

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, 2021 and
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 period ended September 30, 2021

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Independent auditors' review report on the interim condensed 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, 2021 and the related interim statements of comprehensive income for the three months and nine months period 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 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

A handwritten signature in blue ink, appearing to read 'Omar M. Al Sagga', is written over the printed name.

Omar M. Al Sagga
License Number 369

October 11, 2021

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, 2021 (Unaudited)	December 31, 2020 (Audited)
ASSETS			
Cash and cash equivalents	5	93,243	70,092
Term and margin deposits	5	144,336	190,150
Islamic financing receivables	6	1,555,486	1,520,583
Equity investments at fair value through OCI		893	893
Prepayments and other receivables		23,787	12,940
Investment property		18,661	18,211
Intangible assets		16,512	12,852
Property and equipment		40,373	43,680
Total assets		1,893,291	1,869,401
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accruals and other liabilities		43,734	34,707
Provision for zakat		19,970	23,811
Islamic bank financings and lease liabilities	7	585,462	664,806
Zakat payable		17,311	17,311
Provision of employees' end of service benefits		11,011	9,391
Total liabilities		677,488	750,026
SHAREHOLDERS' EQUITY			
Share capital		1,000,000	1,000,000
Statutory reserve		60,290	60,290
Retained earnings		155,513	59,085
Total shareholders' equity		1,215,803	1,119,375
Total liabilities and shareholders' equity		1,893,291	1,869,401


The accompanying notes from (1) through (17) 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 NINE MONTHS ENDED SEPTEMBER 30, 2021
 (All amounts in thousands of Saudi Riyals unless otherwise stated)

	Note	For the three months period ended September 30		For the nine months period ended September 30	
		2021	2020	2021	2020
Revenue					
Income from Islamic financing		97,274	104,413	293,722	313,659
Other income		317	927	1,174	1,999
		97,591	105,340	294,896	315,658
Expenses					
Finance costs		(3,491)	(10,613)	(13,441)	(37,339)
Reversal / (charge) of impairment, net	6.7	4,375	(1,585)	12,691	(7,313)
Salaries and employees related expenses	10	(22,443)	(25,155)	(64,086)	(70,683)
Other general and administrative expenses		(9,122)	(8,447)	(27,803)	(30,238)
Depreciation and amortization		(2,982)	(3,066)	(9,109)	(8,799)
Total expenses		(33,663)	(48,866)	(101,748)	(154,372)
Net income for the period before zakat		63,928	56,474	193,148	161,286
Zakat					
Charge for the period		(6,300)	(7,000)	(19,500)	(20,697)
Net income for the period		57,628	49,474	173,648	140,589
Other comprehensive income		-	-	-	-
Total comprehensive income		57,628	49,474	173,648	140,589
Basic and diluted earnings per share	9	0.58	0.49	1.74	1.41

The accompanying notes from (1) through (17) 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, 2021
(All amounts in Saudi Riyals in thousand unless otherwise stated)

	Note	Share capital	Treasury shares	Proposed dividend	Statutory reserve	Retained earnings	Total
2021							
Balance as at December 31, 2020 (Audited)		1,000,000	-	-	60,290	59,085	1,119,375
Net income for the period		-	-	-	-	173,648	173,648
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	173,648	173,648
Dividend paid	8	-	-	-	-	(77,220)	(77,220)
Balance as at September 30, 2021 (Unaudited)		1,000,000	-	-	60,290	155,513	1,215,803
2020							
Balance as at December 31, 2019 (Audited)		1000,000	(65,152)	-	40,143	41,426	1,016,417
Net income for the period		-	-	-	-	140,589	140,589
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	140,589	140,589
Treasury stock		-	65,152	-	-	(65,152)	-
Proposed dividend		-	-	50,000	-	(50,000)	-
Dividend paid		-	-	-	-	(48,507)	(48,507)
Balance as at September 30, 2020 (Unaudited)		1,000,000	-	50,000	40,143	18,356	1,108,499

The accompanying notes from (1) through (17) 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, 2021
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	2021	2020
Cash flows from operating activities			
Net income for the period before zakat		193,148	161,286
Adjustments for non-cash items:			
Depreciation and amortization		9,109	8,799
Provision of employees' end of service benefits – net		1,620	1,798
(Reversal) / charge of impairment, net	6.6	(12,691)	7,313
Reversal of previously recognized loss on repossessed assets		(450)	-
Finance costs		13,441	37,339
Changes in operating assets and liabilities:			
Islamic financing receivables		(22,212)	178,597
Prepayments and other receivables		(10,847)	7,392
Accounts payable and accruals		9,027	(3,769)
Rentals paid		(1,638)	(1,664)
Zakat paid		(23,341)	(22,009)
Finance cost and charges paid		(22,376)	(23,790)
Net cash generated from operating activities		132,790	351,292
Cash flows from Investing activities			
Additions to property and equipment		(2,200)	(6,453)
Additions to intangible assets		(7,262)	(7,255)
Term and margin deposits		45,814	(75,546)
Net cash generated from / (used in) investing activities		36,352	(89,254)
Cash flows from financing activities			
Proceeds from financings		297,518	219,388
Repayment of financings		(366,289)	(341,907)
Dividend paid		(77,220)	(48,507)
Net cash used in financing activities		(145,991)	(171,026)
Net change in cash and cash equivalents		23,151	91,012
Cash and cash equivalents at the beginning of the period		70,092	52,596
Cash and cash equivalents at the end of the period	5	93,243	143,608

The accompanying notes from (1) through (17) 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 NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2021
(All amounts in Saudi Riyals in thousand unless otherwise stated)

1. GENERAL INFORMATION

Nayifat Finance Company (the "Company") is 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 Central Bank (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 September 30, 2021 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 Chartered and Professional 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, 2020.

3. CONSISTENT APPLICATION OF ACCOUNTING POLICIES

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 financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2020.

New accounting standards and amendments to existing accounting standards effective from January 1, 2021 and onwards do not have any significant effect on the Company's condensed interim financial statements.

4. USE OF JUDGEMENTS 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. 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 were applied to the statutory financial statements as at and for the year ended December 31, 2020.

However, management has proactively assessed the potential impact of the coronavirus (COVID-19) pandemic for any further regulatory and government restrictions which could impact the Company's business or that could cause negative impact on its financial performance. Management has concluded that the critical accounting judgements, estimates and assumptions remain appropriate under the current circumstances and there are no changes to the significant judgements and estimates disclosed in the financial statements for the year ended December 31, 2020. The only significant area where management has used estimates, assumptions or exercised judgement is provision for financial assets (Note 6).

NAYIFAT FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2021
(All amounts in Saudi Riyals in thousand unless otherwise stated)

5. CASH AND BANK BALANCES

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Cash in hand	-	10
Cash at banks	93,243	70,082
Cash and cash equivalents	<u>93,243</u>	<u>70,092</u>
Term and margin deposits		
Margin deposits held with banks	39,526	35,587
Term deposits – note 5.1	104,810	154,563
	<u>144,336</u>	<u>190,150</u>
	<u>237,579</u>	<u>260,242</u>

5.1 This includes SR 70 million (2020: 120 million) held with local banks as Islamic Murabaha deposits which are based on prevailing market rates.

6. ISLAMIC FINANCING RECEIVABLES

The business activities of the Company are in the Kingdom of Saudi Arabia and primarily represent Tawarruq Consumer Islamic financing and Islamic credit cards. Tawarruq financing is generally provided to Saudi nationals for a period of one to five years, which is recoverable in equal monthly installments.

The product wise breakup of Islamic financing receivables, is as follows:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Tawarruq	1,537,469	1,512,000
Credit cards	18,017	8,583
	<u>1,555,486</u>	<u>1,520,583</u>
Current	489,474	447,018
Non-current	1,066,012	1,073,565
	<u>1,555,486</u>	<u>1,520,583</u>

6.1 Reconciliation between gross to net receivables of Tawarruq:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Gross receivables	2,363,395	2,328,647
Unearned finance income	(779,880)	(773,593)
	<u>1,583,515</u>	<u>1,555,054</u>
Provision for impairment	(46,046)	(43,054)
	<u>1,537,469</u>	<u>1,512,000</u>

Reconciliation between gross to net receivables of Islamic credit cards:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Gross receivables	20,058	8,866
Provision for impairment	(2,041)	(283)
	<u>18,017</u>	<u>8,583</u>

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

6. ISLAMIC FINANCING RECEIVABLES (continued)

6.2 Stage wise analysis of Tawarruq receivables is as follows:

Tawarruq	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Total
September 30, 2021				
Receivables	1,365,590	62,187	155,738	1,583,515
Provision for impairment	(1,232)	(64)	(44,750)	(46,046)
Net receivables	1,364,358	62,123	110,988	1,537,469
December 31, 2020				
Receivables	1,399,839	25,170	130,045	1,555,054
Provision for impairment	(4,098)	(206)	(38,750)	(43,054)
Net receivables	1,395,741	24,964	91,295	1,512,000
Islamic credit cards				
	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Total
September 30, 2021				
Receivables	14,416	1,054	4,588	20,058
Provision for impairment	(244)	(53)	(1,744)	(2,041)
Net receivables	14,172	1,001	2,844	18,017
December 31, 2020				
Receivables	7,686	403	777	8,866
Provision for impairment	(137)	(18)	(128)	(283)
Net receivables	7,549	385	649	8,583

6.3 The aging analysis of stage 3 (Non-performing) Islamic Financing receivables Tawarruq is as follows:

September 30 2021	Non- Performing	Provision for impairment	Net of Provisioning
Aging of Islamic financing receivables based on past due days			
90 to 180	44,098	(3,577)	40,520
180 to 270	33,774	(5,939)	27,835
270 to 360	17,776	(5,902)	11,874
360 to 450	16,601	(6,757)	9,844
450 to 540	13,869	(6,752)	7,117
540 to 630	15,571	(8,418)	7,153
630 and above	14,049	(7,405)	6,645
Total	155,738	(44,750)	110,988

December 31 2020	Non- Performing	Provision for impairment	Net of Provisioning
Aging of Islamic financing receivables based on past due days			
90 to 180	32,465	(1,285)	31,180
180 to 270	21,882	(3,000)	18,882
270 to 360	23,910	(6,443)	17,467
360 to 450	21,256	(7,808)	13,448
450 to 540	14,002	(7,501)	6,501
540 to 630	10,076	(7,024)	3,052
630 and above	7,231	(5,817)	1,414
Total	130,822	(38,878)	91,944

NAYIFAT FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2021
(All amounts in Saudi Riyals in thousand unless otherwise stated)

6. ISLAMIC FINANCING RECEIVABLES (continued)

6.4 The movement in provision for impairment for Islamic financing receivables is as follows:

	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Total
December 31, 2020	4,607	242	38,488	43,337
Transfer from performing	(201)	61	140	-
Transfer from under-performing	46	(114)	68	-
Transfer from non-performing	661	67	(728)	-
Financial assets – settled	(1,093)	(38)	(24,366)	(25,497)
Financial assets originated	1,729	-	-	1,729
Changes to model assumptions (Note 6.10)	-	-	-	-
Changes to methodologies	-	-	-	-
Modification of contractual cashflows of financial assets	-	-	-	-
Changes in PDs/LGDs/EADs	(4,273)	(101)	44,702	40,328
	(3,131)	(125)	19,816	16,560
Write-off during the year	-	-	(11,810)	(11,810)
September 30, 2021	1,476	117	46,494	48,087

	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Total
January 1, 2020	3,795	291	25,319	29,405
Transfer from performing	(816)	816	-	-
Transfer from under-performing	33	(837)	804	-
Transfer from non-performing	198	39	(237)	-
Financial assets – settled	(1,336)	(182)	(5,641)	(7,159)
Financial assets originated	1,779	-	-	1,779
Changes to model assumptions (note 6.10)	373	18	3,524	3,915
Changes to methodologies	-	-	-	-
Modification of contractual cashflows of financial assets	-	-	-	-
Changes in PDs/LGDs/EADs	581	97	34,879	35,557
	812	(49)	33,329	34,092
Write-off during the year	-	-	(20,160)	(20,160)
December 31, 2020	4,607	242	38,488	43,337

6.5 During the nine-month period ended September 30, 2021, Islamic financing receivables of SR 11.8 million (2020: SR 10 million) were written-off.

6.6 Provision for impairment

	September 30, 2021 (Unaudited)	December 31,2020 (Audited)
January 1,	43,337	29,405
Charge for the period / year	16,560	34,092
Written off loans during the period / year	(11,810)	(20,160)
Balance at end of period / year	48,087	43,337

NAYIFAT FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2021
 (All amounts in Saudi Riyals in thousand unless otherwise stated)

6. ISLAMIC FINANCING RECEIVABLES (continued)

6.7 (Reversal) / charge for the period of impairment – net

	For the nine months period ended September 30 (Unaudited)	
	2021	2020
Impairment provision charge	16,560	30,584
Recoveries of receivables after write-off- note 6.7.1	(29,251)	(23,271)
(Reversal) /charge for the period of impairment – net	<u>(12,691)</u>	<u>7,313</u>

6.7.1 This includes recoveries from written-off balances in the previous years. Further, the effect of "recoveries after written-off" on calculating the LGD and consequently on the loss factor, has been considered consistently in the expected credit loss model. Considering the recoveries from previously written off balances, write-off to the extent of 60% from outstanding balance which was past due for more than 2 years of respective contracts was recorded during the nine-months period ended September 30, 2021.

6.8 Amounts written off still subject to enforcement activity

As of September 30, 2021, the receivables written off still subject to enforcement activity amounts to SR 83.5 million (December 31, 2020: SR 87.3 million).

6.9 Assignment of Islamic financing receivables

The Company assigned Islamic financing receivables amounting to SR 0.6 billion (December 31, 2020: SR 0.6 billion) to local commercial banks for obtaining Islamic bank financing. The carrying amount of associated Islamic bank financing amounts to SR 0.6 billion (December 31, 2020: SR 0.6 billion). 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 Company is liable to the repayments of their assigned receivables to local commercial banks in case of customers' default. The amount received on assignment of Islamic financing receivables has been recognized as Islamic bank financing in the statement of financial position. Pursuant to the terms of the transfer agreement the Company is not allowed to repledge those receivable, and the financial institution has recourse only to the receivables in the event the Company defaults its obligation. The carrying value of these receivables and the liability is approximate to their fair value.

6.10 Changes in assumptions including incorporation of forward looking information. The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company has used GDP growth rate and inflation as their key macroeconomic factors giving equal weightages to each. The macro-economic factors has been updated based on the latest available information (as issued by ministry of finance budget statement fiscal year 2021 where the average GDP and inflation for the next three years expected to be 3.37% and 2.30% respectively).

The average credit losses of IFR with more than 40,000 customers with shared risk characteristics is a reasonable estimate of the probability weighted amount. Further, the Company has also considered different scenarios with the different weightage and concluded that the current level of provision is sufficient to cover the related credit risk in compliance with the requirements of IFRS 9.

Sensitivity analysis:

The increase or decrease of 10% change in macro-economic factors will result SR 0.2 million increase or SR 2 million decrease in the ECL provision.

The increase or decrease of 10% change in loss rates (PDs and LGDs) assuming macro-economic factor remains the same will result SR 2.8 million increase or SR 2 million decrease in the ECL provision.

NAYIFAT FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2021
(All amounts in Saudi Riyals in thousand unless otherwise stated)

6. ISLAMIC FINANCING RECEIVABLES (continued)

6.11 Reconciliation of gross receivables:

The movement in Gross receivables for Islamic financing receivables (tawarruq) is as follows

	As at September 30, 2021 (Unaudited)	As at December 31, 2020 (Audited)
Gross carrying amount as at January 1,	1,555,054	1,757,499
Financial assets originated during the year (all stage 1)	591,216	549,900
Financial assets derecognised during the year other than write-offs / collections (significantly pertain to stage 1 customers)	(560,917)	(744,132)
New financial assets originated or purchased	-	-
Modification of contractual cashflows of financial assets	-	-
Changes in profit accruals (significantly pertain to stage 1 customers)	9,972	11,947
Write-offs (From stage 3)	(11,810)	(20,160)
	<u>28,461</u>	<u>(202,445)</u>
Gross carrying amount as at December 31,	<u>1,583,515</u>	<u>1,555,054</u>

7. ISLAMIC BANK FINANCINGS AND LEASE LIABILITIES

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Islamic bank financings (Note 7.1)	583,235	661,354
Lease liabilities	2,227	3,452
	<u>585,462</u>	<u>664,806</u>

7.1 These includes SR 6.5 million payable to SAMA against the repayments deferral program, the loans received has the maturity of one year.

8. DIVIDEND

During the period, the Company has paid dividends amounting to SR 0.77 per share after obtaining Board (in line with By-Laws of the Company) and SAMA approval.

9. EARNINGS PER SHARE

	For the nine months period ended September 30 (Unaudited)	
	2021	2020
Net income for the period	173,648	140,589
Weighted average number of shares for basic and diluted EPS	100,000	100,000
Basic and diluted EPS in Saudi Riyals	<u>1.74</u>	<u>1.41</u>

10. SALARIES AND EMPLOYEES RELATED EXPENSES

	For the nine months period ended September 30, (Unaudited)	
	2021	2020
Salaries and employee related costs	55,248	52,667
Management fees and bonus – Note 10.1	6,250	12,479
Directors and Board committee fees	2,588	5,537
	<u>64,086</u>	<u>70,683</u>

10.1 This includes employees' long-term incentive charge of nil (September 30, 2020: SR 8.7 million).

NAYIFAT FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2021
(All amounts in Saudi Riyals in thousand unless otherwise stated)

11. CONTINGENCY AND COMMITMENTS

There is no significant change in the status of contingencies since the year ended December 31, 2020. Further, there is no significant capital commitment as at the interim statement of financial position date.

12. RELATED PARTY TRANSACTIONS AND BALANCES

12.1 Significant related party transactions during the year were as follows:

Related party	Nature of transaction	September 30, 2021 (Unaudited)	September 30, 2020 (Unaudited)
Shareholders	Cash dividend declared and paid	77,220	48,507
Key management personnel (KMP)	Compensation for the period	8,710	8,737
	Incentive for continuing service	-	8,750
	Employees' end of service benefits	673	761
Directors and Board Committee members	Remuneration for the period of Directors and Board Committee members	2,588	5,537
Other related parties	Zakat/VAT consultancy fee	288	245
	IT software services rendered	4,590	6,839
Affiliates	Commodities/ securities dealings account - deposit made	2,000	26,000
	Rental charge	1,133	1,039
	Advisory charges and others	70	80

12.2 Key management personnel of the Company include Chief executive officer and senior management.

12.3 Significant balances of related parties as at statement of financial position date were as follows:

	As at September 30, 2021 (Unaudited)	As at December 31, 2020 (Audited)
Receivables from / advances to related parties		
Affiliates –Term deposit	34,809	34,562
Payables / accruals		
Key management compensation and Board remuneration	6,058	13,303
Provision of EOSB of Key Management Personnel	3,077	3,263

13. CAPITAL MANAGEMENT

The Company's objective when managing capital are to safeguard Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits to other stakeholders and to maintain optimal capital structure to reduce the cost of capital.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of Islamic bank financing and the advantages and security afforded by a sound capital position. In relation to the capital structure of the Company, management closely monitors the compliance with regulations and Islamic bank financing covenants and as at the statement of financial position date the Company was is in compliance with the prescribe requirements.

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At statement of financial position date, the management analysis of gearing ratio was as follows:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Shareholders' equity	1,215,803	1,119,375
Islamic bank financing	583,235	661,354
Total capital structure	1,799,038	1,780,729
Gearing ratio	32.42%	37.14%

14. IMPACT OF COVID 19

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience "third wave" and its different variants of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

Nayifat's business operations has shown improvement in disbursements since June 2020 after showing decline during the months of April and May, on the collection side on the other hand the Company has achieved the same levels as was the case pre COVID-19 after facing marginal decline in April and May 2020. This is mainly due to the reason that majority of the customer base (above 90%) is Government sector employees.

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 27% stands utilized as at September 30, 2021. Further because of regular collections the Company has sufficient liquidity available in addition to the unutilized bank limits, and therefore the Company is not significantly exposed to liquidity risk. The management of the Company has taken a pro-active step by placing the surplus funds available with banks to generate revenue and minimize the impact 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 ECL and reduced disbursements, however, this is expected to be temporary. Therefore, if the COVID-19 pandemic situation prolongs for a longer period of time or lockdown restrictions are re-imposed 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 will modify its strategy based on the prevalent situation as may be required.

15. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

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Valuation models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy of financial assets and liabilities

All financial assets and liabilities, except derivatives, which is carried at fair value and of insignificant amount, of the Company, are categorised as held at amortized cost, which approximate their fair value, and accordingly fair value hierarchy disclosure has not been provided.

16. SEGMENTS

The Company's operations are in the Kingdom of Saudi Arabia and currently provides "financing to Saudi individuals from government and private sectors". Accordingly, the Company's operations represent single operating segment. None of the customer generates more than 10% of the revenue. The entire revenue of SR 293.7 million is from external customers and SR 291.6 million is attributed to Tawarruq and SR 2.1 million credit card. All non-current assets are in KSA.

17. DATE OF APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying condensed interim financial statements were approved for issue by the Board of Directors on October 8, 2021.