

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

Unaudited Condensed Interim Financial Statements
For the three months period ended March 31, 2020 and
Independent Auditors' Review Report

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

Unaudited Condensed Interim Financial Statements
For the three months period ended March 31, 2020

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REPORT ON REVIEW OF 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 March 31, 2020 and the related interim statements of comprehensive income, changes in shareholders' equity and cash flows for the three 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



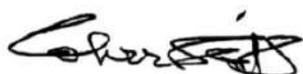
April 12, 2020

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	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS			
Cash and cash equivalents	5	225,547	52,596
Term and margin deposits	5	125,273	114,684
Islamic financing receivables	6	1,700,035	1,728,094
Equity investments at fair value through OCI		893	893
Prepayments and other receivables		48,197	40,272
Intangible assets		9,440	8,008
Property and equipment		43,926	44,223
Total assets		2,153,311	1,988,770
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accruals and other liabilities		46,054	46,148
Provision for zakat		27,542	21,532
Islamic bank financings and lease liabilities	7	977,902	873,789
Zakat payable		23,082	23,082
Provision of employees' end of service benefits		8,566	7,802
Total liabilities		1,083,146	972,353
SHAREHOLDERS' EQUITY			
Share capital		1,000,000	1,000,000
Proposed dividend	13	48,507	-
Statutory reserve		40,143	40,143
Retained earnings		46,667	41,426
Treasury shares		(65,152)	(65,152)
Total shareholders' equity		1,070,165	1,016,417
Total liabilities and shareholders' equity		2,153,311	1,988,770

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



Chief Financial Officer



Managing Director
and
Chief Executive Officer



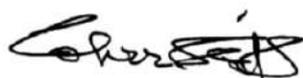
Chairman of
Board of Directors

NAYIFAT FINANCE COMPANY
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INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31,
 (All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	2020	2019
			(Restated)
Income			
Income from Islamic financing	9	108,431	84,966
Other income		111	596
		108,542	85,562
Expenses			
Finance costs		(13,894)	(13,841)
Reversal of impairment - net	6.6	544	6,103
Salaries and employees related expenses	11	(24,934)	(21,518)
Other general and administrative expenses		(7,572)	(7,429)
Depreciation and amortization		(2,928)	(2,239)
Total expenses		(48,784)	(38,924)
Income before zakat		59,758	46,638
Zakat			
Charge for the period		(6,010)	(5,332)
Net income for the period		53,748	41,306
Other comprehensive income			-
Total comprehensive income		53,748	41,306
Basic and diluted earnings per share	10	0.55	0.41

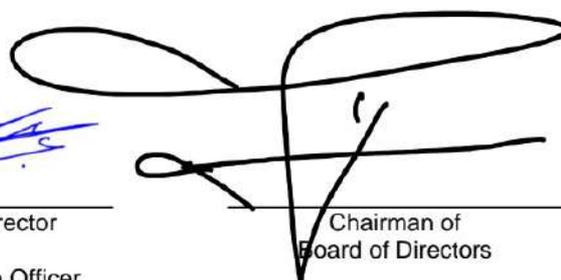
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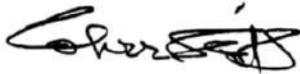
NAYIFAT FINANCE COMPANY
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INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2020

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

	Note	Share capital	Treasury shares	Proposed Dividend	Statutory reserve	Retained earnings	Total
2020							
Balance as at December 31, 2019 (Audited)		1,000,000	(65,152)	-	40,143	41,426	1,016,417
Net income for the period		-	-	-	-	53,748	53,748
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	53,748	53,748
Proposed dividend for 2020	13	-	-	48,507	-	(48,507)	-
Balance as at March 31, 2020 (Unaudited)		1,000,000	(65,152)	48,507	40,143	46,667	1,070,165
2019							
Balance as at December 31, 2018 (Audited)		850,000	-	-	18,261	79,487	947,748
Net income for the period (restated)	2.4	-	-	-	-	41,306	41,306
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income (restated)		-	-	-	-	41,306	41,306
Balance as at March 31, 2019 (Unaudited)		850,000	-	-	18,261	120,793	989,054

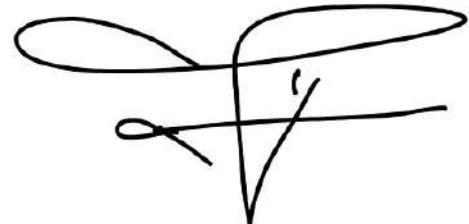
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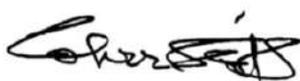
NAYIFAT FINANCE COMPANY
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INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2020

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

	Notes	2020	2019
Cash flows from operating activities			
Income before zakat		59,758	46,638
Adjustments for non-cash items:			
Depreciation and amortization		2,928	2,239
Provision of employees' end of service benefits - net		764	409
Reversal of impairment - net	6.6	(544)	(6,103)
Finance costs		13,894	13,841
		<u>76,800</u>	<u>57,024</u>
Changes in operating assets and liabilities:			
Islamic financing receivables		28,603	(34,905)
Prepayments and other receivables		(7,925)	(4,628)
Accruals and other liabilities		(94)	2,584
Zakat paid		-	(7,213)
Rentals paid		(1,157)	(1,616)
Finance cost and charges paid		(13,894)	(12,901)
Net cash generated from / (used in) operating activities		<u>82,333</u>	<u>(1,655)</u>
Cash flows from investing activities			
Additions to property and equipment		(1,806)	(416)
Additions to intangible assets		(2,257)	(1,081)
Term and margin deposits		(10,589)	(933)
Net cash used in investing activities		<u>(14,652)</u>	<u>(2,430)</u>
Cash flows from financing activities			
Proceeds from financings		203,388	90,000
Repayment of financings		(98,118)	(112,632)
Net cash generated from / (used in) financing activities		<u>105,270</u>	<u>(22,632)</u>
Net change in cash and cash equivalents		172,951	(26,717)
Cash and cash equivalents at the beginning of the period		52,596	111,231
Cash and cash equivalents at the end of the period		<u>225,547</u>	<u>84,514</u>
Supplemental non-cash information:			
Islamic financing receivables written-off	6.4	<u>5,250</u>	8,887
Recognition of Right-of-use asset upon adoption of IFRS 16		<u>-</u>	<u>9,529</u>

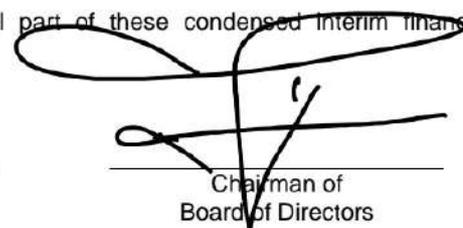
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NAYIFAT FINANCE COMPANY

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2020

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

1. GENERAL INFORMATION

Nayifat Finance Company (the "Company") 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 a 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 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 March 31, 2020 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 condensed interim financial statements of the Company as at and for the period ended March 31, 2019 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 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 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 2.4 and the effects of this change are disclosed in note 8.1 to these condensed interim financial statements.

The condensed interim statement of financial position is stated 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, 2019.
- 2.3 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, 2019.
- 2.4 Change in the accounting policy in relation to accounting for zakat:

Until the period ended March 31, 2019, zakat was recognized in the statement of changes in shareholders' equity as per SAMA circular no 381000074519 dated April 11, 2017. As per SAMA instructions dated July 18, 2019, zakat 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 8.1 to the condensed interim financial statements. The change has resulted in reduction of reported income of the Company for the period ended March 31, 2019 by SR 5.3 million and had no impact on the interim statement of cash flows for the period ended March 31, 2019.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2020**

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

Accounting policy for Zakat applied since June 30, 2019 is as follows:

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 NEW STANDARDS AND AMENDMENTS TO EXISTING ACCOUNTING STANDARDS

New accounting standards and amendments to existing accounting standards effective from January 1, 2020 and onwards do not have any significant effect on the Company's interim condensed financial statements.

4. USE OF JUDGEMENTS AND ESTIMATES

The preparation of interim condensed 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. The interim results may not represent a fully accurate indication of the annual results of operations. 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 statutory financial statements as at and for the period ended December 31, 2019.

5. CASH AND BANK BALANCES

	March 31, 2020	December 31, 2019 (Audited)
Cash in hand	10	10
Cash at banks	225,537	52,586
Cash and cash equivalents	225,547	52,596
Term and margin deposits		
Margin deposits held with banks	54,988	54,987
Term deposits – note 5.1	70,285	59,697
	125,273	114,684
	350,820	167,280

5.1 This includes SR 50 million (2019: 50 million) held with local banks as Islamic Murabaha deposits which are based on prevailing market rates.

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, therefore considered as a single operating segment. This financing is generally provided to Saudi nationals for a period of one to five years, which is recoverable in equal monthly installments.

	March 31, 2020	December 31, 2019 (Audited)
Gross receivables	2,626,280	2,672,329
Unearned finance income	(894,831)	(914,830)
	1,731,449	1,757,499
Provision for impairment	(31,414)	(29,405)
	1,700,035	1,728,094
Current	480,525	488,412
Non-current	1,219,510	1,239,682
	1,700,035	1,728,094

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2020**

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

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

	March 31, 2020			December 31, 2019 (Audited)	
	Performing	Under-performing	Non-performing	Total	Total
Receivables	1,594,443	39,101	97,905	1,731,449	1,757,499
Provision for impairment	(3,756)	(348)	(27,310)	(31,414)	(29,405)
Net receivables	1,590,687	38,753	70,595	1,700,035	1,728,094

6.3 Non-performing Islamic finance receivables include SR 16.07 million (December 31, 2019: SR 19.08 million) and SR 12.19 million (December 31, 2019: SR 15.20 million) past due between 12 to 18 months and more than 18 months, respectively. The management believes adequate provision for impairment has been recorded against such receivables.

6.4 During the three months period ended March 31, 2020, Islamic financing receivables of SR 5.25 million (2019: SR 8.9 million) were written-off.

6.5 Provision for impairment

	March 31, 2020	December 31, 2019 (Audited)
January 1,	29,405	48,258
Charge for the period / year	7,259	14,200
Written off loans during the period / year	(5,250)	(33,053)
Balance at end of period / year	31,414	29,405

6.6 Reversal of impairment - net

	For the three months ended March 31	
	2020	2019
Impairment provision charge (note 6.7)	7,259	5,564
Recoveries of receivables after written-off	(7,803)	(11,667)
Reversal of impairment – net	(544)	(6,103)

6.7 Generating the term structure of Probability of default (PD)

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. PD term structures are based on the default probability calculated on forward flow rates, maximum of past thirty-six months, adjusted by the outlook of the economy. The economic factor relating to GDP has been revised during the period considering the COVID-19 impact (Refer note 15 for details).

7. ISLAMIC BANK FINANCINGS AND LEASE LIABILITIES

	March 31, 2020	December 31, 2019 (Audited)
Islamic bank financings	973,813	868,616
Lease liabilities	4,089	5,173
	977,902	873,789

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2020**

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

8. ZAKAT

8.1 Change in accounting treatment for zakat:

The change in the accounting treatment for zakat as explained in note 2.4 has the following impact on the line items of interim statement of comprehensive income and interim statement of changes in shareholders' equity:

for the period ended March 31, 2019:

Financial statement impacted	Account	Before the restatement	Effect of restatement	As restated
Statement of changes in shareholders' equity	Provision for zakat (retained earnings)	5,332	(5,332)	-
Statement of comprehensive income	Zakat charge	-	5,332	5,332
Statement of comprehensive income	Earnings per share stated in Saudi Riyals	0.55	(0.06)	0.49

9. REVENUE

The increase in revenue is primarily due to increase in average Islamic financing receivables portfolio by SR 239 million during the period ended March 31, 2020 as compared to period ended March 31, 2019.

10. EARNINGS PER SHARE

	For the three months ended March 31	
	2020	2019 (Restated)
Net income for the period	53,748	41,306
Weighted average number of shares for basic and diluted EPS (Adjusted for treasury shares and bonus issue)	97,494	100,000
Basic and diluted EPS in Saudi Riyals	0.55	0.41

11. SALARIES AND EMPLOYEES RELATED EXPENSES

This includes key management compensation for the periods ended March 31, as follows:

	For the three months period ended March 31,	
	2020	2019
Key management compensation	3,343	2,600
Number of key management personnel	16	14

12. CONTINGENCY AND COMMITMENTS

There is no significant change in the status of contingencies since the year ended December 31, 2019. Further, there is no significant capital commitment as at the interim statement of financial position date.

13. PROPOSED DIVIDEND

During March 2020, the Board of Directors proposed interim dividends net of treasury shares amounting to SR 0.5 per share. The Company is in the process of securing SAMA approval for the proposed dividends as at the date of approval of these interim condensed financial statements.

NAYIFAT FINANCE COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2020

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

14. CAPITAL MANAGEMENT

The Company's objective when managing capital are 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 is in compliance with the debt covenants. At the reporting date, the management's analysis of gearing ratio was as follows:

	March 31, 2020	December 31, 2019 (Audited)
Shareholders' equity	1,070,165	1,016,417
Islamic bank financing	973,813	868,616
Total capital structure	2,043,978	1,885,033
Gearing ratio	47.64%	46.07%

15. SIGNIFICANT EVENTS DURING THE PERIOD

In response to the spread of the COVID-19 in various cities of KSA where the Company operates and its resulting disruptions to the social and economic activities, the Company's management has proactively assessed its impact on its operations and has taken a series of preventive measures. Such measures include but are not limited to the creation of on-going crisis management committees as well as modification of processes, to ensure the health and safety of its employees, customers and related data. Notwithstanding these challenges, Nayifat's business operations are only affected with respect to decline in financing disbursements for the month of March 2020 as compared to previous months. However, on the collection side the affect is likely to be very minimal. This is mainly due to the reason that majority of the customer base above 90% is Government sector employees. Further, based on the current economic environment the economic factor used in determining the provision for impairment for expected credit losses was updated as of March 31, 2020. For this purpose, the Company has taken into consideration the GDP growth factor from Moody's outlook for the Saudi economy.

From a liquidity perspective the Company has access to substantial unutilized long-term facilities from banks to finance its current and long-term funding needs of which approximately only 60% stands utilized as at March 31, 2020, and therefore the Company is not significantly exposed to liquidity risk.

Based on these factors, the Company's management believes that the COVID-19 pandemic has had no material effect on its reported financial results for the period ended March 31, 2020. However, if the COVID-19 pandemic situation prolongs for a longer period of time this may impact the profitability of the Company in view of the reduction in loan bookings compared to past period and may also have an impact on the collections from higher buckets dues. The Company's management continues to monitor the situation closely and modify it's strategy based on the prevalent situation at any given point of time.

Further, SAMA has given an option to SME customers to avail a six month repayments deferment plan and the same was opted by some of the customers as on March 31, 2020. The effect of restructuring of receivables from these customers is not significant.

16. DATE OF APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying condensed interim financial statements were approved for issue by the Board of Directors on April 9, 2020.