

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

**Unaudited Condensed Interim Financial Statements for the
Three months period ended March 31, 2018 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, 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 March 31, 2018 and the related condensed statement of comprehensive income, statements of changes in shareholders' equity and cash flows for the three months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" (IAS 34) as modified by 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 does not present fairly, in all material respects, the financial position of the entity as at March 31, 2018, and its financial performance and its cash flows for the three month period then ended in accordance with IAS 34 as modified by SAMA for the accounting of zakat and income tax.

PricewaterhouseCoopers

By: _____

Yaseen Abu Alkheer
License Number 375

April 22, 2018

*PricewaterhouseCoopers, License No. 25,
Jameel Square, P.O. Box 16415, Jeddah 21464, Kingdom of Saudi Arabia
T: +966 (12) 610-4400, F: +966 (12) 610-4411, www.pwc.com/middle-east*

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	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS			
Cash and cash equivalents	4	258,992	275,614
Short term deposits	4	11,650	11,371
Islamic financing receivables	5	1,451,485	1,517,562
Prepayments and other receivables		60,275	60,514
Intangible assets		3,695	3,696
Property and equipment		36,246	36,007
Total assets		1,822,343	1,904,764
LIABILITIES			
Accounts payable and accruals		17,469	22,281
Islamic bank financing	6	789,439	914,221
Provision for zakat		114,727	106,950
Provision of employees' termination benefits		5,227	5,125
Total liabilities		926,862	1,048,577
SHAREHOLDERS' EQUITY			
Share capital	1	850,000	635,000
Proposed increase in share capital	1	-	215,000
Statutory reserve	8	1,024	1,024
Retained earnings		44,457	5,163
Total shareholders' equity		895,481	856,187
Total liabilities and shareholders' equity		1,822,343	1,904,764

The accompanying notes (1) through (13) 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 THREE MONTHS ENDED MARCH 31,
(All amounts in Saudi Riyals in thousand unless otherwise stated)

		<u>2018</u>	<u>2017</u>
Revenue	Note 7 , 12	84,021	99,572
Expenses			
Finance costs		(13,166)	(17,806)
Reversal / (provision) for impairment -net	12	2,959	(5,813)
Salaries and employees related expenses		(19,478)	(17,015)
Other general and administrative expenses		(6,229)	(7,491)
Depreciation and amortization		(1,057)	(545)
Other income and expenses – net	12	-	(2,650)
Net income		47,050	48,252
Other comprehensive income		-	-
Total comprehensive income		47,050	48,252
Basic and diluted earnings per share (Saudi Riyal)	9	0.55	0.57

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NAYIFAT FINANCE COMPANY
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CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - UNAUDITED
FOR THE THREE MONTHS ENDED MARCH 31,
(All amounts in Saudi Riyals in thousand unless otherwise stated)

	Note	Share capital	Proposed increase in share capital	Statutory reserve	Retained earnings	Total
January 1, 2018 (Audited)		635,000	215,000	1,024	5,163	856,187
Transfer to share capital	1	215,000	(215,000)	-	-	-
Total comprehensive income		-	-	-	47,050	47,050
Zakat charge for the period		-	-	-	(7,756)	(7,756)
March 31, 2018		850,000	-	1,024	44,457	895,481
December 31, 2016 (Audited)		600,000	-	19,630	105,433	725,063
Adjustment on adoption of IFRS 9		-	-	-	(49,554)	(49,554)
Jan 1, 2017		600,000	-	19,630	55,879	675,509
Total comprehensive income		-	-	-	48,252	48,252
Zakat charge for the period		-	-	-	(5,110)	(5,110)
March 31, 2017		600,000	-	19,630	99,021	718,651

The accompanying notes (1) through (13) form an integral part of these condensed interim financial statements.

NAYIFAT FINANCE COMPANY
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CONDENSED INTERIM STATEMENT OF CASH FLOWS- UNAUDITED
FOR THE THREE MONTHS ENDED MARCH 31,
(All amounts in Saudi Riyals in thousand unless otherwise stated)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	47,050	48,252
Adjustments for non-cash items:		
Finance costs	13,166	17,806
(Reversal) / provision for impairment	(2,959)	5,813
Provision of employees' termination benefits	102	183
Depreciation and amortization	1,057	545
Intangible assets written off – note 12	-	2,650
Changes in operating assets and liabilities:		
Islamic financing receivables	69,036	(12,030)
Prepayments and other receivables	259	(1,195)
Payables and accruals	(4,811)	3,851
Zakat paid	-	(20)
Finance costs and bank charges paid	(14,492)	(17,185)
Net cash generated from operating activities	108,408	48,670
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(990)	(5)
Additions to intangibles	(306)	-
Short-term deposits	(279)	1,129
Net cash (used in) / generated from investing activities	(1,575)	1,124
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Islamic bank financing	-	211,899
Repayment of Islamic bank financing	(123,455)	(115,875)
Net cash (used in) / generated from financing activities	(123,455)	96,024
Net (decrease) / increase in cash and cash equivalents	(16,622)	145,818
Cash and cash equivalents at the beginning of the period	275,614	156,770
Cash and cash equivalents at the end of the period	258,993	302,588
Supplemental non-cash information:		
Islamic financing receivables write-offs	11,971	7,399

The accompanying notes (1) through (13) 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 MARCH 31, 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 JumadThani 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 March 31, 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.
- 2.4 New accounting standards (including IFRS 15 Revenue from contracts with customers and IFRS 16 Leases) and amendments to existing accounting standards, effective from January 1, 2018 and thereafter, which were not early adopted by the Company, do not have any significant effect on the Company's financial statements.

3. 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.

4. CASH AND BANK BALANCES

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Cash in hand	326	274
Cash at banks	258,666	275,340
Cash and cash equivalents	258,992	275,614
Short-term deposits – note 4.1	11,650	11,371
	<u>270,642</u>	<u>286,985</u>

4.1 This include SR 8.5 million (2017: SR 8.5 million) held with a local bank as a non-commission bearing deposit.

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5. ISLAMIC FINANCING RECEIVABLES

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

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Gross receivables	2,110,320	2,214,572
Unearned finance revenue	(605,407)	(638,004)
Deferred initial direct costs (transaction cost)	1,504,913	1,576,568
Impairment provision	15,443	17,225
	(68,871)	(76,231)
	1,451,485	1,517,562
Current	506,866	529,940
Non-current	944,619	987,622
	1,451,485	1,517,562

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

	Performing	Under-performing	Non-performing	Total
March 31, 2018				
Receivables	1,308,335	32,610	163,968	1,504,913
Deferred initial direct costs	13,425	335	1,683	15,443
Impairment provision – note 5.3	(12,086)	(1,110)	(55,675)	(68,871)
Net receivables	1,309,674	31,835	109,976	1,451,485
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 5.3	(13,908)	(1,056)	(61,267)	(76,231)
Net receivables	1,359,564	44,707	113,291	1,517,562

5.3 Portfolio provision analysis

	Performing	Under-performing	Non-performing	Total
January 1, 2018	13,908	1,056	61,267	76,231
Charge for the period	(1,822)	54	6,379	4,611
Write-off during the period	-	-	(11,971)	(11,971)
March 31, 2018	12,086	1,110	55,675	68,871
December 31, 2016	154	205	53,898	54,257
Adjustment on adoption of IFRS 9	12,950	928	35,676	49,554
January 1, 2017	13,104	1,133	89,574	103,811
Charge for the period	804	(77)	20,156	20,883
Write-off during the period	-	-	(48,463)	(48,463)
December 31, 2017	13,908	1,056	61,267	76,231

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5.4 Assignment of Islamic financing receivables

The Company assigned Islamic financing receivables amounting to SR 0.976 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.

5.5 Impairment provision - net

	March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited)
Impairment provision charge	4,611	11,514
Recoveries after written-off	(7,570)	(5,701)
	<u>(2,959)</u>	<u>5,813</u>

6. ISLAMIC BANK FINANCING

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Current	457,668	487,622
Non-current	329,988	423,489
	<u>787,656</u>	<u>911,111</u>
Accrued finance cost	2,193	1,753
	<u>789,849</u>	<u>912,864</u>
Unamortized deferred charges – transaction costs	(5,600)	(6,582)
Unrealized loss on fair valuation of derivatives	5,190	7,939
	<u>789,439</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 1.12 billion of which SR 0.79 was utilized as of March 31, 2018 (December 31, 2017: SR 0.91 billion). These financing are repayable in 36 to 48 monthly instalments. The financing bear commission charges at prevailing market rates. 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 (profit rate swap) agreement with the banks for notional amount of SR 691 million. The settlement dates are in line with the respective financing.

6.1 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	-	13,906	13,906
Payments during the year	(123,455)	(13,466)	(136,921)
Payable as at March 31, 2018	<u>787,656</u>	<u>2,193</u>	<u>789,849</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	(506,139)	(65,472)	(571,611)
Payable as at December 31, 2017	<u>911,111</u>	<u>1,753</u>	<u>912,864</u>

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

7. REVENUE

	March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited)
Income from Islamic financing	84,479	99,760
Fee and commission income	2,452	3,220
Amortization of transaction costs	<u>(2,910)</u>	<u>(3,408)</u>
	84,021	99,572

8. 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.

9. EARNINGS PER SHARE

	March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited)
Net income	47,049,763	48,252,000
Weighted average number of shares – note 1	85,000,000	85,000,000
Basic and diluted EPS	0.55	0.57

10. 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.

11. 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 in compliance with the prescribe requirements. At financial position date, the management analysis of gearing ratio was as follows:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Shareholders' equity	895,481	856,187
Islamic bank financing	789,439	914,221
Total capital structure	1,684,920	1,770,408
Gearing ratio	46.85%	51.64%

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE MONTHS ENDED MARCH 31, 2018
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12. 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 5.7 million have been reclassified from revenue to impairment provision.
- Intangible assets written off amounting to SR 2.6 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.

13. DATE OF APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying condensed interim financial statements were approved for issue by the Board on April 19th, 2018