QUARA FINANCE COMPANY
(Formerly known as Maalem Financing Company)
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND
INDEPENDENT AUDITORS' REPORT

Quara Finance Company (Formerly known as Maalem Financing Company)
(A Saudi Closed Joint Stock Company)
Financial statements
For the year ended December 31, 2020

Independent auditor's report to the shareholders of Quara 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 Quara Finance Company (the "Company") as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, that are 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 comprehensive income for the year then ended;
- the statement of financial position as at December 31, 2020;
- 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 the summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' 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 International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and the applicable requirements of the Regulations for Companies and the Company's Articles of Association, 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 Quara Finance Company (A Saudi Closed Joint Stock 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 in the aggregate, 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, that are 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 the purpose of 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

Khalid A. Mahdhar
License Number 368

March 4, 2021

Quara Finance Company (Formerly known as Maalem Financing Company)
(A Saudi Closed Joint Stock Company)
Statement of comprehensive income
For the year ended December 31, 2020
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2020	2019
Murabaha income		**67,172,957**	49,127,857
Management Fee, Income		**3,775,557**	3,181,634
Modification loss on restructuring of financings and borrowings net of grant income	22	**(23,229,245)**	-
Financial charges		**(26,662,048)**	(19,592,437)
		21,057,221	32,717,054
Operating expenses			
Other general and administrative expenses	4	**(24,258,910)**	(15,021,213)
Provision of doubtful debts	6	**(24,200,376)**	1,248,856
Salaries and other benefits		**(26,651,078)**	(16,368,470)
Income / (loss) from operations		**(54,053,143)**	2,576,227
Other Income		**2,365,528**	-
Net (loss) / income for the period before zakat		**(51,687,615)**	2,576,227
Reversal of zakat charge for the period	15	**323,243**	2,166,176
Net (loss) / income for the period after zakat		**(51,364,372)**	4,742,403
Other comprehensive income		-	-
Total comprehensive (loss) / income		**(51,364,372)**	4,742,403
Earnings per share		**(2.71)**	0.32
Weighted average number of shares	17	**18,934,426**	15,000,000

The notes on pages 7 to 30 form an integral part of these financial statements.

Quara Finance Company (Formerly known as Maalem Financing Company)
(A Saudi Closed Joint Stock Company)
Statement of financial position
As at December 31, 2020
(All amounts in Saudi Riyals unless otherwise stated)

	Note	December 31, 2020	December 31, 2019
Assets			
Cash and cash equivalents	5	**118,354,573**	41,828,950
Murabaha receivables, net	6	**883,978,282**	339,282,650
Due from related parties	7	**-**	327,627
Prepayments and other receivables	8	**13,969,987**	10,863,885
Repossessed assets held for sale	9	**2,545,800**	2,545,800
Property and equipment, net	10	**8,611,838**	7,584,989
Total assets		**1,027,460,480**	402,433,901
Liabilities and shareholders' equity			
Liabilities			
Sukuk	11	**44,984,849**	50,000,000
Loan from a related party	12	**79,327,502**	79,327,397
Long term loans	13	**618,276,413**	108,187,399
Accrued and other liabilities	14	**37,343,135**	15,308,053
Provision for zakat	15	**1,510,243**	2,364,742
Employees' termination benefits	16	**778,600**	642,200
Total liabilities		**782,220,742**	255,829,791
Shareholders' equity			
Share capital	17	**300,000,000**	150,000,000
Statutory reserve	18	**2,080,046**	2,080,046
Accumulated deficit		**(56,840,308)**	(5,475,936)
Net shareholders' equity		**245,239,738**	146,604,110
Total liabilities and shareholders' equity		**1,027,460,480**	402,433,901
Commitments	19		

The notes on pages 7 to 30 form an integral part of these financial statements.

Quara Finance Company (Formerly known as Maalem Financing Company)
(A Saudi Closed Joint Stock Company)
Statement of changes in shareholders' equity
For the year ended December 31, 2020
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Accumulated deficit	Total
January 1, 2019		150,000,000	2,080,046	(10,218,339)	141,861,707
Comprehensive income:					
Net income for the year		-	-	4,742,403	4,742,403
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	4,742,403	4,742,403
December 31, 2019		150,000,000	2,080,046	(5,475,936)	146,604,110
January 1, 2020		**150,000,000**	**2,080,046**	**(5,475,936)**	**146,604,110**
Comprehensive income:					
Net loss for the year after zakat		-	-	(51,364,372)	(51,364,372)
Increase in share capital		150,000,000	-	-	150,000,000
Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		-	-	(51,364,372)	(51,364,372)
December 31, 2020		**300,000,000**	**2,080,046**	**(56,840,308)**	**245,239,738**

The notes on pages 7 to 30 form an integral part of these financial statements.

Quara Finance Company (Formerly known as Maalem Financing Company)
(A Saudi Closed Joint Stock Company)
Statement of cash flows
For the year ended December 31, 2020
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2020	2019
Cash flows from operating activities			
Net (loss) / income before zakat charge for the year		**(51,687,615)**	2,576,227
Adjustments for non-cash items:			
Depreciation	10	**2,376,092**	1,585,212
Modification loss on restructuring of financings and borrowings net of grant income		**23,229,245**	-
Financial charges		**26,662,048**	19,592,437
Provision for doubtful debts	6	**24,200,376**	(1,248,856)
Provision for employees' termination benefits	16	**271,143**	549,857
Changes in working capital			
Murabaha receivables		**(606,165,292)**	(81,940,177)
Prepayments and other assets		**(3,106,102)**	1,784,615
Due from related parties		**327,627**	36,360
Accrued and other liabilities		**22,035,082**	175,500
Zakat Paid		**(531,256)**	-
Employees' termination benefits paid	16	**(134,743)**	(467,257)
Net cash utilized in operating activities		**(562,523,395)**	(57,356,082)
Cash flows from investing activity			
Purchase of property and equipment	10	**(3,402,941)**	(3,173,447)
Net cash utilized in investing activity		**(3,402,941)**	(3,173,447)
Cash flows from financing activities			
Proceeds from issuance of share capital		**150,000,000**	-
Long term loan proceeds	13	**532,437,770**	97,893,900
Long term loan payments		**(14,438,359)**	(20,202,423)
Sukuk proceeds		**100,000,000**	-
Sukuk repayment		**(24,515,151)**	(33,333,332)
Sukuk redemption		**(80,500,000)**	-
Financial charges paid		**(20,532,301)**	(19,134,016)
Net cash generated from financing activities		**642,451,959**	25,224,129
Net change in cash and cash equivalents		**76,525,623**	(35,305,400)
Cash and cash equivalents at the beginning of the year	5	**41,828,950**	77,134,350
Cash and cash equivalents at the end of the year	5	**118,354,573**	41,828,950
Supplemental non-cash information:			
Real estate transferred from customers as settlement for an outstanding balance	9	-	-

The notes on pages 7 to 30 form an integral part of these financial statements.

1 General information

Quara Finance Company (formerly known as Maalem Financing Company) (the "Company") is a closed joint stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010262141, Unified national number 7001592562 issued in Riyadh on Safar 9, 1430H (corresponding to February 4, 2009).

As per Saudi Central Bank ("SAMA") license number 45/ش أ/201605 dated 2 Sha'ban 1437H (corresponding to May 9, 2016), the Company is authorized to provide lease finance, consumer finance and small and medium enterprise finance in the Kingdom of Saudi Arabia.

With effect from Jumada al-Thani 1, 1442H (corresponding to January 14, 2021), the name of the Company was changed from Maalem Financing Company to Quara Finance Company.
The Company's registered office is located in Riyadh at the following address:

Quara Finance Company
7342 eastern ring branch rd – Ar Rabwah Dist.
Unit Number: 1
RIYADH 12824 - 4556

The Board of Directors approved issuing of these financial statements on March 2, 2021.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company as at and for the year ended December 31, 2020 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 have been prepared on a historical cost basis following the accrual basis of accounting, except as disclosed in the notes to these financial statements.

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

2.2 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('Saudi Riyals'). The financial statements are presented in Saudi Riyals, which is the Company's functional and presentation currency.

(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.3 Adoption of new standards and amendments:

The following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB), have been effective from 1 January 2020 and accordingly adopted by the Company has assessed that the amendments have no significant impact on the Company's financial statements., as applicable:

Standard / Amendments	***Description***	
Amendments to IFRS 3	Definition of business	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards.	The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	1 January 2020
Amendments to IAS 1 & IAS 8	Definition of material	1 January 2020

2.4 Change 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, 2019, except for:

Accounting policy for government grant:

The Company recognizes a government grant related to income, if there is a reasonable assurance that it will be received, and the Company will comply with the conditions associated with the grant. The benefit of a government loan at a below-market rate of interest is treated as a government grant related to income. The below-market rate grant is recognized and measured in accordance with IFRS 9 - Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the grant determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. Government grant is recognized in the interim statement of comprehensive income on a systematic basis over the periods in which, the Company recognizes as expenses, the related costs which the grants is intended to compensate. The grant income is only recognised when the ultimate beneficiary is the Company. Where the customer is the ultimate beneficiary, the Company only records the respective receivable and payable amounts.

2.5 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts (if any).

2.6 Murabaha receivables

Murabaha 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 gross receivables.

2 Summary of significant accounting policies (continued)

2.7 Repossessed assets held for sale

The Company, in the ordinary course of business, acquires real estate or other assets against settlement of finances due. Such assets are considered as assets held for sale and are initially recorded at the lower of receivables value or the current fair value of the related assets, less any costs to sell, at the time of possession. No depreciation is charged on such assets.

Subsequent to initial recognition, any subsequent write down to fair value, less cost to sell, are charged to the statement of comprehensive 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.

2.8 Property and equipment

Property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to statement of comprehensive income during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful life. The estimated useful life of the assets are as follows:

	Number of years
Vehicles	5 years
Furniture and fixtures	5 years
Computer equipment	5 years
Leasehold improvements	4 - 5 years or over the lease term whichever is shorter

2.9 Provisions, accrued and other liabilities

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

2.10 Employees' termination benefits

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made at the present value of expected future payments in respect of services provided by the employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The benefit payments obligation is discharged as and when it falls due. Remeasurements (actuarial gains / losses) as a result of experience adjustments and changes in actuarial assumptions are recognised in statement of comprehensive income.

2. Summary of significant accounting policies (continued)

2.11 Short-term employee benefits

Short-term employee benefits, include leave pay and airfare, are current liabilities included in accrued expenses, measured at the undiscounted amount that the entity expects to pay as a result of the unused entitlement.

2.12 Zakat

In accordance with the regulations of the General Authority for Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis and charged directly to statement of comprehensive income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

2.13 Impairment of non-financial assets

Non-financial assets 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.

2.14 Revenue recognition

Income from murabaha receivables is recognized in the statement of comprehensive income using the effective yield method, on the outstanding balance over the term of the contract.

The calculation of effective yield method includes transaction costs and fees and commission income received that are an integral part of effective yield method. Transaction costs include incremental costs that are directly attributable to the acquisition of the financial asset.

Other income are recognized on accrual basis as the services are rendered.

2.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of financial charges and other costs that the Company incurs in connection with the borrowing of funds.

2.16 General and administrative expenses

General and administrative expenses are those arising from Company's efforts underlying the administrative activities.

2 Summary of significant accounting policies (continued)

2.17 Financial instruments

The Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories.

IFRS 9 contains three principal classification categories for financial assets. The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income (FVOCI)
- those to be measured subsequently at fair value through profit or loss (FVTPL) and
- those to be measured at amortized cost.

At initial recognition, the Company measures financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of financial asset. Transactions cost of financial assets carried at fair value through profit or loss (FVTPL) are expensed in statement of comprehensive income.

Subsequent measurement of debt instrument depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. There are three measurement categories into which the Company classifies its debt instruments:

i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and profit are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of the hedging relationship is recognized in statement of comprehensive income when the asset is derecognized or impaired. Profit from these financial assets is calculated the effective yield method.
ii) Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, profit on financial instrument (revenue) and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of comprehensive income and recognised in other gains / (losses). Profit from these financial assets is included in finance income using the effective yield method.
iii) Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in statement of comprehensive income and presented net in the statement of comprehensive income statement within other gains / (losses) in the period in which it arises. Profit from these financial assets is included in the finance income.

Currently, the Company does not hold any equity instruments; therefore, the related accounting policies have not been presented.

2 Summary of significant accounting policies (continued)

2.18 Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortized cost. The Company recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

The Company uses three categories for murabaha receivables which reflect their credit risk and how the loss provision is determined for each of those categories.

Category	Company definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows.	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 90 days past due (see above in more detail)	Lifetime expected losses
Non-performing	Interest and/or principal repayments above 90 days past due	Lifetime expected losses

2 Summary of significant accounting policies (continued)

2.19 Financial liabilities - subsequent classification and measurement

All financial liabilities are subsequently measured at amortised cost using the effective yield method or FVTPL. The company has not designated any financial liabilities at FVTPL and it has no current intention to do so. 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.

2.20 Derecognition of financial instruments

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of comprehensive income.

The Company derecognizes a financial liability (or a part of a financial liability) from its statement of balance sheet when, and only when, the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, is recognised in statement of comprehensive income.

2.21 Leases

Leases are recognized 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.

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 its 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 amortized 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 the 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 is reduced to zero.

- any initial direct costs, and
- restoration costs.

2 Summary of significant accounting policies (continued)

2.21 Leases (continued)

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; and
- any lease payments made at or before the commencement date less any lease incentives received.

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 represents, 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-measurements 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 recognized 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.

3 Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these financial statements, the significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended December 31, 2019. Significant area where management has used estimates, assumptions or exercised judgements is provision for impairment (note 2.18 and note 6).

(All amounts in Saudi Riyals unless otherwise stated)

4 Other general and administrative expenses

	2020	2019
Enquiry & Subscriptions	**4,274,921**	1,756,480
Professional fees	**3,487,005**	2,617,515
Sales & Collection Incentives	**2,734,512**	873,506
Information technology	**2,507,622**	910,224
Depreciation	**2,376,093**	1,585,212
Taxes	**2,225,535**	662,044
Other expenses	**2,214,583**	715,097
Rentals	**1,370,209**	1,474,850
Medical insurance	**984,138**	911,385
Committee allowances	**543,472**	540,000
End of service benefits and vacation	**446,307**	899,540
Office Stationery & Post Office	**429,181**	73,409
Utilities	**270,915**	165,914
Marketing expenses	**205,670**	340,479
Bank charges	**188,747**	61,558
Board of director's allowances	**-**	1,434,000
	24,258,910	15,021,213

5 Cash and cash equivalents

	As at December 31	
	2020	2019
Cash in hand	**12**	482
Current accounts with banks	**118,354,561**	41,828,468
	118,354,573	41,828,950

6 Murabaha receivables, net

	As at December 31	
	2020	2019
Murabaha receivables	**1,092,158,030**	412,030,624
Less: Unearned revenue	**(160,302,429)**	(64,900,325)
Less: Modification loss on restructuring of financing	**(30,007,699)**	-
Murabaha receivables, net	**901,847,902**	347,130,299
Less: Provision for doubtful debts	**(17,869,620)**	(7,847,649)
	883,978,282	339,282,650
Current portion of murabaha receivables	**435,981,604**	197,493,696
Non-current portion of murabaha receivables	**465,866,298**	149,636,603
	901,847,902	347,130,299
Less: Provision for murabaha losses	**(17,869,620)**	(7,847,649)
	883,978,282	339,282,650

(All amounts in Saudi Riyals unless otherwise stated)

6 Murabaha receivables, net (continued)

The movement in provision for doubtful debts was as follows:

	2020	2019
Opening balance	**7,847,649**	16,106,979
Charge / (reversal) for the year	**24,200,376**	(1,248,856)
Written off during the year	**(14,178,405)**	(7,010,474)
Closing balance at end of the year	**17,869,620**	7,847,649

6.1 Stage wise analysis of murabaha receivables is as follows:

	Performing	Under-performing	Non-performing	Total
December 31, 2020				
Receivables	**857,223,497**	**155,364,216**	**49,562,618**	**1,062,150,331**
Modification loss on restructuring of financing	**(30,007,699)**	**-**	**-**	**(30,007,699)**
Unearned revenue	**(88,115,799)**	**(33,926,500)**	**(8,252,431)**	**(130,294,730)**
Impairment provision	**(854,492)**	**(5,401,449)**	**(11,613,679)**	**(17,869,620)**
Net receivables	**738,245,507**	**116,036,267**	**29,696,508**	**883,978,282**
December 31, 2019				
Receivables	294,975,380	95,591,426	21,463,818	412,030,624
Unearned revenue	(46,257,873)	(15,206,296)	(3,436,156)	(64,900,325)
Impairment provision	(297,551)	(547,195)	(7,002,903)	(7,847,649)
Net receivables	248,419,956	79,837,935	11,024,759	339,282,650

6.2 The movement in provision for murabaha receivables is as follows:

	2020				2019
	Performing	Under-performing	Non-performing	Total	Total
January 1,	297,551	547,195	7,002,903	**7,847,649**	16,106,979
Reversal for the year	1,182,871	12,767,802	10,249,703	**24,200,376**	(1,248,856)
Written off during the year	-	(8,539,477)	(5,638,928)	**(14,178,405)**	(7,010,474)
December 31,2020	1,480,422	4,775,520	11,613,678	**17,869,620**	7,847,649

6.3 Murabaha receivables includes an amount of Saudi Riyals 25,863,666 (December 31, 2019: Saudi Riyals 528,140) relating to inventory purchased for customers.

(All amounts in Saudi Riyals unless otherwise stated)

7 Due from related parties

Due from related parties represents due amounts from the Company's shareholders obtaining finance in form of murabaha contracts. Terms of those contracts were approved by the Company's Board of Directors.

		As at December 31	
	Relationship	**2020**	**2019**
Ayman Amin Sajini	Shareholder	-	327,627
		-	327,627

	As at December 31	
	2020	**2019**
Due from related parties	-	405,000
Less: Unearned revenue	-	(77,373)
	-	327,627

8 Prepayments and other receivables

	As at December 31	
	2020	**2019**
Advance financial interest	**1,012,619**	2,456,373
Prepayments and other receivables	**12,957,368**	8,407,512
	13,969,987	10,863,885

9 Repossessed assets held for sale

The balance represents value of real estate received from Company's customers during the year to settle part of their outstanding balance, the legal procedure needed to transfer the ownership of real estate to the Company was completed during the year. Currently, the Company set the land for sale and expects to sell it during 2021.

Quara Finance Company (Formerly known as Maalem Financing Company)
(A Saudi Closed Joint Stock Company)
Notes to the financial statements
For the year ended December 31, 2020
(All amounts in Saudi Riyals unless otherwise stated)

10 Property and equipment, net

2020	Vehicles	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost					
January 1, 2020	**265,300**	**2,298,020**	**3,897,913**	**5,361,484**	**11,822,717**
Additions during the year	-	**459,175**	**2,404,390**	**539,376**	**3,402,941**
December 31, 2020	**265,300**	**2,757,195**	**6,302,303**	**5,900,860**	**15,225,658**
Accumulated depreciation					
January 1, 2020	**263,596**	**1,178,096**	**1,220,962**	**1,575,074**	**4,237,728**
Charge for the year	**1,700**	**368,527**	**1,106,049**	**899,816**	**2,376,092**
December 31, 2020	**265,296**	**1,546,623**	**2,327,011**	**2,474,890**	**6,613,820**
Net book value at December 31, 2020	**4**	**1,210,572**	**3,975,292**	**3,425,970**	**8,611,838**

2019	Vehicles	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost					
January 1, 2019	265,300	1,677,873	2,121,203	4,584,894	8,649,270
Additions during the year	-	620,147	1,776,710	776,590	3,173,447
December 31, 2019	265,300	2,298,020	3,897,913	5,361,484	11,822,717
Accumulated depreciation					
January 1, 2019	253,710	888,348	730,522	779,936	2,652,516
Charge for the year	9,886	289,748	490,440	795,138	1,585,212
December 31, 2019	263,596	1,178,096	1,220,962	1,575,074	4,237,728
Net book value at December 31, 2019	1,704	1,119,924	2,676,951	3,786,410	7,584,989

(All amounts in Saudi Riyals unless otherwise stated)

11 Sukuk

During the year 2018, the Company obtained SAMA approval to issue private Sukuk Certificates (Sukuk) with total amount of Saudi Riyals 500 million. The first phase of Sukuk issuance amounted to Saudi Riyals 100 million was issued in 2018. During the year the Company issued the second phase of Sukuk amounting to Saudi Riyals 100 million. Further during the nine-month period ended September 30, 2020, the Company redeemed Sukuk amounting to Saudi Riyal 80.5 million and paid additional interest of 3 months plus SAIBOR amounting to Saudi Riyal 2.1 million on redemption.

The total tenure of the both phases of Sukuk is three years with payments (principal and profits) payable quarterly in advance. The profit distribution on the first phase and second phase Sukuk is based on three month SIBOR plus a spread of 10% and 5.5% respectively. The Company has not defaulted on any of payments (profit/ principal) due during the year and the Company has complied with terms of the covenants pertaining to the Sukuk. Further, there are no conversion options to equity relating to the Sukuk.

	As at December 31	
	2020	**2019**
Current portion	**24,530,303**	33,333,333
Non-current portion	**20,454,546**	16,666,667
	44,984,849	50,000,000

12 Loan from a related party

	As at December 31	
	2020	**2019**
Opening balance	**79,327,397**	79,327,397
Loan Obtained	**-**	-
Financial Charges	**4,500,105**	4,500,000
Financial Charges Paid	**(4,500,000)**	(4,500,000)
	79,327,502	79,327,397

During 2016, the Company signed an agreement with a related party to obtain a new long term loan to finance the growth of its lending portfolio in order to provide a wide range of financing products to both individual and corporate clients in the Kingdom of Saudi Arabia, with products being tailored to meet a wider base of clients. The Company obtained the loan amounting Saudi Riyals 75 million, the loan is subject to 6% annual murabaha rate. This principal amount of the loan will be paid in one instalment after five years and the interest repayment is on annual basis @ 6%.

(All amounts in Saudi Riyals unless otherwise stated)

13 Long term loans

	Note	As at December 31 2020	2019
Long term loan – Monsha'at	13.1	**169,014,163**	100,293,499
Long term loan – SAMA	13.2	**441,458,946**	-
Long term bank loan	13.3	**7,803,304**	7,893,900
		618,276,413	108,187,399

13.1 Long term loan – Monsha'at

	Note	As at December 31 2020	2019
Opening balance		**94,989,483**	30,037,500
Add: Loans obtained during the period		**80,000,000**	90,000,000
Add: Loan management fee accrued during the period		**5,947,322**	1,735,028
Less: Principal repayment during the period		**(8,982,456)**	(20,202,423)
Less: Loan management fee paid during the period		**(1,379,323)**	(831,950)
Less: Deferred income on initial recognition of interest free loans		**(5,124,481)**	(5,748,672)
Less: Modification Gain on Restructuring of borrowings	22	**(6,339,211)**	-
Closing balance		**159,111,334**	94,989,483
Add: Deferred income on interest free loans	13.1.1	**9,902,829**	5,304,016
		169,014,163	100,293,499
Current portion		**49,879,931**	40,212,050
Non-current portion		**119,134,232**	60,081,449
		169,014,163	100,293,499

13.1.1 Deferred income on interest free loans

	As at December 31 2020	2019
Opening balance	**5,304,016**	-
Add: Deferred income on initial recognition of interest free loan	**5,124,481**	5,748,672
Less: Amortisation of deferred income on interest free loans	**(525,668)**	(444,656)
Closing balance	**9,902,829**	5,304,016

Since 2018, the Company has received six interest free loans from Monsha'at Loans from Social Development Bank to finance small and medium entities in the Kingdom of Saudi Arabia amounting Saudi Riyals 200 million for three years. These loans carries a fixed special commission rate that is significantly lower than currently prevailing market rate. These loans provided to the Company carries a number of conditions, one of which is that these loans are to be used for providing loans to specific types/sectors of customers at discounted rates. The benefit amounting to Saudi Riyals 9.9 million being the impact of "lower than market value" loan obtained by the Company has been identified and accounted for as a "government grant". Such benefit is being recognised in the statement of comprehensive income of the Company on a systematic basis as the expense for which such grant is intended to compensate, is recognised.

(All amounts in Saudi Riyals unless otherwise stated)

13 Long term loans (continued)

13.2 Long term loan – SAMA

	Note	As at December 31 2020	2019
Long Term Loan – SAMA Funding for Lending	13.2.1	357,333,333	-
Deposit received from SAMA against repayments deferment	13.2.2	84,125,613	-
		441,458,946	-

13.2.1 Loan from SAMA - Funding for Lending	As at December 31 2020	2019
Opening balance	-	-
Add: Loans obtained during the period	360,000,000	-
Less: Principal repayment during the period	(2,666,667)	-
Closing balance	357,333,333	-
		-
Current portion	111,333,333	-
Non-current portion	246,000,000	-
	357,333,333	-

During the year 2020 the Company has entered into SAMA's funding for lending program, whereby Kafala (SME financing guarantee program) has guaranteed 95% of the financing amount to the SME customers. As at December 31, 2020 the Company has received SR 360 million of profit free deposit from SAMA against this program. The financing tenure is thirty six months including six-month repayments grace period. As on December 31, 2020 all the murabaha receivable under funding for lending program are under stage 1 due to repayment grace period in effect.

13.2.2 Deposit received from SAMA against repayments deferment

	Note	As at December 31 2020	2019
Opening balance		-	-
Add: Loans obtained during the period		92,437,770	-
Add: Unwinding of modification grant income		2,260,116	-
Less: Principal repayment during the period		(2,438,396)	-
Less: Loan management fee paid during the period		(433,021)	-
Less: Grant income recognized on subsidized funding	22	(7,700,856)	-
Closing balance as per Balance Sheet		84,125,613	-
Current portion		37,099,418	-
Non-current portion		47,026,167	-
		84,125,613	-

(All amounts in Saudi Riyals unless otherwise stated)

13 Long term loans (continued)

13.3 Long term bank loan

	As at December 31	
	2020	**2019**
Opening balance	**7,893,900**	-
Add: Loans obtained during the period	-	7,893,900
Add: Loan management fee accrued during the period	**335,380**	114,335
Less: Principal repayment during the period	**(350,840)**	-
Less: Loan management fee paid during the period	**(75,137)**	(114,335)
	7,803,303	7,893,900
Current portion	**1,839,023**	2,105,040
Non-current portion	**5,964,280**	5,788,860
	7,803,303	7,893,900

14 Accrued and other liabilities

		As at December 31	
	Note	**2020**	**2019**
Murabaha contract related payables	14.1	**25,863,666**	528,140
Accrued expenses and others		**11,479,469**	14,779,913
		37,343,135	15,308,053

14.1 These pertain to amounts payable to a third party for inventory purchased for customers in relation to murabaha contracts. Such amount will be settled by the Company during 2021.

(All amounts in Saudi Riyals unless otherwise stated)

15 Provision for zakat

15.1 The movement in the zakat provision is as follows:

	2020	2019
January 1	**2,364,742**	4,530,918
Charge during the year	**1,510,243**	1,232,012
Provision reversal during the year (note 15.2)	**(1,833,486)**	(3,398,188)
	(323,243)	(2,166,176)
Payments made during the year	**(531,256)**	-
December 31	**1,510,243**	2,364,742

15.2 Status of assessments

The company has filed all zakat up to 2019 and settled all zakat liabilities and received related zakat certificates. During 2019 in relation to year 2009 to 2015, the Company reversed provisions amounting to Saudi Riyal 3,398,188 based on the recommendation of zakat consultant. Further, during the year, the Company based on the recommendation of Zakat consultants reversed SR 1,833,486 pertaining to prior years.

16 Employee termination benefits

	2020	2019
Opening balance	**642,200**	559,600
Current service cost	**271,143**	549,857
End of service payments during the year	**(134,743)**	(467,257)
Ending balance	**778,600**	642,200

The provision of this defined benefit plan is based on projected unit credit method. The key assumptions used in current and prior year include 2.5% salaries increment and 2.7% discount rate. The change in assumptions will not have significant effect on the provision as at December 31, 2020.

(All amounts in Saudi Riyals unless otherwise stated)

17 Share capital

Share capital consists of 30 million shares as of September 30, 2020 (December 31, 2019: 15 million shares). Each share has a book value of Saudi Riyals 10 as of September 30, 2020 (December 31, 2019: Saudi Riyals 10).

During the year ended December 31, 2020, the shareholders as at December 31, 2019 sold their shareholding to the following new shareholders. For details please refer below:

Shareholders	Holding	No. of shares	Amount
2020			
Al Mawared Al Oula Company for Real Estate	**33.33%**	**10,000,000**	**100,000,000**
Awayed Financial Company	**33.33%**	**10,000,000**	**100,000,000**
Nawaqis Company for Commerce	**33.33%**	**10,000,000**	**100,000,000**
	100.00%	**30,000,000**	**300,000,000**
2019			
Saleh Abdullah Alsayari	34%	5,107,999	51,079,990
Majed Romi Al Romi	21%	3,212,776	32,127,760
Abdulaziz Abdulrahman Alromi	18%	2,668,507	26,685,070
Other	27%	4,010,718	40,107,180
	100%	15,000,000	150,000,000

During the year ended December 31, 2020, the Company received SAMA non-objection through letter number 42005698 dated 29/01/1442H corresponding to September 17, 2020 on the Company's intention to increase capital from Saudi Riyal 150,000,000 to Saudi Riyal 300,000,000 through cash injection. The Company received the approval from shareholders of the Company in an Extraordinary General Assembly meeting dated 10/2/1442H corresponding to September 27, 2020 and consequently the Company increased its share capital with a total value of Saudi Riyals 150 million by issuing 15 million new shares to all new shareholders.

18 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 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for distribution. During 2019, no transfer has been made due to accumulated losses.

19 Commitments

Capital commitments
There are no significant capital commitments at financial position date.

20 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 the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

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 of the Company are categorised as held at amortized cost which approximate their fair values.

21 Financial risk management

Risk management framework

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

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 reports to the Board of Directors.

(i) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to murabaha receivables customers, including outstanding receivables and due from related parties.

Cash and cash equivalents are maintained with local banks approved by management. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents are maintained are required to have a minimum acceptable security rating level affirming their financial strength. Where murabaha receivable customers are independently rated, such ratings are used. Where there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The compliance with credit limits by murabaha receivables customers is regularly monitored by line management.

Murabaha receivables customers are required to settle in cash or through credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. For certain murabaha receivables the Company may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

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. Maturity profile of financial assets and liabilities are as follows:

(All amounts in Saudi Riyals unless otherwise stated)

21 Financial risk management (continued)

ii) Liquidity risk (continued)

2020	**Less than 3 months**	**3 to12 months**	**1 to 10 years**	**Total 2020**
Financial assets - commission bearing				
Murabaha receivables, net	**70,770,278**	**365,211,326**	**447,996,678**	**883,978,282**
Due from related parties	-	-	-	-
				-
Financial assets - non commission bearing				
Cash and cash equivalents	**118,354,573**	-	-	**118,354,573**
	189,124,851	**365,211,326**	**447,996,678**	**1,002,332,855**
Financial liabilities - commission bearing				
Sukuk	**4,090,909**	**20,439,394**	**20,454,546**	**44,984,849**
Loan from a related party	**4,327,502**	-	**75,000,000**	**79,327,502**
Long term loan	**16,079,163**	**185,940,037**	**416,257,213**	**697,603,915**
Financial liabilities - non commission bearing				
Accrued and other liabilities	**33,898,335**	**688,960**	**2,755,838**	**37,343,133**
	58,395,909	**207,068,391**	**514,467,597**	**779,931,897**
Liquidity gap	**130,728,942**	**158,142,935**	**(66,470,919)**	**222,400,958**

2019	**Less than 3 months**	**3 to12 months**	**1 to 10 years**	**Total 2019**
Financial assets - commission bearing				
Murabaha receivables, net	59,113,521	138,380,175	141,788,954	339,282,650
Due from related parties	9,914	72,933	244,780	327,627
Financial assets - non commission bearing				
Cash and cash equivalents	41,828,950	-	-	41,828,950
	100,952,385	138,453,108	142,033,734	381,439,227
Financial liabilities - commission bearing				
Sukuk	8,333,333	25,000,000	16,666,667	50,000,000
Loan from a related party	4,327,397	-	75,000,000	79,327,397
Long term loan	10,902,255	31,414,835	65,870,309	108,187,399
Financial liabilities - non commission bearing				
Accrued and other liabilities	12,703,690	1,583,528	1,020,835	15,308,053
	36,266,675	57,998,363	158,557,811	252,822,849
Liquidity gap	64,685,710	80,454,745	(16,524,077)	128,616,378

21 Financial risk management (continued)

iii) Commission rate risk

Commission rate risk is the impact on future earnings of the Company resulting from increase in the market interest rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to interest rate adjustment within a specified period. The most important source of such risk is the Company's murabaha receivables and borrowings. The commission rate is fixed for the murabaha receivables and for the loan borrowings. The Company manages such risk by ensuring that there is no significant mismatch between commission bearing assets and liabilities and therefore such risk is not considered to have a significant impact on the financial statements.

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 which is also the functional currency of the Company.

22 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

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

The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

The Company has also revised certain inputs and assumptions used for the determination of expected credit losses ("ECL"). The revisions mainly revolved around:

- adjusting macroeconomic factors/inputs used by the Company in its ECL model including observed default rates;
- revisions to the scenario probabilities; and
- refinement of staging criteria in light of the SAMA support measures and to effectively identify exposures where lifetime ECL losses may have been triggered despite repayment holidays.

The Company's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

22 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS (continued)

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program (Note 13.2.1);

As part of the deferred payments program launched by SAMA, the Company was required to defer payments for six months on lending facilities to eligible MSMEs. Similarly, the Company was also required to defer payments for twelve months on lending facilities funded through Monsha'at loans to those borrowers that qualify as MSME and classified in Bucket 1 to 3 respectively. As a compensation, the Company has received deferment of repayments on its Monsha'at loans from the Social Development Bank for a period of 12 months starting from April 1, 2020. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company effected the payment reliefs by extending the tenure of the applicable loans granted with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This has resulted in the Company recognizing a day 1 modification loss of SR 26.5 million with respect to changes in terms of credit facilities and a gain of SR 6.3 million with respect to restructuring of Monsh'at loans. This has been presented in the statement of comprehensive income. The Company continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk.

Further to the above, on 1 September 2020 and on 8 December 2020, SAMA extended the deferred payments program by allowing additional six months payment deferrals for eligible MSMEs until 31 March 2021. The Company has affected the payment reliefs by extending the tenure of the applicable loans granted with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of the arrangement. This resulted in the Company recognizing an additional modification loss of SR 10.7 million during the year.

Since the inception of the deferred payments program by SAMA and by the end of year 2020, the Company has recognised SR 37.2 million of related modification losses of which SR 7.7 million have been unwound.

In order to offset the modification loss that the Company is will incur in deferring the payments, the Company received SR 154.1 million of profit free deposit during April 2020 from SAMA repayable in 36 equal instalments starting from November 3, 2020. During September 2020, the Company refunded to SAMA SR 102.1 million which was received in excess of the instalments deferred for MSMEs as eligible under the deferred payments program. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements which resulted in a day 1 gain of SR 5.7 million recognized during the year ended December 31, 2020. The Company also received SR 21.15 million and SR 19.6 million of profit free deposits from SAMA in support of the first and second extension of deferred payment program. The modification gain for supports against extension of deferred program amounts to SR 2 million which has been accounted for in the financial statements for the year ended December 31, 2020. During the year ended 31 December 2020, SR 1.59 million has been recorded in the statement of income relating to unwinding of grant income.

(All amounts in Saudi Riyals unless otherwise stated)

22 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS (continued)

The net impact on the statement of comprehensive income of the grant income, restructuring impact of financings and borrowings is as follows:

	For the year ended December 31,	
	2020	**2019**
Modification (loss) on financing	**(37,269,284)**	-
Modification gain on restructuring of Monsh'at loans	**6,339,211**	-
Grant income	**7,700,828**	-
	(23,229,245)	-

23 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 murabaha 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 debt covenants and as at the statement of financial position date the Company was is in compliance with the prescribe requirements. At financial position date, the management analysis of gearing ratio was as follows:

	2020	**2019**
Debt	**742,588,764**	237,514,796
Shareholders' equity	**245,239,738**	146,604,110
Debt to Equity Ratio	**303%**	162%