

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2019
AND INDEPENDENT AUDITOR'S REPORT

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

Financial statements for the year ended December 31, 2019

| | Pages |
|--|--------------|
| Independent auditor's report | 1 - 2 |
| Statement of financial position | 3 |
| Statement of comprehensive income | 4 |
| Statement of changes in shareholders' equity | 5 |
| Statement of cash flows | 6 |
| Notes to the financial statements | 7 - 31 |



*Independent auditor's report to the shareholders of Nayifat Finance Company
(A Saudi Closed Joint Stock Company)*

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nayifat Finance Company (the "Company") as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Independent auditor's report to the shareholders of Najifat Finance Company (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

Omar M. Al Sagga
License Number 369

February 9, 2020

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

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

| | Notes | As at December 31, | |
|---|-------|--------------------|------------------|
| | | 2019 | 2018 |
| Assets | | | |
| Cash and cash equivalents | 5 | 52,596 | 111,231 |
| Term and margin deposits | 5 | 114,684 | 86,729 |
| Islamic financing receivables | 6 | 1,728,094 | 1,455,387 |
| Equity Investments at fair value through OCI | | 893 | 893 |
| Prepayments and other receivables | 7 | 40,272 | 55,610 |
| Intangible assets | 8 | 8,008 | 6,405 |
| Property and equipment | 9 | 44,223 | 36,914 |
| Total assets | | 1,988,770 | 1,753,169 |
| Liabilities and shareholders' equity | | | |
| Liabilities | | | |
| Accruals and other liabilities | 10 | 46,148 | 21,748 |
| Provision for zakat | 12.1 | 21,532 | 42,130 |
| Islamic bank financings and lease liabilities | 11 | 873,789 | 681,791 |
| Zakat payable | 12.2 | 23,082 | 53,302 |
| Provision of employees' end of service benefits | 13 | 7,802 | 6,450 |
| Total liabilities | | 972,353 | 805,421 |
| Shareholders' equity | | | |
| Share capital | 14 | 1,000,000 | 850,000 |
| Statutory reserve | 15 | 40,143 | 18,261 |
| Retained earnings | | 41,426 | 79,487 |
| Treasury shares | 16 | (65,152) | - |
| Total shareholders' equity | | 1,016,417 | 947,748 |
| Total liabilities and shareholders' equity | | 1,988,770 | 1,753,169 |

The accompanying notes (1) through (31) form an integral part of these financial statements.


Chief Financial Officer


Managing Director
and
Chief Executive Officer


Chairman
Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME

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

| | Notes | For the Year ended December 31, | |
|--|-------|------------------------------------|--------------------|
| | | 2019 | 2018 (Restated) |
| Income | | | |
| Income from Islamic financing | | 389,888 | 322,278 |
| Other income | 20 | 2,414 | 3,111 |
| Total operating income | | 392,302 | 325,389 |
| Expenses | | | |
| Finance costs | 17 | (55,570) | (51,991) |
| Reversal of impairment | 6.4 | 25,482 | 14,127 |
| Salaries and employees related expenses | 18 | (96,387) | (81,025) |
| Other general and administrative expenses | 19 | (42,344) | (29,507) |
| Depreciation and amortization | 8, 9 | (9,951) | (4,625) |
| Total expenses | | 178,770 | 153,021 |
| Net income for the year before zakat | | 213,532 | 172,368 |
| Zakat | | | |
| (Charge) / reversals for the year | | (21,532) | 4,193 |
| Reversal of prior year | | 26,821 | - |
| | | 5,289 | 4,193 |
| Net income for the year | | 218,821 | 176,561 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | 218,821 | 176,561 |
| Basic and diluted earnings per share | 21 | 2.19 | 1.77 |

The accompanying notes (1) through (31) form an integral part of these financial statements.

| | | |
|---|---|--|
|  _____ Chief Financial Officer |  _____ Managing Director and Chief Executive Officer |  _____ Chairman Board of Directors |
|---|---|--|

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

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

| | Notes | Share capital | Treasury shares | Proposed increase in share capital | Statutory reserve | Retained earnings (restated) | Total |
|---------------------------------------|-------|------------------|-----------------|------------------------------------|-------------------|------------------------------|------------------|
| December 31, 2018 | | 850,000 | - | - | 18,261 | 79,487 | 947,748 |
| Transfer to share capital | | 150,000 | - | - | - | (150,000) | - |
| Net income for the year | | - | - | - | - | 218,821 | 218,821 |
| Other comprehensive income | | - | - | - | - | - | - |
| Total comprehensive income | | - | - | - | - | 218,821 | 218,821 |
| Transfer to statutory reserve | 15 | - | - | - | 21,882 | (21,882) | - |
| Treasury stock | 16 | - | (65,152) | - | - | - | (65,152) |
| Dividends during the year | 22 | - | - | - | - | (85,000) | (85,000) |
| December 31, 2019 | | 1,000,000 | (65,152) | - | 40,143 | 41,426 | 1,016,417 |
| December 31, 2017 | | 635,000 | - | 215,000 | 1,024 | 5,163 | 856,187 |
| Additional share capital | 14 | 215,000 | - | (215,000) | - | - | - |
| Net income for the year (restated) | 3.2 | - | - | - | - | 176,561 | 176,561 |
| Other comprehensive income | | - | - | - | - | - | - |
| Total comprehensive income (restated) | | - | - | - | - | 176,561 | 172,561 |
| Transfer to statutory reserve | 15 | - | - | - | 17,237 | (17,237) | - |
| Dividends during the year | 14 | - | - | - | - | (85,000) | (85,000) |
| December 31, 2018 | | 850,000 | - | - | 18,261 | 79,487 | 947,748 |

The accompanying notes (1) through (31) form an integral part of these financial statements.


Chief Financial Officer


Managing Director
and
Chief Executive Officer


Chairman
Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31,
(All amounts in thousands of Saudi Riyals unless otherwise stated)

| | Notes | 2019 | 2018 |
|---|-------|-----------------|------------------|
| Cash flows from operating activities | | | |
| Net income before zakat | | 213,532 | 172,368 |
| Adjustments for non-cash items: | | | |
| Depreciation and amortization | 8,9 | 9,951 | 4,625 |
| Provision of employees' end of service benefits | 13 | 1,800 | 1,996 |
| Reversal of impairment – net | 6.4 | (25,482) | (14,127) |
| Finance costs | 17 | 55,570 | 51,991 |
| | | <u>255,371</u> | <u>216,853</u> |
| Changes in operating assets and liabilities: | | | |
| Islamic financing receivables | | (247,225) | 76,300 |
| Prepayments and other receivables | | 15,509 | 4,011 |
| Accruals and other liabilities | | 26,000 | (2,133) |
| Employees end of service benefits paid | 13 | (448) | (671) |
| Zakat paid | 12.2 | (45,529) | (7,325) |
| Rentals paid | | (2,800) | - |
| Finance cost and other charges paid | | (56,692) | (56,405) |
| Net cash generated from operating activities | | <u>(55,814)</u> | <u>230,630</u> |
| Cash flows from investing activities | | | |
| Additions to property and equipment | 9 | (4,450) | (4,000) |
| Additions to intangible assets | 8 | (4,004) | (4,241) |
| Term and margin deposits | 5.1 | (27,955) | (75,358) |
| Net cash used in investing activities | | <u>(36,409)</u> | <u>(83,599)</u> |
| Cash flows from financing activities | | | |
| Proceeds from financings | 11.1 | 581,375 | 279,386 |
| Repayment of financings | 11.1 | (397,635) | (505,800) |
| Dividend paid | 21 | (85,000) | (85,000) |
| Treasury stock | | (65,152) | - |
| Net cash used in financing activities | | <u>33,588</u> | <u>(311,414)</u> |
| Net change in cash and cash equivalents | | <u>(58,635)</u> | <u>(164,383)</u> |
| Cash and cash equivalents at the beginning of the year | 5 | 111,231 | 275,614 |
| Cash and cash equivalents at the end of the year | 5 | <u>52,596</u> | <u>111,231</u> |
| Supplemental non-cash information: | | | |
| Islamic financing receivables write-offs | 6.3 | <u>33,053</u> | 41,202 |
| Recognition of Right-of-use asset upon adoption of IFRS 16 | 3.3 | <u>10,409</u> | - |
| Recognition of lease liabilities asset upon adoption of IFRS 16 | 3.3 | <u>7,780</u> | - |

The accompanying notes (1) through (31) form an integral part of these financial statements.

| | | |
|---|--|---|
|  |  |  |
| Chief Financial Officer | Managing Director and Chief Executive Officer | Chairman Board of Directors |

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals 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). As per the SAMA license No. 5/AS/201312 renewed on dated 23 Dhu'l-Hijjah1439 (corresponding to September 3, 2018), expiring on 26 Safar 1445 (corresponding to September 12, 2023). The Company is authorized to provide lease finance, consumer finance, small and medium enterprise finance and credit cards finance (as per renewed license) 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

2. BASIS OF PREPARATION

The financial statements of the Company as at and for the year ended December 31, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

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

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

Accordingly, the Company changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8, Accounting Policies, Changes in Accounting Estimates and Errors as disclosed in note 3.2 and the effects of this change are disclosed in note 12.4 to the financial statements.

The financial statements have been prepared on a historical cost basis, except as disclosed in the notes to these financial statements.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below.

3.1 Changes in 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, 2018, except for:

IFRS 16 "Leases"

The Company has adopted IFRS 16 'Leases' ("IFRS 16") on its effective date January 1, 2019. The effect of adoption of new accounting policy is disclosed in note 3.3 of these financial statements and the accounting policies affected by the new standard are as follows:

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

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

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

Lease liabilities

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

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

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

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

Right-of-use assets

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

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

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

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

Lease term

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

Short-term and low value leases

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

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

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

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

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the

NAYIFAT FINANCE COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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

remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

3.2 Change in the accounting treatment in relation to accounting for Zakat

As mentioned above, the basis of preparation has been changed for the year ended December 31, 2019 based on instructions from SAMA dated July 18, 2019. Previously, zakat and income tax was recognized in the statement of changes in shareholders' equity as per the SAMA circular no 381000074519 dated 11 April 2017. As per SAMA instructions dated July 18, 2019, zakat and income tax shall be recognized in the 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 12.4 to the financial statements. The change has resulted in increase of reported income of the Company for the year ended December 31, 2018 by SR 4.19 million and had no impact on the statement of cash flows for the year ended December 31, 2018.

Zakat

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

3.3 Adoption of IFRS 16

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

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

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

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

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

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

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

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

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

- (i) The statement of financial position includes the following amounts relating to leases:

| | <u>December 31, 2019</u> | <u>January 1, 2019</u> |
|----------------------------|--------------------------|------------------------|
| Right-of-use assets | | |
| Buildings | 6,890 | 10,409 |
| | <u>6,890</u> | <u>10,409</u> |
| Lease liabilities | | |
| Non-current | 3,453 | 4,985 |
| Current | 1,720 | 2,795 |
| | <u>5,173</u> | <u>7,780</u> |

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

| | <u>December 31, 2019</u> | <u>January 1, 2019</u> |
|--|--------------------------|------------------------|
| Future lease payments | 5,541 | 8,440 |
| Discounting impact at incremental borrowing rate | (368) | (660) |
| | <u>5,173</u> | <u>7,780</u> |

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

Additions to the right-of-use assets during the year ended December 31, 2019 were SR nil million.

- (ii) The statement of comprehensive income includes the following amounts related to leases:

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---|--------------------------|--------------------------|
| Depreciation charge of Right-of-use assets | 3,519 | - |
| Interest expense (included in finance cost) | 292 | - |
| Expense relating to short-term leases | 1,284 | - |

- (iii) The following table reconciles (i) the operating lease commitments at December 31, 2018 disclosed in the annual financial statements of 2018 under IAS 17, discounted using the incremental borrowing rate at January 1, 2019, and (ii) lease liabilities recognized in the statement of financial position at January 1, 2019:

| | <u>Saudi Riyals thousand</u> |
|---|----------------------------------|
| Operating lease commitment at December 31, 2018 as disclosed in the Company's annual financial statements | <u>9,724</u> |
| Extension and (termination) options reasonably certain to be exercised (not to be exercised) | - |
| Recognition exemption for short-term leases | (1,284) |
| Discounted using the incremental borrowing rate at January 1, 2019 | (660) |
| Lease liabilities recognized at January 1, 2019 | <u>7,780</u> |

- (iv) The total cash outflow for leases during the year was SR 2.8 million.

3.4 New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2020 and have not been applied in preparing these financial statements. None of these standards is expected to have a significant effect on the financial statements of the Company.

3.5 Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SR"), which is the Company's functional and presentation currency.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

3.6 Cash and cash equivalents

Cash and cash equivalents consist of cash balances and short-term bank deposits with original maturities of three months or less, which are available to the Company without any restrictions.

3.7 Term deposits

Term deposits include placements with banks and other short-term liquid investments with original maturities of more than three months but not more than one year from the purchase date.

3.8 Islamic financing receivables (IFR)

IFR comprising of Tawarruq, Murabaha and Ijara originated by the Company, are initially recognized at fair value including transaction costs when cash is advanced to customers. Subsequently, these financial assets are measured at amortized cost. For presentation purposes, the unearned finance income and provision for impairment are deducted from the gross receivables.

Tawarruq

A contract whereby the Company sells a commodity or an asset to its customer on a deferred payment basis. The selling price charged by Company comprises the cost plus an agreed profit margin. The customer sells the same commodity or an asset to a third party at market price to raise the needed cash.

Murabaha

A contract whereby the Company sells to customers a commodity or an asset, which the Company has purchased and acquired, based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

Ijara

Ijara is an agreement whereby the Company, acting as a lessor, purchases or constructs an asset for lease according to the customer (lessee) request, based on his promise to lease the asset for an agreed rent and for a specific period. Ijara could end by transferring the ownership of the leased asset to the lessee, Ijara, Islamic financing receivables represents net investment in assets leased for period, which either approximate or cover major part of the estimated useful lives of such assets. The documentation includes an undertaking from the Company to sell the leased assets to the lessee upon maturity or early settlement of the lease

3.9 Repossessed assets held for sale

The Company, in the ordinary course of business, acquires real estate or other assets against settlement of finances due. These assets are initially recognised at fair value.

These assets are considered as held for sale as their carrying amount will be recovered principally through a sale transaction. Held for sale assets are measured at the lower of their carrying amount and fair value less costs to sell, the assets are not depreciated or amortised. Subsequent to initial recognition, any subsequent write down to fair value, less cost to sell, are charged to the statement of comprehensive income. Any rental income is charged to statement of income. Any subsequent gain in the fair value less cost to sell of these assets to the extent this does not exceed the cumulative write down is recognized as income together with any gain/loss on disposal.

3.10 Intangible assets

Recognition and measurement

Intangibles assets acquired by the Company are measured at cost less accumulated amortization and accumulated impairment losses, if any. Subsequent expenditures on intangible assets are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Amortization

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Intangible assets are amortized on a straight-line basis in the statement of comprehensive income over its estimated useful life, from the date on which it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

3.11 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the asset) is recognized within other income in statement of comprehensive income.

Subsequent costs

Subsequent expenditures are capitalized only when it is probable that the future economic benefits of the expenditures will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives were as follows:

| | |
|------------------------------------|--|
| Building and freehold improvements | 3 to 10 years |
| Leasehold improvements | 5 years or period of lease whichever is lesser |
| Furniture and office equipment | 3 to 10 years |

3.12 Provisions

Provisions are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

3.13 Impairment of non-financial assets

Non-financial assets, subsequent to depreciation and amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

3.14 End of Service Benefits

Employee termination benefits are payable as a lump sum to all employees, under the terms and conditions of Saudi Labor Laws applicable on the Company, on termination of their employment contracts. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the Kingdom of Saudi Arabia.

The calculation of obligation is performed using the projected unit credit method to make a reliable estimate of the ultimate cost to the Company of the benefit payable to employees. Actuarial gains or losses on re-measurement of obligation are recognized immediately in the statement of other comprehensive income. Actuarial gains and losses represent changes in the present value of the obligation resulting from experience adjustments and the effects of changes in actuarial assumptions.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

Staging criteria:

The financial assets of the Company have the following staging criteria:

- 1- **Performing (Stage 1):** these represent the financial assets where customers have a low risk of default and a strong capacity to meet contractual cash flows.

The Company's Islamic finance receivables primarily represent retail, consumer and SME loans and therefore management believes that past due information is the most appropriate basis for assessing the increase in credit risk and based on management experience and analysis, the balances which are less than 60 days past due do not result in significant increase in credit risk and are considered as performing.

The Company measures the loss allowance for performing financial assets at an amount equal to 12-month expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. 12-month expected credit losses are the portion of expected credit losses that results from default events on the financial assets that are possible within 12 months after the reporting date.

- 2- **Underperforming (Stage 2):** these represent the financial assets where there is a significant increase in credit risk and that is presumed if the customer is more than 60 days past due in making a contractual payment/installment.

The Company measures the loss allowance for underperforming financial assets at an amount equal to lifetime expected credit losses.

- 3- **Non-performing (Stage 3):** these represent defaulted financial assets. A default on a financial asset is considered when the customer fails to make a contractual payment/installment within 90 days after they fall due.

The Company measures the loss allowance for non-performing financial assets at an amount equal to lifetime expected credit losses.

Write-off

Financial assets are written-off, when the Company has concluded that there is no reasonable expectation of recovery i.e. when it is past due for at least two years or due to regulatory requirements. Where financial assets are written off, the Company continues to engage enforcement activities to attempt to recover the receivable due. Where recoveries are made, after write-off, they are presented as part of provision for impairment-net are recognized as other income in the statement of comprehensive income/loss.

Measurement of ECL:

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant change in credit risk on an ongoing basis throughout each reporting period. The impairment model was developed considering probability of default and loss given default which were derived from historical data of the Company and are adjusted to reflect the expected future outcome which includes macroeconomic factors such as inflation and gross domestic product growth rate. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

For financial assets, a credit loss is calculated as the present value (at effective profit rate) of the difference between:

- (a) The contractual cash flows that are due to the Company under the contract; and
- (b) The cash flows that the Company expects to receive.

e) De-recognition of financial assets

A financial asset is derecognized, when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. In instances where the Company is assessed to have transferred a financial asset, the asset is derecognized if the Company has transferred substantially all the risks and rewards of ownership. Where the Company has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Company has not retained control of the financial asset. The Company recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

f) Financial liabilities - classification, measurement and de recognition

Financial liabilities are classified and subsequently measured at amortized cost using the effective yield method. The related cost of borrowing is charged to statement of comprehensive income. The effective yield rate is the rate that discounts the estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

The Company derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

g) Modifications of financial assets and financial liabilities

a- Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in statement of comprehensive income.

b- Financial liabilities

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in statement of comprehensive income.

h) Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its Islamic financing exposure to interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of comprehensive income, except for the effective portion of cash flow hedges, which is recognised in the statement of other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an un-recognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been and are expected to be highly effective throughout the financial reporting years for which they were / are designated.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the SOCI for the year.

3.17 Segments

The Company's operations are in the Kingdom of Saudi Arabia and the Company currently provides only one product "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.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

3.18 Treasury shares

Own equity instruments that are re-acquired (Treasury shares) are recognised at cost and presented as a deduction from equity and are adjusted for any transaction cost, dividends and gains or losses on sale of such shares. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if issued, is recognised in Retained earnings.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements in conformity with IFRSs' 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 expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected. Significant area where management has used estimates, assumptions or exercised judgements is the only Provision for impairment (note 3.16, note 6 and note 26).

5. CASH AND BANK BALANCES

| | As at December 31, | |
|----------------------------------|--------------------|----------------|
| | 2019 | 2018 |
| Cash and cash equivalents | | |
| Cash in hand | 10 | 200 |
| Cash at banks | 52,586 | 111,031 |
| Cash and cash equivalents | <u>52,596</u> | <u>111,231</u> |
| Term and margin deposit | | |
| Margin deposits held with banks | 54,987 | 13,500 |
| Term deposits – note 5.1 | 59,697 | 73,229 |
| | <u>114,684</u> | <u>86,729</u> |
| | <u>167,280</u> | <u>197,960</u> |

5.1 This includes SR 50 million (2018: 70.89) held with a local bank as commission bearing 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.

| | As at December 31 | |
|--------------------------|-------------------|------------------|
| | 2019 | 2018 |
| Gross receivables | 2,672,329 | 2,148,080 |
| Unearned finance income | (914,830) | (644,435) |
| | <u>1,757,499</u> | <u>1,503,645</u> |
| Provision for impairment | (29,405) | (48,258) |
| | <u>1,728,094</u> | <u>1,455,387</u> |
| Current | 488,412 | 442,629 |
| Non-current | 1,239,682 | 1,012,758 |
| | <u>1,728,094</u> | <u>1,455,387</u> |

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

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

| | Performing (Stage 1) | Under- performing (Stage 2) | Non- performing (Stage 3) | Total |
|--------------------------|-------------------------|-----------------------------------|---------------------------------|------------------|
| December 31, 2019 | | | | |
| Receivables | 1,641,250 | 27,458 | 88,791 | 1,757,499 |
| Provision for impairment | (3,795) | (292) | (25,318) | (29,405) |
| Net receivables | <u>1,637,455</u> | <u>27,167</u> | <u>63,472</u> | <u>1,728,094</u> |
| December 31, 2018 | | | | |
| Receivables | 1,356,721 | 33,951 | 112,973 | 1,503,645 |
| Provision for impairment | (6,792) | (407) | (41,059) | (48,258) |
| Net receivables | <u>1,349,929</u> | <u>33,544</u> | <u>71,914</u> | <u>1,455,387</u> |

6.2.1 Non-performing IFR include SR 19.08 million (December 31, 2018: SR 25.12 million) and SR 15.2 million (December 31, 2018: SR 23.43 million) past due between 12 to 18 months and more than 18 months, respectively. The management believes adequate provision has been recorded against such receivables.

6.3 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 |
|--|-------------------------|-----------------------------------|---------------------------------|---------------|
| January 1, 2019 | 6,792 | 407 | 41,059 | 48,258 |
| Transfer from performing | (1,218) | 148 | 1,070 | - |
| Transfer from under-performing | 120 | (213) | 93 | - |
| Transfer from non-performing | 602 | 98 | (700) | - |
| Financial assets – settled | (1,923) | (161) | (8,056) | (10,140) |
| Financial assets originated | 2,492 | - | - | 2,492 |
| Net re-measurement of loss allowance (6.8) | (3,070) | 13 | 24,905 | 21,848 |
| | <u>(2,997)</u> | <u>(115)</u> | <u>17,312</u> | <u>14,200</u> |
| Write-off during the year | - | - | (33,053) | (33,053) |
| December 31, 2019 | <u>3,795</u> | <u>292</u> | <u>25,318</u> | <u>29,405</u> |

| | Performing (Stage 1) | Under- performing (Stage 2) | Non- performing (Stage 3) | Total |
|--|-------------------------|-----------------------------------|---------------------------------|---------------|
| January 1, 2018 | 13,908 | 1,056 | 61,267 | 76,231 |
| Transfer from performing | (801) | 310 | 491 | - |
| Transfer from under-performing | 511 | (944) | 433 | - |
| Transfer from non-performing | 3,062 | 151 | (3,213) | - |
| Financial assets – settled | (2,767) | (341) | (10,704) | (13,812) |
| New financial assets originated | 2,427 | - | - | 2,427 |
| Net re-measurement of loss allowance (6.8) | (9,548) | 175 | 33,987 | 24,614 |
| | <u>(7,116)</u> | <u>(649)</u> | <u>20,994</u> | <u>13,229</u> |
| Write-offs during the year | - | - | (41,202) | (41,202) |
| Balance at December 31, 2018 | <u>6,792</u> | <u>407</u> | <u>41,059</u> | <u>48,258</u> |

6.4 Reversal of impairment- net

| | As at December 31, | |
|--|--------------------|-----------------|
| | 2019 | 2018 |
| Provision for impairment charge for year | 14,200 | 13,229 |
| Recoveries after written-off | (39,682) | (27,356) |
| Net | <u>(25,482)</u> | <u>(14,127)</u> |

NAYIFAT FINANCE COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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

6.5 Assignment of Islamic financing receivables

The Company assigned Islamic financing receivables amounting to SR 1.0 billion (December 31, 2018: SR 0.87 billion) to local commercial banks for obtaining Islamic bank financing. The carrying amount of associated Islamic bank financing amounts to SR 0.86 billion (December 31, 2018: SR 0.68 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.

6.6 Amounts written off still subject to enforcement activity

As of December 31, 2019, the receivables amount written off still subject to enforcement activity are amount to SR 32.8 million (2018: SR 41.2 million).

6.7 Reconciliation of gross receivables

During the year there was SR 659.82 million movement in the gross carrying amounts which contributed to changes in the loss allowance. The significant changes are as follows:

There have been net increase in the gross carrying amounts of Islamic financing receivables amounting to SR 972 million in stages 1 or 2 or 3 during the year as a result of net new loans and transfer between the stages.

The written off Islamic financing receivables during the year also resulted in net ECL movement of SR 33.05 million. The ECL for written-off Islamic financing receivables was SR 27.06 million at the beginning of the year which was re-measured during the year to SR 5.99 million during the year before the Islamic financing receivables were written-off.

6.8 Net re-measurement of loss allowance

Following factors contributed to the changes in net re-measurement of loss allowance:

- 1) Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- 2) Additional allowances for new financial assets recognised during the period, as well as releases for financial assets derecognised in the period;
- 3) Impact on the measurement of ECL due to changes to model inputs, including changes in PDs, EADs LGDs in the period, arising from update of inputs to ECL models;
- 4) Unwinding of discount due to the passage of time because ECL is measured on a present value basis.

7 PREPAYMENTS AND OTHER RECEIVABLES

| | Note | As at December 31, | |
|--|----------|--------------------|---------------|
| | | 2019 | 2018 |
| Receivable from key management personnel | 7.1,22.3 | 11,667 | 23,333 |
| Repossessed assets held for sale – real estate | 7.2 | 20,669 | 20,669 |
| Advances, prepayments and others | | 7,936 | 11,608 |
| | | 40,272 | 55,610 |

7.1 This represents outstanding balance of non-commission bearing loans given to executives, for three years repayable in monthly instalments, as approved in the General Assembly meeting in 2017 after obtaining the necessary regulatory approval.

7.2 This represents properties in the Kingdom of Saudi Arabia which were repossessed by the Company against settlement of Islamic finance receivables. These properties will be sold when the Company will get the appropriate price. The Fair value of the same on December 31, 2019 is 24.5 million (December 31, 2018 19.13 million SR).

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

8 INTANGIBLE ASSETS

| | As at December 31, | |
|----------------------------------|--------------------|---------|
| | 2019 | 2018 |
| Cost: | | |
| January 1, | 9,922 | 5,681 |
| Additions during the year | 4,004 | 4,241 |
| December 31, | 13,926 | 9,922 |
| Accumulated amortization: | | |
| January 1, | (3,517) | (1,985) |
| Charge during the year | (2,401) | (1,532) |
| December 31, | (5,918) | (3,517) |
| Net book amount | 8,008 | 6,405 |

9 PROPERTY AND EQUIPMENT

| | Freehold land | Building and freehold improvements | Leasehold improvements | Furniture and office equipment | Total |
|---------------------------------|---------------|------------------------------------|------------------------|--------------------------------|--------|
| 2019 | | | | | |
| Cost | | | | | |
| January 1, | 27,963 | 4,826 | 8,033 | 7,455 | 48,277 |
| IFRS 16 adoption (Note 3.3) | - | 10,409 | - | - | 10,409 |
| December 31, | 27,963 | 15,235 | 8,033 | 7,455 | 58,686 |
| Additions during the year | - | 841 | 127 | 3,482 | 4,450 |
| December 31, | 27,963 | 16,076 | 8,160 | 10,937 | 63,136 |
| Accumulated depreciation | | | | | |
| January 1, | - | 1,705 | 5,043 | 4,615 | 11,363 |
| Charge for the period | - | 4,520 | 1,393 | 1,637 | 7,550 |
| December 31, | - | 6,225 | 6,436 | 6,252 | 18,913 |
| Net book amount | 27,963 | 9,851 | 1,724 | 4,685 | 44,223 |

| | Freehold land | Building and freehold improvements | Leasehold improvements | Furniture and office equipment | Total |
|---------------------------------|---------------|------------------------------------|------------------------|--------------------------------|--------|
| 2018 | | | | | |
| Cost | | | | | |
| January 1, | 27,963 | 4,512 | 6,719 | 5,083 | 44,277 |
| Additions during the period | - | 314 | 1,314 | 2,372 | 4,000 |
| December 31, | 27,963 | 4,826 | 8,033 | 7,455 | 48,277 |
| Accumulated depreciation | | | | | |
| January 1, | - | 902 | 3,786 | 3,582 | 8,270 |
| Adjustments | - | (74) | 74 | - | - |
| Charge for the period | - | 803 | 1,257 | 1,033 | 3,093 |
| December 31, | - | 1,631 | 5,117 | 4,615 | 11,363 |
| Net book value | 27,963 | 3,195 | 2,916 | 2,840 | 36,914 |

10 ACCRUALS AND OTHER LIABILITIES

| | Note | As at December 31, | |
|--|------|--------------------|--------|
| | | 2019 | 2018 |
| Accrued key management fees and employee bonus | | 14,094 | 6,319 |
| Accrued expenses | | 4,626 | 4,115 |
| Payable to suppliers | | 2,532 | 446 |
| Accrued employees' costs | | 4,329 | 3,539 |
| Unrealized loss on fair valuation of derivatives | 11.1 | 911 | 1,600 |
| Other | 10.1 | 19,656 | 5,729 |
| | | 46,148 | 21,748 |

10.1 This includes unidentified collections amounting to SR 18.2 million (2018: SR 5.4 million).

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

11 ISLAMIC BANK FINANCINGS AND LEASE LIABILITIES

| | Note | As at December 31, | |
|-------------------------|------|--------------------|----------------|
| | | 2019 | 2018 |
| Islamic bank financings | 11.1 | 868,616 | 681,791 |
| Lease liabilities | 11.3 | 5,173 | - |
| | | <u>873,789</u> | <u>681,791</u> |

11.1 The breakup of Islamic bank financing is as follows:

| | | |
|-------------|----------------|----------------|
| Current | <u>352,025</u> | 334,406 |
| Non-current | <u>516,591</u> | <u>347,385</u> |
| | <u>868,616</u> | <u>681,791</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 1.3 billion of which SR 0.87 billion was utilized as of December 31, 2019 (December 31, 2018: SR 0.68 billion). These financing facilities are repayable in 36 to 48 monthly instalments. The future finance costs charge on the existing utilized facilities amounts to SR 73 million on prevailing profit rates, some of which are subject to reprising during term of financing. The key covenants related to bank financing are to maintain a certain gearing ratio, financing to receivable ratio. The Company was in compliance with these covenants as at financial position date.

The financing bears commission charges at prevailing market rates. The Company has fixed the profit rates through derivatives, i.e. Islamic profit rate swap agreement with the banks for notional amount of SR 109 million. The settlement dates are in line with the respective financing repayments.

11.2 The movement schedule of Islamic bank financing is as follows:

| | As at December 31, | |
|-----------------------------------|--------------------|----------------|
| | 2019 | 2018 |
| Payable as at January 1, 2018 | 681,791 | 906,012 |
| Proceeds / charge during the year | 628,147 | 329,357 |
| Payments during the year | (442,641) | (555,820) |
| Amortisation of transaction cost | 1,319 | 2,242 |
| Payable as at December 31, 2018 | <u>868,616</u> | <u>681,791</u> |

11.3 The breakup of lease liabilities is as follows;

| | Note | As at December 31, | |
|-------------|------|--------------------|------|
| | | 2019 | 2018 |
| Current | 3.3 | 3,453 | - |
| Non-current | | <u>1,720</u> | - |
| | | <u>5,173</u> | - |

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

12 PROVISION FOR ZAKAT

12.1 Movement in provision for zakat for the year is as follows:

| | Note | As at December 31, | |
|---|------|--------------------|----------|
| | | 2019 | 2018 |
| January 1, | | 42,130 | 106,950 |
| Charge for the year | | 21,532 | 17,237 |
| Reversal of prior year charge | | (26,821) | (21,430) |
| | | (5,289) | (4,193) |
| Transfer to zakat payable - for the years 2009 to 2013 / 2014 to 2018 (note 12.2) | | (15,309) | (53,302) |
| Payments during the year | | - | (7,325) |
| Balance at end of year | | 21,532 | 42,130 |

12.2 Movement in zakat payable for the year is as follows:

| | As at December 31, | |
|-----------------------------------|--------------------|--------|
| | 2019 | 2018 |
| January 1, | 53,302 | - |
| Transfer from provision for zakat | 15,309 | 53,302 |
| Payments during the period / year | (45,529) | - |
| Balance at end of period / year | 23,082 | 53,302 |

12.3 Status of zakat assessments:

- The final assessment and settlement for the zakat liability for the years 2009-2013 was received during the year. The amount SR 15.3 million was settled on July 7, 2019.
- The final assessments of zakat liability for the years 2014-2017 was received and the settlement as per terms of settlement is being paid as per agreed schedule. The balance amount payable as per settlement terms is kept aside as zakat payable amounting to SR 23.08 million.
- The zakat liability of 2018 has been fully settled.
- The zakat return for 2019 will be filed in due course.

12.4 Change in accounting treatment for zakat:

The change in the accounting treatment for zakat as explained in note 3.2 has the following impact on the line items of the interim statement of comprehensive income and interim statement of changes in shareholders' equity:

For the year ended December 31, 2018:

| Financial statement impacted | Account | Before the restatement for the year ended December 31, 2018 | Effect of restatement | As restated as at and for the year ended December 31, 2018 |
|--|---|---|-----------------------|--|
| Statement of changes in shareholders' Equity | Provision for zakat (retained earnings) | 4,193 | (4,193) | - |
| Statement of comprehensive income | Zakat reversal | - | 4,193 | 4,193 |
| Statement of comprehensive income | Earnings per share stated in Saudi Riyals | 2.03 | 0.05 | 2.08 |

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

13 PROVISION OF EMPLOYEES' END OF SERVICE BENEFITS

| | As at December 31, | |
|-------------------------------|---------------------------|--------------|
| | 2019 | 2018 |
| January 1, | 6,450 | 5,125 |
| Charge for the year | 1,800 | 1,996 |
| Payments made during the year | (448) | (671) |
| December 31, | <u>7,802</u> | <u>6,450</u> |

The provision of this defined benefit plan is based on projected unit credit method. The key assumptions used in current and prior year include 5% salaries increment and 4% discount rate. The change in assumptions will not have significant effect on the provision as at December 31, 2018.

14 SHARE CAPITAL

As at December 31, 2019, the authorised, issued and fully paid-up share capital of the Company was SAR 1,000 million divided into 100 million shares (December 31, 2018: 85 million shares) with a nominal value of SAR 10 each.

| Shareholders | Holding | No. of shares | Amounts in SR |
|---|----------------|----------------------|----------------------|
| December 31, 2019 | | | |
| Falcom Holding Company (ultimate controlling party) | 71.68% | 71,677,380 | 716,773,800 |
| Others | 28.32% | 28,322,620 | 283,226,200 |
| | <u>100.00%</u> | <u>100,000,000</u> | <u>1,000,000,000</u> |
| December 31, 2018 | | | |
| Falcom Holding Company (ultimate controlling party) | 71.68% | 60,925,773 | 609,257,730 |
| Others | 28.32% | 24,074,227 | 240,742,270 |
| | <u>100%</u> | <u>85,000,000</u> | <u>850,000,000</u> |

Increase in share capital by SR 150 million

During the year 2019, SAMA gave its approval to increase the Company's share capital from SR 850 million to SR 1,000 million, through issuance of bonus shares, which was proposed by the Board of Directors of the Company and approved by the General Assembly on December 2, 2019, and accordingly, reflected in the statement of changes in shareholders' equity the updated commercial registration was obtained during the year 2019.

15 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% 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.

16 TREASURY SHARES

During the year 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. As per the current management plan, these shares will subsequently be allocated to all the remaining shareholders in their existing proportion.

17 FINANCE COSTS

| | For the year ended December 31, | |
|---|--|---------------|
| | 2019 | 2018 |
| Finance costs on Islamic bank financing – note 11.1 | 49,614 | 53,794 |
| Gain on fair valuation of derivatives – note 10 | (688) | (6,339) |
| Bank charges | 6,644 | 4,536 |
| | <u>55,570</u> | <u>51,991</u> |

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

18 SALARIES AND EMPLOYEES RELATED EXPENSES

| | <u>For the year ended December 31,</u> | |
|---------------------------------------|--|---------------|
| | 2019 | 2018 |
| Salaries and employee related costs | 60,045 | 49,390 |
| Management fees and bonus – note 18.1 | 36,342 | 31,635 |
| | <u>96,387</u> | <u>81,025</u> |

18.1 This includes employees' long-term incentive charge of SR 11.6 million (2018: 11.6).

19 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

| | <u>For the year ended December 31,</u> | |
|--|--|---------------|
| | 2019 | 2018 |
| Marketing and advertisements - note 19.1 | 8,375 | 1,002 |
| Insurance | 5,833 | 5,035 |
| Rentals | 1,281 | 3,417 |
| Legal and professional charges - note 19.1 | 7,936 | 4,620 |
| Utilities, telephone and communication | 2,798 | 2,911 |
| Repairs, maintenance and office supplies | 3,476 | 2,619 |
| IT support charges | 3,814 | 2,076 |
| Exchange traded fund valuation impact | 4,374 | 3,795 |
| Vat expense | 2,548 | 2,159 |
| Other | 1,909 | 1,873 |
| | <u>42,344</u> | <u>29,507</u> |

19.1 Marketing and advertisements includes IPO related expense amounting to 5.8 million SR (2018: nil). Similarly, legal and professional charges include IPO related expenses amounting to 3 million SR (2018: nil).

20 OTHER INCOME

| | <u>For the year ended December 31,</u> | |
|---|--|--------------|
| | 2019 | 2018 |
| Rental income | 870 | 1,142 |
| Income on short-term deposit – murabaha | 1,544 | 1,969 |
| | <u>2,414</u> | <u>3,111</u> |

21 EARNINGS PER SHARE

| | <u>As at December 31,</u> | |
|---|---------------------------|--------------------|
| | 2019 | 2018 (Restated) |
| Net income | 218,821 | 176,561 |
| Weighted average number of shares in thousands for basic and diluted EPS (Adjusted for bonus issue and treasury shares) | <u>99,975</u> | <u>100,000</u> |
| Basic and Diluted EPS in Saudi Riyals | <u>2.19</u> | <u>1.77</u> |

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

22 RELATED PARTY TRANSACTIONS AND BALANCES

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

| Related party | Nature of transaction | December 31, 2019 | December 31, 2018 |
|--------------------------|---|----------------------|----------------------|
| Shareholders | Cash dividend declared and paid | 85,000 | 85,000 |
| Key management personnel | Compensation for the period | 29,623 | 21,401 |
| | Incentive for continuing service | 11,667 | 11,667 |
| | Employees' end of service benefits | 636 | 614 |
| Other related parties | Zakat/VAT consultancy fee | 308 | 427 |
| | IT software services rendered | 5,648 | 2,594 |
| Affiliates | Commodities/ securities dealings account - deposit made | 21,800 | 4,000 |
| | Rental charge | 1,206 | 273 |
| | Advisory charges and others | 1,660 | 1,122 |

22.2 Key management personnel of the Company include all directors, executive and non-executive, and senior management.

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

| | Note | As at December 31, 2019 | 2018 |
|---|------|----------------------------|--------|
| Receivables from / advances to related parties | | | |
| Affiliates – short-term deposit | 5 | 9,697 | 2,340 |
| Receivable from key management personnel | 7 | 11,667 | 23,333 |
| Payables / accruals | | | |
| Key management compensation payable | 7 | 15,940 | 7,063 |

23 CONTINGENCY AND COMMITMENTS

Contingency

The Company has certain legal cases pending in courts against it. However, based on management's best estimate no significant contingencies exist as at December 31, 2019.

Capital commitments

There are no significant capital commitments at the statement of financial position date.

Operating leases commitments

The Company's operating leases commitments are only for branches office premises and are not considered as significant. Upon adoption of IFRS 16, operating lease commitments for more than one year has been recognised as lease liabilities as disclosed in note 3.3. Commitments for short term leases amounts to 1.3 million SR (2018: 3.1 million SR).

24 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.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

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.

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.

25 FINANCIAL RISK MANAGEMENT

The Company's Board of Directors has overall responsibility for the establishment and supervision of the Company's risk management framework. The Board of Directors has established a Risk Management Committee, to oversee the development and maintenance of risk management processes, policies, strategies, risk methodologies and reporting them to the Board of Directors.

In addition, the Audit Committee of the Company also reviews the internal audit risk assessment, discusses the Company's policy with respect to risk assessment and risk management. The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Risk Management Committee oversees the Company risks and report to the Board.

i) Credit risk

Credit risk is the risk that one party of a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum exposure to credit risk is equal to the carrying amount of financial assets. The Company's management analyses credit risk in the following categories:

Islamic financing receivables (IFR)

IFR are exposed to significant credit risk. The Company has established procedures to manage credit exposure including evaluation of credit worthiness, formal credit approvals, assigning credit limits, and obtaining collateral such as personal guarantees. The overall underwriting decision is based on the following key parameters:

- Dual credit score i.e. SIMAH and Application scoring system
- Minimum income level and maximum debt burden of the borrower
- Loan repayment history with other financial institutions sourced from SIMAH
- Salary certificate from the employer and last three months bank statement where the customer's monthly salary is credited.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

Customers are requested to provide standing instructions to credit Nayifat account towards monthly installments. In addition, the customers also provide direct debit mandate as a stand by repayment mode. The Company generally receives repayments through SADAD and bank transfers. The Company has an approved collection policy and procedure manual establishing a collection strategy to follow up with delinquent customers. The Company has strengthened its legal department to be actively involved in the collection process of delinquent customers.

The assessment of credit risk of IFR also requires further estimations of credit risk using ECL which is derived by PD, EAD and LGD.

Generating the term structure of 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 of past thirty-six months, adjusted by the outlook of the economy.

Significant increase in credit risk

In determining whether credit risk has increased significantly since initial recognition, the Company uses its quantitative changes in PDs, delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience. Based on instalment collection history, the management believes that the significant increase in credit risk arise only when the instalment is past due for more than 60 days.

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. Based on consideration of a variety of external actual and forecast information from published sources, the Company formulates a forward-looking adjustment to PD term structures to arrive at forward-looking PD estimates across the lifetime using macroeconomic models.

Externally available macroeconomic forecast from International Monetary Fund (IMF) and Saudi Arabian Monetary Authority (SAMA) are used for making base case forecast. The Company has used GDP growth rate and inflation as their key macroeconomic factors giving equal weightages to each. The Company has given 100% weightage to its base case forecast as it considers that the average credit losses of IFR with shared risk characteristics is a reasonable estimate of the probability weighted amount.

Measurement of ECL

The Company measures an ECL at an account level considering the EAD, PD, LGD and discount rate. PD estimates are estimates at a certain date, based on the term structures as provided above. For LGD estimates, the Company use present value of recoveries for loss accounts adjusted by the forward-looking information. EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of an IFR is its gross carrying amount. For discounting the Company has used each account's effective interest rate.

The Company's management believes that adequate provision has been made, where required to address the credit risk. Moreover, the Company in the ordinary course of providing finance receivables are subject to additional personal guarantees for security to mitigate credit risk associated with IFR. For credit quality disclosure relating to IFR, please refer note 6 to these financial statements.

Concentration of credit risk

The concentration of credit risk is the risk that the Company is exposed to if they invested all their assets in one sector or one industry. The Company provides IFR to consumers in public and private sector and ensure that there is no undue concentration of risks with individuals or groups of consumers in specific locations or businesses.

The Company strategy is to finance Saudi nationals under the following categories:

- Customers employed in a secured working environment.
- Steady income group with largely guaranteed employment or minimum loss of employment.
- Employees of selected large-scale private sector companies.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

The net IFR concentration risks and the related provision, by major economic sectors at 31 December are as follows:

| 2019 | Performing | Non- performing | Allowance for impairment | Net financing |
|-----------------------------|-------------------|----------------------------|---|----------------------|
| Description | | | | |
| Consumers in public sector | 1,603,930 | 85,121 | (28,089) | 1,660,962 |
| Consumers in private sector | 64,778 | 3,670 | (1,316) | 67,132 |
| Total | 1,668,708 | 88,791 | (29,405) | 1,728,094 |
| 2018 | | | | |
| Description | | | | |
| Consumers in public sector | 1,332,630 | 108,114 | (45,709) | 1,395,035 |
| Consumers in private sector | 58,042 | 4,859 | (2,549) | 60,352 |
| Total | 1,390,672 | 112,973 | (48,258) | 1,455,387 |

Cash and bank balances and other receivables

The Company believes that it has a low credit risk on these financial assets and the loss allowance would not be material for the Company. The Bank balances are held with a bank which has been assigned investment grade rating by "A-2" as per Standard and Poor's (S&P). Hence, currently the Company is not exposed to any significant credit risk. Other receivables are not significant and not exposed to significant credit risk.

ii) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Company also has revolving credit facilities from commercial banks that it can access to meet future liquidity needs. The company established a liquidity contingency policy and set aside SR 70 million (2018: SR 70 million) as liquidity contingency fund.

The amounts disclosed in the table are the contractual undiscounted cash flows. Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

| December 31, 2019 | Less than 3 months | 3 to 12 months | 1 to 5 years | Total 2019 |
|---|-------------------------------|---------------------------|---------------------|-----------------------|
| Financial assets - commission bearing | | | | |
| Islamic financing receivables- Gross | 281,181 | 592,121 | 1,799,027 | 2,672,329 |
| Term and margin deposits | - | 50,951 | - | 50,951 |
| | 281,181 | 643,072 | 1,799,027 | 2,723,280 |
| Financial assets - non commission bearing | | | | |
| Cash and cash equivalents | 52,596 | - | - | 52,596 |
| Other assets | 2,917 | 8,750 | - | 11,667 |
| Term and margin deposits | - | 64,684 | - | 64,684 |
| | 55,513 | 73,434 | - | 128,947 |
| Total financial assets | 336,694 | 716,506 | 1,799,027 | 2,852,227 |
| Financial liabilities - commission bearing | | | | |
| Islamic bank financing | (96,737) | (281,439) | (563,262) | (941,438) |
| Lease Liabilities | (1,140) | (775) | (3,627) | (5,542) |
| | (97,877) | (282,214) | (566,889) | (946,980) |
| Financial liabilities - non commission bearing | | | | |
| Accruals and other liabilities | (36,093) | (2,739) | (7,316) | (46,148) |
| Total financial liabilities | (133,970) | (284,953) | (574,205) | (993,128) |
| Net financial assets: | | | | |
| Commission bearing | 183,304 | 360,858 | 1,232,138 | 1,776,300 |
| Non-commission bearing | 19,420 | 70,695 | (7,316) | 82,799 |
| | 202,724 | 431,553 | 1,224,822 | 1,859,099 |

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

| December 31, 2018 | Less than 3 months | 3 to 12 months | 1 to 5 years | Total 2018 |
|---|-----------------------|-------------------|------------------|------------------|
| Financial assets - commission bearing | | | | |
| Islamic financing receivables- Gross | 263,959 | 532,768 | 1,351,353 | 2,148,080 |
| Term and margin deposits | 70,890 | - | - | 70,890 |
| | <u>334,849</u> | <u>532,768</u> | <u>1,351,353</u> | <u>2,218,970</u> |
| Financial assets - non commission bearing | | | | |
| Cash and cash equivalents | 111,231 | - | - | 111,231 |
| Other assets | 2,917 | 8,750 | 11,666 | 23,333 |
| Term and margin deposits | - | 15,839 | - | 15,839 |
| | <u>114,148</u> | <u>24,589</u> | <u>11,666</u> | <u>150,403</u> |
| Total financial assets | <u>448,997</u> | <u>557,357</u> | <u>1,363,019</u> | <u>2,369,373</u> |
| Financial liabilities - commission bearing | | | | |
| Islamic bank financing | (130,265) | (377,613) | (456,233) | (964,111) |
| Lease liabilities | - | - | - | - |
| Financial liabilities - non commission bearing | | | | |
| Accruals and other liabilities | (9,242) | (1,858) | (10,648) | (21,748) |
| Total financial liabilities | <u>(139,507)</u> | <u>(379,471)</u> | <u>(466,881)</u> | <u>(985,859)</u> |
| Net financial assets: | | | | |
| Commission bearing | 204,584 | 155,155 | 895,120 | 1,254,859 |
| Non-commission bearing | 104,906 | 22,731 | 1,018 | 128,655 |
| | <u>309,490</u> | <u>177,886</u> | <u>896,138</u> | <u>1,383,514</u> |

iii) Profit rate risk

Profit rate risk is the impact on future earnings of the Company resulting from change in the market profit rates. The risk arises when there is a mismatch in the assets and liabilities, which are subject to profit rate adjustment within a specified year. The most important source of such risk is the Company's financing receivables and Islamic bank financing. The profit rate is fixed for the financing receivables and for the major portion of borrowing as explained in note 11 of these financial statements.

The financial liabilities of SR 108 million are based on floating rates and not subject to profit rate swap and thus, a 100 basis points change in commission rates could have approximately a SR 5 million annual effect on the Company's profitability. The Company's management monitors the fluctuations in commission rates on regular basis and take appropriate measures to minimize the profit rate risk by adjusting lending rate for future contracts.

iv) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Company has no exposure to foreign currency risk as it mainly deals in Saudi Riyals that is also the functional currency of the Company.

v) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company is not exposed to price risk as it does not have any financial instrument whose prices are fluctuated based on internal or external factors as mentioned above.

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

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

| | 2019 | 2018 |
|-------------------------|------------------|------------------|
| Shareholders' equity | 1,016,417 | 947,748 |
| Islamic bank financing | 868,616 | 681,791 |
| Total capital structure | <u>1,885,033</u> | <u>1,631,139</u> |
| Gearing ratio | <u>46.07%</u> | <u>41.83%</u> |

27 FINANCIAL INSTRUMENTS

| | Note | 2019 | 2018 |
|--|------|-----------|-----------|
| Financial assets – at amortized cost | | | |
| Cash and cash equivalents | 5 | 52,596 | 111,231 |
| Term and margin deposits | 5 | 114,684 | 86,729 |
| Islamic financing receivables | 6 | 1,728,094 | 1,455,387 |
| Other receivables | 7 | 11,667 | 23,333 |
| Financial liabilities – at amortized cost | | | |
| Accruals and other liabilities | 10 | 45,237 | 20,148 |
| Islamic bank financing | 11 | 868,616 | 681,791 |
| Lease liabilities | 11 | 5,173 | - |
| Financial liabilities – at fair value | | | |
| Unrealized loss on fair valuation of derivatives | 10 | 911 | 1,600 |

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in thousands of Saudi Riyals unless otherwise stated)

28 Branches including Head Office

The results of the following branches were included as part of these financial statements.

| Serial No. | Commercial registration number of Branch | Location |
|------------|--|--------------------------------|
| 1 | 1010176451 | Riyadh - Exit 10 (Head Office) |
| 2 | 1010361769 | Riyadh - Exit 28 Badiyah |
| 3 | 1010609169 | Riyadh - Exit 13 Khurais |
| 4 | 1010609170 | Riyadh - Olaya |
| 5 | 1011019025 | Kharj |
| 6 | 1131046727 | Qassim |
| 7 | 2050117283 | Dammam |
| 8 | 2055025208 | Jubail |
| 9 | 2250049662 | Hafuf |
| 10 | 2511018370 | Hafr Al Baten |
| 11 | 3350040719 | Hail |
| 12 | 3400017276 | Sakaka |
| 13 | 3550029238 | Tabuk |
| 14 | 4030189485 | Jeddah |
| 15 | 1010176451 | Jeddah - Fayha |
| 16 | 4031080772 | Makkah |
| 17 | 4032034699 | Taif |
| 18 | 4650052613 | Madinah |
| 19 | 1010176451 | Baha |
| 20 | 5850068147 | Abha |
| 21 | 5900020800 | Jizan |
| 22 | 1010176451 | Najran |
| 23 | 2053112169 | Qatif |
| 24 | 1116009153 | Al Dawadmi Branch |

29 COMPARATIVE FIGURES

Certain comparative amounts in these financial statements relating to 2018 have been reclassified for the purpose of better presentation. However, the effect of this and other reclassifications were not considered as significant.

30 SUBSEQUENT EVENT

There was no subsequent event after the year-end which require disclosure or adjustment in these financial statements.

31 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved and authorised for issue by the Board of Directors of the Company on February 3, 2020.