660)
	<u>5,332</u>	<u>7,780</u>

Right-of use assets is included in the line item "Property and equipment" and lease liabilities are included in "Islamic Bank financing and lease liabilities" in the statement of financial position.

Additions to the right-of-use assets during the nine months period ended September 30, 2019 were Nil.

3.2 The interim statement of comprehensive income includes the following amounts related to leases:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Depreciation charge of Right-of-use assets	2,639	-
Interest expense (included in finance cost)	227	-

3.3 The total cash outflow for leases during the nine months ended September 30, 2019 was SR 2.4 million.

4. USE OF JUDGMENTS AND ESTIMATES

The preparation of condensed 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 audited financial statements as at and for the year ended December 31, 2018.

NAYIFAT FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2019

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

5. CASH AND BANK BALANCES

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Cash in hand	187	200
Cash at banks	<u>82,692</u>	<u>111,031</u>
Cash and cash equivalents	<u>82,879</u>	<u>111,231</u>
Margin deposits held with banks	33,488	13,500
Term deposits (5.1)	<u>64,617</u>	<u>73,229</u>
	<u>180,984</u>	<u>197,960</u>

5.1 This includes SR 50 million (2018: 70.89 million) held with local banks as commission bearing deposits which are based on prevailing market rates.

6. ISLAMIC FINANCING RECEIVABLES

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Gross receivables	2,529,137	2,148,080
Unearned finance income	<u>(844,553)</u>	<u>(644,435)</u>
	1,684,584	1,503,645
Impairment provision	<u>(36,679)</u>	<u>(48,258)</u>
	<u>1,647,905</u>	<u>1,455,387</u>
Current	493,088	442,629
Non-current	<u>1,154,817</u>	<u>1,012,758</u>
	<u>1,647,905</u>	<u>1,455,387</u>

6.1 Stage wise analysis of Islamic financing receivables is as follows:

	September 30, 2019 (Unaudited)			December 31, 2018 (Audited)	
	Performing	Under-	Non-	Total	Total
	(Stage 1)	performing	performing		
		(Stage 2)	(Stage 3)		
Receivables	1,567,806	30,519	86,259	1,684,584	1,503,645
Provision for impairment	<u>(5,086)</u>	<u>(333)</u>	<u>(31,260)</u>	<u>(36,679)</u>	<u>(48,258)</u>
Net receivables	<u>1,562,720</u>	<u>30,186</u>	<u>54,999</u>	<u>1,647,905</u>	<u>1,455,387</u>

6.2 Non-performing Islamic finance receivables include SR 17.61 million (December 31, 2018: SR 33 million) and SR 15.66 million (December 31, 2018: SR 23 million) past due between 12 to 18 months and more than 18 months, respectively. The management believes that adequate provision for impairment has been recorded against such receivables.

6.3 During the nine months period ended September 30, 2019, Islamic financing receivables of SR 25.6 million (2018: 33.2 million) was written-off.

6.4 Reversal of Impairment - net

	For the nine months ended September 30	
	2019	2018
Impairment charge	14,036	11,510
Recoveries after written-off	<u>(29,409)</u>	<u>(20,626)</u>
Net reversal of impairment	<u>(15,373)</u>	<u>(9,116)</u>

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2019

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

7. ISLAMIC BANK FINANCINGS AND LEASE LIABILITIES

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Islamic bank financings	777,405	681,791
Lease liabilities	5,332	-
Unrealized loss on fair valuation of derivatives	1,342	1,600
	784,079	683,391

8. ZAKAT

8.1 Movement in provision for zakat for the period / year is as follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
January 1,	42,130	106,950
Charge for the period / year	16,232	17,237
Reversal of prior year charge	(26,821)	(21,430)
	(10,589)	(4,193)
Transfer to zakat payable - for the years 2009 to 2013 and 2014 to 2018 (note 8.2)	(15,309)	(53,302)
Payments during the period / year	-	(7,325)
Balance at end of period / year	16,232	42,130

8.2 Movement in zakat payable for the period / year is as follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
January 1,	53,302	-
Transfer from provision for zakat	15,309	53,302
Payments during the period / year	(39,759)	-
Balance at end of period / year	28,852	53,302

8.3 Status of zakat assessments:

- a) The final assessment and settlement for the zakat liability for the years 2009-2013 was received during the period and settled.
- b) The final assessments of zakat liability for the years 2014-2017 was received and the settlement as per terms of settlement is being paid as per agreed schedule. The balance amount payable as per settlement terms is kept aside as zakat payable amounting to SR 28.9 million.
- c) The zakat liability of 2018 has been fully settled.

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8.4 Change in accounting treatment for zakat:

The change in the accounting treatment for zakat as explained in note 2.3(ii) has the following impact on the line items of the interim statement of comprehensive income and interim statement of changes in shareholders' equity:

For the nine months period ended 30 September 2018:

Financial statement impacted	Account	Before the restatement for the nine-month period ended 30 September 2018:	Effect of Restatement	As restated as at and for the nine-month period ended 30 September 2018:
Interim statement of changes in shareholders' Equity	Provision for zakat (retained earnings)	23,268	(23,268)	-
Interim statement of comprehensive income	Zakat expenses	-	23,268	23,268
Interim statement of comprehensive income	Earnings per share stated in Saudi Riyals	1.56	(0.27)	1.29

For the three months period ended 30 September 2018:

Financial statement impacted	Account	Before the restatement for the nine-month period ended 30 September 2018:	Effect of Restatement	As restated as at and for the nine-month period ended 30 September 2018:
Interim statement of comprehensive income	Zakat expenses	-	7,756	7,756
Interim statement of comprehensive income	Earnings per share stated in Saudi Riyals	0.52	(0.09)	0.43

9. REVENUE

	For the nine months ended September 30	
	2019	2018
Income from Islamic financing	268,376	232,427
Fee and commission income	12,681	8,098
	281,057	240,525

10. EARNINGS PER SHARE

	For the nine months ended September 30	
	2019	2018 (Restated)
Net income for the period	155,650	109,517
Weighted average number of shares in thousand	85,000	85,000
Basic and diluted EPS- as stated in Saudi Riyals	1.83	1.29

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11. SALARIES AND EMPLOYEES RELATED EXPENSES

This includes key management compensation for the period ended September 30, 2019 as follows:

	For the nine months period ended September 30,	
	2019	2018
Key Management compensation	30,010	26,840
Number of Key management personnel	16	14

12. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the nine months period ended September 30,	
	2019	2018
Marketing and advertisements	7,649	632
Legal and professional charges	7,665	3,472
Insurance	4,345	3,827
Exchange traded fund valuation impact	4,244	2,396
IT support charges	3,118	1,134
Repairs, maintenance and office supplies	2,615	1,806
Utilities, telephone and communication	2,117	2,025
VAT expenses	1,912	1,585
Rentals and others	1,610	3,263
	35,275	20,140

13. CONTINGENCY AND COMMITMENTS

There is no significant change in the status of contingencies since December 31, 2018. Further, there is no significant capital commitment as at interim statement of financial position date.

14. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard its 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 interim statement of financial position date, the Company was, is in compliance with the prescribed requirements. At the interim statement of financial position date, the management's analysis of gearing ratio is as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Shareholders' equity	1,060,898	947,748
Islamic bank financing	784,079	683,391
Total capital structure	1,844,977	1,631,139
Gearing ratio	42.50%	41.90%

15. SUBSEQUENT EVENT

Subsequent to the period end, the Board of Directors approved interim dividends amounting to SR 42.5 million (i.e. SR 0.5 per share) subject to SAMA approval. Further, the board of directors also recommended to increase the share capital of the Company to SR 1 billion through capitalization of retained earnings. The said Board recommendation is subject to shareholders and other regulatory approvals.

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16. DATE OF APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying condensed interim financial statements were approved for issue by the Board of Directors on October 23, 2019.