

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

UNAUDITED INTERIM CONDENSED FINANCIAL
STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30,
2021 AND INDEPENDENT AUDITOR'S REVIEW REPORT

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Condensed interim financial statements (unaudited)
For the nine-month period ended September 30, 2021

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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 30 September 2021 and the related condensed interim statement of comprehensive income for the three-month and nine-month periods then ended, and the interim statements of changes in shareholders' equity and cash flows for the nine-month 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

Khalid A. Mahdhar
License Number 368

25 October 2021

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

		September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	Note		
Assets			
Cash and cash equivalents		95,547,491	118,354,573
Murabaha receivable, net	5	996,417,876	878,124,090
Due from related party	6	5,440,719	5,854,192
Prepayments and other receivables		19,150,046	13,969,987
Reposessed assets held for sale	7	2,545,800	2,545,800
Property and equipment		10,476,389	8,611,838
Total assets		1,129,578,321	1,027,460,480
Liabilities and shareholders' equity			
Liabilities			
Sukuk	8	24,545,455	44,984,849
Loan from a related party	9	178,091,551	79,327,502
Long term loan	10	629,458,751	618,276,413
Accrued and other liabilities		46,200,597	37,343,135
Provision for zakat	11	1,366,799	1,510,243
Employees' termination benefits	12	1,036,870	778,600
Total liabilities		880,700,023	782,220,742
Shareholders' equity			
Share capital		300,000,000	300,000,000
Statutory reserve		2,080,046	2,080,046
Accumulated losses		(53,201,748)	(56,840,308)
Net shareholders' equity		248,878,298	245,239,738
Total liabilities and shareholders' equity		1,129,578,321	1,027,460,480

The notes on pages 7 to 16 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 September 30,		For the nine-month period ended September 30,	
		2021	2020	2021	2020
Revenue		43,806,390	18,498,446	126,118,636	45,108,758
Management fee, income		644,528	619,223	2,439,288	2,524,835
Modification gain / (loss) on restructuring of financings and borrowings net of grant income		505,392	(14,609,701)	(3,141,653)	(18,722,024)
Financial charges		(3,718,213)	(3,709,302)	(14,628,937)	(21,030,379)
		41,238,097	798,666	110,787,334	7,881,190
Operating expenses					
Other general and administrative		(10,806,003)	(5,372,818)	(32,551,891)	(15,426,336)
Provision for doubtful debts	5 & 6	(21,538,803)	(1,764,658)	(47,091,760)	(17,020,058)
Salaries and other benefits		(9,229,617)	(7,944,686)	(29,923,422)	(17,426,665)
(Loss) / profit from operations		(336,326)	(14,283,496)	1,220,261	(41,991,869)
Other income		2,303,072	725,775	3,055,574	952,570
Net income / (loss) for the period before zakat		1,966,746	(13,557,721)	4,275,835	(41,039,299)
Zakat reversal / (charge) for the period		430,862	139,226	(637,275)	(127,663)
Net profit / (loss) for the period after zakat		2,397,608	(13,418,495)	3,638,560	(41,166,962)
Other comprehensive income		-	-	-	-
Total comprehensive profit / (loss) for the period		2,397,608	(13,418,495)	3,638,560	(41,166,962)
Basic earnings / (loss) per share (Saudi Riyals)		0.08	(0.86)	0.12	(2.70)
Weighted average number of shares		30,000,000	15,652,174	30,000,000	15,218,978

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

	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):				
Increase in share capital	150,000,000	-	-	150,000,000
Net loss for the period after zakat	-	-	(41,166,962)	(41,166,962)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(41,166,962)	(41,166,962)
September 30, 2020 (Unaudited)	300,000,000	2,080,046	(46,642,898)	255,437,150
January 1, 2021 (Audited)	300,000,000	2,080,046	(56,840,308)	245,239,738
Comprehensive income / (loss):				
Net income for the period after zakat	-	-	3,638,560	3,638,560
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	3,638,560	3,638,560
September 30, 2021 (Unaudited)	300,000,000	2,080,046	(53,201,748)	248,878,298

The notes on pages 7 to 16 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 nine-month period ended September 30,	
		2021 (Unaudited)	2020 (Unaudited)
Cash flow from operating activities			
Net profit / (loss) for the period before zakat		4,275,835	(41,039,299)
<u>Adjustments for non-cash items</u>			
Depreciation		2,315,442	1,747,974
Financial interest charges		14,628,937	21,030,379
Modification loss on restructuring of financings and borrowings net of grant income		3,141,653	18,722,024
Provision for doubtful debts	5 & 6	47,091,760	17,020,058
Provision for employee termination benefits	12	1,274,486	195,525
<u>Changes in working capital</u>			
Murabaha receivable		(157,143,279)	(273,417,586)
Prepayments and other assets		(5,180,059)	(2,701,807)
Due from related parties		559,121	327,627
Accrued and other liabilities		8,857,462	48,433,346
Zakat paid	11	(780,719)	(531,256)
Employee termination benefits paid	12	(1,016,216)	(230,825)
Net cash utilized in operating activities		(81,975,577)	(210,443,840)
Cash flow from investing activity			
Purchase of property and equipment		(4,179,993)	(2,607,427)
Net cash utilized in investing activity		(4,179,993)	(2,607,427)
Cash flow from financing activities			
Increase in share capital		-	150,000,000
Loan proceeds from related party		100,000,000	
Long term loan proceeds		-	50,000,000
Long term loan payments		(142,503,933)	(10,232,859)
Sukuk proceeds		-	100,000,000
Sukuk repayment		(24,522,727)	(21,663,582)
Sukuk redemption		-	(80,500,000)
Loan proceeds from SAMA		153,382,431	196,685,487
Financial charges paid		(23,007,283)	(21,820,688)
Net cash generated from financing activities		63,348,488	362,468,358
Net change in cash and cash equivalents		(22,807,082)	149,417,091
Cash and cash equivalents at beginning of period		118,354,573	41,828,950
Cash and cash equivalents at end of period		95,547,491	191,246,041

The notes on pages 7 to 16 form an integral part of these interim condensed financial statements.

QUARA FINANCE COMPANY
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Notes to the interim condensed financial statements (unaudited)
For the nine-month period ended September 30, 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 Central Bank ("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 3797, Riyadh 12622
Kingdom of Saudi Arabia

The accompanying interim condensed financial statements were authorized for issue by the management on October 21, 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 September 30, 2021 have been prepared in accordance with International Accounting Standard "Interim Financial Reporting" - ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the 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, 2021 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.

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5 Murabaha receivable, net

	Note	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Murabaha receivable		1,310,393,669	1,084,898,030
Less: Unearned revenue		(233,400,154)	(159,042,429)
Less: Modification loss on restructuring of financing		(24,002,334)	(30,007,699)
Murabaha receivable, net		1,052,991,181	895,847,902
Less: Provision for Murabaha losses		(56,573,305)	(17,723,812)
		996,417,876	878,124,090
Current portion of Murabaha receivable		742,106,985	435,181,236
Non-current portion of Murabaha receivable		310,884,196	460,666,666
		1,052,991,181	895,847,902
Less: Provision for Murabaha losses		(56,573,305)	(17,723,812)
		996,417,876	878,124,090

The movement in Provision for Murabaha losses was as follows:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Opening balance at beginning of the period / year	17,723,812	7,847,649
Charge for the period / year	47,237,408	24,054,568
Written off during the period / year	(8,387,915)	(14,178,405)
Closing balance at end of the period / year	56,573,305	17,723,812

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Performing	666,205,895	733,099,999
Underperforming	221,286,543	121,437,716
Non-performing	165,498,743	41,310,187
Total net loan receivables	1,052,991,181	895,847,902
Less: Provision for Murabaha losses	(56,573,305)	(17,723,812)
Loan receivables net of expected credit losses	996,417,876	878,124,090

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

	Under- Performing	Under- performing	Non-performing	Total
Opening loss allowance as at January 1, 2021	708,684	5,401,449	11,613,679	17,723,812
Charge / (reversal) for the period	227,916	(479,784)	47,489,276	47,237,408
Written off during the period	-	-	(8,387,915)	(8,387,915)
Closing loss allowance as at September 30, 2021	936,600	4,921,665	50,715,040	56,573,305

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6 Due from related party

Due from related parties represents due amounts from Company's shareholder against obtaining finance in form of murabaha contracts. The terms of the contract was approved by the Company's Board of Directors. Due from shareholders is stated as follows:

		September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Talad Investment Company	Associate	<u>5,440,719</u>	6,000,000
		<u>5,440,719</u>	<u>6,000,000</u>
Gross Murabaha receivable from related party		6,534,000	7,260,000
Less: Unearned revenue		(1,093,121)	(1,260,000)
Less: Provision for murabaha losses		(160)	(145,808)
		<u>5,440,719</u>	<u>5,854,192</u>

7 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.

8 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 early redeemed Sukuk amounting to Saudi Riyals 80.5 million and paid additional interest of 3 months plus SAIBOR amounting to Saudi Riyals 2.1 million on early redemption.

The total tenure of 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 SAIBOR plus a spread of 10% and 5.5% respectively. The Company has not defaulted on any of payments (profit / principal) due during the period 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.

From the above two Sukuk the first phase of Sukuk based on 3 Months SAIBOR plus 10% is completely paid off as on 30 September 2021.

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Current portion	12,272,727	24,530,303
Non-current portion	<u>12,272,728</u>	<u>20,454,546</u>
	<u>24,545,455</u>	<u>44,984,849</u>

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9 Loan from a related party

	Note	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Opening balance		79,327,502	79,327,397
Add: Loans obtained during the period		100,000,000	-
Add: Loan management fee accrued during the period		4,790,890	4,500,105
Less: Deferred income on initial recognition of interest free loans		(13,509,164)	-
Less: Management fee paid during the period		(4,506,117)	(4,500,000)
		166,103,111	79,327,502
Add: Deferred income on interest free loans	9.1	11,988,440	-
		<u>178,091,551</u>	<u>79,327,502</u>

9.1 Deferred income on interest free loans

	September 30, 2021	December 31, 2020
Opening balance	-	-
Add: Deferred income on initial recognition of interest free loan	13,509,164	-
Less: Amortization of deferred income on interest free loans	(1,520,724)	-
Closing balance	<u>11,988,440</u>	<u>-</u>

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.

Further, during the period ended September 30, 2021, the company received approval from SAMA to obtain loan from related party to the extent of Saudi Riyals 150 million. During the three-month period ended September 30, 2021 the Company has obtained loan amounting to Saudi Riyals 100 million in 4 equal tranches for a period of 3 years. These loans obtained are interest free loans and are recorded at fair value. The benefit amounting to Saudi Riyals 13.5 million being the impact of interest free loans obtained by the Company has been identified and is being recognised in the statement of comprehensive income of the Company on a systematic basis.

10 Long term loans

	Note	September 30, 2021	December 31, 2020
Long term loan – Monsha'at	10.1	135,458,598	169,014,163
Long term loan – SAMA	10.2	486,679,974	441,458,946
Long term bank loan	10.3	7,320,179	7,803,304
		<u>629,458,751</u>	<u>618,276,413</u>

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10 Long term loans (continued)

10.1 Long term loan – Monsha’at

	Note	September 30, 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		5,783,759	5,947,322
Less: Principal repayment during the period		(33,068,789)	(8,982,456)
Less: Loan management fee paid during the period		(4,141,393)	(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		127,684,911	159,111,334
Add: Deferred income on interest free loans	10.1.1	7,773,687	9,902,829
		135,458,598	169,014,163
Current portion		66,503,268	49,879,931
Non-current portion		68,955,330	119,134,232
		135,458,598	169,014,163

10.1.1 Deferred income on interest free loans

	September 30, 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	(2,129,142)	(525,668)
Closing balance	7,773,687	9,902,829

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.

10.2 Long term loan – SAMA

	Note	September 30, 2021	December 31, 2020
Long Term Loan – SAMA funding for lending	10.2.1	366,284,943	357,333,333
Deposit received from SAMA against repayments deferment	10.2.2	120,395,031	84,125,613
		486,679,974	441,458,946

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10 Long term loans (continued)

10.2.1 Loan from SAMA - funding for lending

	September 30, 2021	December 31, 2020
Opening balance	357,333,333	-
Add: Loans obtained during the period	90,784,943	360,000,000
Less: Principal repayment during the period	(81,833,333)	(2,666,667)
Closing balance	366,284,943	357,333,333
Current portion	179,313,977	111,333,333
Non-current portion	186,970,966	246,000,000
	366,284,943	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 Saudi Riyals 360 million of profit free deposit from SAMA against this program. During the period ended September 30, 2021 the Company received additional financing amounting to Saudi Riyals 90.78 million. The financing tenure is thirty-six months including six-month repayments grace period. As on September 30, 2021 205 customers under funding for lending program are under stage 1, 19 customers under stage 2 and 19 customers under stage 3.

10.2.2 Deposit received from SAMA against repayments deferment

	Note	September 30, 2021	December 31, 2020
Opening balance		84,125,613	-
Add: Loans obtained during the period		62,597,488	92,437,770
Add: Unwinding of modification grant income		3,521,296	2,260,116
Less: Principal repayment during the period		(20,834,958)	(2,438,396)
Less: Loan management fee paid during the period		(2,031,461)	(433,021)
Less: Grant income recognized on subsidized funding	14	(3,352,319)	(7,700,856)
Less: Modification gain on restructuring of borrowings	14	(3,630,628)	-
Closing Balance		120,395,031	84,125,613
Current portion		22,068,173	37,099,418
Non-current portion		98,326,858	47,026,195
		120,395,031	84,125,613

In August 2021, SAMA instructed the Company that the deposits received from SAMA against repayments deferment will be paid as bullet payment at the end of the tenure, consequently a modification gain on restructuring of borrowings is booked amounting to Saudi Riyals 3.6 million, which is recorded in the interim statement of comprehensive income for the three-month period ended September 30, 2021.

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10 Long term loans (continued)

10.3 Long term bank loan

	September 30, 2021	December 31, 2020
Opening balance	7,803,303	7,893,900
Add: Loan management fee accrued during the period	110,875	335,380
Less: Principal repayment during the period	(526,260)	(350,840)
Less: Loan management fee paid during the period	(67,739)	(75,137)
	<u>7,320,179</u>	<u>7,803,303</u>
Current portion	2,287,491	1,839,023
Non-current portion	<u>5,032,688</u>	<u>5,964,280</u>
	<u>7,320,179</u>	<u>7,803,303</u>

11 Provision for zakat

11.1 The movement in the zakat provision is as follows:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
January 1	1,510,243	2,364,742
Charge during the period/ year	637,275	1,510,243
Reversal during the period / year	-	(1,833,486)
	637,275	(323,243)
Payments made during the period / year	(780,719)	(531,256)
September 30	<u>1,366,799</u>	<u>1,510,243</u>

11.2 Status of assessments

The Company has filed its zakat returns with Zakat, Tax and Custom Authority (ZATCA) for the years until 2020. During the period ended September 30, 2021 the Company received assessment for 2015 with additional zakat amounting to Saudi Riyals 2,893,955. The company has filed an objection with ZATCA against the assessment and believes that the outcome will be favorable.

Further, zakat liability for the financial year from 2009 to 2014 is settled as per applicable zakat regulations.

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(All amounts in Saudi Riyals unless otherwise stated)

12 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:

	September 30, 2021 (Unaudited)	December 31, 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	1,274,486	271,143
End of service paid during the period / year	<u>(1,016,216)</u>	<u>(134,743)</u>
Ending balance at end of period / year	<u>1,036,870</u>	<u>778,600</u>

13 Share capital

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

14 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.

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14 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 10.2.1);

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 September 1, 2020 and on December 8, 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. During the three-month period ended 30 September 2021, the Company further provided deferment of additional 3 months until 30 September 2021 to eligible customers resulting in a modification loss amounting to Saudi Riyals 5.1 million. 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 Saudi Riyals 10.1 million for the additional payment deferral allowed until 30 September 2021.

During the three-month period ended 30 September 2021, SAMA announced extension to defer payments for an additional three-month period until 31 December 2021. The Company is currently assessing the modification loss resulting from the latest extension until 31 December 2021.

Since the inception of the deferred payments program by SAMA, the Company has recognised Saudi Riyals 47.39 million of related modification losses of which Saudi Riyals 23.39 million have been unwound.

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14 Impact of COVID-19 on expected credit losses ("ECL") and SAMA programs
(continued)

In order to offset the modification loss that the Company will incur in deferring the payments, the Company received Saudi Riyals 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 Saudi Riyals 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 Saudi Riyals 5.7 million recognized during the year ended December 31, 2020. The Company also received Saudi Riyals 21.15 million and Saudi Riyals 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 Saudi Riyals 2 million. During the three-month period ended September 30, 2021 the Company has received deposits amounting to Saudi Riyals 34.4 million in support of the third extension. Since the inception of the deferred payments program by SAMA, the Company has recognised Saudi Riyals 10.3 million of related grant income.

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

	For nine-month period ended September 30 (Unaudited)	
	2021	2020
Modification loss on financing	(10,124,600)	(31,427,234)
Modification gain on restructuring of Monsh'at loans	-	6,004,187
Modification gain on restructuring SAMA deposits against repayment deferment	3,630,628	-
Grant income	3,352,319	6,701,023
	(3,141,653)	(18,722,024)

15 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 in compliance with the prescribe requirements. At financial position date, the management analysis of gearing ratio was as follows:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Debt	832,095,757	742,588,764
Shareholders' equity	248,878,298	245,239,738
Debt to Equity Ratio	334%	303%

16 Comparative figures

Certain comparative figures have been restated and regrouped to conform with the current period's presentation in these interim condensed financial statements. These restatements have no impact on the net income for the three-month and nine-month periods ended September 30, 2020 and retained earnings as at September 30, 2020. As at September 30, 2020, an amount of Saudi Riyals 5.85 million has been reclassified from 'Murabaha receivable, net' to 'Due from related party'.