

ALRAEDAH FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED FINANCIAL
STATEMENTS (UNAUDITED)
AND INDEPENDENT AUDITOR'S REVIEW
REPORT
FOR THE THREE MONTHS PERIOD ENDED
31 MARCH 2023

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

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Independent Auditor's Review Report on the Interim Condensed Financial Information

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Alraedah Finance Company (the "Company"), a Saudi Closed Joint Stock Company as at 31 March 2023 and the related interim statements of profit or loss and other comprehensive income, changes in shareholder's equity and cash flows for the three-month period then ended, and notes to the interim financial information, including a summary of significant accounting policies and other explanatory notes.

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") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed 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", 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 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 that is endorsed in the Kingdom of Saudi Arabia.

For Dr. Mohamed Al-Amri & Co.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362



Riyadh, on 3 May 2023 (G)
Corresponding to: 13 Shawwal 1444 (H)

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

(All amounts are in Saudi Riyals unless otherwise stated)

| | Note | For the three months period ended 31 March | |
|---|------|--|-------------------|
| | | 2023 | 2022 |
| OPERATING INCOME | | | |
| Income from Murabaha contracts | | 49,282,365 | 25,853,580 |
| Finance charges | | (9,588,675) | (7,387,512) |
| | | <u>39,693,690</u> | <u>18,466,068</u> |
| Grant income and loss on restructuring of Murabaha receivables, net | | - | 2,910,994 |
| Application fees and other income | | 4,672,627 | 3,812,476 |
| TOTAL OPERATING INCOME, NET | | <u>44,366,317</u> | <u>25,189,538</u> |
| OPERATING EXPENSES | | | |
| General and administrative expenses | 4 | (15,029,361) | (7,862,464) |
| Selling and marketing expenses | 5 | (6,186,776) | (3,843,435) |
| Allowance for expected credit loss | 9(b) | (2,309,752) | (1,592,368) |
| Depreciation and amortisation | | (1,134,200) | (764,417) |
| | | <u>19,706,228</u> | <u>11,126,854</u> |
| Income from investments held at fair value through other comprehensive income ("FVOCI") | | - | 33,170 |
| Gain on sale of investments held at FVOCI | | - | 303,156 |
| PROFIT BEFORE ZAKAT | | <u>19,706,228</u> | <u>11,463,180</u> |
| Zakat expense | 6 | (1,970,623) | (1,188,813) |
| PROFIT FOR THE PERIOD | | <u>17,735,605</u> | <u>10,274,367</u> |
| OTHER COMPREHENSIVE INCOME | | | |
| <i>Items that may be reclassified to profit or loss in subsequent periods:</i> | | | |
| Fair value gain on investments held at FVOCI | | - | 79,255 |
| Gain on sale of investments held at FVOCI – reclassified to profit or loss | | - | (303,156) |
| TOTAL OTHER COMPREHENSIVE LOSS FOR THE PERIOD | | <u>-</u> | <u>(223,901)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | <u>17,735,605</u> | <u>10,050,466</u> |

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2023

(All amounts are in Saudi Riyals unless otherwise stated)

| | Note | 31 March 2023 (Unaudited) | 31 December 2022 (Audited) |
|--|------|---------------------------------|----------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | 7 | 71,367,180 | 33,269,740 |
| Restricted cash deposits | 8 | 5,000,000 | - |
| Murabaha receivables | 9(a) | 871,893,645 | 812,262,924 |
| Repossessed assets held for sale | 10 | 29,269,363 | 25,722,726 |
| Prepayments and other assets | | 12,929,011 | 14,283,063 |
| Investment held at fair value through other comprehensive income ("FVOCI") | | 892,850 | 892,850 |
| Right-of-use assets | | 2,367,359 | 5,203,742 |
| Property and equipment | | 4,928,459 | 5,037,902 |
| Intangible assets | | 8,387,251 | 6,682,644 |
| TOTAL ASSETS | | 1,007,035,118 | 903,355,591 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| LIABILITIES | | | |
| Accounts payable and accruals | | 80,187,230 | 68,547,508 |
| Payable to SAMA | 16 | 140,646,016 | 212,370,138 |
| Zakat payable | 6 | 7,933,532 | 5,962,909 |
| Lease liability | | 4,471,290 | 7,801,579 |
| Borrowings | 12 | 515,369,084 | 368,775,746 |
| Employees' terminal benefits | | 3,801,090 | 3,006,440 |
| TOTAL LIABILITIES | | 752,408,242 | 666,464,320 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 11 | 150,000,000 | 150,000,000 |
| Statutory reserve | | 10,494,411 | 10,494,411 |
| Reserve on re-measurement of employees' terminal benefits | | (289,203) | (289,203) |
| Retained earnings | | 94,421,668 | 76,686,063 |
| TOTAL SHAREHOLDERS' EQUITY | | 254,626,876 | 236,891,271 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 1,007,035,118 | 903,355,591 |

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

(All amounts are in Saudi Riyals unless otherwise stated)

| | Share capital | Statutory reserve | Retained earnings | Fair value reserve – FVOCI | Reserve on re-measurement of employees' terminal benefits | Total |
|---|--------------------|-------------------|-------------------|----------------------------|---|--------------------|
| <i>For the three months period ended 31 March 2022 (unaudited)</i> | | | | | | |
| Balance as at 1 January 2022 | 150,000,000 | 5,389,538 | 30,742,210 | 223,901 | (143,762) | 186,211,887 |
| Profit for the period | - | - | 10,274,367 | - | - | 10,274,367 |
| Other comprehensive loss for the period | - | - | - | (223,901) | - | (223,901) |
| Total comprehensive income for the period | - | - | 10,274,367 | (223,901) | - | 10,050,466 |
| Balance as at 31 March 2022 | 150,000,000 | 5,389,538 | 41,016,577 | - | (143,762) | 196,262,353 |
| <i>For the three months period ended 31 March 2023 (unaudited)</i> | | | | | | |
| Balance as at 1 January 2023 | 150,000,000 | 10,494,411 | 76,686,063 | - | (289,203) | 236,891,271 |
| Profit for the period | - | - | 17,735,605 | - | - | 17,735,605 |
| Other comprehensive loss for the period | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | 17,735,605 | - | - | 17,735,605 |
| Balance as at 31 March 2023 | 150,000,000 | 10,494,411 | 94,421,668 | - | (289,203) | 254,626,876 |

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

(All amounts are in Saudi Riyals unless otherwise stated)

| | Note | For the three months period ended 31 | |
|---|------|--------------------------------------|---------------------|
| | | March | 2022 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before zakat | | 19,706,228 | 11,463,180 |
| <i>Adjustments for:</i> | | | |
| Government grant income | | (6,584,067) | (4,694,343) |
| Finance cost | | 10,384,225 | 7,277,277 |
| Allowance for expected credit loss | 9(b) | 2,309,752 | 1,592,368 |
| Deferred grant income | | (591,056) | - |
| Income from investments held at FVOCI | | - | (33,170) |
| Gain on sale of investments held at FVOCI | | - | (303,156) |
| Depreciation on property and equipment | | 557,715 | 271,362 |
| Depreciation on right-of-use assets | | 354,801 | 354,801 |
| Amortisation of intangible assets | | 221,684 | 138,254 |
| Provision for employees' terminal benefits | | 831,564 | 339,377 |
| Finance charge on lease | | 89,961 | 100,759 |
| Gain on modification of lease | | (938,668) | - |
| Operating cash flows before working capital adjustments | | 26,342,139 | 16,506,709 |
| <i>Working capital adjustments:</i> | | | |
| Murabaha receivables | | (61,940,473) | (37,431,700) |
| Prepayments and other assets | | 1,354,052 | (198,717) |
| Repossessed assets held for sale | | (3,546,637) | - |
| Restricted cash deposits | 8 | (5,000,000) | - |
| Accounts payable and accruals | | 11,639,722 | 6,826,735 |
| Cash used in operating activities | | (31,151,197) | (14,296,973) |
| Employees' terminal benefits paid | | (36,914) | (53,580) |
| Net cash used in operating activities | | (31,188,111) | (14,350,553) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of investments held at FVOCI | | - | 4,020,938 |
| Purchase of property and equipment | | (448,272) | (4,369,509) |
| Purchase of intangible assets | | (1,926,291) | (1,129,885) |
| Net cash used in investing activities | | (2,374,563) | (1,478,456) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Cash received from SAMA | | - | 64,430,449 |
| Repayment to SAMA | | (74,942,653) | (47,787,897) |
| Proceeds from borrowings | | 193,490,000 | 24,750,000 |
| Repayment of borrowings | | (46,887,233) | (20,701,957) |
| Net cash from financing activities | | 71,660,114 | 20,690,595 |
| Net increase in cash and cash equivalents | | 38,097,440 | 4,861,586 |
| Cash and cash equivalents at the beginning of the period | | 33,269,740 | 36,724,912 |
| Cash and cash equivalents at the end of the period | 7 | 71,367,180 | 41,586,498 |

The accompanying notes 1 to 19 form an integral part of these interim condensed financial statements.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

(All amounts are in Saudi Riyals unless otherwise stated)

1 STATUS AND NATURE OF ACTIVITIES

Alraedah Finance Company, a Saudi Closed Joint Stock Company (the “Company”), registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010314982 dated 21 Ramadan 1432 (H), corresponding to 21 August 2011 (G).

The Company has one branch in Dammam under commercial registration numbered 2050150330 dated 20 Rabi ul Awal 1443 (H), corresponding to 26 October 2021 (G) and one branch in Riyadh under commercial registration numbered 1010830643 dated 6 Rabi ul Awal 1444 (H), corresponding to 2 October 2022 (G).

The Company is engaged in providing finance lease, finance for small and medium entities in the form of Ijara and Murabaha, and consumer finance in accordance with the approval of Saudi Arabian Monetary Authority (“SAMA”) numbered 43/ASH/201602 issued on 30 Rabi Thani 1437 (H), corresponding to 9 February 2016 (G).

The registered address of the Company is 3rd Floor, Tower B, Olaya Towers, Olaya Street, P.O. Box 86875, Riyadh, 11632, Kingdom of Saudi Arabia.

2 BASIS OF PREPARATION

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia. These interim condensed financial statements do not include all of the information and disclosures required for full annual financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended 31 December 2022.

These interim condensed financial statements have been prepared on a historical cost basis following the accrual basis of accounting, except for investments held at fair value through other comprehensive income (FVOCI) which have been carried at fair value, repossessed assets held for sale measured at lower of carrying value and fair value less cost to sell, and employees’ terminal benefits which have been measured at the present value of future obligations using Projected Unit Credit Method.

These interim condensed financial statements have been presented in Saudi Riyals (“SR”), which is also the functional currency of the Company.

Assets and liabilities in the interim condensed statement of financial position are presented in the order of their liquidity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Significant accounting policies

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with IFRSs as endorsed in KSA. In addition, results for the three months period ended 31 March 2023 are not necessarily indicative of the results that may be expected for the financial year ended 31 December 2023.

b) Significant accounting judgments, estimates and assumptions

The preparation of the Company’s interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The accounting estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2022.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

(All amounts are in Saudi Riyals unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Company

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Company's financial statements for the year ended 31 December 2022, except for the following amendments which apply for the first time in 2023. However, not all are expected to impact the Company as they are either not relevant to the Company's activities or require accounting which is consistent with the Company's current accounting policies.

The following new standards and amendments are effective for the period beginning 1 January 2023:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes).

These amendments had no impact on the interim condensed financial statements of the Company as there are no such transactions under the above amendments during the current period.

Impact of accounting standards to be applied in future periods

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective for periods beginning subsequent to 31 December 2022 (the date of the Company's next annual financial statements) that the Company has decided not to adopt early. The Company does not believe these standards and interpretations will have a material impact on the financial statements once adopted.

4 GENERAL AND ADMINISTRATIVE EXPENSES

| | For the three months period ended 31 March | |
|---|---|-----------------------------------|
| | 2023 (Unaudited) | 2022 (Unaudited) |
| Salaries and employees' related cost | 8,666,671 | 4,730,687 |
| Professional and legal fees | 2,549,152 | 949,308 |
| Credit underwriting expense | 1,010,000 | 391,744 |
| Utilities and IT infrastructure expense | 636,443 | 122,019 |
| Dues and subscription | 418,037 | 114,145 |
| Health insurance expense | 402,508 | 237,710 |
| Rent expense | 295,139 | 206,292 |
| Office expense | 159,414 | 275,286 |
| Other expenses | 891,997 | 835,273 |
| | 15,029,361 | 7,862,464 |

5 SELLING AND MARKETING EXPENSES

| | For the three months period ended 31 March | |
|--------------------------------------|---|-----------------------------------|
| | 2023 (Unaudited) | 2022 (Unaudited) |
| Salaries and employees' related cost | 3,447,684 | 2,421,428 |
| Commission expense | 1,829,603 | 1,053,575 |
| Advertisement and marketing expense | 909,489 | 368,432 |
| | 6,186,776 | 3,843,435 |

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

(All amounts are in Saudi Riyals unless otherwise stated)

6 ZAKAT

The movement in the zakat provision for the period / year is as follows:

| | 31 March 2023 (Unaudited) | 31 December 2022 (Audited) | 31 March 2022 (Unaudited) |
|---------------------------------------|--|-------------------------------|------------------------------|
| At the beginning of the period / year | 5,962,909 | 4,372,991 | 4,372,991 |
| Charge during the period / year | 1,970,623 | 6,102,220 | 1,188,813 |
| Payment during the period / year | - | (4,512,302) | - |
| At the end of the period / year | 7,933,532 | 5,962,909 | 5,561,804 |

Status of assessments

As at 31 March 2023, the Company had filed its zakat returns with the Zakat, Tax and Customs Authority (“ZATCA”) for all years up to 31 December 2022.

7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of:

| | 31 March 2023 (Unaudited) | 31 December 2022 (Audited) |
|---------------------------------|--|----------------------------------|
| Bank balances – current account | 71,367,180 | 33,269,740 |

Bank current accounts are with counterparties who have investment grade credit ratings, as rated by international rating agencies.

8 RESTRICTED CASH DEPOSITS

In line with the requirements of funding facilities granted by the bank, the Company has set aside SR 5 million (31 December 2022: Nil) as “restricted cash deposits”. The cash is deposited in a bank account and is not available for the Company’s operational use.

9 MURABAHA RECEIVABLES

Murabaha receivables have an original term period between 1 to 5 years:

9 (a) Total receivables

| | 31 March 2023 (Unaudited) | 31 December 2022 (Audited) |
|--|--|----------------------------------|
| Gross receivables | 1,103,632,706 | 1,037,012,822 |
| Less: unearned finance income | (214,721,426) | (209,534,622) |
| | 888,911,280 | 827,478,200 |
| Less: allowance for expected credit loss | (17,017,635) | (15,215,276) |
| Net receivables | 871,893,645 | 812,262,924 |

All the financing facilities provided by the Company are Shariah compliant accordingly they are unconventional in nature.

9 (b) Movement in allowance for expected credit loss

| | 31 March 2023 (Unaudited) | 31 December 2022 (Audited) | 31 March 2022 (Unaudited) |
|---|--|-------------------------------|------------------------------|
| Balance at the beginning of the period / year | 15,215,276 | 8,536,200 | 8,536,200 |
| Charge for the period / year | 2,309,752 | 9,597,798 | 1,592,368 |
| Written off during the period / year | (507,393) | (2,918,722) | - |
| Balance at the end of the period / year | 17,017,635 | 15,215,276 | 10,128,568 |

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

(All amounts are in Saudi Riyals unless otherwise stated)

9 MURABAHA RECEIVABLES (continued)

9 (c) Expected maturity

The expected maturity of the gross Murabaha receivables is as follows:

| | 31 March 2023 | 31 December 2022 |
|---------------|----------------------|------------------|
| | (Unaudited) | (Audited) |
| Within 1 year | 451,078,438 | 431,250,485 |
| 1 - 2 years | 179,300,316 | 133,771,138 |
| 2 - 3 years | 257,399,132 | 258,291,110 |
| 3 - 4 years | 928,393 | 3,859,782 |
| 4 – 5 years | 205,001 | 305,685 |
| Total | 888,911,280 | 827,478,200 |

9 (d) Aging of receivables (past due but not impaired)

As at reporting date, the aging of past due receivables are as follows:

| | < 30 days | 31 - 60 days | 61 – 90 days | 91 – 120 days | 121 – 180 days | 181 – 360 days | Above360 days | Total |
|-------------------------|-------------------|-------------------|-------------------|------------------|------------------|------------------|-------------------|--------------------|
| 31 March 2023 | | | | | | | | |
| Receivables | 46,163,545 | 55,753,106 | 36,167,511 | 1,827,745 | 1,090,041 | 6,626,595 | 16,782,827 | 164,411,370 |
| 31 December 2022 | | | | | | | | |
| Receivables | 82,410,523 | 80,112,951 | 51,565,537 | 5,860,174 | 3,705,251 | 5,210,160 | 15,792,404 | 244,657,000 |

9 (e) Economic sector risk concentration for the receivables is as follows

| | 31 March 2023 | 31 December 2022 |
|-----------------|----------------------|------------------|
| Sectors | (Unaudited) | (Audited) |
| Services | 38.00% | 35.90% |
| Retail business | 36.67% | 35.09% |
| Contracting | 10.38% | 13.33% |
| Industrial | 14.20% | 15.57% |
| Trading | 0.74% | 0.11% |

9 (f) Collateral

The Company in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the receivables. These collaterals mostly include real estate and Kafalah guarantees. The collaterals are held against receivables and are managed against relevant exposures at their net realisable values. The value of real estate collateral as at 31 March 2023 amounted to SR 329.4 million (unaudited).

ALRAEDAH FINANCE COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

(All amounts are in Saudi Riyals unless otherwise stated)

10 REPOSSESSED ASSETS HELD FOR SALE

During 2022, the Company acquired a real estate property including its moveable assets against defaulted Murabaha receivables. The real estate property valuations had been conducted by two independent valuers who hold memberships of Saudi Authority for Accredited Valuers and per both of them the market value of the repossessed assets is more than carrying value of the related Murabaha receivables. Accordingly, as at 31 December 2022, the repossessed assets had been recognised at the carrying value of Murabaha receivables amounting to SR 25.7 million. During the period, the Company has incurred cost amounted SR 3.5 million for maintenance and other services for the acquired real estate property which has been recognised as part of repossessed assets. The Company has signed an agreement to actively market the repossessed assets and currently under the process of finding the buyer to sale the repossessed assets.

11 SHARE CAPITAL

Share capital amounted to SR 150,000,000 as at 31 March 2023 and 31 December 2022 consisting of 15,000,000 shares of SR 10 each, which are fully paid.

12 BORROWINGS

The table below shows the details of the borrowings obtained by the Company:

| | 31 March 2023 (Unaudited) | 31 December 2022 (Audited) |
|--|--|----------------------------------|
| A Riyadh Financing Fund | 55,627,580 | 55,634,539 |
| B The Saudi Investment Bank | 138,595,347 | 42,243,711 |
| C Borrowings from a government entity | 186,617,058 | 222,080,610 |
| D Riyadh Bank | 96,009,325 | 48,816,886 |
| E SME Bank | 38,519,774 | - |
| | 515,369,084 | 368,775,746 |
| Current portion | 149,479,040 | 125,514,167 |
| Non-current portion | 365,890,044 | 243,261,579 |
| | 515,369,084 | 368,775,746 |

All borrowing facilities of the Company are Shariah complaint financing arrangements and are unconventional in nature.

A – Riyadh Financing Fund

During 2021, the Company entered into Musharakah arrangement with Riyadh Financing Fund to get finance as working capital support to the Company to finance its customers with initial present value of such loan being recorded at SR 55 million with maturity in November 2026. Riyadh Financing Fund as partner to the arrangement is entitled to receive profit as per Musharakah batch rate pro-rated to their respective share (i.e., share in capital contributed). Profit distribution made during the period amounted SR 0.9 million (31 December 2022: SR 3.8 million) and further periodic profit distributions to be made at three (3) month intervals, up to maturity. First principal distribution date is on 1 February 2024 i.e., 27 months from receipt of cash contribution and periodic principal distributions to be made at three (3) month intervals thereafter, up to maturity.

B – The Saudi Investment Bank

The Company entered into agreements with the Saudi Investment Bank with revolving credit facility amount of SR 50 million and non-revolving credit facility amount of SR 100 million during 2021 and 2022 respectively, to finance and support the Company's expansion plan by increasing the customer base. The facilities are secured by personal and in-kind guarantees from the Chairman of Board of Directors and general waiver in favor of the Bank for the proceeds of certain loan receivables classified under Stage 1. The Company has withdrawn SR 99.4 million during the period from available credit facilities (31 December 2022: SR 50 million) that is repayable on quarterly basis and recorded it at initial present value less transaction cost of SR 98.9 million (31 December 2022: SR 49.8 million). The withdrawn facilities carry profit at the rates fixed at the time of drawdown and payable on quarterly basis. The facilities have been withdrawn in multiple tranches with maturities ranging from March 2026 to March 2027. During the period, the Company has paid SR 3.7 million against draw down facilities (31 December 2022: 9.6 million).

ALRAEDAH FINANCE COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

(All amounts are in Saudi Riyals unless otherwise stated)

12 BORROWINGS (continued)

C – Borrowings from a government entity

Before 2020, the Company obtained loans from a government entity amounting to SR 125 million. These are repayable in monthly instalments that commenced in January 2019, with the final instalment due in June 2023. In April 2020, the government entity deferred its payments against the above-mentioned loans for one year effective from March 2020. The accounting impact of these changes in terms of the borrowings has been assessed and are treated as per the requirements of IFRS 9. This resulted in the Company incurring a modification gain of SR 6 million during the year ended 31 December 2020 with respect to the loans received before 2020. As required by the government entity as a condition of defer payments of these borrowings, the Company is required to give one-year deferrals of repayments to the Murabaha customers eligible for this program. This resulted in the Company incurring a corresponding modification loss of SR 10.3 million during the year ended 31 December 2020.

Between June 2020 and December 2022, the Company has obtained the following additional loans from the government entity repayable in monthly instalments:

| Loan receipt | Commencement of repayment | Final repayment | Loan amount |
|---------------------|----------------------------------|------------------------|--------------------|
| June 2020 | January 2021 | December 2023 | 20,000,000 |
| July 2020 | February 2021 | January 2024 | 25,000,000 |
| September 2020 | February 2021 | January 2024 | 25,000,000 |
| January 2021 | July 2021 | June 2024 | 15,000,000 |
| June 2021 | October 2021 | September 2024 | 15,000,000 |
| October 2021 | February 2022 | January 2025 | 20,000,000 |
| May 2022 | September 2022 | August 2025 | 50,000,000 |
| August 2022 | November 2022 | October 2025 | 50,000,000 |
| October 2022 | February 2023 | January 2026 | 60,000,000 |

The above borrowings received by the Company from a government entity carry fixed commission rates that are significantly lower than the prevailing market rates. They also carry a number of conditions, one of which is that equivalent loans should be disbursed to specific types/sectors of customers at reduced rates. The initially recorded benefit on these loans being the impact of “lower than market value” was accounted for as “government grant”. Such benefits were recognised, on meeting the conditions attached to the grant on a systematic basis against the expense for which such grant is intended to compensate, in profit or loss and other comprehensive income in “income from Murabaha contracts” line item. The government grant not yet recognised in profit or loss and other comprehensive income amounted nil (31 December 2022: SR 0.5 million) and included within “accounts payable and accruals”.

D – Riyadh Bank

The Company entered into non-revolving credit facility agreements with Riyadh Bank with facility amount of SR 50 million each during 2022 and 2023 respectively, to finance and support the Company's expansion plan by increasing the customer base. The facilities are secured by the guarantee from the Company, personal guarantee from the Chairman of Board of Directors and cash reserve against facility received during 2023, and certain loan receivables classified under Stage 1. The Company has withdrawn SR 50 million during the period from available credit facilities (31 December 2022: SR 50 million) that is repayable on quarterly basis and recorded it at initial present value less transaction cost of SR 49.6 million (31 December 2022: SR 49.6 million). The facilities carry profits at 3month SAIBOR plus a margin that are payable on quarterly basis. The facilities have been withdrawn in multiple tranches with maturities ranging from September 2027 to February 2028. During the period, the Company has paid SR 3.4 million against draw down facilities (31 December 2022: nil).

E – SME Bank

During the period, the Company has received funds of SR 45 million from Small & Medium Enterprises Bank (“SME Bank”) under borrowing agreement entered during December 2022 repayable at maturity during January 2026. The borrowing carries fixed commission that is significantly lower than the prevailing market rate. The agreement carries a number of conditions, one of which is that equivalent loans should be disbursed to specific types/sectors of customers at reduced rates. The initially recorded benefit on the borrowing amounted to SR 7.2 million during the period being the impact of “lower than market value” and accounted for as “government grant”. Such benefit was recognised, on meeting the conditions attached to the grant on a systematic basis against the expense for which such grant is intended to compensate, in profit or loss and other comprehensive income in “income from Murabaha contracts” line item.

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12 BORROWINGS (continued)

The government grant not yet recognised in profit or loss and other comprehensive income as at 31 March 2023 amounted to SR 0.6 million and included within “accounts payable and accruals”.

13 RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties.

The following are the details of major related party transactions during the period:

Compensation to key management personnel of the Company

| | Amount of transactions | |
|--|--|---------------------|
| | For the three months period ended 31 March | |
| | 2023 (Unaudited) | 2022 (Unaudited) |
| Remuneration | 378,254 | 297,059 |
| Termination and other long-term benefits | 58,739 | 64,134 |
| | 436,993 | 361,193 |

Transactions with the related parties related to the expenses:

| | Relationship | Nature of transaction | Amount of transactions | |
|---|--|--|--|---------------------|
| | | | For the three months period ended 31 March | |
| Related parties | | | 2023 (Unaudited) | 2022 (Unaudited) |
| Alraedah Payments Company (under incorporation) | Controlled by key management personnel | Margin deposit against guarantee issued on behalf of the related party | 1,000,000 | - |
| Alraedah Payments Company (under incorporation) | Controlled by key management personnel | Expenses paid on behalf of the related party | 103,340 | - |
| Alraedah Investment Company | Shareholder | Expenses paid on behalf of the related party | 27,557 | - |

Due from related parties:

Below are the related party balances included in prepayments and other assets:

| | 31 March 2023 (Unaudited) | 31 December 2022 (Audited) |
|--|---------------------------------|----------------------------------|
| Alraedah Investment Company | 618,940 | 591,383 |
| Alraedah Payments Company (under incorporation)* | 2,954,840 | 1,851,500 |
| | 3,573,780 | 2,442,883 |

* As at the date of approval of these interim condensed financial statements, the Company is under incorporation. The balance is secured by the personal guarantee of the Company’s shareholders.

14 RISK MANAGEMENT

The Company’s activities expose it to a variety of financial risks: market risk (including foreign currency risk and special commission rate risks), credit risk, legal risk and liquidity risk. The Company’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company’s financial performance. Risk management is carried out by senior management. The most important risks and their management are summarised below.

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14 RISK MANAGEMENT (continued)

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments of the Company will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange rates in the normal course of its business as neither it undertakes significant transactions nor does it have any significant monetary assets and liabilities denominated in foreign currency.

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is not exposed to a significant commission rate risk at 31 March 2023.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has established a credit policy for corporate borrowers. Furthermore, all the loans are allowed for the maximum term of 60 months. As per such policy, Murabaha receivables are not granted unless the borrower meets certain basic requirements, which are set out below:

- Corporate Know Your Customer (“KYC”) validation of real operation;
- Income earned through cash flows;
- Collateral provided as equipment, vehicles, machinery, property, unless exempted; and
- Valuation of above-mentioned collateral within basic Finance to Value (“FTV”) ratios.

The Company monitors its receivables on a weekly basis. Furthermore, most of the receivables are backed by adequate collaterals.

In case of receivables past due for three months, the Company takes legal actions against the borrower with an aim to either collect the receivable by selling the collaterals against which the financing is provided or force the customers to regularise their overdue positions.

The table below reflects the Company’s maximum exposure to credit risk for the components on the interim condensed statement of financial position:

| | 31 March 2023 (Unaudited) | 31 December 2022 (Audited) |
|---|--|-------------------------------|
| Cash and cash equivalents | 71,367,180 | 33,269,740 |
| Restricted cash deposits | 5,000,000 | - |
| Murabaha receivables | 871,893,645 | 812,262,924 |
| Investments held at fair value through other comprehensive income | 892,850 | 892,850 |
| Other assets | 10,986,969 | 12,639,886 |
| | 960,140,644 | 859,065,400 |

Legal risk

Title deed of the real estate properties are registered in the name of the Company. The enforceability of any related rights and obligations are subject to interpretation and enforceability in the relevant courts of law.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net financing requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of financing to dry up immediately. Management monitors the maturity profile of the Company’s assets and liabilities to ensure that adequate liquidity is maintained.

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14 RISK MANAGEMENT (continued)

Analysis of undiscounted value of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 March 2023 and 31 December 2022 based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the interim condensed statement of financial position date to the contractual maturity date.

| 31 March 2023 (Unaudited) | Less than 3 months | 3-12 months | 1-5 years | Total |
|----------------------------------|-------------------------------|--------------------|--------------------|--------------------|
| Accounts payable | 7,340,270 | 12,558,959 | 35,869,179 | 55,768,408 |
| Payable to SAMA | 6,766,926 | 137,764,977 | - | 144,531,903 |
| Lease liability | 1,874,380 | 937,190 | 1,874,380 | 4,685,950 |
| Borrowings | 38,554,879 | 142,166,010 | 383,301,823 | 564,022,712 |
| Total | 54,536,455 | 293,427,136 | 421,045,382 | 769,008,973 |

| 31 December 2022 (Audited) | Less than 3 months | 3-12 months | 1-5 years | Total |
|----------------------------|-----------------------|--------------------|--------------------|--------------------|
| Accounts payable | 5,803,976 | 13,687,426 | 28,015,865 | 47,507,267 |
| Payable to SAMA | 74,942,653 | 144,531,903 | - | 219,474,556 |
| Lease liability | 2,811,569 | 937,190 | 4,685,949 | 8,434,708 |
| Borrowings | 37,498,639 | 107,928,370 | 262,187,655 | 407,614,664 |
| Total | 121,056,837 | 267,084,889 | 294,889,469 | 683,031,195 |

15 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

Financial instruments comprise financial asset and financial liabilities. Financial assets of the Company include cash and bank balances, Murabaha receivables, investment held at fair value through other comprehensive income, restricted cash deposits and other receivables. Financial liabilities of the Company include borrowings, payable to SAMA, lease liability and accounts payable.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Company does not have any financial asset or financial liability carried at fair value in these interim condensed financial statements except for investment in Saudi Company for Registration of Financial Leasing Contracts held at fair value through other comprehensive income amounting to SR 0.89 million which has been categorised as Level 2 of fair value hierarchy (31 December 2022: SR 0.89 million for investment in Saudi Company for Registration of Financial Leasing Contracts categorised as Level 2 of fair value hierarchy).

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16 SAMA PROGRAMS

SAMA programs and initiatives launched

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to the SME sector through empowering and facilitating the financing community. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale (“POS”) and e-commerce service fee support program.

The Company has only participated in the deferred payment programs as mentioned above up till 31 March 2022.

During April 2020, SAMA has issued a guidance around additional COVID-19 support measures for Micro, Small and Medium Enterprises (“MSMEs”) that the finance companies will need to undertake in relation to MSMEs deferred payments program. The Company has considered the guidance issued and implemented in the year ended 31 December 2022.

Deferred payment program – March 2020

As part of the deferred payments program, the Company is required to defer payments for six months (from March 2020 to September 2020) on the eligible microfinance facilities. The payment reliefs are considered as short-term liquidity support to address the borrower’s potential cash flow issues. The Company has effected the payment relief by extending the tenure of the applicable financings granted with no additional costs to be borne by the customers. The accounting impact of these changes in the terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9. This has resulted in the Company recognising initially a day 1 modification loss of SR 5.9 million with respect to participating Murabaha facilities granted to its customers, which was recognised in profit or loss and other comprehensive income immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Pursuant to SAMA deferred payments program, the Company under an agreement with SAMA, received a loan amounting to SR 100.8 million, as profit-free deposit. Subsequently, management identified certain differences in the calculation based on which an amount of SR 100.8 million was derived. As a result, it was determined that an amount of SR 19.6 million should be refunded to SAMA and this was re-confirmed by SAMA and paid in July 2020. The revisited net amount payable to SAMA against this loan after repayment is SR 81.2 million. The amount is repayable to SAMA over the period of 3.5 years in equal monthly instalments, with an initial grace period of 6 months. During 2023, the Company has repaid SR 6.8 million against this facility (31 December 2022: SR 27.1 million). The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted initially in a total income of SR 10.4 million, which was recognised in profit or loss and other comprehensive income immediately. The management has exercised certain judgements in the recognition and measurement of this grant income.

Deferred payment program – September 2020

In September 2020, SAMA announced to extend the SAMA deferred payments program for three months from September 2020 until December 2020. Pursuant to this program, the Company received a loan amounting to SR 73.1 million, as profit-free deposit. The amount was repayable to SAMA over the period of 1.25 years in equal monthly instalments, with an initial grace period of 4 months. The Company has fully repaid this facility during 2022. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 4.2 million, which was recognised in the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 3 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss and other comprehensive income immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

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16 SAMA PROGRAMS (continued)

Deferred payment program – December 2020

In December 2020, SAMA announced to further extend the SAMA deferred payments program for three months from December 2020 until March 2021. Pursuant to this program, the Company received a loan amounting to SR 73.2 million, as profit-free deposit. The amount was repayable to SAMA over the period of 1.5 years in equal monthly instalments, with an initial grace period of 4 months. The Company has fully repaid this facility during 2022. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements.

This resulted in a total income of SR 4.7 million, which was recognised in the profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 3 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss and other comprehensive income immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – March 2021

In March 2021, SAMA announced to further extend the SAMA deferred payments program for three months from April 2021 until June 2021. Pursuant to this program, the Company received a loan amounting to SR 71 million, as profit-free deposit. The amount was repayable to SAMA over the period of 1.25 years in equal monthly instalments, with an initial grace period of 4 months. The Company has fully repaid this facility during 2022. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 4 million, which was recognised in the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 2.6 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss and other comprehensive income immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – June 2021

In June 2021, SAMA announced to further extend the SAMA deferred payments program for three months from June 2021 until September 2021. Pursuant to this program, the Company received a loan amounting to SR 68.2 million, as profit-free deposit. The amount was repayable to SAMA at maturity after the period of 1.5 years. The Company has repaid this facility during 2023. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 6.3 million, which was recognised in the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 2.2 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss and other comprehensive income immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Deferred payment program – September 2021

In September 2021, SAMA announced to further extend the SAMA deferred payments program for three months from October 2021 until December 2021. Pursuant to this program, the Company received a loan during January 2022 amounting to SR 64.4 million, as profit-free deposit. Effective 1 October 2021, the Company has recorded a receivable amounting to SR 6.2 million, to the extent of benefit of the subsidized funding rate for the loan. The received loan amount is repayable to SAMA at maturity after the period of 1.5 years from the date of receiving the loan. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements. This resulted in a total income of SR 6.2 million, which was recognised in the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 1.8 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss and other comprehensive income immediately. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

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16 SAMA PROGRAMS (continued)

Deferred payment program – December 2021

In December 2021, SAMA announced to further extend the SAMA deferred payments program for three months from January 2022 until March 2022. Pursuant to this program, the Company received a loan during May 2022 amounting to SR 64.3 million, as profit-free deposit. Effective 1 January 2022, the Company has recorded a receivable amounting to SR 4.7 million, to the extent of benefit of the subsidized funding rate for the loan amounting to SR 64.3 million expected to be received against it as per the conditions attached to this program. The received loan amount is repayable to SAMA at maturity after the period of 1.5 years from the date of receiving the loan. The benefit of the subsidized funding rate has been accounted for in accordance with government grant accounting requirements.

This resulted in a total income of SR 5.2 million, which was recognised in the statement of profit or loss and other comprehensive income immediately. The management has exercised significant judgements in the recognition of the payable to SAMA as well as the recognition and measurement of this grant income.

The Company has also recognised a day 1 modification loss of SR 1.8 million with respect to participating Murabaha facilities granted to its customers which was recognised in profit or loss and other comprehensive income immediately. In the absence of other factors, participation in this deferment is not considered as significant increase in credit risk.

17 CONTINGENCIES AND COMMITMENTS

Contingencies

The Company has no contingencies as at 31 March 2023 and 31 December 2022.

Commitments

The Company has the following commitments at reporting date:

- The Company has payment guarantee from the bank as at 31 March 2023 with amount of SR 10 million issued for Alraedah Payments Company (also refer note 13) (31 December 2022: nil); and
- The Company has short-term lease commitment related to lease of branch office amounted to SR 0.9 million as at 31 March 2023 (31 December 2022: SR 0.9 million).

18 SUBSEQUENT EVENTS

No material events have occurred subsequent to the reporting date and before the issuance of these interim condensed financial statements which require adjustments or additional disclosures to these interim condensed financial statements.

19 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Board of Directors on 13 Shawwal 1444 (H), corresponding to 3 May 2023 (G).
