

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

Unaudited Condensed Interim Financial Statements
For the three months and six months periods ended June 30, 2020 and
Independent Auditors' Review Report

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

Unaudited Condensed Interim Financial Statements
For the three months and six months periods ended June 30, 2020

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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 June 30, 2020 and the related interim statements of comprehensive income for the three months and six months period then ended, and the interim statements of changes in shareholders' equity and cash flows for the six 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 interim financial information 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



July 27, 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	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS			
Cash and cash equivalents	5	153,459	52,596
Term and margin deposits	5	275,074	114,684
Islamic financing receivables	6	1,609,118	1,728,094
Equity investments at fair value through OCI		893	893
Prepayments and other receivables		39,647	40,272
Intangible assets		9,334	8,008
Property and equipment		45,272	44,223
Total assets		2,132,797	1,988,770
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accruals and other liabilities		35,863	46,148
Provision for zakat		13,220	21,532
Islamic bank financings and lease liabilities	7	992,573	873,789
Zakat payable		23,082	23,082
Provision of employees' end of service benefits		9,035	7,802
Total liabilities		1,073,773	972,353
SHAREHOLDERS' EQUITY			
Share capital		1,000,000	1,000,000
Statutory reserve		40,143	40,143
Retained earnings		18,881	41,426
Treasury shares	12	-	(65,152)
Total shareholders' equity		1,059,024	1,016,417
Total liabilities and shareholders' equity		2,132,797	1,988,770

The accompanying notes from (1) through (15) 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)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2020
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Note	For the three months period ended June 30		For the six months period ended June 30	
		2020	2019	2020	2019
Revenue	8	100,797	93,619	209,227	178,585
Expenses					
Finance costs		(12,832)	(14,006)	(26,726)	(27,847)
(Charge) / reversal of impairment, net	6.6	(6,272)	2,268	(5,728)	8,371
Salaries and employees related expenses	10	(20,594)	(22,301)	(45,528)	(43,819)
Other general and administrative expenses		(9,658)	(11,564)	(17,230)	(18,993)
Depreciation and amortization		(2,805)	(2,485)	(5,733)	(4,724)
Total expenses		(52,161)	(48,088)	(100,945)	(87,012)
Other (expense) / income		(3,581)	668	(3,471)	1,264
Net income for the period before zakat		45,055	46,199	104,811	92,837
Zakat					
Charge for the period		(7,687)	(5,400)	(13,697)	(10,732)
Reversal of prior period		-	26,821	-	26,821
		(7,687)	21,421	(13,697)	16,089
Net income for the period		37,368	67,620	91,114	108,926
Other comprehensive income		-	-	-	-
Total comprehensive income		37,368	67,620	91,114	108,926
Basic and diluted earnings per share	9	0.37	0.68	0.91	1.09

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Chief Financial Officer


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Board of Directors

NAYIFAT FINANCE COMPANY
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INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020

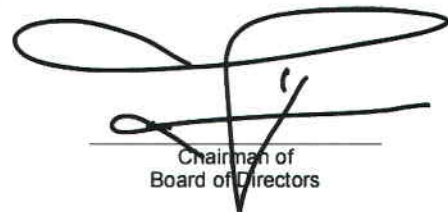
(All amounts in Saudi Riyals in thousand unless otherwise stated)

	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		-	-	-	-	91,114	91,114
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	91,114	91,114
Treasury stock	12	-	65,152	-	-	(65,152)	-
Dividend paid	12	-	-	-	-	(48,507)	(48,507)
Balance as at June 30, 2020 (Unaudited)		1,000,000	-	-	40,143	18,881	1,059,024
2019							
Balance as at December 31, 2018 (Audited)		850,000	-	-	18,261	79,487	947,748
Net income for the period		-	-	-	-	108,926	108,926
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	108,926	108,926
Proposed dividend for 2019		-	-	42,500	-	(42,500)	-
Balance as at June 30, 2019 (Unaudited)		850,000	-	42,500	18,261	145,913	1,056,674

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Chief Financial Officer


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Board of Directors

NAYIFAT FINANCE COMPANY
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INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020

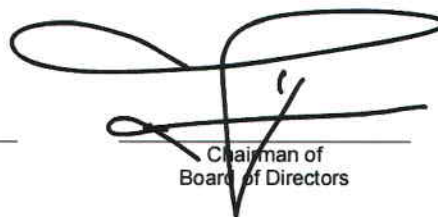
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	2020	2019
Cash flows from operating activities			
Net income for the period before zakat		104,811	92,837
Adjustments for non-cash items:			
Depreciation and amortization		5,733	4,724
Provision of employees' end of service benefits – net		1,233	943
Charge / (reversal) of impairment, net	6.6	5,728	(8,371)
Finance costs		26,726	27,847
		<u>144,231</u>	<u>117,980</u>
Changes in operating assets and liabilities:			
Islamic financing receivables		113,248	(126,297)
Prepayments and other receivables		625	1,207
Accounts payable and accruals		(10,285)	1,962
Rentals paid		(1,361)	(2,111)
Zakat paid		(22,009)	(24,450)
Finance cost and charges paid		(15,883)	(28,207)
Net cash (used in) / generated from operating activities		<u>208,566</u>	<u>(59,916)</u>
Cash flows from investing activities			
Additions to property and equipment		(5,003)	(1,502)
Additions to intangible assets		(3,105)	(2,665)
Term and margin deposits		(160,390)	(22,807)
Net cash used in investing activities		<u>(168,498)</u>	<u>(26,974)</u>
Cash flows from financing activities			
Proceeds from financings		218,639	302,375
Repayment of financings		(109,337)	(213,821)
Dividend paid		(48,507)	-
Net cash generated from / (used in) financing activities		<u>60,795</u>	<u>88,554</u>
Net change in cash and cash equivalents		100,863	1,664
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>153,459</u>	<u>112,895</u>
Supplemental non-cash information:			
Islamic financing receivables write-offs		10,069	18,104
Recognition of Right-of-use asset upon adoption of IFRS 16		-	10,409
Recognition of lease liabilities asset upon adoption of IFRS 16		-	7,780

The accompanying notes from (1) through (15) form an integral part of these condensed interim financial statements.


Chief Financial Officer


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NAYIFAT FINANCE COMPANY
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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 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 June 30, 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 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.

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 year ended December 31, 2019.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

5. CASH AND BANK BALANCES

	June 30, 2020	December 31, 2019 (Audited)
Cash in hand	10	10
Cash at banks	153,449	52,586
Cash and cash equivalents	153,459	52,596
Term and margin deposits		
Margin deposits held with banks	54,987	54,987
Term deposits – note 5.1	220,087	59,697
	275,074	114,684
	428,533	167,280

5.1 This includes SR 200 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.

	June 30, 2020	December 31, 2019 (Audited)
Gross receivables	2,465,274	2,672,329
Unearned finance income	(818,838)	(914,830)
	1,646,436	1,757,499
Provision for impairment	(37,318)	(29,405)
	1,609,118	1,728,094
Current	470,417	488,412
Non-current	1,138,701	1,239,682
	1,609,118	1,728,094

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

	June 30, 2020			December 31, 2019 (Audited)	
	Performing	Under- performing	Non- performing	Total	Total
Receivables	1,486,409	37,220	122,807	1,646,436	1,757,499
Provision for impairment	(3,869)	(480)	(32,969)	(37,318)	(29,405)
Net receivables	1,482,540	36,740	89,838	1,609,118	1,728,094

6.3 Non-performing Islamic finance receivables include SR 18.27 million (December 31, 2019: SR 19.08 million) and SR 12.70 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 six months period ended June 30, 2020, Islamic financing receivables of SR 10 million (2019: SR 8.9 million) were written-off.

NAYIFAT FINANCE COMPANY
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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

6. ISLAMIC FINANCING RECEIVABLES (continued)

6.5 Provision for impairment

	June 30, 2020	December 31, 2019 (Audited)
January 1,	29,405	48,258
Charge for the period / year	17,982	14,200
Written off loans during the period / year	(10,069)	(33,053)
Balance at end of period / year	37,318	29,405

6.6 Reversal of impairment - net

	For the six months period ended June 30	
	2020	2019
Impairment provision charge (note 6.7)	17,982	11,214
Recoveries of receivables after written-off	(12,254)	(19,585)
Reversal of impairment – net	5,728	(8,371)

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

	June 30, 2020	December 31, 2019 (Audited)
Islamic bank financings	988,760	868,616
Lease liabilities	3,813	5,173
	992,573	873,789

8. REVENUE

The increase in revenue is primarily due to increase in average Islamic financing receivables portfolio by SR 83.5 million during the period ended June 30, 2020 as compared to period ended June 30, 2019.

9. EARNINGS PER SHARE

	For the six months period ended June 30	
	2020	2019 (Restated)
Net income for the period	91,114	108,926
Weighted average number of shares for basic and diluted EPS	100,000	100,000
Basic and diluted EPS in Saudi Riyals	0.91	1.09

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

10. SALARIES AND EMPLOYEES RELATED EXPENSES

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

	For the six months period ended June 30,	
	2020	2019
Key management compensation	7,184	2,600
Number of key management personnel	17	14

11. 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.

12. TREASURY SHARES AND DIVIDEND

During the year ended December 31, 2019, the Company bought 2,505,827 of its own shares having a par value of SR 10 at SR 26 per share from one of the shareholders amounting to SR 65,151,502 and has been reported as Treasury Shares under equity. On June 7, 2020 the Board of directors have resolved to allocate these shares to all the remaining shareholders.

During the period ended June 30, 2020, the Company has paid interim dividends net of treasury shares amounting to SR 0.5 per share.

13. 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:

	June 30, 2020	December 31, 2019 (Audited)
Shareholders' equity	1,059,024	1,016,417
Islamic bank financing	988,760	868,616
Total capital structure	2,047,784	1,885,033
Gearing ratio	48.28%	46.07%

14. 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, Company's business operations has shown improvement in disbursements in June 2020 after showing decline during the months of April and May. There is no significant impact on the collection side for the quarter ended 30 June 2020, since majority of the customer base (above 90%) are Government employees. Further, the economic factor used in determining the provision for impairment for expected credit losses was updated during the period ended June 30, 2020 and the Company has continued with the forecast decline in the GDP growth rate based on Moody's outlook of Saudi economy.

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

14. SIGNIFICANT EVENTS DURING THE PERIOD (continued)

From liquidity perspective, the Company has utilized only 60% of its existing long-term loan facilities to finance its current and long-term funding needs as at June 30, 2020. In addition to these unutilized long-term loan facilities, due to low volumes of disbursements and regular collections of the existing financing receivables, the Company is not exposed to liquidity risk. The management of the Company has placed the surplus funds available with banks to generate revenue, to reduce the impact of the virus on the Company's net income.

Based on these factors, the Company's management believes that the COVID-19 pandemic has had its impact on the profitability of the Company, only due to the reduced disbursements, however, this is expected to be temporary, since the disbursement have already improved significantly in the month of June. However, if the COVID-19 pandemic situation prolongs for a longer period of time this may impact the profitability due to low disbursements and challenges in collections of existing loan facilities. The management continues to monitor the situation closely and will modify its strategy based on the prevalent situation as may be required.

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 June 30, 2020. The Company has also availed deferral options on its borrowings from banks without any additional costs to improve liquidity. The net impact of restructuring SME customers and availing the deferral option on the borrowings is not significant.

15. 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 26, 2020.