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Press Release

Nayifat Finance Company announces its intention to list on the Saudi Exchange

Offering overview

- *Nayifat Finance Company (NFC) will offer 35 million shares (Offer Shares), representing 35% of the Company's issued share capital of 100 million shares by way of a secondary offering (pro-rata sell down by shareholders)*
- *The Company's Shares will be listed on the Saudi Exchange main market following the completion of the offering and listing formalities with both the Capital Market Authority (the "CMA") and the Saudi Exchange*
- *The Offer Shares will be offered for subscription to retail and institutional investors, including institutional investors outside the United States in accordance with Regulations S (RegS) under the US Securities Act of 1933, as amended*
- *All the Offer Shares will be offered to institutional investors, with a clawback by the retail investors of up to 10%, as determined by the Bookrunners*

Company overview

- *Over the past 19 years, NFC has cemented its position as a pioneer and one of the leading players in the consumer finance segment within the Non-Banking Financial Institutions (NBFI) sector through building a brand centred around customer care and satisfaction, in addition to gathering unparalleled market know-how supported by resilient operational capabilities and experienced management team.*
- *The Company offers customers 100% Sharia compliant products and services including consumer finance, credit cards, SME financing and fintech lending*
- *Strong revenue generation and robust risk management has resulted in steady and high net income levels since 2018 with a CAGR of around 10% and Return on Equity (RoE) of around 20%*
- *The Company has a strong dividend track record with a payout ratio of around 45% of net income over the last three years. NFC has paid 65% of the profit for Q4 2020 and Q1 2021 as dividend in Q2 2021*



- *NFC is well-positioned to capitalize on growth opportunities, driven by an agile growth strategy focused on innovative product offerings and expansion into new segments – Small and medium-sized enterprises (SME), Credit Cards and Fintech*

Riyadh, 12 October 2021 – Nayifat Finance Company (“Nayifat” or “NFC” or the “Company”), one of the leading NBFIs focusing on consumer financing in Saudi Arabia, today announces its intention to proceed with an initial public offering (“IPO” or the “Offering”) and listing of its ordinary shares (“Shares”) on the Saudi Exchange main market. On 29 September 2021, the CMA approved the Company’s application for the initial public offering of 35,000,000 Shares (“Offer Shares”), representing 35% of NFC’s issued share capital, by way of sale of existing Shares by the shareholders of NFC (“Selling Shareholders”). The final offer price of the Offer Shares will be determined at the end of the book-building period.

The potential IPO will give NFC the opportunity to promote greater levels of internal efficiencies, corporate governance and transparency, allowing the Company to capitalize on its core consumer finance business while growing its portfolio of innovative financing solutions such as credit cards, SME lending and its newly introduced FinTech crowd funding platform (ULend) to existing customer base as well as new customers. Furthermore, the management believes that a potential listing will enable better access to capital markets, leverage exposure and public status to strengthen its profile and branding, allow the public the opportunity to participate and benefit from the business growth and increase transparency in the business beyond statutory financial reporting.

Saud Al Dosari, Chairman of NFC, said: “NFC is a pioneer in the NBFIs space and has been a leading player in the industry for over 19 years. We believe now is the right time to go public. The listing enables us to move into the next stage of our ambitious strategy. The Kingdom’s Vision 2030 has presented many opportunities, including a successful transformation of Saudi’s capital markets which created an investment environment that is at par with developed countries. I’m confident NFC is well positioned to benefit from this change and be able to support the financing needs of the Saudi public.”

Abdulmohsen Al Sowailem, Managing Director and Chief Executive Officer of NFC, said: “Our agile business model and customer-centric approach allowed us to expand exponentially since 2002 as one of Saudi Arabia’s premier non-bank lenders. I am proud of our consistent, solid track record and unparalleled profitability. We will continue to focus on our core business while pursuing growth opportunities in the private and public sector. This IPO is the next stage of our development story, as it would further promote the NFC brand and support our expansion into FinTech, SME lending and credit card businesses.”

NFC has a comprehensive portfolio of more than 44K customers as of Q1 2021. It is the first licensed NBFIs to issue VISA credit cards, which was launched in 2020, and offers customers 100% Sharia compliant products and services including consumer finance, credit cards, SME financing and FinTech lending.

-ENDS-

About NFC and background to the Offering

NFC is a pioneer and one of the leading players in the NBFi space focused on serving the financing needs of individuals in the Kingdom. NFC is poised to capitalize on growth avenues supported by a comprehensive product suite, strong distribution network, robust risk management framework and a flagship brand. The Company has demonstrated a proven track record of growth and agility to navigate market conditions and adapt its strategies to the needs of the evolving consumer finance market in Saudi Arabia.

NFC was established in 2002 with a share capital of SAR 10 million and today operates with a share capital of SAR 1 billion. It was the first NBFi to be licensed by the Saudi Central Bank in 2014, and has been one of the leading players in the consumer finance market with a market share of 18% as of Q1 2021¹. It has a comprehensive portfolio comprising more than 44K customers.

The Company offers customers 100% Sharia compliant products and services including consumer finance, credit cards, SME financing and FinTech lending. NFC leverages on minimal competition on pricing and deep distribution network covering 23 cities, with 392 employees across 27 branches in the Kingdom.

With respect to the Offering, the Company appointed HSBC Saudi Arabia to act as Financial Advisor, Lead Bookrunner, Lead Underwriter and Lead Manager. The Company also appointed Saudi Fransi Capital and GIB Capital as Joint Bookrunners and Co-underwriters (HSBC Saudi Arabia, Saudi Fransi Capital and GIB Capital together, the “**Bookrunners**”). The Saudi British Bank (SABB), Saudi National Bank (SNB), Riyad Bank and Al Rajhi Bank have been appointed as receiving agents (collectively, the “**Receiving Agents**”).

The CMA and Saudi Exchange approvals have been obtained for the offering and listing outlined below:

- NFC to register its shares and offer 35 million Offer Shares, representing 35% of the Company’s issued share capital of 100 million Shares by way of a secondary offering by the selling shareholder
- The shares will be listed on the Main Market of the Saudi Exchange following the completion of the offering and listing formalities with both the CMA and the Saudi Exchange.
- The IPO will comprise an offer of 35,000,000 Offer Shares to institutional investors entitled to participate in the book-building process (“**Institutional Investors**”) in accordance with the CMA Instructions on Book-Building and Allocation of Shares in Initial Public Offerings, including non-resident qualified foreign financial institutions in accordance with the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities and institutional investors outside the United States in accordance with Regulations S (**RegS**) under the US Securities Act of 1933, as amended.
- Following the completion of the institutional tranche, the Offer Shares will also be offered to Saudi Arabian nationals, foreign residents in the Kingdom of Saudi Arabia and GCC nationals (“**Retail Investors**”). Initially, 100% of the Offer Shares will be provisionally allocated to the Institutional Investors. This may be reduced to 31,500,000 Offer Shares (representing 90% of the total Offer Shares) depending on the level of demand by Retail Investors. The final number of Offer Shares allocated to the Institutional Investors will be accordingly adjusted based on subscription from Individual Investors.

¹ Calculated on gross loans (net of unearned finance income) basis. Based on SAMA Monthly Bulletin “Personal Finance” preliminary Q1 2021 market size

- The offer of Offer Shares to Institutional Investors will be made as follows:
 - Institutional Investors registered in the Kingdom may submit a Bid Form or may apply for subscription with the Bookrunners via email during the Book-Building Period to be made available by the Bookrunners. In all cases, Institutional Investors registered in the Kingdom must complete the Institutional Investors Subscription Form after the allocation of Offer Shares based on the number of Offer Shares allocated to them.
 - Institutional Investors not registered in the Kingdom may apply for subscription with the Bookrunners via telephone or email, without the need to complete and sign a Bid Form. Institutional Investors not registered in the Kingdom must complete the Subscription Form for Participating Parties after the allocation of Offer Shares based on the number of Offer Shares allocated to them.
- The offer of Offer Shares to Retail Investors will be made as follows:
 - Individual Investors are required to fill and submit a Retail Subscription Form. Retail Investors who have participated in recent initial public offerings in the Kingdom can also subscribe through the internet, telephone banking or automated teller machines ("ATMs") of any of the Receiving Agents branches that offer any or all such services to its customers, *provided* that the following requirements are satisfied: (i) the Retail Investor must have a bank account at a Receiving Entity which offers such services and (ii) there have been no changes in the personal information or data of the Individual Investor since such person's subscription in the last initial public offering.
- The substantial shareholders who each own 5% or more of the Shares currently in issue and comprise Falcom Holding, Saud Aldosary and Abdulaziz Al Blehed (collectively, the "Substantial Shareholders") may not dispose of any of their Shares for a period of six months from the date on which trading of the Company's Shares commences on the Saudi Exchange.

Key Investment Highlights – an opportunity to capture unmatched growth opportunity presented by the Kingdom

Strategic ambition to be the go-to provider for consumer financing with tangible growth opportunities identified in the segments of SME, fintech (the ULeND crowdfunding platform) and credit cards

- Personal financing is expected to continue to expand in Saudi Arabia with increasing personal financing needs
 - Saudi Arabia is a relatively young country with approximately 75% of Saudi population falling below the age of 40 years, which implies potential long-term employment period for most of the population
 - It is expected that with consistent growth in the population, there would be rising social needs such as education, healthcare and housing, coinciding with shifts in lifestyle and consumer behaviour. Private consumption levels exceeding personal income levels in the Kingdom are expected to continue to drive demand for consumer financing

- The size of the consumer loan market as a % of GDP (considering, the Kingdom – at 11.2%) - still lags behind regional peers’ average of 20.2%, demonstrating capacity for growth in this segment²
- The personal/consumer loans extended by non-real estate NBFIs amounted to SAR 8,734 million as of Q1 2021. It was estimated to be SAR 2,709 million in Q1 2020, registering a growth of 222.4%³
- It is estimated that the consumer loans extended by non-real estate NBFIs will grow at a Compounded Annual Growth Rate (CAGR) of 20.6% from SAR 6,203 million in 2020 to SAR 13,139 million in 2024.
- NBFIs benefit from the Debt Burden Ratio (DBR) regulations which allow them to lend to customers who cannot be serviced by the banking sector – this removes any competition from banks in this DBR range
- Consumer finance is currently 96% of the Company’s portfolio at SAR 1.6 billion gross loans, with SME and credit cards expected to scale up to account for a larger portion of the portfolio in the medium term⁴
- The Saudi government is encouraging enhanced access to funds for SMEs since under Vision 2030, the Kingdom aims to raise the GDP contribution of SMEs from the current 28.75% as of Q2 2020 to 35% by 2030⁵
 - Several government initiatives have been implemented to boost SME financing in the Kingdom such as the Kafalah Program, the Saudi Authority for Accredited Valuers (Taqeem), Monshaat Program and Ministry of Housing Initiative
 - In addition, the SME sector is growing rapidly due to several factors including, the establishment of industrial clusters, tapping into underpenetrated markets and underserved areas, the influx of international visitors and growth in tourism and entertainment, privatization and growth of non-oil sectors
 - SME portion of Banks’ and NBFIs’ total commercial loans at 7.5% remains well below the Kingdom’s target of 33% by 2030⁶
 - The MSME loans by NBFIs has been growing, and achieved a growth rate of 34% in Q1 2021 as compared to Q1 2020⁷
 - It is estimated that the MSME loans extended by NBFIs will grow at a CAGR of 14.2% from SAR 11,887 million in 2020 to SAR 20,209 million in 2024⁷
- Introduction of the ULend platform to target the SME sector in an innovative way, offering FinTech peer to peer lending and debt crowdfunding, leveraging existing financing and reduced costs with flexible investment opportunities

² 4Sight has adapted this data from annual reports of Central Banks of reported countries for the year 2019G

³ 4SiGHT has adapted this data from SAMA monthly bulletin May 2021G

⁴ Company data

⁵ 4Sight has adapted this data from annual reports of Central Banks of reported countries for the year 2019G

⁶ Vision 2030 report and Financial Sector Development Program Report

⁷ 4SiGHT has adapted this data from SAMA monthly bulletin May 2021G

- The FinTech industry in the Kingdom is growing at a rapid rate. Between 2017 and 2019, the value of fintech transactions increased at a rate of over 18% each year, reaching over SAR 75 billion in 2019⁸
- Payments account for two-third of the market and almost 98% of the user base. It is followed by personal finance which comprises over 30% of the fintech transaction values⁸
- The FinTech market in Saudi Arabia is expected to reach transaction values of over SAR 123 billion by 2023. Payments are likely to continue to lead the market share followed by personal finance⁸
- NFC is the first licensed NBFi to issue Sharia compliant VISA credit cards and aims to move towards digitised products in the near term
 - The Kingdom’s young population is considered to be “digitally savvy” driving higher credit card penetration levels and consumer spending⁹
 - The Saudi government has undertaken several initiatives to boost electronic payments in the Kingdom; these include the introduction of the modified Saudi Payment Network (SPAN) which links all ATMs and POS terminals, resulting in increased usage of debit and credit cards
 - The number of E-commerce platforms is estimated to expand in the coming years. Also, the revenues through such platforms are estimated to grow. Hence, a surge in E-commerce platforms and revenues is expected to drive the credit card financing market in the Kingdom
 - The Saudi government is targeting 70% cashless payments under Vision 2030

Solid risk management, governance frameworks, superior asset quality and below industry average NPL

- NFC adopts an effective governance framework, which includes pro-active set up of various committees that report directly to the Board and are intended to define risk/return appetite within the business strategy as well as identify, monitor and manage potential areas of risk
- Credit Risk includes screening clients using scoring models of FICO and QARAR as part of a highly selective client selection system aimed at enhancing asset quality
- Fully automated credit approval process, and entails AML/blacklist check, and document verification
- Robust collection process through multi-tracked collection mechanism supported by structured collection process covering non-performing loans (NPL) at each stage, and extending to post-write off
- Financial reporting is in line with IFRS 9 requirements and complies with guidelines around adequate coverage levels

⁸ Fintech Saudi Annual Report 2020

⁹ 4SiGHT has adapted this data from the General Authority for Statistics data for 2019G

- Significant NPL improvement historically with NPL ratio circa 5% in 2019 (less than half of 2016 level), with an increase in 2020 and H1 2021 driven by COVID-19 and related economic downturn and change in write off policy, albeit still below industry average in the Kingdom

Strong financial performance with a consistent track record of superior returns, coupled with further headroom for growth supported by a robust capital position whilst maintaining dividends

- NFC has a healthy dividend track record, translating into c.40-50% of earnings in the last three years with the latest dividend payout amounting to 65% covering 4Q 2020 and 1Q 2021 net income and distributed in 2Q 2021
- NFC recorded strong financial performance and consistent track record of superior returns with c.10% CAGR 2018-21¹⁰ in net income, and holds average 2018-20 NPL of c.7%, below industry average of c.10% for the same period
 - Achieved NPL ratio of c.5% in 2019 when industry NPL was c.13%
 - In H1 2021, NPL ratio increased to 9.4% from 8.4% in 2020, due the COVID-19 economic impact and a change in write off policy
- **FY2020 and H1 2021 Balance sheet snapshot**
 - Strong balance sheet, with Islamic receivables making up c. 82% of total assets (H1 2021) – comprised primarily of consumer finance loans
 - Strong net loans growth in 2019 (c.19% YoY growth) on the back of introduction of DBR in 2018 and well-established risk management processes
 - COVID-19 impact visible in 2020 (c.12% decrease in net loans vs. 2019) with loan growth turning positive in H1 2021 (2.4% increase vs. 2020)
 - Strong growth in SME portfolio in H1 2021, increasing from SAR 69.2 million in 2020 to SAR 133.3 million in H1 2021 (c.93% increase)
 - Stable funding base comprised of bank financing and equity. NFC has access to funding from leading regional banks, with committed financing facilities of SAR 2.2 billion, of which only SAR 0.6 billion is utilized with an average tenor of 3-4 years – implying SAR 1.6 billion in unutilized capacity as of 2020
 - NFC has a strong equity base with financing / equity ratio being 1.3x as of H1 2021, well below the regulatory threshold of 3.5x
 - SME segment is set to grow rapidly and contribute between 20-30% of NFC’s loan book in the near term
 - Total assets of around SAR 1.9 billion and a strong equity base of SAR 1.2 billion as of H1 2021
- **FY2020 and H1 2021 Income statement snapshot**

¹⁰ 2021 based on 1H21 annualized

- Revenue growth of c.7% CAGR 2018-21¹¹ combined with c.24% average revenue yield, with YoY revenue growth of c.6% in 2020 despite pandemic and drop in loan book
- Low cost of funding at c.6% (2018-20 average) and historically decreasing funding costs at (c.9%) CAGR 18-20 on the back of long-standing relationships with leading regional banks, compounded by reductions in 2020 due to decline in the average borrowing rate (driven by drop in SAIBOR) – funding cost of c.3% in H1 2021
- Strong operational efficiency has allowed NFC to achieve one of the lowest cost-income ratio in the industry of 35% as of H1 2021
 - Expenses increased at c.5% CAGR during 2018-21, 2 p.p. slower than revenue growth during the same period
- Demonstrated ability to deliver high returns with average RoE of c.20% since 2018 and a strong net income growth of c.10% CAGR 2018-21
 - RoE (annualised) in H1 2021 was 20.4% - NFC saw a strong improvement in profitability with net income YoY growth of 27% in H1 2021

Strong shareholder base supporting a highly experienced board and management

- Long-standing shareholder base, with strong backing from Falcom Holding, offering ownership stability
- Board of Directors with significant experience in financial institutions and retail business
- Strong management team with unique market know-how
- Robust corporate governance infrastructure in full compliance with CMA and SAMA regulation
- The Company benefits from SAMA regulation pre-IPO, implementing a strict and sophisticated governance structure ahead of its anticipated listing
- Independent and non-independent members sit on board committees – highlighted here by Risk and Audit Committees

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¹¹ 2021 based on 1H21 annualized

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This announcement is not an offer document for the purposes of the Rules of the OSCO Rules and should not be construed as such. The CMA and the Saudi Exchange do not take any responsibility for the contents of this announcement, do not make any representations as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this announcement.

The international offering circular prepared in connection with the Offering (the “**International Offering Circular**”) is the sole legally binding document containing information about the Company and the Offering outside of Saudi Arabia. In the event of any discrepancy between this

announcement and the Domestic Prospectus and/or the International Offering Circular, as the case may be, the Domestic Prospectus and/or the International Offering Circular will prevail.

This announcement may include statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “aim”, “anticipate”, “believe”, “can”, “consider”, “could”, “estimate”, “expect”, “forecast”, “intend”, “may”, “ought to”, “potential”, “plan”, “projection”, “seek”, “should”, “will”, “would”, or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Any forward-looking statements reflect the Company’s current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Company’s business, results of operations, financial position, liquidity, prospects, growth or strategies. Many factors could cause the actual results to differ materially from those expressed or implied by any such forward-looking statements, including, among other things, risks specifically related to the Company and its operations, the development of global economic and industry conditions, and the impact of economic, political and social developments in Saudi Arabia. These factors will be described in more detail in the Domestic Prospectus and the International Offering Circular. Forward-looking statements speak only as of the date they are made. Each of the Company, the Bookrunners and their respective affiliates expressly disclaims any obligation or undertaking to update, review or revise any forward-looking statement contained in this announcement whether as a result of new information, future developments or otherwise.

There is no guarantee that the Offering will occur and you should not base your financial decisions on the Company’s intentions in relation to the Offering at this stage. This announcement does not constitute a recommendation concerning the Offering. Acquiring Offer Shares to which this announcement relates may expose an investor to a significant risk of losing the entire amount invested. Persons considering an investment should consult an investment advisor or an authorized person specializing in advising on such investments.

The Bookrunners are acting exclusively for the Company and no-one else in connection with the Offering. They will not regard any other person as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients, nor for providing advice in relation to the Offering, the contents of this announcement or any transaction, arrangement or other matter referred to herein.

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In connection with the Offering, each of the Bookrunners and any of their affiliates, may take up a portion of the Offer Shares in connection with the Offering as a principal position and in that capacity may retain, purchase, sell, offer to sell for their own accounts such Offer Shares and other securities of the Company or related investments in connection with the Offering or otherwise. Accordingly, references in the Domestic Prospectus or the International Offering Circular, once published, to the Company's shares being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by, the Bookrunners and any of their affiliates acting in such capacity. In addition, the Bookrunners and any of their affiliates may enter into financing arrangements (including swaps or contracts for difference) with investors in connection with which the Bookrunners and any of their affiliates may from time to time acquire, hold or dispose of securities. None of the Bookrunners intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.