

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

**INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
AND INDEPENDENT AUDITOR'S REVIEW REPORT
FOR THE THREE AND SIX MONTHS PERIODS
ENDED 30 JUNE 2023**

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2023

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

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 30 June 2023 and the related interim condensed statement of profit or loss and other comprehensive income for the three and six months periods then ended, and the related interim condensed statements of changes in shareholders' equity and cash flows for the six months period then ended, and 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.

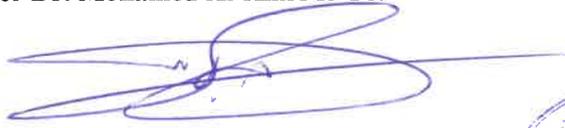
Scope of Review

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 15 Muharram 1445 (H)
Corresponding to: 2 August 2023 (G)

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

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

FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2023

(All amounts are in Saudi Riyals unless otherwise stated)

	Note	For the three months period		For the six months period	
		ended 30 June		ended 30 June	
		2023	2022	2023	2022
OPERATING INCOME					
Income from Murabaha contracts		52,174,594	35,415,583	101,456,960	61,269,163
Finance charges		(11,153,145)	(7,865,123)	(20,741,835)	(15,252,635)
		41,021,449	27,550,460	80,715,125	46,016,528
Grant income and loss on restructuring of Murabaha receivables, net		-	529,247	-	3,440,241
Application fees and other income		2,591,896	2,242,648	7,269,694	6,055,124
TOTAL OPERATING INCOME, NET		43,613,345	30,322,355	87,984,819	55,511,893
OPERATING EXPENSES					
General and administrative expenses	4	(15,416,325)	(11,197,239)	(30,193,028)	(19,059,703)
Selling and marketing expenses	5	(6,235,993)	(4,546,623)	(12,539,571)	(8,390,058)
Allowance for expected credit loss	9 (b)	(3,402,592)	(2,252,228)	(5,712,344)	(3,844,596)
Depreciation and amortisation		(1,010,943)	(973,448)	(2,112,981)	(1,737,865)
		17,547,492	11,352,817	37,426,895	22,479,671
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		17,547,492	11,352,817	37,426,895	22,815,997
Zakat expense	6	(1,772,067)	(1,135,282)	(3,742,690)	(2,324,095)
PROFIT FOR THE PERIOD		15,775,425	10,217,535	33,684,205	20,491,902
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		-	-	-	(223,901)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		15,775,425	10,217,535	33,684,205	20,268,001

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 30 JUNE 2023

(All amounts are in Saudi Riyals unless otherwise stated)

	Note	30 June 2023 (Unaudited)	31 December 2022 (Audited)
ASSETS			
Cash and cash equivalents	7	4,465,488	33,269,740
Restricted cash deposits	8	5,000,000	-
Murabaha receivables	9 (a)	891,547,544	812,262,924
Repossessed assets held for sale	10	52,499,257	25,722,726
Prepayments and other assets		23,386,207	14,283,063
Investment held at fair value through other comprehensive income ("FVOCI")		892,850	892,850
Right-of-use asset		2,083,276	5,203,742
Property and equipment		4,602,784	5,037,902
Intangible assets		9,802,332	6,682,644
TOTAL ASSETS		994,279,738	903,355,591
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable and accruals		82,243,468	68,547,508
Payable to SAMA	16	135,926,367	212,370,138
Zakat payable	6	9,705,599	5,962,909
Lease liability		2,648,982	7,801,579
Borrowings	12	488,998,565	368,775,746
Employees' terminal benefits		4,181,281	3,006,440
TOTAL LIABILITIES		723,704,262	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		110,370,268	76,686,063
TOTAL SHAREHOLDERS' EQUITY		270,575,476	236,891,271
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		994,279,738	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 SIX MONTHS PERIOD ENDED 30 JUNE 2023

(All amounts are in Saudi Riyals unless otherwise stated)

	Share capital SR	Statutory reserve SR	Fair value reserve - FVOCI SR	Reserve on re-measurement of employees' terminal benefits SR	Retained earnings SR	Total SR
For the six months period ended 30 June 2022						
(unaudited)						
Balance as at 1 January 2022	150,000,000	5,389,538	223,901	(143,762)	30,742,210	186,211,887
Profit for the period	-	-	-	-	20,491,902	20,491,902
Other comprehensive loss for the period	-	-	(223,901)	-	-	(223,901)
Total comprehensive income for the period	-	-	(223,901)	-	20,491,902	20,268,001
Balance as at 30 June 2022	150,000,000	5,389,538	-	(143,762)	51,234,112	206,479,888
For the six months period ended 30 June 2023						
(unaudited)						
Balance as at 1 January 2023	150,000,000	10,494,411	-	(289,203)	76,686,063	236,891,271
Profit for the period	-	-	-	-	33,684,205	33,684,205
Other comprehensive loss for the period	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	33,684,205	33,684,205
Balance as at 30 June 2023	150,000,000	10,494,411	-	(289,203)	110,370,268	270,575,476

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 SIX MONTHS PERIOD ENDED 30 JUNE 2023

(All amounts are in Saudi Riyals unless otherwise stated)

	Note	For the six months period ended	
		30 June 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before zakat		37,426,895	22,815,997
<i>Adjustments for:</i>			
Government grant income		(7,175,123)	(8,683,064)
Finance cost		21,443,297	15,029,401
Allowance for expected credit loss	9 (b)	5,712,344	3,844,596
Income from investments held at FVOCI		-	(33,170)
Gain on sale of investments held at FVOCI		-	(303,156)
Depreciation on property and equipment		1,022,666	739,938
Depreciation on right-of-use asset		638,883	709,602
Amortisation of intangible assets		451,432	288,325
Provision for employees' terminal benefits		1,248,541	580,612
Finance charge on leases		142,033	204,892
Gain on modification of lease		(938,668)	-
Operating cash flows before working capital adjustments		59,972,300	35,193,973
<i>Change in operating assets and liabilities:</i>			
Murabaha receivables		(84,996,964)	(137,462,920)
Repossessed assets held for sale		(26,776,531)	-
Restricted cash deposits	8	(5,000,000)	-
Prepayments and other assets		(9,103,144)	3,349,278
Accounts payable and accruals		13,695,959	18,284,329
Cash used in operating activities		(52,208,380)	(80,635,340)
Employees' terminal benefits paid		(73,698)	(160,193)
Zakat paid	6	-	(4,457,317)
Net cash used in operating activities		(52,282,078)	(85,252,850)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments held at FVOCI		-	4,020,938
Purchase of property and equipment		(587,548)	(5,075,676)
Purchase of intangible assets		(3,571,120)	(1,893,065)
Net cash used in investing activities		(4,158,668)	(2,947,803)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from SAMA		-	128,742,410
Repayments to SAMA		(81,709,578)	(85,830,225)
Proceeds from borrowings		215,365,000	99,750,000
Repayment of borrowings		(104,144,549)	(42,635,359)
Repayment of lease liabilities		(1,874,379)	-
Net cash from financing activities		27,636,494	100,026,826
Net (decrease) / increase in cash and cash equivalents		(28,804,252)	11,826,173
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	4,465,488	48,551,085

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 AND SIX MONTHS PERIOD ENDED 30 JUNE 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 Laysen Valley, Building No. 9, West Umm Al Hamam District, King Khaled Street, Riyadh 12329, 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”) that is 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 six months period ended 30 June 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
FOR THE THREE AND SIX MONTHS PERIOD ENDED 30 JUNE 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 2023 (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		For the six months period ended	
	30 June		30 June	
	2023	2022	2023	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Salaries and employees' related cost	8,735,536	5,536,296	17,352,994	10,266,983
Professional and legal fees	2,913,953	2,884,397	5,439,801	3,833,705
Utilities and IT infrastructure expense	943,649	450,982	1,585,679	573,001
Credit Bureau expense	610,000	665,103	1,117,040	1,056,847
Health insurance expense	478,080	250,827	878,548	488,537
Rent	411,089	250,750	706,227	457,042
Dues and subscription	305,991	268,136	692,921	382,281
Office expense	148,780	271,513	303,734	546,799
Government fees	125,942	235,396	698,621	455,869
Others	743,305	383,839	1,417,463	998,639
	15,416,325	11,197,239	30,193,028	19,059,703

5 SELLING AND MARKETING EXPENSES

	For the three months period ended 30		For the six months period ended	
	June		30 June	
	2023	2022	2023	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Salaries and employees' related cost	3,865,762	2,672,144	7,664,984	5,093,572
Commission	1,430,595	1,229,899	3,031,404	2,283,474
Advertisement and marketing	939,636	644,580	1,843,183	1,013,012
	6,235,993	4,546,623	12,539,571	8,390,058

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE AND SIX MONTHS PERIOD ENDED 30 JUNE 2023

(All amounts are in Saudi Riyals unless otherwise stated)

6 ZAKAT PAYABLE

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

	30 June 2023 (Unaudited)	31 December 2022 (Audited)	30 June 2022 (Unaudited)
At the beginning of the period / year	5,962,909	4,372,991	4,372,991
Charge for the period / year	3,742,690	6,102,220	2,324,095
Paid during the period / year	-	(4,512,302)	(4,457,317)
At the end of the period / year	9,705,599	5,962,909	2,239,769

Status of assessments

As at 30 June 2023, the Company had filed its zakat returns with the Zakat, Tax and Custom Authority (“ZATCA”) for all years up to 2022. As at the date of approval of these interim condensed financial statements, the Company has paid all due zakat liabilities.

7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Bank balances – current account	4,465,488	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

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Gross receivables	1,128,439,691	1,037,012,822
Less: unearned finance income	(218,472,094)	(209,534,622)
	909,967,597	827,478,200
Less: allowance for expected credit loss	(18,420,053)	(15,215,276)
Net receivables	891,547,544	812,262,924

All the financing facilities provided by the Company are Shariah compliant, accordingly they are non-conventional in nature.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE AND SIX MONTHS PERIOD ENDED 30 JUNE 2023

(All amounts are in Saudi Riyals unless otherwise stated)

9 MURABAHA RECEIVABLES (continued)

9 (b) Movement in allowance for expected credit loss

	30 June 2023 (Unaudited)	31 December 2022 (Audited)	30 June 2022 (Unaudited)
Balance at the beginning of the period/year	15,215,276	8,536,200	8,536,200
Charge for the period/year	5,712,344	9,597,798	3,844,596
Written off during the period/year	(2,507,567)	(2,918,722)	(584,478)
Balance at the end of the period/year	18,420,053	15,215,276	11,796,318

9 (c) Expected maturity

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

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Within 1 year	443,761,679	431,250,485
1 - 2 years	292,081,715	133,771,138
2 - 3 years	173,458,767	258,291,110
3 - 4 years	559,656	3,859,782
4 - 5 years	105,780	305,685
Total	909,967,597	827,478,200

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

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

	<i>< 30 days</i>	<i>30 - 60 days</i>	<i>61 - 90 days</i>	<i>91 - 120 days</i>	<i>121 - 180 days</i>	<i>181 - 360 days</i>	<i>Above 360 days</i>	<i>Total</i>
30 June 2023 (Unaudited)								
Receivables	81,779,769	57,876,695	98,426,110	2,139,104	8,402,308	5,792,925	7,975,198	262,392,109
31 December 2022 (Audited)								
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

Sectors	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Services	37.09%	35.09%
Retail business	35.93%	35.90%
Industrial	16.14%	15.57%
Contracting	10.39%	13.33%
Trading	0.45%	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 the collateral as at 30 June 2023 amounted to SR 293.6 million (unaudited).

ALRAEDAH FINANCE COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE AND SIX MONTHS PERIOD ENDED 30 JUNE 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 (hotel) 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 amounting SR 9.2 million for furnishing, maintenance and other services for the acquired real estate property which has been recognised as part of repossessed assets.

During 2023, the Company acquired a real estate (land) against another Murabaha receivables. The real estate valuation has been conducted by two independent valuers who hold membership 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 30 June 2023, the repossessed asset has been recognised at the carrying value of Murabaha receivables amounting to SR 17 million.

The Company has signed the agreements 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 30 June 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:

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
A Riyadh Financing Fund	55,652,024	55,634,539
B The Saudi Investment Bank	132,494,859	42,243,711
C Borrowings from a government entity	170,758,561	222,080,610
D Riyadh Bank	91,095,600	48,816,886
E SME Bank	38,997,521	-
	488,998,565	368,775,746
Current portion	157,919,967	125,514,167
Non-current portion	331,078,598	243,261,579
	488,998,565	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 1.9 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.

ALRAEDAH FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE AND SIX MONTHS PERIOD ENDED 30 JUNE 2023

(All amounts are in Saudi Riyals unless otherwise stated)

12 BORROWINGS (continued)

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 guarantees and general waiver in favor of the Bank for the proceeds of certain loan receivables classified under Stage 1. The Company has withdrawn SR 121.3 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 120.8 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 April 2027. During the period, the Company has paid SR 34.1 million against draw down facilities (31 December 2022: SR 9.6 million).

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 guarantees 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.

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12 BORROWINGS (continued)

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 10.3 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. During the period, the Company has paid SR 0.2 million against the borrowing.

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 six months period ended	
	30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Remuneration	693,509	594,118
Termination and other long-term benefits	84,939	88,821
	778,448	682,939

Transactions with the related parties related to the expenses

			Amount of transactions	
			For the six months period ended 30	
			June	
			2023	2022
			(Unaudited)	(Unaudited)
Related parties	Relationship	Nature of transaction		
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	67,465	35,341
Alraedah Digital Holding Company	Controlled by key management personnel	Deposit of share capital	500,000	-
Alraedah Investment L.L.C	Controlled by key management personnel	Advance against operating expense	17,652	-

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13 RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

Due from related parties

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

	30 June 2023	31 December 2022
	(Unaudited)	(Audited)
Alraedah Payments Company (under incorporation)*	2,954,840	1,851,500
Alraedah Investment Company	658,848	591,383
Alraedah Digital Holding Company	500,000	-
Alraedah Investment L.L.C	17,652	-
	4,131,340	2,442,883

* As at the date of approval of these interim condensed financial statements, the entity 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.

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 30 June 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.

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14 RISK MANAGEMENT (continued)

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

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Cash and cash equivalents	4,465,488	33,269,740
Restricted cash deposits	5,000,000	-
Murabaha receivables	891,547,544	812,262,924
Investments held at fair value through other comprehensive income	892,850	892,850
Other assets	18,030,748	12,639,886
	919,936,630	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.

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 30 June 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.

30 June 2023 (Unaudited)	Less than 3 months	3-12 months	1-5 years	Total
Accounts payable	7,443,022	13,128,378	37,915,315	58,486,715
Payable to SAMA	71,197,375	66,567,603	-	137,764,978
Lease liability	-	1,874,380	937,190	2,811,570
Borrowings	47,767,865	140,255,939	361,441,861	549,465,665
Total	126,408,262	221,826,300	400,294,366	748,528,928

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

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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).

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.

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16 SAMA PROGRAMS (continued)

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 13.5 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.

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.

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16 SAMA PROGRAMS (continued)

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.

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 30 June 2023 and 31 December 2022.

Commitments

The Company has the following commitments as at reporting date:

- The Company has payment guarantee from the bank as at 30 June 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 2.3 million as at 30 June 2023 (31 December 2022: SR 0.9 million).

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18 SUBSEQUENT EVENTS

Subsequent to the reporting date, the Company has entered into the following Shariah compliant financing arrangements:

- The Company entered into Musharakah arrangement with Riyadh Financing Fund III with capital of SR 250 million. The arrangement includes the terms for cash contribution from Riyadh Financing Fund III amounting SR 200 million while the Company is required to contribute in cash or in-kind amounting SR 50 million. As at the date of approval of these interim condensed financial statements, Riyadh Financing Fund III has made contribution in cash amounting SR 100 million to Musharakah while the Company has contributed in-kind an amount of SR 25 million. Riyadh Financing Fund III 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).
- The Company has signed an amendment to the credit facility agreement with the Saudi Investment Bank at market terms to increase the revolving credit facility limit from SR 50 million to SR 100 million. As at the date of approval of these interim condensed financial statements, the Company has further withdrawn SR 20 million from the revolving credit facility.

No other material events have occurred subsequent to the reporting date and before the issuance of these interim 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 15 Muharram 1445 (H), corresponding to 2 August 2023 (G).
