

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

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2021 AND
INDEPENDENT AUDITOR'S REVIEW REPORT

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Condensed interim financial statements (unaudited)
For the three-month period ended March 31, 2021

	Page
Independent auditor's review report	2
Interim statement of financial position	3
Interim statement of comprehensive loss	4
Interim statement of changes in shareholders' equity	5
Interim statement of cash flows	6
Notes to the condensed interim financial statements	7 - 17



Report on review of condensed interim financial statements

To the Shareholders of Quara Finance Company:
(A Saudi Closed Joint Stock Company)

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Quara Finance Company (A Saudi Closed Joint Stock Company) (the "Company") as at March 31, 2021 and the related condensed interim statements of comprehensive loss, changes in shareholders' equity and cash flows for the three months period then ended and other explanatory notes (the "condensed interim financial statements"). Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'Khalid A. Mahdhar', is written over a blue horizontal line.

Khalid A. Mahdhar
License Number 368

April 28, 2021

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Interim statement of financial position (Unaudited)
(All amounts in Saudi Riyals unless otherwise stated)

		March 31, 2021	December 31,
	Note	(Unaudited)	2020
			(Audited)
Assets			
Cash and cash equivalents		20,396,209	118,354,573
Murabaha receivable, net	5	1,042,874,390	883,978,282
Prepayments and other receivables		14,021,918	13,969,987
Repossessed assets held for sale	6	2,545,800	2,545,800
Property and equipment		<u>9,777,333</u>	<u>8,611,838</u>
Total assets		<u>1,089,615,650</u>	<u>1,027,460,480</u>
Liabilities and shareholders' equity			
Liabilities			
Sukuk	7	36,810,607	44,984,849
Loan from a related party	8	75,930,974	79,327,502
Long term loan	9	677,288,535	618,276,413
Accrued and other liabilities		55,054,507	37,343,135
Provision for zakat	10	1,924,005	1,510,243
Employees' termination benefits	11	877,370	778,600
Total liabilities		<u>847,885,998</u>	<u>782,220,742</u>
Shareholders' equity			
Share capital		300,000,000	300,000,000
Statutory reserve		2,080,046	2,080,046
Accumulated losses		<u>(60,350,394)</u>	<u>(56,840,308)</u>
Net shareholders' equity		<u>241,729,652</u>	<u>245,239,738</u>
Total liabilities and shareholders' equity		<u>1,089,615,650</u>	<u>1,027,460,480</u>

The notes on pages 8 to 17 form an integral part of these interim condensed financial statements.

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Interim statement of comprehensive loss (Unaudited)
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the three-month period ended March 31,	
		2021 (Unaudited)	2020 (Unaudited)
Murabaha income		36,990,693	13,894,200
Management fee income		991,638	940,880
Modification gain on restructuring of financings and borrowings net of grant income	13	(5,102,786)	5,720,926
Financial charges		(5,603,006)	(5,228,764)
		<u>27,276,539</u>	<u>15,327,242</u>
Operating expenses			
Other general and administrative		(10,317,201)	(3,636,995)
Provision for Murabaha losses	5	(9,945,840)	(6,150,967)
Salaries and other benefits		(10,579,577)	(5,183,401)
(Loss) / income from operations		(3,566,079)	355,879
Other income		469,755	-
Net (loss) / income for the period before zakat		<u>(3,096,324)</u>	<u>355,879</u>
Zakat charge for the period		(413,762)	(207,249)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive (loss) / income for the period		<u>(3,510,086)</u>	<u>148,630</u>
Loss / (earnings) per share (Saudi Riyal)		<u>(0.12)</u>	<u>0.01</u>
Weighted average number of shares		<u>30,000,000</u>	<u>15,000,000</u>

The notes on pages 8 to 17 form an integral part of these interim condensed financial statements.

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Interim statement of changes in shareholders' equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Accumulated losses	Total
January 1, 2020 (Audited)		150,000,000	2,080,046	(5,475,936)	146,604,110
Comprehensive income / (loss):					
Net income for the period		-	-	148,630	148,630
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		-	-	148,630	148,630
March 31, 2020 (Unaudited)		<u>150,000,000</u>	<u>2,080,046</u>	<u>(5,327,306)</u>	<u>146,752,740</u>
January 1, 2021 (Audited)		300,000,000	2,080,046	(56,840,308)	245,239,738
Comprehensive income / (loss):					
Net loss for the period		-	-	(3,510,086)	(3,510,086)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the period		-	-	(3,510,086)	(3,510,086)
March 31, 2021 (Unaudited)		<u>300,000,000</u>	<u>2,080,046</u>	<u>(60,350,394)</u>	<u>241,729,652</u>

The notes on pages 8 to 17 form an integral part of these interim condensed financial statements.

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Interim statement of cash flows (unaudited)
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the three-month period ended March 31,	
		2021 (Unaudited)	2020 (Unaudited)
Cash flows from operating activities			
Net (loss) / income before zakat charge for the period		(3,510,086)	355,879
<u>Adjustments for non-cash items</u>			
Depreciation		627,367	488,080
Financial charges		5,603,006	5,228,764
Modification gain on restructuring of financings and borrowings net of grant income		5,102,786	(5,720,926)
Provision for Murabaha losses	5	9,945,840	6,150,967
Provision for employees' termination benefits	11	442,367	56,087
<u>Changes in working capital</u>			
Murabaha receivable		(173,156,474)	(15,274,820)
Due from related parties		-	327,627
Prepayments and other receivables		(51,931)	(15,305,621)
Accrued and other liabilities		18,125,136	(9,794,006)
Employee termination benefits paid	11	(343,600)	(14,087)
Zakat paid		-	-
Net cash utilized in from operating activities		(137,215,589)	(33,502,056)
Cash flow from investing activity			
Purchase of property and equipment		(1,792,861)	(539,448)
Net cash utilized in investing activity		(1,792,861)	(539,448)
Cash flows from financing activities			
Long term loan proceeds		75,000,000	20,000,000
Long term loan payments		(18,960,760)	(10,397,301)
Sukuk proceeds		-	100,000,000
Sukuk repayment		(8,174,243)	(8,333,333)
Financial charges paid		(6,814,911)	(8,256,076)
Net cash generated from financing activities		41,050,086	93,013,290
Net change in cash and cash equivalents		(97,958,364)	58,971,786
Cash and cash equivalents at beginning of period		118,354,573	41,828,950
Cash and cash equivalents at end of period		20,396,209	100,800,736

The notes on pages 8 to 17 form an integral part of these interim condensed financial statements.

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the interim condensed financial statements (unaudited)
For the three-month period ended March 31, 2021
(All amounts in Saudi Riyals unless otherwise stated)

1 General information

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

As per the Saudi Arabian Monetary Authority ("SAMA") license number 45/HA/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.

The Company's registered office is located in Riyadh at the following address:

Quara Finance Company
P.O. Box 271188, Riyadh 11352
Kingdom of Saudi Arabia

The accompanying interim condensed financial statements were authorized for issue by the management on April 27, 2021.

These interim condensed financial statements have been reviewed, not audited.

2 Summary of significant accounting policies

2.1 Basis of preparation

The condensed interim financial statements of the Company as at and for the period ended March 31, 2021 have been prepared in accordance with International Accounting Standard "Interim Financial Reporting"- ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Chartered and Professional Accountants ("SOCPA").

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

These condensed interim financial statements do not include all the information and disclosure required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2020. The interim results may not be an indicator of the annual results of the Company.

The accounting and risk management policies adopted in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2020.

3 Adoption of new standards and amendments to existing accounting standards

New accounting standards and amendments to existing accounting standards effective from January 1, 2020 and onwards do not have any significant effect on the Company's interim condensed financial statements.

4 Significant accounting judgments, estimates and assumptions

The preparation of interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed interim financial statements, the significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the statutory financial statements as at and for the year ended December 31, 2020.

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the interim condensed financial statements (unaudited)
For the three-month period ended March 31, 2021
(All amounts in Saudi Riyals unless otherwise stated)

5 Murabaha receivable, net

	Note	March 31, 2021 (Unaudited)	December 31, 2020 (Audited)
Murabaha receivable		1,257,058,014	1,062,150,331
Less: Unearned revenue		(156,231,057)	(130,294,756)
Less: Modification loss on restructuring of financings	13	(30,305,479)	(30,007,673)
Murabaha receivable, net		<u>1,070,521,478</u>	<u>901,847,902</u>
Less: Provision for Murabaha losses		(27,647,088)	(17,869,620)
		<u>1,042,874,390</u>	<u>883,978,282</u>
Current portion of Murabaha receivable		603,759,457	435,981,604
Non-current portion of Murabaha receivable		466,762,021	465,866,298
		<u>1,070,521,478</u>	<u>901,847,902</u>
Less: Provision for Murabaha losses		(27,647,088)	(17,869,620)
		<u>1,042,874,390</u>	<u>883,978,282</u>

The movement in Provision for Murabaha losses was as follows:

	March 31, 2021 (Unaudited)	December 31, 2020 (Audited)
Opening balance at beginning of the period / year	17,869,620	7,847,649
Changes on initial application of IFRS 9	-	-
Charge for the period / year	9,945,840	24,200,376
Written off during the period / year	(168,372)	(14,178,405)
Closing balance at end of the period / year	<u>27,647,088</u>	<u>17,869,620</u>

The net carrying amount of loan receivables, and thus the maximum exposure to loss, is as follows:

	March 31, 2021 (Unaudited)	December 31, 2020 (Audited)
Performing	739,988,961	739,099,999
Underperforming	283,562,878	121,437,716
Non-performing	46,969,639	41,310,187
Total net loan receivables	<u>1,070,521,478</u>	<u>901,847,902</u>
Less: Provision for Murabaha losses	(27,647,088)	(17,869,620)
Loan receivables net of expected credit losses	<u>1,042,874,390</u>	<u>883,978,282</u>

The provision of Murabaha for customers as at December 31, 2020 reconciles to the opening loss allowance for that provision as follows:

	Performing	Under- performing	Non- performing	Total
Opening loss allowance as at January 1, 2021	854,492	5,401,449	11,613,679	17,869,620
Charge / (reversal) for the period	(389,606)	3,503,177	6,832,269	9,945,840
Written off during the year	-	-	(168,372)	(168,372)
Closing loss allowance as at March 31, 2021	<u>464,886</u>	<u>8,904,626</u>	<u>18,277,576</u>	<u>27,647,088</u>

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the interim condensed financial statements (unaudited)
For the three-month period ended March 31, 2021
(All amounts in Saudi Riyals unless otherwise stated)

6 Repossessed assets held for sale

This represents real estate received from a Company's customer during 2019 to settle part of his outstanding balance. The legal procedures needed to transfer the ownership of real estate to the Company has been completed during 2020. The Company expects to liquidate the repossessed real estate in 2021.

7 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. In March 2020, the Company issued the second phase of Sukuk amounting to Saudi Riyals 100 million. Further during the year 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.

	March 31, 2021	December 31,
	(Unaudited)	2020
		(Audited)
Current portion	20,446,969	24,530,303
Non-current portion	16,363,638	20,454,546
	36,810,607	44,984,849

8 Loan from a related party

	March 31, 2021	December 31,
	(Unaudited)	2020
		(Audited)
Opening balance	79,327,502	79,327,397
Loan obtained	-	-
Financial charges	1,109,589	4,500,105
Financial charges paid	(4,506,117)	(4,500,000)
	75,930,974	79,327,502

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. During 2019, the Company obtained the loan amounting Saudi Riyals 75 million, the loan is subject to 6% annual murabaha rate. The Company paid an amount of Saudi Riyals 2.3 million as a loan security deposit classified under prepayments and other receivables in the interim statement of financial position and the loan is secured by pledging the Company's shares to the financier. This loan will be paid in one instalment after five years.

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the interim condensed financial statements (unaudited)
For the three-month period ended March 31, 2021
(All amounts in Saudi Riyals unless otherwise stated)

9 Long term loans

		<u>December 31,</u>
	Note	March 31, 2021
Long term loan – Monsha'at	9.1	167,519,467
Long term loan – SAMA	9.2	501,907,412
Long term bank loan	9.3	7,861,651
		<u>677,288,535</u>
		<u>618,276,413</u>

9.1 Long term loan – Monsha'at

		<u>As at December 31</u>	
	Note	March 31, 2021	December 31, 2020
Opening balance		159,111,334	94,989,483
Add: Loans obtained during the period		-	80,000,000
Add: Loan management fee accrued during the period		2,062,363	5,947,322
Less: Principal repayment during the period		(2,912,941)	(8,982,456)
Less: Loan management fee paid during the period		(420,393)	(1,379,323)
Less: Deferred income on initial recognition of interest free loans		-	(5,124,481)
Less: Modification Gain on Restructuring of borrowings		-	(6,339,211)
Closing balance		<u>157,840,363</u>	<u>159,111,334</u>
Add: Deferred income on interest free loans	9.1.1	9,679,104	9,902,829
		<u>167,519,467</u>	<u>169,014,163</u>
Current portion		64,909,230	49,879,931
Non-current portion		<u>102,610,237</u>	<u>119,134,232</u>
		<u>167,519,467</u>	<u>169,014,163</u>

9.1.1 Deferred income on interest free loans

		<u>As at December 31</u>	
		March 31, 2021	December 31, 2020
Opening balance		9,902,829	5,304,016
Add: Deferred income on initial recognition of interest free loan		-	5,124,481
Less: Amortization of deferred income on interest free loans		(223,725)	(525,668)
Closing balance		<u>9,679,104</u>	<u>9,902,829</u>

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.

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the interim condensed financial statements (unaudited)
For the three-month period ended March 31, 2021
(All amounts in Saudi Riyals unless otherwise stated)

9 Long term loans (continued)

9.2 Long term loan – SAMA

	Note	March 31, 2021	December 31, 2020
Long Term Loan – SAMA Funding for Lending	9.2.1	423,833,333	357,333,333
Deposit received from SAMA against repayments deferment	9.2.2	78,074,079	84,125,613
		<u>501,907,412</u>	<u>441,458,946</u>

	March 31, 2021	December 31, 2020
9.2.1 Loan from SAMA - Funding for Lending		
Opening balance	357,333,333	-
Add: Loans obtained during the period	75,000,000	360,000,000
Less: Principal repayment during the period	<u>(8,500,000)</u>	<u>(2,666,667)</u>
Closing balance	<u>423,833,333</u>	<u>357,333,333</u>
Current portion	160,333,333	111,333,333
Non-current portion	<u>263,500,000</u>	<u>246,000,000</u>
	<u>423,833,333</u>	<u>357,333,333</u>

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. During the period ended March 31, 2021 the Company received additional financing amounting to SR 75 million. The financing tenure is thirty six months including six-month repayments grace period. As on March 31, 2021 all the murabaha receivable under funding for lending program are under stage 1 due to repayment grace period in effect.

9.2.2 Deposit received from SAMA against repayments deferment

	Note	March 31, 2021	December 31, 2020
Opening balance		84,125,613	-
Add: Loans obtained during the period		-	92,437,770
Add: Unwinding of modification grant income		1,075,892	2,260,116
Less: Principal repayment during the period		<u>(6,360,347)</u>	<u>(2,438,396)</u>
Less: Loan management fee paid during the period		<u>(767,079)</u>	<u>(433,021)</u>
Less: Grant income recognized on subsidized funding	13	-	<u>(7,700,856)</u>
Closing balance as per Balance Sheet		<u>78,074,079</u>	<u>84,125,613</u>
Current portion		42,852,128	37,099,418
Non-current portion		<u>35,221,951</u>	<u>47,026,167</u>
		<u>78,074,079</u>	<u>84,125,613</u>

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the interim condensed financial statements (unaudited)
For the three-month period ended March 31, 2021
(All amounts in Saudi Riyals unless otherwise stated)

9 Long term loans (continued)

9.3 Long term bank loan

	March 31, 2021	December 31, 2020
Opening balance	7,803,303	7,893,900
Add: Loans obtained during the period	-	-
Add: Loan management fee accrued during the period	58,348	335,380
Less: Principal repayment during the period	-	(350,840)
Less: Loan management fee paid during the period	-	(75,137)
	7,861,651	7,803,303
Current portion	2,598,403	1,839,023
Non-current portion	5,263,248	5,964,280
	7,861,651	7,803,303

10 Provision for zakat

10.1 The movement in the zakat provision is as follows:

	March 31, 2021 (Unaudited)	December 31, 2020 (Audited)
January 1	1,510,243	2,364,742
Charge during the period/ year	413,762	1,510,243
Provision reversal during the period / year	-	(1,833,486)
	413,762	(323,243)
Payments made during the period / year	-	(531,256)
March 31	1,924,005	1,510,243

10.2 Status of assessments

The company has filed all zakat up to 2019 and settled all zakat liabilities and received related zakat certificates. During 2020, the Company based on the recommendation of Zakat consultants reversed provisions amounting to SR 1,833,486 pertaining to prior years.

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the interim condensed financial statements (unaudited)
For the three-month period ended March 31, 2021
(All amounts in Saudi Riyals unless otherwise stated)

11 Employees' termination benefits

Provision for employees' termination benefits is made in accordance with the Saudi Arabian labour law assuming the maximum payable based on current remuneration and cumulative years of service at the end of the reporting period.

The following tables summaries the components of net benefits expenses recognised in the statement of comprehensive loss:

	March 31, 2021	December 31,
	(Unaudited)	2020
		(Audited)
Opening balance at beginning of period / year	778,600	642,200
Statement of comprehensive loss		
Service cost attributable to the current and past periods	442,370	271,143
End of service paid during the period / year	<u>(343,600)</u>	<u>(134,743)</u>
Ending balance at end of period / year	<u>877,370</u>	<u>778,600</u>

12 Share capital

Share capital consists of 30 million shares as of March 31, 2021 (December 31, 2020: 30 million shares). Each share has a book value of Saudi Riyals 10 as of March 31, 2021 (December 31, 2020: Saudi Riyals 10).

13 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.

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the interim condensed financial statements (unaudited)
For the three-month period ended March 31, 2021
(All amounts in Saudi Riyals unless otherwise stated)

13 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 9.2.1);

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. 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. During the quarter ended 31 March 2021, SAMA further extended the deferred payments program by allowing additional three months payment deferrals for eligible MSMEs until 30 June 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. The Company has booked a modification loss of SR 5.1 million for the additional three months payment deferral allowed until 30 June 2021.

Since the inception of the deferred payments program by SAMA, the Company has recognised SR 42.3 million of related modification losses of which SR 12.06 million have been unwound.

In order to offset the modification loss that the Company 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 which resulted in additional day 1 gain of SR 2 million. Since the inception of the deferred payments program by SAMA, the Company has recognised SR 7.7 million of related grant income.

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the interim condensed financial statements (unaudited)
For the three-month period ended March 31, 2021
(All amounts in Saudi Riyals unless otherwise stated)

13 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 period ended March 31,	
	2021	2020
Modification loss on financing	(5,102,786)	-
Modification gain on restructuring of Monsh'at loans	-	-
Grant income	-	5,720,926
	(5,102,786)	5,720,926

14 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:

	March 31, 2021	December 31,
	(Unaudited)	2020
		(Audited)
Debt	790,030,116	742,588,764
Shareholders' equity	241,729,652	245,239,738
Debt to Equity Ratio	327%	303%