

**QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)**

**UNAUDITED INTERIM CONDENSED
FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED
MARCH 31, 2022 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, 2022

	Page
Independent auditor's review report	2
Interim statement of financial position	3
Interim statement of income and other comprehensive income	4
Interim statement of changes in shareholders' equity	5
Interim statement of cash flows	6
Notes to the condensed interim financial statements	7 – 16



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, 2022 and the related condensed interim statement of income and other comprehensive income for the three-month period then ended and the interim statements of changes in shareholders’ equity and cash flows for the three-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. Mardhar
License Number 368

28 April 2022

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

	Note	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Assets			
Cash and cash equivalents		207,720,029	196,549,402
Murabaha receivable, net	5	773,171,128	871,433,046
Due from a related party	6	4,268,964	4,866,444
Prepayments and other receivables		17,189,458	16,338,742
Repossessed assets held for sale	7	2,545,800	2,545,800
Property and equipment		10,094,237	10,456,418
Total assets		1,014,989,616	1,102,189,852
Liabilities and shareholders' equity			
Liabilities			
Sukuk	8	16,363,637	20,454,546
Loan from a related party	9	99,805,740	179,169,942
Long term loan	10	573,968,828	593,169,254
Accrued and other liabilities		33,288,608	18,238,990
Provision for zakat	11	5,550,033	12,635,265
Employees' termination benefits	12	1,561,870	1,486,870
Total liabilities		730,538,716	825,154,867
Shareholders' equity			
Share capital		300,000,000	300,000,000
Statutory reserve		2,080,046	2,080,046
Accumulated losses		(17,629,146)	(25,045,061)
Shareholders' equity		284,450,900	277,034,985
Total liabilities and shareholders' equity		1,014,989,616	1,102,189,852

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 income and other comprehensive income (Unaudited)
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the three-month period ended March 31,	
		2022 (Unaudited)	2021 (Unaudited)
Murabaha income		42,633,717	36,990,693
Management fee income		439,271	991,638
Modification gain on restructuring of financings and borrowings net of grant income	14	(1,190,379)	(5,102,786)
Financial charges		(2,881,570)	(5,603,006)
		39,001,039	27,276,539
Operating expenses			
Salaries and other benefits		(9,738,103)	(10,579,577)
Other general and administrative		(12,020,890)	(10,317,201)
Provision for murabaha losses	5	(12,404,818)	(9,945,840)
Profit / (loss) from operations		4,837,228	(3,566,079)
Other income		4,505,241	469,755
Net income / (loss) for the period before zakat		9,342,469	(3,096,324)
Zakat charge for the period		(1,926,554)	(413,762)
Net income / (loss) for the period after zakat		7,415,915	(3,510,086)
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income / (loss) for the period		7,415,915	(3,510,086)
Earnings / (loss) per share (Saudi Riyal)		0.25	(0.12)
Weighted average number of shares		30,000,000	30,000,000

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 changes in shareholders' equity
(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Accumulated losses	Total
January 1, 2021 (Audited)	300,000,000	2,080,046	(56,840,308)	245,239,738
Total comprehensive income / (loss):				
Net loss for the period after zakat	-	-	(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>
January 1, 2022 (Audited)	300,000,000	2,080,046	(25,045,061)	277,034,985
Total comprehensive income / (loss):				
Net income for the period after zakat	-	-	7,415,915	7,415,915
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	7,415,915	7,415,915
March 31, 2022 (Unaudited)	<u>300,000,000</u>	<u>2,080,046</u>	<u>(17,629,146)</u>	<u>284,450,900</u>

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 three-month period ended March 31,	
		2022 (Unaudited)	2021 (Unaudited)
Cash flows from operating activities			
Net profit / (loss) before zakat charge for the period		9,342,469	(3,096,324)
<u>Adjustments for non-cash items</u>			
Depreciation		820,377	627,367
Financial charges		2,881,570	5,603,006
Modification gain on restructuring of financings and borrowings net of grant income		1,190,379	5,102,786
Provision for murabaha losses	5	12,404,818	9,945,840
Provision for employees' termination benefits	12	153,045	442,367
<u>Changes in working capital</u>			
Murabaha receivable		94,129,977	(173,156,474)
Due from related parties		597,480	-
Prepayments and other receivables		(850,716)	(51,931)
Accrued and other liabilities		15,049,618	18,125,136
Employee termination benefits paid	12	(78,045)	(343,600)
Zakat paid	11	(9,011,786)	-
Net cash generated from / (utilized) in operating activities		126,629,186	(136,801,827)
Cash flow from investing activity			
Purchase of property and equipment		(1,182,558)	(1,792,861)
Net cash utilized in investing activity		(1,182,558)	(1,792,861)
Cash flows from financing activities			
Long term loan proceeds		43,667,848	75,000,000
Long term loan payments		(142,628,029)	(18,960,760)
Sukuk repayment		(4,090,909)	(8,174,243)
Financial charges paid		(11,224,911)	(7,228,673)
Net cash (utilized in) / generated from financing activities		(114,276,001)	40,636,324
Net change in cash and cash equivalents			
Cash and cash equivalents at beginning of period		196,549,402	118,354,573
Cash and cash equivalents at end of period		207,720,029	20,396,209

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)
Notes to the interim condensed financial statements (Unaudited)
For the three-month period ended March 31, 2022
(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 April 24, 2022.

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, 2022 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, 2021. 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, 2021.

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.

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, 2022
(All amounts in Saudi Riyals unless otherwise stated)

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

Standard/ Interpretation	Description	Effective from periods beginning on or after
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IAS12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023

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, 2021.

5 Murabaha receivable, net

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Murabaha receivable	1,014,386,703	1,142,295,586
Less: Unearned revenue	(192,366,414)	(223,325,858)
Less: Modification loss on restructuring of financing	(18,962,123)	(21,781,586)
Murabaha receivable, net	803,058,166	897,188,142
Less: Provision for Murabaha losses	(29,887,038)	(25,755,096)
	773,171,127	871,433,046
Current portion of Murabaha receivable	548,208,457	641,948,499
Non-current portion of Murabaha receivable	254,849,709	255,239,643
	803,058,166	897,188,142
Less: Provision for Murabaha losses	(29,887,038)	(25,755,096)
	773,171,127	871,433,046

The movement in Provision for Murabaha losses was as follows:

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Opening balance at beginning of the period / year	25,755,096	17,723,812
Charge for the period / year	12,397,508	30,789,846
Written off during the period / year	(8,265,566)	(22,758,562)
Closing balance at end of the period / year	29,887,038	25,755,096

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, 2022
(All amounts in Saudi Riyals unless otherwise stated)

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

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Performing	633,044,137	671,438,190
Underperforming	91,040,324	169,610,860
Non-performing	83,249,979	61,005,536
Total net loan receivables	807,334,440	902,054,586
Less: Provision for murabaha losses	(29,887,038)	(25,755,096)
Loan receivables net of expected credit losses	777,447,402	876,299,490

Note- Portfolio / Murabaha Receivables classification mentioned above is based on curing period criteria as per SAMA guideline however considering DPD as base below is the classification).

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Performing	654,068,368	671,438,190
Underperforming	90,790,241	169,610,860
Non-performing	62,475,831	61,005,536
Total net loan receivables	807,334,440	902,054,586
Less: Provision for murabaha losses	(29,887,038)	(25,755,096)
Loan receivables net of expected credit losses	777,447,402	876,299,490

The provision of Murabaha for customers as at March 31, 2022 reconciles to the opening loss allowance for that provision as follows:

	Performing	Under- performing	Non- performing	Total
Opening loss allowance as at January 1, 2022	3,813,217	9,721,569	12,220,310	25,755,096
Charge / (reversal) for the period	(3,000,537)	(7,701,458)	23,099,503	12,397,508
Written off during the period	-	-	(8,265,566)	(8,265,566)
Closing loss allowance as at March 31, 2022	819,990	2,020,111	27,054,247	29,887,038

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, 2022
(All amounts in Saudi Riyals unless otherwise stated)

6 Due from a 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:

	Relationship	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Talad Investment Company	Associate	<u>4,268,964</u>	4,866,444
		<u>4,268,964</u>	<u>4,866,444</u>
Gross receivable from a related party		5,082,000	5,808,000
Less: Unearned revenue		(805,726)	(941,556)
Less: Provision for murabaha losses		(7,310)	-
		<u>4,268,964</u>	<u>4,866,444</u>
Current portion of murabaha receivables		2,193,627	2,459,449
Non-current portion of murabaha receivables		2,082,647	2,406,995
		<u>4,276,274</u>	<u>4,866,444</u>
Less: Provision for murabaha losses		(7,310)	-
		<u>4,268,964</u>	<u>4,866,444</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 Q2 2022.

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 31 March 2022.

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Current portion	16,363,637	16,363,636
Non-current portion	-	4,090,910
	<u>16,363,637</u>	<u>20,454,546</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, 2022
(All amounts in Saudi Riyals unless otherwise stated)

9 Loan from a related party

	Note	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Opening balance		179,169,942	79,327,397
Add: Loans obtained during the period		-	100,000,000
Add: Loan management fee accrued during the period		1,261,560	6,995,044
Less: Deferred income on initial recognition of interest free loans		-	(13,509,164)
Less: Principal paid during the period		(75,000,000)	-
Less: Management fee paid during the period		(4,500,000)	(4,506,011)
		<u>100,931,502</u>	<u>168,307,266</u>
Add: Deferred income on interest free loans	9.1	(1,125,762)	10,862,676
		<u>99,805,740</u>	<u>179,169,942</u>

9.1 Deferred income on interest free loans

	March 31, 2022	December 31, 2021
Opening balance	10,862,676	-
Add: Deferred income on initial recognition of interest free loan	-	13,509,164
Less: Amortization of deferred income on interest free loans	(1,125,762)	(2,646,488)
Closing balance	<u>9,736,914</u>	<u>10,862,676</u>

During 2016, the Company signed an agreement with a related party to obtain a 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. During the three month period ended March 31, 2022 the Company paid off principal for this loan amounting to Saudi Riyals 75 million. The loan was secured by pledging the Company's shares to the financier.

Further, during 2021, the company received approval from SAMA to obtain loan from related party to the extent of Saudi Riyals 150 million. During the year ended December 31, 2021 the Company 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 income and other comprehensive income of the Company on a systematic basis.

10 Long term loans

	Note	March 31, 2022	December 31, 2021
Long term loan – Monsha'at	10.1	121,566,077	139,064,887
Long term loan – SAMA	10.2	452,402,751	454,104,367
Long term bank loan	10.3	-	-
		<u>573,968,828</u>	<u>593,169,254</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, 2022
(All amounts in Saudi Riyals unless otherwise stated)

10.1 Long term loan – Monsha’at

	Note	March 31, 2022	December 31, 2021
Opening balance		130,943,104	159,111,334
Add: Loans obtained during the period		-	20,000,000
Add: Loan management fee accrued during the period		1,575,530	7,566,117
Less: Principal repayment during the period		(16,546,428)	(48,440,447)
Less: Loan management fee paid during the period		(1,503,107)	(5,708,159)
Less: Deferred income on initial recognition of interest free loans		-	(1,297,725)
Less: Modification gain on restructuring of borrowings		-	(288,016)
Closing balance		114,469,099	130,943,104
Add: Deferred income on interest free loans	10.1.1	7,096,978	8,121,783
		121,566,077	139,064,887
Current portion		71,898,339	73,095,077
Non-current portion		49,667,738	65,969,810
		121,566,077	139,064,887

10.1.1 Deferred income on interest free loans

	March 31, 2022	December 31, 2021
Opening balance	8,121,783	9,902,829
Add: Deferred income on initial recognition of interest free loan	-	1,297,725
Less: Amortization of deferred income on interest free loans	(1,024,805)	(3,078,771)
Closing balance	7,096,978	8,121,783

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 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 income and other 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	March 31, 2022	December 31, 2021
Long term loan – SAMA funding for lending	10.2.1	308,261,573	332,206,449
Deposit received from SAMA against repayments deferment	10.2.2	144,141,178	121,897,918
		452,402,751	454,104,367

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, 2022
(All amounts in Saudi Riyals unless otherwise stated)

10.2.1 Loan from SAMA - funding for lending

	March 31, 2022	December 31, 2021
Opening balance	332,206,449	357,333,333
Add: Loans obtained during the period	21,133,618	100,784,943
Less: Principal repayment during the period	(45,078,494)	(125,911,827)
Closing balance	308,261,573	332,206,449
Current portion	189,987,390	183,313,978
Non-current portion	118,274,183	148,892,471
	308,261,573	332,206,449

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. During the period ended March 31, 2022 the Company received additional financing amounting to Saudi Riyals 21.13 million. The financing tenure is thirty-six months including six-month repayments grace period. As on March 31, 2022 192 customers under funding for lending program are under stage 1, 25 customers under stage 2 and 22 customers under stage 3. The net impact of the interest free deposit from SAMA and interest charged on financing to SME customers with a low interest rate is not significant to the interim statement of income and other comprehensive income.

10.2.2 Deposit received from SAMA against repayments deferment

	Note	March 31, 2022	December 31, 2021
Opening balance		121,897,918	84,125,613
Add: Loans obtained during the period		22,534,230	62,597,488
Add: Unwinding of modification grant income		1,737,836	5,024,183
Less: Principal repayment during the period		-	(20,834,958)
Less: Loan management fee paid during the period		-	(2,031,461)
Less: Grant income recognized on subsidized funding	14	(2,028,806)	(3,352,319)
Less: Modification gain on restructuring of borrowings		-	(3,630,628)
Closing Balance		144,141,178	121,897,918
Current portion		84,539,934	84,878,320
Non-current portion		59,601,244	37,019,598
		144,141,178	121,897,918

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. During the period ended March 31, 2022 the company has received 22.53 million under the deferment program and SAR 2.02 million has been booked as upfront income for receiving such grant.

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, 2022
(All amounts in Saudi Riyals unless otherwise stated)

10.3 Long term bank loan

	March 31, 2022	December 31, 2021
Opening balance	-	7,803,303
Add: Loans obtained during the period	-	-
Add: Loan management fee accrued during the period	-	210,147
Less: Principal repayment during the period	-	(7,543,060)
Less: Loan management fee paid during the period	-	(470,390)
	<u>-</u>	<u>-</u>
Current portion	-	-
Non-current portion	-	-
	<u>-</u>	<u>-</u>

11 Provision for zakat

11.1 The movement in the zakat provision is as follows:

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
January 1	12,635,265	1,510,243
Charge during the period/ year	1,926,554	11,905,741
Payments made during the period / year	(9,011,786)	(780,719)
March 31	<u>5,550,033</u>	<u>12,635,265</u>

11.2 Status of assessments

The Company has filed its zakat returns with Zakat, Tax and Custom Authority (ZATCA) for the years until 2021. During 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.

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 income and other comprehensive income:

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Opening balance at beginning of period / year	1,486,870	778,600
Statement of income and other comprehensive income		
Service cost attributable to the current and past periods	153,045	1,521,927
End of service paid during the period / year	(78,045)	(813,657)
Ending balance at end of period / year	<u>1,561,870</u>	<u>1,486,870</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, 2022
(All amounts in Saudi Riyals unless otherwise stated)

13 Share capital

Share capital consists of 30 million shares as of March 31 2022 (December 31, 2021: 30 million shares). Each share has a book value of Saudi Riyals 10 as of March 31 2022 (December 31, 2021: 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 experiencing issues due to identification of multiple new variants of this infection. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

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.

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 in March 2020 and with further extensions to the program till March 2022 announced subsequently, the Company deferred payments and extended maturities on lending facilities to all eligible MSMEs as follows:

Support Programs	Instalment deferred (SAR’ million)	Modification loss (SAR’ million)
April 2020 – September 2020	115,309,090	26,590,734
October 2020 – December 2020	22,367,943	4,836,500
January 2021 – March 2021	28,784,563	5,842,050
April 2021 – June 2021	28,339,442	5,102,786
July 2021 – September 2021	28,115,651	5,021,814
October 2021 – December 2021	22,534,230	3,781,845
December 2021 – March 2022	20,758,954	3,219,185

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, 2022
(All amounts in Saudi Riyals unless otherwise stated)

Since the inception of the deferred payments program by SAMA and by the end of March 31, 2022, the Company has recognised SAR 54.3 million of related modification losses of which SAR 35.4 million have been unwound.

In order to compensate the related cost that the Company has incurred under the SAMA and other public authorities program, during the years 2021 and 2020, the Company has received multiple profit free deposits from SAMA amounting to SAR 62.5 million and SAR 92.4 million respectively with varying maturities, which qualify as government grants. Further, during the period ended March 31, 2022 Company received profit free deposits amounting to SAR 22.53 million.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. By the end of the year 2021, total income recognised in year 2020 and 2021 amounts to SAR 14.6 million that had been recognised in the statement of income. Grant income amounting to SAR 2.08 million arose on the profit free deposit amounting to SAR 22.5 million received during the period ended March 31, 2022.

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

	For three-month period ended March 31 (Unaudited)	
	2022	2021
Modification loss on financing	(3,219,185)	(5,102,786)
Modification gain on restructuring of Monsh'at loans		-
Grant income	2,028,806	-
	(1,190,379)	(5,102,786)

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

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Debt	690,138,205	792,793,742
Shareholders' equity	284,508,961	277,034,985
Debt to Equity Ratio	243%	286%