

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

**UNAUDITED INTERIM CONDENSED FINANCIAL
STATEMENTS FOR THE SIX MONTHS PERIOD ENDED
JUNE 30, 2022 AND INDEPENDENT AUDITOR'S
REVIEW REPORT**

QUARA FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Interim condensed financial statements (unaudited)
For the six-month period ended June 30, 2022

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Report on review of interim condensed financial statements

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Quara Finance Company (A Saudi Closed Joint Stock Company) (the "Company") as at June 30, 2022 and the related interim condensed statement of comprehensive income for the three-month and six-month periods then ended, and the interim condensed statements of changes in shareholders' equity and cash flows for the six-month period then ended, and other explanatory notes (the "interim condensed financial statements").

Management is responsible for the preparation and presentation of these interim condensed 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 condensed 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 interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

Khaled A. Mahdhar
License Number 368



August 2, 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	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Assets			
Cash and cash equivalents		278,411,328	196,549,402
Murabaha receivable, net	5	699,362,121	871,433,046
Due from a related party	6	3,661,867	4,866,444
Prepayments and other receivables		17,223,738	16,338,742
Repossessed assets held for sale	7	2,545,800	2,545,800
Property and equipment		9,922,644	10,456,418
Total assets		1,011,127,498	1,102,189,852
Liabilities and shareholders' equity			
Liabilities			
Sukuk	8	12,272,728	20,454,546
Loan from a related party	9	99,776,122	179,169,942
Long term loan	10	562,288,164	593,169,254
Accrued and other liabilities		21,656,864	18,238,990
Provision for zakat	11	11,040,432	12,635,265
Employees' termination benefits	12	1,798,870	1,486,870
Total liabilities		708,833,180	825,154,867
Shareholders' equity			
Share capital	13	300,000,000	300,000,000
Statutory reserve		2,080,046	2,080,046
Accumulated losses		214,272	(25,045,061)
Net shareholders' equity		302,294,318	277,034,985
Total liabilities and shareholders' equity		1,011,127,498	1,102,189,852

The notes on pages 7 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 income (Unaudited)
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the three-month period ended June 30,		For the six-month period ended June 30,	
		2022	2021	2022	2021
Murabaha income		40,293,965	45,321,553	82,927,682	82,312,246
Management fee income		367,310	803,122	806,581	1,794,760
Modification gain on restructuring of financings and borrowings net of grant income	14	1,868,975	1,455,741	678,596	(3,647,045)
Financial charges		(2,199,672)	(5,307,718)	(5,081,242)	(10,910,724)
		40,330,578	42,272,698	79,331,617	69,549,237
Operating expenses					
Other general and administrative		(9,778,413)	(11,428,687)	(21,799,303)	(21,745,888)
Provision for murabaha losses	5 & 6	976,112	(15,607,117)	(11,428,706)	(25,552,957)
Salaries and other benefits		(15,704,955)	(10,114,228)	(25,443,058)	(20,693,805)
Income from operations		15,823,322	5,122,666	20,660,550	1,556,587
Interest income on deposits		661,084	-	661,084	-
Other income		6,849,410	282,747	11,354,651	752,502
Net Income for the period before zakat		23,333,816	5,405,413	32,676,285	2,309,089
Zakat charge for the period	11	(5,490,398)	(654,375)	(7,416,952)	(1,068,137)
Net income for the period after zakat		17,843,418	4,751,038	25,259,333	1,240,952
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		17,843,418	4,751,038	25,259,333	1,240,952
Earnings per share					
Basic and diluted earnings per share (Saudi Riyal)		0.59	0.16	0.84	0.04
Weighted average number of shares		30,000,000	30,000,000	30,000,000	30,000,000

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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)

	Note	Share capital	Statutory reserve	Accumulated losses	Total
January 1, 2021 (Audited)		300,000,000	2,080,046	(56,840,308)	245,239,738
Comprehensive income					
Net income for the period		-	-	1,240,952	1,240,952
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		-	-	1,240,952	1,240,952
June 30, 2021 (Unaudited)		<u>300,000,000</u>	<u>2,080,046</u>	<u>(55,599,356)</u>	<u>246,480,690</u>
January 1, 2022 (Audited)		300,000,000	2,080,046	(25,045,061)	277,034,985
Comprehensive income					
Net income for the period		-	-	25,259,333	25,259,333
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		-	-	25,259,333	25,259,333
June 30, 2022 (Unaudited)		<u>300,000,000</u>	<u>2,080,046</u>	<u>214,272</u>	<u>302,294,318</u>

The notes on pages 7 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 six-month period ended June 30,	
		2022 (Unaudited)	2021 (Unaudited)
Cash flows from operating activities			
Net income for the period before zakat		32,676,285	2,309,089
<u>Adjustments for non-cash items</u>			
Depreciation		1,678,206	1,486,649
Financial charges		5,081,242	10,910,724
Modification loss on restructuring of financings and borrowings net of grant income		(678,596)	3,647,045
Accrued income on deposit		(661,084)	-
Provision for murabaha losses	5	11,428,706	25,552,957
Provision for employees' termination benefits	11	437,412	787,270
Provision for zakat		-	1,068,137
<u>Changes in working capital</u>			
Murabaha receivable		176,406,924	(191,069,150)
Due from related parties		1,204,577	-
Prepayments and other receivables		(884,996)	(16,874,128)
Accrued and other liabilities		3,417,874	(4,351,767)
Employee termination benefits paid	11	(125,412)	(601,500)
Zakat paid		(9,011,785)	(780,719)
Net cash generated from / (utilized in) operating activities		220,969,353	(167,915,393)
Cash flow from investing activity			
Purchase of property and equipment		(4,959,637)	(4,058,587)
Net cash utilized in investing activity		(4,959,637)	(4,058,587)
Cash flows from financing activities			
Loan proceeds from a related party		-	75,000,000
Long term loan payments		(220,002,964)	(74,420,465)
Sukuk repayment		(8,181,818)	(16,348,485)
Loan proceeds		109,426,802	115,266,780
Financial charges paid		(15,389,810)	(22,239,923)
Net cash (utilized in) / generated from financing activities		(134,147,790)	77,257,907
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		278,411,328	23,638,500

The notes on pages 7 to 17 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 six-month period ended June 30, 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 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 July 28, 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 June 30, 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 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 Impact of changes in accounting policies due to adoption of new standards

Accounting standards issued but not yet effective

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2022, but do not have a material impact on the interim condensed financial statements of the Company.

New standards, interpretations and amendments adopted by the Company

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which were effective from periods on or after January 1, 2022. The management has assessed that the amendments have no significant impact on the Company's interim condensed financial statements.

- Amendments to IAS 37 - 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.;

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3 Impact of changes in accounting policies due to adoption of new standards (continued)

New standards, interpretations and amendments adopted by the Company (continued)

- Amendments to IAS 16 - 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income.;
- Amendments to IFRS 3 - 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. ; and
- Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.

The listing of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date are as follows. 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.

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5 Murabaha receivable, net

	Note	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Murabaha receivable		908,669,502	1,142,295,586
Less: Unearned revenue		(173,877,829)	(223,325,858)
Less: Modification loss on restructuring of financings		(14,010,455)	(21,781,586)
Murabaha receivable, net		720,781,218	897,188,142
Less: Provision for murabaha losses		(21,419,097)	(25,755,096)
		699,362,121	871,433,046
Current portion of murabaha receivable		478,851,955	641,948,499
Non-current portion of murabaha receivable		241,929,263	255,239,643
		720,781,218	897,188,142
Less: Provision for murabaha losses		(21,419,097)	(25,755,096)
		699,362,121	871,433,046

The movement in provision for murabaha losses was as follows:

	June 30, 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	11,419,783	30,789,846
Written off during the period / year	(15,755,782)	(22,758,562)
Closing balance at end of the period / year	21,419,097	25,755,096

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

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Performing	574,121,538	666,571,746
Underperforming	81,523,068	169,610,860
Non-performing	65,136,612	61,005,536
Total net loan receivables	720,781,218	897,188,142
Less: Provision for murabaha losses	(21,419,097)	(25,755,096)
Loan receivables net of expected credit losses	699,362,121	871,433,046

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5 Murabaha receivable, net (continued)

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.

	June 30, 2022	December 31,
	(Unaudited)	2021
		(Audited)
Performing	618,245,817	666,571,746
Underperforming	49,841,710	169,610,860
Non-performing	52,693,691	61,005,536
Total net loan receivables	720,781,218	897,188,142
Less: Provision for murabaha losses	(21,419,097)	(25,755,096)
Loan receivables net of expected credit losses	699,362,121	871,433,046

The provision of murabaha for customers as at June 30, 2022 reconciles to the opening loss allowance for that provision as follows:

	Performing	Under-	Non-	Total
		performing	performing	
Opening loss allowance				
as at January 1, 2022	3,813,217	9,721,569	12,220,310	25,755,096
Charge for the period	1,080,124	(7,352,665)	17,692,324	11,419,783
Written off during the period	-	-	(15,755,782)	(15,755,782)
Closing loss allowance				
as at June 30, 2022	4,893,341	2,368,904	14,156,852	21,419,097

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	June 30, 2022	December 31,
		(Unaudited)	2021
			(Audited)
Talad Investment Company	Associate	3,661,867	4,866,444
		3,661,867	4,866,444
Gross receivable from a related party		4,356,000	5,808,000
Less: Unearned revenue		(685,210)	(941,556)
Less: Provision for murabaha losses		(8,923)	-
		3,661,867	4,866,444
Current portion of murabaha receivables		2,596,024	2,459,449
Non-current portion of murabaha receivables		1,074,766	2,406,995
		3,670,790	4,866,444
Less: Provision for murabaha losses		(8,923)	-
		3,661,867	4,866,444

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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 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 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 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.

	June 30, 2022	December 31,
	(Unaudited)	2021
		(Audited)
Current portion	12,272,728	16,363,636
Non-current portion	-	4,090,910
	12,272,728	20,454,546

9 Loan from a related party

	Note	June 30, 2022	December 31,
		(Unaudited)	2021
			(Audited)
Opening balance		168,307,266	79,327,397
Add: Loans obtained during the period		-	100,000,000
Add: Loan management fee accrued during the period		2,357,707	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)
		91,164,973	168,307,266
Add: Deferred income on interest free loans	9.1	8,611,149	10,862,676
		99,776,122	179,169,942

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9 Loan from a related party (continued)

9.1 Deferred income on interest free loans

	June 30, 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	(2,251,527)	(2,646,488)
Closing balance	8,611,149	10,862,676

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 interim statement of comprehensive income of the Company on a systematic basis.

10 Long term loans

	Note	June 30, 2022	December 31, 2021
Long term loan – Monsha'at	10.1	127,899,348	139,064,887
Long term loan – SAMA	10.2	434,388,816	454,104,367
		562,288,164	593,169,254

10.1 Long term loan – Monsha'at

	Note	June 30, 2022	December 31, 2021
Opening balance		130,943,104	159,111,334
Add: Loans obtained during the period		25,000,000	20,000,000
Add: Loan management fee accrued during the period		3,048,674	7,566,117
Less: Principal repayment during the period		(33,795,929)	(48,440,447)
Less: Loan management fee paid during the period		(2,858,697)	(5,708,159)
Less: Deferred income on initial recognition of interest free loans		(2,157,281)	(1,297,725)
Less: Upfront income on loan from Monsha'at		(473,930)	(288,016)
Closing balance		119,705,941	130,943,104
Add: Deferred income on interest free loans	10.1.1	8,193,407	8,121,783
		127,899,348	139,064,887
Current portion		74,407,998	73,095,077
Non-current portion		53,491,350	65,969,810
		127,899,348	139,064,887

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10 Long term loans (continued)

10.1.1 Deferred income on interest free loans

	June 30, 2022	December 31, 2021
Opening balance	8,121,783	9,902,829
Add: Deferred income on initial recognition of interest free loan	2,157,281	1,297,725
Less: Amortization of deferred income on interest free loans	(2,085,657)	(3,078,771)
Closing balance	8,193,407	8,121,783

Since 2018, the Company has received eight 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 245 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	June 30, 2022	December 31, 2021
Long term loan – SAMA funding for lending	10.2.1	282,183,080	332,206,449
Deposit received from SAMA against repayments deferment	10.2.2	152,205,736	121,897,918
		434,388,816	454,104,367

10.2.1 Loan from SAMA - funding for lending

	June 30, 2022	December 31, 2021
Opening balance	332,206,449	357,333,333
Add: Loans obtained during the period	41,133,618	100,784,943
Less: Principal repayment during the period	(91,156,987)	(125,911,827)
Closing balance	282,183,080	332,206,449
Current portion	192,100,750	183,313,978
Non-current portion	90,082,330	148,892,471
	282,183,080	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 June 30, 2022 the Company received additional financing amounting to Saudi Riyals 41.13 million. The financing tenure is thirty-six months. including six-month repayments grace period. As on June 30, 2022 187 customers under funding for lending program are under stage 1, 11 customers under stage 2 and 27 customers under stage 3. The net impact of the interest free funding 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.

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10 Long term loans (continued)

10.2.2 Deposit received from SAMA against repayments deferment

	Note	June 30, 2022	December 31, 2021
Opening balance		121,897,918	84,125,613
Add: Loans obtained during the period		43,293,184	62,597,488
Add: Unwinding of modification grant income		3,603,766	5,024,183
Less: Principal repayment during the period		(12,691,351)	(20,834,958)
Less: Loan management fee paid during the period		-	(2,031,461)
Less: Grant income recognized on subsidized funding	14	(3,897,781)	(3,352,319)
Less: Modification gain on restructuring of borrowings		-	(3,630,628)
Closing Balance		152,205,736	121,897,918
Current portion		71,510,672	84,878,320
Non-current portion		80,695,064	37,019,598
		152,205,736	121,897,918

During the period ended June 30, 2022 the company has received 43.29 million under the deferment program and SAR 3.8 million has been booked as upfront income for receiving such grant.

11 Provision for zakat

11.1 The movement in the zakat provision is as follows:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
January 1	12,635,265	1,510,243
Charge during the period/ year	7,416,952	11,905,741
Provision reversal during the period / year	-	-
	7,416,952	11,905,741
Payments made during the period / year	(9,011,785)	(780,719)
June 30	11,040,432	12,635,265

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 the period ended June 30, 2021 the Company received assessment for 2015 with additional zakat for Saudi Riyal 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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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:

	June 30, 2022	December 31,
	(Unaudited)	2021
		(Audited)
Opening balance at beginning of period / year	1,486,870	778,600
Statement of comprehensive loss		
Service cost attributable to the current and past periods	437,412	1,521,927
End of service paid during the period / year	(125,412)	(813,657)
Ending balance at end of period / year	1,798,870	1,486,870

13 Share capital

Share capital consists of 30 million shares as of June 30 2022 (December 31, 2021: 30 million shares). Each share has a book value of Saudi Riyals 10 as of June 30 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.

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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 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

Since the inception of the deferred payments program by SAMA and by the end of June 30, 2022, the Company has recognised SAR 54.3 million of related modification losses of which SAR 40.38 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 June 30, 2022 Company received profit free deposits amounting to SAR 43.29 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 years 2020 and 2021 amounts to SAR 14.6 million that had been recognised in the statement of income. Grant income amounting to SAR 3.89 million arose on the profit free deposit amounting to SAR 43.29 million received during the period ended June 30, 2022.

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

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 six-month period ended June 30 (Unaudited)	
	2022	2021
Modification loss on financing	(3,219,185)	(5,102,786)
Grant income	3,897,781	1,455,741
	678,596	(3,647,045)

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:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Debt	674,337,014	792,793,742
Shareholders’ equity	302,294,318	277,034,985
Debt to Equity Ratio	223%	286%