American Express (Saudi Arabia)

(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2017

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
AMERICAN EXPRESS (SAUDI ARABIA)
(SAUDI CLOSED JOINT STOCK COMPANY)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of American Express (Saudi Arabia), a Saudi Closed Joint Stock Company (the "Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss, statement of other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as modified by SAMA for the accounting of zakat and income tax and the provisions of Regulations for Companies and Company's By-Laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AMERICAN EXPRESS (SAUDI ARABIA) (SAUDI CLOSED JOINT STOCK COMPANY) (continued)

Report on the audit of the financial statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AMERICAN EXPRESS (SAUDI ARABIA) (SAUDI CLOSED JOINT STOCK COMPANY) (continued)

Report on the audit of the financial statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Based on the information has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354

Riyadh: 16 Jumad Al Thani 1439H
(4 March 2018)

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American Express (Saudi Arabia)
(Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	*31 December 2017* *SR '000*	*For the period from 1 November 2015 to 31 December 2016 (Restated)* *SR '000*
OPERATING INCOME			
Merchant transaction fees, net	6	158,997	207,684
Special commission income		-	24,092
Less: special commission expense		(5,752)	(11,986)
Net special commission (expense) income		(5,752)	12,106
NET MERCHANT TRANSACTION FEES AND SPECIAL COMMISSION INCOME		153,245	219,790
Other operating income			
Foreign exchange income		88,448	108,702
Service and administrative fees		80,224	71,256
Card membership fees, net		62,490	71,623
Late payment charges		1,104	10,293
Other income, net		8,412	10,105
TOTAL OPERATING INCOME		393,923	491,769
EXPENSES			
General and administration expenses	7	(159,979)	(188,611)
Selling and marketing expenses	8	(57,405)	(72,316)
Provision for card members' receivable, net of recoveries	10 (a)	(9,483)	(19,027)
NET PROFIT FOR THE YEAR / PERIOD		167,056	211,815

The attached notes 1 to 30 form part of these financial statements

American Express (Saudi Arabia)
(Saudi Closed Joint Stock Company)

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	*31 December 2017*	*For the period from 1 November 2015 to 31 December 2016 (Restated)*
		SR '000	*SR '000*
NET PROFIT FOR THE YEAR / PERIOD		**167,056**	211,815
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on defined benefit plans	19 (c)	-	(785)
Total other comprehensive loss		-	(785)
TOTAL COMPREHENSIVE INCOME		**167,056**	211,030

The attached notes 1 to 30 form part of these financial statements

American Express (Saudi Arabia)
(Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	*31 December 2017*	*31 December 2016 (Restated)*	*1 November 2015 (Restated)*
		SR '000	*SR '000*	*SR '000*
ASSETS				
Cash and cash equivalents	9	**25,242**	51,385	25,383
Card members' receivable, net	10	**752,348**	787,479	825,007
Amounts due from a related party	23 (c)	**128**	316	-
Prepaid expenses and other assets		**15,409**	13,699	15,379
Property and equipment, net	11	**18,590**	17,307	16,438
Intangible assets, net	12	**13,579**	13,217	15,644
TOTAL ASSETS		**825,296**	883,403	897,851
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Accounts payable and accruals	13	**101,710**	93,436	87,880
Zakat and income tax payable	14 (b)	**10,280**	11,727	11,471
Short term borrowings	15	**128,063**	243,751	267,047
Amounts due to a related party	23 (c)	**19,175**	12,956	11,166
Card members' margins	16	**60,615**	55,061	50,518
Membership rewards	17	**27,412**	26,513	38,530
Deferred card membership fees	18	**21,996**	22,113	23,669
Employees' terminal benefits	19 (a)	**30,583**	27,518	26,194
TOTAL LIABILITIES		**399,834**	493,075	516,475
SHAREHOLDERS' EQUITY				
Share capital	20	**100,000**	100,000	10,000
Proposed capital increase	20	**-**	-	90,000
Statutory reserve	21	**40,943**	24,237	5,000
Retained earnings		**284,519**	266,091	276,376
TOTAL SHAREHOLDERS' EQUITY		**425,462**	390,328	381,376
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**825,296**	883,403	897,851

The attached notes 1 to 30 form part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

31 December 2017	*Share capital*	*Proposed capital increase*	*Statutory reserve*	*Retained earnings*	*Total*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Balance at 1 January 2017, as previously reported	100,000	-	24,237	269,015	393,252
Adjustments for deferred tax (note 24) (from 1 November 2015 to 31 December 2016)	-	-	-	(2,924)	(2,924)
Opening balance at 1 January 2017, restated	100,000	-	24,237	266,091	390,328
Total comprehensive income	-	-	-	167,056	167,056
Transfer to statutory reserve (note 21)	-	-	16,706	(16,706)	-
Zakat and income tax (note 14 (a))	-	-	-	(16,972)	(16,972)
Dividends (note 22)	-	-	-	(114,950)	(114,950)
Balance at 31 December 2017	**100,000**	**-**	**40,943**	**284,519**	**425,462**

For the period from 1 November 2015 to 31 December 2016 (Restated)					
Balance at 1 November 2015, as previously reported	10,000	90,000	5,000	278,731	383,731
Effect of restatement (note 24)	-	-	-	(2,355)	(2,355)
Balances as at 1 November 2015 (restated)	10,000	90,000	5,000	276,376	381,376
Increase in share capital (note 20)	90,000	(90,000)	-	-	-
Net profit for the period	-	-	-	211,815	211,815
Other comprehensive loss (note 19 (c))	-	-	-	(785)	(785)
Total comprehensive income (restated)	-	-	-	211,030	211,030
Transfer to statutory reserve (note 21)	-	-	19,237	(19,237)	-
Zakat and income tax (restated, notes 14 (a) & 24)	-	-	-	(20,015)	(20,015)
Dividends (note 22)	-	-	-	(182,063)	(182,063)
Balance at 31 December 2016 (restated)	100,000	-	24,237	266,091	390,328

American Express (Saudi Arabia)
(Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	31 December 2017 SR '000	For the period from 1 November 2015 to 31 December 2016 (Restated) SR '000
OPERATING ACTIVITIES			
Net profit for the year/ period		**167,056**	211,815
Adjustments for:			
Depreciation	7	**4,305**	3,901
Amortisation of intangible assets	7	**5,045**	7,452
Provision for card members' receivables, net of recoveries	10 (a)	**6,365**	19,027
Provision for card membership fees		**9,483**	3,038
Provision for fraud losses		**186**	101
Provision for employees' terminal benefits	19 (b)	**4,483**	4,990
Net gain on sale of property and equipment		**(83)**	(102)
Intangible assets written off		**152**	19
Operating cash flows before working capital changes		**196,992**	250,241
Changes in operating assets and liabilities:			
Card members' receivables		**19,283**	15,463
Prepaid expenses and other assets		**(1,710)**	1,680
Accounts payable and accruals		**8,088**	5,455
Due to related parties, net		**6,407**	1,474
Card members' margins		**5,554**	4,543
Membership rewards		**899**	(12,017)
Deferred card membership fees		**(117)**	(1,556)
Cash from operations		**235,396**	265,283
Zakat and income tax paid	14 (b)	**(18,419)**	(19,759)
Employees' terminal benefits paid	19 (c)	**(1,418)**	(4,451)
Net cash from operating activities		**215,559**	241,073
INVESTING ACTIVITIES			
Purchase of property and equipment	11	**(5,611)**	(4,789)
Purchase of intangible assets	12	**(5,559)**	(5,025)
Proceeds from sale of property and equipment		**106**	102
Net cash used in investing activities		**(11,064)**	(9,712)
FINANCING ACTIVITIES			
Proceeds from short term borrowing facilities		**1,442,818**	4,413,437
Repayment of short term borrowing facilities		**(1,558,506)**	(4,436,733)
Dividends paid	22	**(114,950)**	(182,063)
Net cash used in financing activities		**(230,638)**	(205,359)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(26,143)**	26,002
Cash and cash equivalents at beginning of the year/ period		**51,385**	25,383
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/ PERIOD	9	**25,242**	51,385

The attached notes 1 to 30 form part of these financial statements

1 ACTIVITIES

American Express (Saudi Arabia) (the "Company" or "AESA") is a Saudi Closed Joint Stock Company incorporated in the Kingdom of Saudi Arabia. The Company operates under commercial registration No. 1010183222 issued in Riyadh on 27 Shawwal 1423H (corresponding to 31 December 2002); and reissued on 28 Muharram 1437H (corresponding to 10 November 2015), Service License No. 110/1 dated 13 Muharram 1423H (corresponding to 12 April 2002) issued by the Saudi Arabian General Investment Authority ("SAGIA") and License No. 04/ASH/215102 dated 28 Safar 1437H (corresponding to 10 December 2015) issued by the Saudi Arabian Monetary Authority ("SAMA").

The Company's head office is located in Riyadh. The Company has the following branches:

Branch Commercial Registration Number	*Date*	*Location*
2051041721	2 Safar 1431H	Khobar
4030189461	11 Jumada Awal 1430H	Jeddah
1010607543	23 Rajab 1438H	Riyadh
JLT-69544	23 December 2013	Dubai, United Arab Emirates

The Company is licensed by American Express Travel Related Services ("AETRS") to operate card and merchant establishment business in the Kingdom of Saudi Arabia.

Pursuant to the Ministry of Commerce and Industry Resolution numbered 14/K dated 19 Muharram 1437H (corresponding to 1 November 2015), the Company has been converted from a Limited Liability Company ("LLC") to a Saudi Closed Joint Stock Company ("Closed JSC"). The Company's name was changed from "American Express (Saudi Arabia) Limited" to "American Express (Saudi Arabia)". The Company effectively assumed the assets and liabilities of the Limited Liability Company, on the basis that it is a continuing entity for all purposes, other than the legal conversion.

Assets and liabilities taken over were on the basis of International Financial Reporting Standards ("IFRS").

Following are the assets and liabilities recognised as of the date of change in legal form:

	Notes	*1 November 2015**
		SR '000
ASSETS		
Cash and cash equivalents		25,383
Card members' receivable, net		825,007
Prepaid expenses and other assets		15,379
Deferred income tax		2,355
Property and equipment, net	11	16,438
Intangible assets, net	12	15,644
TOTAL ASSETS		900,206
LIABILITIES		
Accounts payable and accruals		87,880
Provision for zakat and income tax	14 (b)	11,471
Short term borrowing facilities		267,047
Due to related parties		11,166
Card members' margins		50,518
Membership rewards	17	38,530
Deferred card membership fees	18	23,669
Employees' terminal benefits	19 (c)	26,194
TOTAL LIABILITIES		516,475
NET ASSETS		383,731

* As at date of conversion; also refer note 24 for subsequent restatement of deferred tax asset.

2 FIRST TIME ADOPTION OF IFRS

The Company had decided to carry forward the statutory reserve and retained earnings as carried in the Limited Liability Company as at the date of conversion to a Closed Joint Stock Company.

The financial statements for the period from 1 November 2015 to 31 December 2016 and thereafter were prepared by the Company in accordance with IFRS.

In preparing the prior period financial statements, the Company's opening statement of financial position was prepared as at 1 November 2015 after incorporating the following GAAP differences between SOCPA and IFRS:

i) Employees' terminal benefits which was calculated based on the Saudi Arabian Labor Law was accounted for based on actuarial valuation.

ii) Deferred tax asset was accounted for, at the date of conversion from LLC to Closed JSC, for timing difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Also refer note 24 for subsequent restatement of deferred tax asset.

iii) Certain reclassifications were made in the statement of profit and loss for better presentation. The Company opted to present the statement of other comprehensive income separately from the statement of profit or loss.

3 BASIS OF PREPARATION AND PRESENTATION

The financial statements of the Company have been prepared:

- in accordance with IFRS as modified by SAMA for the 'accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and International Financial Reporting Interpretations Committee ("IFRIC") 21 - "Levies" so far as these relate to zakat and income tax. As per SAMA Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), zakat and income tax are to be accrued through shareholders equity under retained earnings; and

- in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

Refer note 5 for the accounting policy of zakat and income tax and note 24 for the impact of change in the accounting policy, for current and prior periods, resulting from the SAMA Circular.

These financial statements have been presented in Saudi Riyals, as it is the functional currency of the Company and are rounded off to the nearest thousands.

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

4 SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Membership rewards
The Company uses models to estimate ultimate redemption rates ("URR") and weighted average cost ("WAC") to accrue for costs in respect of outstanding membership rewards at the reporting date. These are adjusted periodically to reflect the actual redemptions experienced till the reporting date.

4 SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Provision for card members' receivables
An estimate of the collectible amount of card members' receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates.

Any difference between the amounts actually collected in future periods and the amounts expected as estimated earlier, will be recognised in the statement of profit or loss. Based on the above and the historical performance of the Company's receivable, it is management's estimate that the uncertainty is limited.

Fraud losses
Provision for fraud losses is estimated by management based on the Company's historical experience.

Useful lives of property and equipment and intangible assets
The Company's management determines the estimated useful lives of its property and equipment and intangible assets for calculating depreciation and amortisation. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the residual value and useful lives annually and future depreciation and amortisation charge would be adjusted where management believes the useful lives differ from previous estimates.

Going concern
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the financial statements as at 31 December 2017, are consistent with those followed in the preparation of the Company's statutory financial statements for the fourteen months period ended 31 December 2016 (1 November 2015 to 31 December 2016), except for the change in the accounting policy in relation to accounting for Zakat and Income tax as prescribed by SAMA effective 1 January 2017 (see note 3 - basis of preparation and presentation and note 24 – restatements) and adoption of new standards and interpretations effective as of 1 January 2017.

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2017, they do not have material impact on these financial statements of the Company.

Amendments to IAS 7, Statement of cash flows on disclosure initiative
Applicable for annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

Special commission income and service and administrative fees
Starting 1 March 2016, in order to make its products sharia compliant as required by SAMA, the Company has replaced special commission income with service and administrative fees in respect of its consumer card holders which comprises of a fixed monthly fee charged to the Company's card holders for providing services related to the card product.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

The following is a summary of significant accounting policies applied by the Company:

Accounting convention
These financial statements are prepared under the historical cost convention.

Cash and cash equivalents
For the purposes of the statement of cash flows, cash and cash equivalents consists of bank balances and cash on hand.

Card members' receivable
Card members' receivables are originated by the Company and are initially measured at fair value – which is the cash consideration to originate the receivable including transaction costs. Following initial recognition, the receivables are stated at amortised cost.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Capital work in progress is not depreciated. The cost less estimated residual value of other property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. Expenditure for repair and maintenance are charged to the statement of profit or loss. Betterments that increase the value or materially extend the life of the related assets are capitalised.

Dividends
Final dividends are recognized as a liability at the time of their approval by the shareholders' General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Derecognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions
Provisions are recognised when an obligation (legal or constructive) arises from a past event, and the costs to settle the obligation are both probable and may be measured reliably by the Company.

Loans and borrowings
Special commission expense bearing loans and borrowings are measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, if and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Operating leases
Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the statement of profit or loss on a straight line basis over the lease term.

Fraud losses
Provision for fraud losses is estimated by management based on the Company's historical experience.

Card member margins
Card member margins represent amounts received from card members. The Company is entitled to set-off card member margins against amounts due from card members, but does not intend to do so unless in the event of default.

Deferred revenue
Card fees
Deferred card member-ship fees represent the unexpired portion of annually charged new card fees and renewal card fees, net of provision.

Membership rewards
The Company's Membership Rewards Loyalty Program ("MRLP") allows card members to earn points that can be redeemed for a broad range of travel rewards, retail merchandise and gifts. The Company estimates the fair value of MRLP based on a product of weighted average cost, the ultimate redemption rate (factor of points which are ultimately expected to be redeemed by program members) and a reasonable profit margin. The cumulative liability for unredeemed points is adjusted over time based on actual redemption.

The Company makes payments to merchants when card members redeem their points.

Zakat and income tax
Zakat and income tax is provided in accordance with the Income Tax law and Zakat Regulations of the General Authority for Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia, on an accrual basis. The provision is charged to statement of changes in shareholders' equity (see note 3 - basis of preparation and presentation).

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' terminal benefits
The Company operates a defined benefit plan for employees in accordance with Saudi Arabian Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding adjustment to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to comprehensive income in subsequent periods.

Past service cost are recognised in the statement of profit or loss at the earlier of:
- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs

Net special commission income is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of profit or loss:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements (under general and administrative expenses)
- Net special commission expense or income (under borrowing facility cost and charges)

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognised.

Merchant transaction fees
Merchant transaction fees is the revenue earned by the Company which arises as a result of usage of the American Express cards issued by the Company as well as by issuers outside the Kingdom of Saudi Arabia ('swipe of the cards at merchant's establishments approved by the Company). Merchant transaction fees is recognised upon capture of record of charges submitted by service / merchant establishments to the Company. Merchant transaction fees includes net revenue from loyalty programmes, as set out below.

Revenue from loyalty programmes - Membership rewards
The Company's MRLP allows cardmembers to earn points that can be redeemed for a broad range of travel rewards, retail merchandise and gifts. The Company estimates the fair value of points 'awarded and deferred' by applying a marked up average cost per point on statistically derived expected redemptions.

MRLP under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The fair value of the consideration received in respect of the initial sale is allocated between the award credits and other components of the sale. The fair value of the award credits issued is deferred and recognised as revenue when the award credits are redeemed.

The cumulative liability for unredeemed points is adjusted over time based on actual experience and current trends with respect to redemption.

Special commission income
Special commission income is recognised primarily in the period in which they are charged to the cardmembers. Special commission income is accrued based upon the amount outstanding with the cardmembers on an effective rate basis in accordance with the terms of the applicable agreement until the outstanding balance is fully settled. Starting 1 March 2016, the Company has replaced special commission income with service and administrative fees in respect of its consumer card holders as set out under accounting policy for "*service and administrative fee*".

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Service and administrative fee
Service and administrative fees comprise a fixed monthly fee charged to the Company's consumer card holders (from 1 March 2016) for providing services related to the card product. The Company has the discretion to refund the fee if the entire outstanding balance is settled within time limits prescribed by the Company. The Company offers different credit limits that can be availed by card holders based on the nature of the card and credit scoring.

In addition, a late payment fee is also charged to delinquent customers on non-settlement of their outstanding balances. The late payment fees held in a liability account are set aside for charity as per Sharia principles and not recognised as the Company's revenue.

Card fees
Annual card fees billed to card members on admission to membership and on each anniversary of their admission are deferred, along with the fee reversal provision, and taken to the statement of profit or loss over the period that the fees entitle the card members to use their cards.

Foreign exchange
Foreign exchange income represents income earned on foreign exchange rate differences upon converting cardmember expenditures in a currency other than the billing currency.

Expenses
Selling and distribution expenses are those that specifically relate to marketing department. All other expenses are allocated on a consistent basis to sales and marketing and general and administration expenses in accordance with allocation factors determined as appropriate by the Company.

Provision for credit losses
Provision for credit losses relating to card members' receivables represent management's best estimate of the losses inherent in the Company's outstanding portfolio of card members' receivables.

Management's evaluation process requires certain estimates and judgments. Allowance for these losses are primarily based upon statistical models that analyse portfolio performance and reflect management's judgment regarding overall reserve adequacy. The models take into account several factors, including loss migration rates and average losses and recoveries over an appropriate historical period. Management considers whether to adjust the models for specific factors such as increased risk in certain portfolios, impact of risk management initiatives on portfolio performance and concentration of credit risk based on factors such as age, industry or geographic regions. In addition, management may increase or decrease the reserves for losses for other external environmental factors including leading economic and market indicators.

As part of this evaluation process, management also considers various reserve coverage metrics, such as reserves as a percentage of past due amounts, reserves as a percentage of card member receivables and net write-off coverage.

Card members' receivables are written off when management deems amounts to be uncollectible, which is generally determined by the number of days past due and is no later than 180 days.

Recoveries are recognised on a cash basis.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision for card membership fees

Provision for card membership fees represents the Company's best estimate of future card member cancellations and non-renewals. This reserve is established due to the Company's longstanding policy to refund the entire annual membership fee if card members cancel their relationship with the Company within a specified period. These reserves are recognised in earnings ratably over the contractual life of the arrangement. The provision provides for both renewal cancellations as well as new card member cancellations. The provision is based upon historical membership fee reversals arising due to card member cancellations and considers the number of months a full refund is available to card members.

Foreign currencies

The financial statements are presented in Saudi Riyal, which is the Company's functional and presentation currency. Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of profit or loss.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

6 MERCHANT TRANSACTION FEES, NET

	31 December 2017	*For the period from 1 November 2015 to 31 December 2016*
	SR'000	*SR'000*
Local card member transaction fees on 'out of Kingdom' spend (note 23 (a))	**109,320**	130,012
Transaction fees on 'in Kingdom' spend	**54,630**	84,145
Airline transaction fees	**5,078**	5,656
	169,028	219,813
Foreign card member transaction fees settled (note 23 (a))	**(10,031)**	(12,129)
	158,997	207,684

7 GENERAL AND ADMINISTRATION EXPENSES

	31 December 2017	*For the period from 1 November 2015 to 31 December 2016*
	SR'000	*SR'000*
Employee related expenses	**81,023**	101,014
Data processing expenses	**31,761**	37,604
Rent and related expenses	**8,275**	9,203
Contractual services	**7,944**	9,949
Withholding taxes and others	**7,352**	2,724
Professional charges	**5,843**	6,144
Telecommunication expenses	**5,300**	6,563
Amortisation of intangible assets (note 12)	**5,045**	7,452
Depreciation (note 11)	**4,305**	3,901
Provision for fraud losses (note 13 (a))	**102**	101
Others	**3,029**	3,956
	159,979	188,611

8 SELLING AND MARKETING EXPENSES

	31 December 2017	*For the period from 1 November 2015 to 31 December 2016*
	SR'000	*SR'000*
Marketing and promotion expenses	**19,863**	24,491
Membership rewards	**18,862**	21,432
Employee related expenses	**11,496**	14,332
Contractual services	**4,056**	5,080
Rent and related expenses	**1,690**	1,880
Card member benefits	**805**	4,317
Telecommunication expenses	**633**	784
	57,405	72,316

9 CASH AND CASH EQUIVALENTS

	31 December 2017	*31 December 2016*
	SR'000	*SR'000*
Bank balances	**25,204**	51,346
Cash in hand	**38**	39
	25,242	51,385

10 CARD MEMBERS' RECEIVABLE, NET

	31 December 2017	*31 December 2016*
	SR'000	*SR'000*
Card members' receivable	**758,603**	793,749
Less: Impairment in card members' receivable (see note (a) below)	**(5,866)**	(5,983)
Less: Provision for card membership fees (see note (b) below)	**(389)**	(287)
	752,348	787,479

The ageing of unimpaired card members' receivables is as follows:

	Total	*Neither past due nor impaired*	*Past due but not impaired*			
			1 - 30 days	*31 - 60 days*	*61 - 90 days*	*91 - 180 days*
	SR' 000	*SR' 000*	*SR' 000*	*SR' 000*	*SR' 000*	*SR' 000*
31 December 2017	**752,348**	**698,869**	**30,173**	**12,117**	**4,664**	**6,525**
31 December 2016	787,479	726,408	34,598	12,224	5,543	8,706

a) *Movement in impairment in respect of card members' receivables is as follows:*

	31 December 2017	*For the period from 1 November 2015 to 31 December 2016*
	SR'000	*SR'000*
At beginning of the year / period	**5,983**	4,501
Charge for the year / period	**15,897**	25,474
Written off during the year / period	**(16,014)**	(23,992)
At end of the year / period	**5,866**	5,983

The impairment charge to the statement of profit or loss amounting to SR 9.48 million is net of recoveries during the year of SR 6.41 million (31 December 2016 : charge of SR 19.03 million net of recoveries of SR 6.45 million).

b) *Movement in card membership fees provision is as follows:*

	31 December 2017	*For the period from 1 November 2015 to 31 December 2016*
	SR'000	*SR'000*
At beginning of the year / period	**287**	453
Charge for the year / period	**3,416**	3,038
Written off during the year / period	**(3,314)**	(3,204)
At end of the year / period	**389**	287

11 PROPERTY AND EQUIPMENT, NET

The estimated useful lives of assets for calculation of depreciation are as follows:

Building and improvements 5 to 20 years; Computer equipment 3 to 5 years; Furniture, fixtures and office equipment 3 to 5 years; Motor vehicles 4 years

	Building and improvements	*Computer equipment*	*Furniture, fixtures and office equipment*	*Motor vehicles*	*Capital work-in progress*	**Total 2017**	*Total 2016*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Cost:							
At beginning of the year / period	16,585	7,479	7,357	714	3,590	**35,725**	33,664
Additions during the year / period	-	-	-	-	5,611	**5,611**	4,789
Transfers during the year / period	1,040	163	6,347	93	(7,643)	**-**	-
Disposals during the year / period	-	(296)	-	-	-	**(296)**	(426)
Write-offs during the year / period	(2,850)	(2,120)	(2,924)	-	-	**(7,894)**	(2,302)
At end of the year / period	14,775	5,226	10,780	807	1,558	**33,146**	35,725
Accumulated depreciation:							
At beginning of the year / period	7,083	5,875	4,958	502	-	**18,418**	17,226
Charge for the year / period (note 7)	1,715	807	1,717	66	-	**4,305**	3,901
Disposals during the year / period	-	(296)	-	-	-	**(296)**	(426)
Write-offs during the year / period	(2,850)	(2,118)	(2,903)	-	-	**(7,871)**	(2,283)
At end of the year / period	5,948	4,268	3,772	568	-	**14,556**	18,418
Net book values:							
At 31 December 2017	**8,827**	**958**	**7,008**	**239**	**1,558**	**18,590**	
At 31 December 2016	9,502	1,604	2,399	212	3,590		17,307

Capital work-in progress as at 31 December 2017 and 2016 represents cost incurred for telephone, switchboard, office and computer equipment and furniture and fixtures.

12 INTANGIBLE ASSETS, NET

The estimated useful lives of assets for calculation of amortisation are as follows:

Software 3-5 years

	Software	*Capital work in progress*	*Total 2017*	*Total 2016*
	SR'000	*SR'000*	*SR'000*	*SR'000*
Cost:				
At beginning of the year / period	53,317	833	**54,150**	49,788
Additions during the year / period	-	5,559	**5,559**	5,025
Transfers during the year / period	3,380	(3,380)	-	-
Write-offs during the year / period	(11,302)	-	**(11,302)**	(663)
At the end of the year / period	45.395	3,012	**48,407**	54,150
Accumulated amortisation:				
At beginning of the year / period	40,933	-	**40,933**	34,144
Charge for the year / period (note 7)	5,045	-	**5,045**	7,452
Write-offs during the year / period	(11,150)	-	**(11,150)**	(663)
At end of the year / period	34,828	-	**34,828**	40,933
Net book values:				
As at 31 December 2017	**10,567**	**3,012**	**13,579**	
As at 31 December 2016	12,384	833		13,217

Capital work-in progress as at 31 December 2017 and 2016 represents cost incurred mainly for applications and software technical platforms.

13 ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2017	*31 December 2016*
	SR'000	*SR'000*
Advance from card members	**29,904**	39,309
Accrued expenses	**28,059**	23,468
Employees' accrued compensation	**18,163**	19,208
Payable to merchants	**16,946**	7,743
Withholding taxes	**2,846**	298
Provision for fraud losses (see note (a) below)	**9**	14
Other payable	**5,783**	3,396
	101,710	93,436

13 ACCOUNTS PAYABLE AND ACCRUALS (continued)

a) Movement in provision for fraud loss is as follows:

	31 December 2017	*For the period from 1 November 2015 to 31 December 2016*
	SR'000	*SR'000*
At beginning of the year / period	**14**	60
Provided during the year / period	**186**	438
Written off during the year / period	**(191)**	(484)
At end of the year / period	**9**	14

The charge to the statement of profit or loss amounting to SR 0.10 million (note 7) is net of recoveries during the year amounting to SR 0.08 million (31 December 2016 : SR 0.10 million net of recoveries of SR 0.34 million).

14 ZAKAT AND INCOME TAX PAYABLE

The Company is owned by Saudi and Non-Saudi shareholders, and hence is subject to zakat (on Saudi shareholder's share) and income tax (on Non-Saudi shareholder's share). The income tax and zakat liability, SR 10.80 million and 7.90 million (31 December 2016: SR 13.12 million and SR 6.89 million) respectively, have been calculated on the basis of the Income Tax Law and the Zakat Regulations in the Kingdom of Saudi Arabia.

a) Charge for the year / period (statement of changes in shareholders' equity)

	31 December 2017	*For the period from 1 November 2015 to 31 December 2016*
	SR'000	*SR'000*
Current zakat and income tax (see note (b))	**18,700**	20,015
Adjustments for income tax from prior years	**(1,728)**	-
Charged to the statement of changes in shareholders' equity	**16,972**	20,015

The provision for Zakat is calculated on the Saudi shareholder's share of zakat base as set out below:

	31 December 2017	*31 December 2016*
	SR'000	*SR'000*
Equity	**194,811**	132,503
Provisions	**29,079**	27,722
Book value of long term assets (net of related financing)	**(32,852)**	(37,425)
Zakatable profit for the year / period	**124,972**	153,049
Zakat base	**316,010**	275,849
Zakat due	7,900	6,896

14 ZAKAT AND INCOME TAX PAYABLE (continued)

b) Movement in provision for zakat and income tax is set out below:

For the year ended 31 December 2017	*Zakat*	*Income tax*	*Total*
	SR '000	*SR '000*	*SR '000*
Balance at beginning of the year / period	**7,060**	**4,667**	**11,727**
Provision during the year / period (note a)	**7,900**	**9,072**	**16,972**
Payments during the year / period	**(7,061)**	**(11,358)**	**(18,419)**
Balance at end of the year / period	**7,899**	**2,381**	**10,280**

For the period from 1 November 2015 to 31 December 2016	*Zakat*	*Income tax*	*Total*
	SR '000	*SR '000*	*SR '000*
Balance at beginning of the year / period	5,963	5,508	11,471
Provision during the year / period (note a)	6,896	13,119	20,015
Payments during the year / period	(5,799)	(13,960)	(19,759)
Balance at end of the year / period	7,060	4,667	11,727

c) Below is a reconciliation of tax expense and the accounting profit multiplied by the applicable tax rate:

	31 December 2017	*31 December 2016*
	SR'000	*SR'000*
Accounting profit before zakat and income tax	**167,056**	211,815
Accounting profit related to Non GCC shareholders @ 30%	**50,117**	63,545
At statutory income tax rate of 20%	**10,023**	12,709
Tax effect of other items	**777**	410
Effective income tax @ 21.55% (2016: 20.65%)	**10,800**	13,119

d) Status of assessments

The Company has filed zakat and income tax returns for all years up to 31 December 2016 and has obtained provisional zakat certificate, which is valid upto 30 April 2018.

During 2010, the Company received assessments from the General Authority for Zakat and Tax (the "GAZT") for the years 2003 to 2006 claiming additional zakat, income tax and withholding tax of SR 6.17 million. The Company accepted and paid claims of SR 2.97 million and paid the balance of SR 3.20 million under protest. The GAZT also assessed delay fine amounting to SR 4.57 million. The Company's appeal to the Appellate Committee for Zakat and Tax Appeal ("ACZTA") was accepted for certain items which reduced the liability by SR 0.25 million. The Company further accepted and paid claims amounting to SR 1.42 million. The net assessed exposure in respect of delay fine for 2003 to 2006 amounts to SR 2.90 million. The Company has submitted bank guarantees for SR 3.00 million in respect of delay fine. The Company has filed an appeal with the Board of Grievances ("BoG") in January 2016 against the ACZTA's decision. The Lower Court and the Appeal Circuit of the BoG has rejected the Company's contentions. The Company filed an appeal with Supreme Administrative Court against the decision of the Appeal Circuit during June 2017.

14 ZAKAT AND INCOME TAX PAYABLE (continued)

d) Status of assessments (continued)

During 2014, the Company received assessments from the GAZT for the years 2007 to 2011 claiming additional zakat, income tax and withholding tax of SR 15.55 million. The Company accepted and paid claims of SR 0.28 million, filed an appeal on certain disputed items and also paid under protest the balance of SR 13.88 million towards taxes excluding zakat. The GAZT in its revised assessment computed an overpayment towards withholding taxes by SR 0.26 million. The GAZT also assessed delay fine amounting to SR 6.21 million out of which the Company accepted and paid claims amounting to SR 0.16 million. During June 2016, ruling from the Preliminary Zakat and Tax Appeal Committee ("PZTAC") was received which reduced the zakat and taxes liability by SR 1.42 million and SR 0.16 million in respect of delay fine. The net assessed exposure in respect of delay fine for 2007 to 2011 is SR 5.74 million. The Company, has submitted a bank guarantee to the GAZT for SR 7.00 million in respect of zakat and the balance of the delay fine and filed an appeal with the ACZTA. The Company is confident of the appeal outcome in its favour.

The applicability of tax and WHT on the transactions under dispute (material adjustments) is not explicit under the tax law. The Company believes that the transactions on which the delay fine is assessed by the GAZT resulted on account of difference of interpretation between the Company and the GAZT on the taxability of the above transactions. The Company is confident of the outcome of the appeal in its favour since the dispute (material adjustments) arose clearly on account of difference of interpretation between the Company and the GAZT and there is no wilful intention to delay the payment of due taxes.

Assessments for the years ended 31 December 2012 to 2016 have not yet been raised.

15 SHORT TERM BORROWINGS

Short term borrowings represent the following loan / facilities obtained by the Company:

a) Short term facilities from banks aggregating USD 263.00 million (equivalent to SR 986.25 million) (31 December 2016: USD 188 million equivalent to SR 705.00 million) to finance the working capital requirements of the Company. These loans are secured by promissory notes signed by the Company and facilities will be due for renewal during 2018. As of 31 December 2017, the outstanding balance under these facilities was nil (31 December 2016: SR 243.75 million).

b) Credit facility from American Express Overseas Credit Corporation ("AEOCC") NV ("AEOCC NV") aggregating USD 200 million (unaudited) (equivalent to SR 750 million) (31 December 2016: USD 200 million equivalent to SR 750.00 million) to finance the working capital requirements of the Company. As of 31 December 2017, the outstanding balance under this facility was USD 34.15 million equivalent to SR 128.06 million (31 December 2016: USD 0.0001 million equivalent to SR 0.001 million). The facility will be due for renewal on 23 August 2020.

Note: Previously, the Company had credit facility arrangements with AEOCC. During 2017, the Company has signed for credit facilities with AEOCC NV, a subsidiary of AEOCC.

16 CARD MEMBERS' MARGINS

'Revolve cards' and 'charge cards' issued by the Company are generally unsecured. In certain instances, where a prospective customer does not meet certain predefined credit criteria, the Company requires a margin or a cash-collateral. Based on the terms of agreement with such customers, the Company is entitled to offset the margin money or cash collateral received against amounts due from such card members. The collateral margin held as at 31 December 2017 was SR 60.62 million (31 December 2016 : SR 55.06 million).

17 MEMBERSHIP REWARDS

	31 December 2017 SR'000	31 December 2016 SR'000
At beginning of the period / year	26,513	38,530
Accumulated during the period / year	17,943	6,766
Utilised during the period / year	(17,044)	(18,783)
At end of the period / year	27,412	26,513

18 DEFERRED CARD MEMBERSHIP FEES

Deferred card membership fees represent the unamortised portion of annually charged new and renewal card fees net of commission costs.

	31 December 2017 SR'000	31 December 2016 SR'000
At beginning of the period / year	22,113	23,669
Billed to card members during the period / year	66,013	73,327
Recognised during the period / year	(66,130)	(74,883)
At end of the period / year	21,996	22,113

19 EMPLOYEES' TERMINAL BENEFITS

The following tables summarise the components of end of service benefits recognised in the statement of profit or loss and amounts recognised in the statement of comprehensive income and statement of financial position:

a) Amount recognised in the statement of financial position:

	31 December 2017 (SR '000)	31 December 2016 (SR '000)
Present value of defined benefit obligation	30,583	27,518

b) Benefit expense (recognised in statement of profit or loss):

	31 December 2017 (SR '000)	For the period from 1 November 2015 to 31 December 2016 (SR '000)
Current service cost	3,698	2,304
Special commission cost	785	874
Immediate recognition of prior service cost	-	1,812
Benefit expense	4,483	4,990

19 EMPLOYEES' TERMINAL BENEFITS (continued)

c) *Movement in the present value of defined benefit obligation:*

	31 December 2017	*For the period from 1 November 2015 to 31 December 2016*
	(SR '000)	*(SR '000)*
Present value of defined benefit obligation at beginning of the period	**27,518**	26,194
Charge recognised in statement of profit or loss		
Current service cost	**3,698**	2,304
Special commission cost	**785**	874
Immediate recognition of prior service cost	**-**	1,812
Actuarial loss on defined benefit plan recognised in the statement of other comprehensive income	**-**	785
Benefits paid	**(1,418)**	(4,451)
Present value of defined benefit obligation at end of the period	**30,583**	27,518

d) *Principal actuarial assumption:*

Discount rate	5%
Salary increase rate	5%

20 SHARE CAPITAL

The Company's share capital of SR 100 million consists of 10 million shares of SR 10 each.

During 2015, the shareholders had proposed an increase in the share capital of the Company by SR 90 million which was completed during the prior period and the amount was transferred to share capital.

21 STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its income after zakat and income tax in each year until it has built up a reserve equal to one half of the share capital. The reserve is not available for distribution. The Company is in the process of updating its By-laws in accordance with the new Regulations for Companies in the Kingdom of Saudi Arabia.

22 DIVIDENDS

During the year, the shareholders approved net dividends amounting to SR 114.95 million amounting to SR 11.495 per share (31 December 2016 : SR 182.06 million amounting to SR 18.206 per share).

23 RELATED PARTY TRANSACTIONS AND BALANCES

a) Significant transactions arising from transactions with related parties are as follows:

Related party	*Nature of transaction*	*31 December 2017* *SR'000*	*For the period from 1 November 2015 to 31 December 2016* *SR'000*
Shareholder			
The Saudi Investment Bank ("SAIB")	Data support services	**(4,382)**	(5,013)
	Service and annual card fees	**867**	1,175
American Express Middle East ("AEME")	Service fees	**(468)**	(4,178)
Affiliate			
AETRS	Merchant transaction fees earned (note 6)	**109,320**	130,012
	Merchant transaction fees incurred on foreign cards (note 6)	**(10,031)**	(12,129)
	Royalty expense	**(395)**	(460)
AEOCC NV (see note 15 (b))	Finance charges paid (note 15(b))	**(515)**	(5,093)
	Short term loans received	**674,064**	1,848,938
	Short term loans settled	**(546,007)**	(1,855,983)

In addition to the above, most of the routine banking transactions of the Company are carried out with SAIB. Bank balances as at 31 December 2017 with SAIB amounted to SR 24.37 million and are included under cash and cash equivalents (31 December 2016 : SR 48.67 million).

b) The compensation of key management personnel during the year ended 31 December 2017 amounted to SR 12.02 million (31 December 2016 : SR 13.59 million).

c) The following receivable/ (payable) balances arose as a result of transactions with related parties:

Related party	*Name*	31 December 2017 *SR '000*	*31 December 2016* *SR '000*
Due from / (to):			
Shareholder	SAIB	**128**	316
Affiliates	AETRS	**(19,175)**	(12,956)

24 RESTATEMENTS

Pursuant to the change in accounting policy as set out in note 3:

a) Zakat and income tax charge for the comparative period of SR 20.02 million which was debited to statement of profit or loss earlier has now been charged to statement of changes in shareholders' equity.

b) The Company has reversed deferred tax assets recorded during the prior period pertaining to the opening balance sheet (1 November 2015) and onwards.

Consequently, the net profit and total comprehensive income for the comparative period has been restated after considering the above impact.

The change in the accounting policy for zakat and income tax has the following impacts on the line items of statements of financial position, profit or loss, other comprehensive income and changes in shareholders' equity:

	Assets	*Liabilities*	*Retained earnings*	*Equity*
	SR '000	*SR '000*	*SR '000*	*SR '000*
1 November 2015 balances as previously stated (Audited)	900,206	516,475	278,731	383,731
a. Reversal of zakat and income tax for the period *	-	-	-	-
b. Reversal of deferred tax asset	(2,355)	-	(2,355)	(2,355)
Net effect of restatements	(2,355)	-	(2,355)	(2,355)
1 November 2015 balances, restated	897,851	516,475	276,376	381,376

	Assets	*Liabilities*	*Retained earnings*	*Equity*
	SR '000	*SR '000*	*SR '000*	*SR '000*
31 December 2016 balances as previously stated (Audited)	885,578	492,326	269,015	393,252
c. Reversal of zakat and income tax for the period *	-	-	-	-
d. Reversal of deferred tax asset	(2,924)	-	(2,924)	(2,924)
Net effect of restatements	(2,924)	-	(2,924)	(2,924)
Reclassifications of debit balances from accounts payable and accruals *to* prepaid expenses and other assets	749	749	-	-
31 December 2016 balances, restated	883,403	493,075	266,091	390,328

* There is no impact arising on the retained earnings from the revised treatment of zakat and income tax, as these are now charged directly to retained earnings.

25 COMMITMENTS AND CONTINGENCES

Capital commitments
Commitments in respect of capital expenditure outstanding as at 31 December 2017 amounted to SR 1.43 million (31 December 2016 : SR 2.4 million).

Undrawn commitments
The undrawn credit commitments in respect of revolve credit cards issued by the Company as at 31 December 2017 amounted to SR 796.01 million (31 December 2016 : SR 831.37 million).

Lease commitments
The rental commitments in respect of office premises as at 31 December 2017 amounted to SR 2.26 million (31 December 2016 : SR 2.96 million).

Bank guarantees
Outstanding bank guarantees issued to the GAZT as at 31 December 2017 and 2016, in respect of its appeals to the HAC and BoG amounted to SR 10.00 million.

26 FINANCIAL INSTRUMENTS AND FAIR VALUE

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 by the Company.

Financial instruments comprise financial asset and financial liabilities.

Financial assets consist of bank balances and receivables. Financial liabilities consist of short term borrowings, accounts payables, cardmembers' margins and membership rewards.

Fair value hierarchy
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.

26 FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

	31 December 2017		*31 December 2016*	
	Carrying value	*Fair value*	*Carrying value*	*Fair value*
	SR '000	*SR '000*	*SR '000*	*SR '000*
Financial assets				
Cash and cash equivalents	25,242	25,242	51,385	51,385
Card members' receivable, net	752,348	752,348	787,479	787,479
Amounts due from a related party	128	128	316	316
Other assets	5,649	5,649	4,544	4,544
	783,367	783,367	843,724	843,724
Financial liabilities				
Accounts payable and accruals	101,710	101,710	93,436	93,436
Amounts due to a related party	19,175	19,175	12,956	12,956
Card members' margins	60,615	60,615	55,061	55,061
Short term borrowing facilities	128,063	128,063	243,751	243,751
Membership rewards	27,412	27,412	26,513	26,513
	336,975	336,975	431,717	431,717

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Company's management determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement, such as assets held for distribution in a discontinued operation.

Due to the short term nature of the financial assets and liabilities; the fair values of the financial assets and liabilities are not materially different from their carrying values. These would qualify for level 2 disclosure under IFRS. There have been no transfers to and from Level 2 during the period.

27 RISK MANAGEMENT

Financial instruments carried on the statement of financial position comprise cash and cash equivalents, card members' receivable, due from a related party and other receivables and financing from financial institutions and accounts payable, due to a related party, accruals and other liabilities.

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted.

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

27 RISK MANAGEMENT (continued)

Risk management is carried out under policies approved by the management. The management identifies and evaluates overall risk management covering specific areas, such as foreign exchange risk, special commission rate risk, credit risk, and investment of excess liquidity.

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit exposures arise principally in respect of lending activities that lead to card members' receivables. There is also credit risk in off balance sheet financial instruments, such as undrawn commitments.

The Company assesses the probability of default of its customers using their internal payment and spend history, application and behaviour scores, credit bureau information (including bureau scores) and other external data sources.

The Company attempts to control credit risk by approving creditworthy applicants, monitoring credit exposures, limiting transactions with specific counterparties, performing periodic credit bureau inquiries for all customers, preventing card usage when customers go significantly over their credit limit or become delinquent and by regular follow up for collection of overdue receivables.

Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. The Company's credit risk is restricted to the Kingdom of Saudi Arabia as it provides services only to residents in Saudi Arabia.

Due to the nature of its business, significant concentration of credit risk exists as significant card members' receivables are from a few individuals or companies. The Company obtains security in the form of cash margin deposits or bank guarantees when appropriate but most of its credit exposures granted are unsecured.

The Company regularly reviews its risk management policies and systems to reflect changes in the portfolio, markets, products and emerging best practices.

The carrying amount of financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at the reporting date was on account of:

	31 December 2017	*31 December 2016*
	SR'000	*SR'000*
Card members' receivable, net	752,348	787,479
Bank balances	25,204	51,346
Amounts due from a related party	128	316
Other assets	5,649	4,544
	783,329	843,685

Individual card members' receivables of SR 570.24 million (31 December 2016 : SR 595.45 million), corporate card members' receivables of SR 182.11 million (31 December 2016 : SR 192.03 million) and other assets are unrated financial assets.

Bank balances included in cash and cash equivalents and due from related parties are with a counterparties that have investment grade credit ratings. Investment grade refers to the quality of the counterparty's credit. In order to be considered investment grade, the counterparty must be rated at 'BBB' or higher by Standard and Poor's or Moody's.

27 RISK MANAGEMENT (continued)

Special commission rate risk

Special commission rate risk is the uncertainty of future earnings resulting from fluctuations in special commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to special commission rate adjustment within a specified year. The most important source of such special commission rate risk is the Company's short term borrowing facilities, where fluctuations in special commission rates, if any, are reflected in the results of operations.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Company's statement of profit or loss for an annual period. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2017 and 2016. All the exposures are monitored and analysed in major currency concentrations (exposure is either in Saudi Riyals or United States Dollars) and relevant sensitivities are disclosed in Saudi Riyals.

	31 December 2017		*31 December 2016*	
	Change in basis points	*Impact on net income*	*Change in basis points*	*Impact on net income*
	SR'000	*SR'000*	*SR'000*	*SR'000*
Saudi Riyal	+25	(320)	+25	(609)
Saudi Riyal	-25	320	-25	609

Card member receivables are not subject to special commission rate risk as the Company only charges fixed monthly service and administrative fees for the overdue balance in respect of revolve cards. Further, charge cards are also not subject to special commission rate risk as the Company only charges fixed delay fines for the overdue balance.

27 RISK MANAGEMENT (continued)

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 to ensure that adequate liquidity is maintained.

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2017 and 2016 based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date.

		Fixed maturity		
	No fixed maturity	*Within 3 months*	*3 to 12 months*	*Total*
31 December 2017	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Accounts payable and accruals	-	89,284	12,426	101,710
Amounts due to a related party	-	19,175	-	19,175
Card members' margins	60,615	-	-	60,615
Short term borrowing facilities	-	128,211	-	128,211
Membership rewards	27,412	-	-	27,412
Total	88,027	236,670	12,426	337,123

27 RISK MANAGEMENT (continued)

Liquidity risk (continued)

a) Analysis of financial liabilities by remaining contractual maturities (continued)

	No fixed maturity	Fixed maturity: Within 3 months	Fixed maturity: 3 to 12 months	Total
	SR'000	*SR'000*	*SR'000*	*SR'000*
31 December 2016				
Accounts payable and accruals	-	90,040	3,396	93,436
Amounts due to a related party	-	12,956	-	12,956
Card members' margins	55,061	-	-	55,061
Short term borrowing facilities	-	244,181	-	244,181
Membership rewards	26,513	-	-	26,513
Total	81,574	347,177	3,396	432,147

27 RISK MANAGEMENT (continued)

Liquidity risk (continued)

b) *Analysis of financial assets and liabilities according to when they are expected to be recovered or settled*

The table shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled:

		Fixed maturity			
	On demand	*Within 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
31 December 2017	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Assets					
Cash and cash equivalents	25,242	-	-	-	25,242
Card members' receivable, net	-	752,348	-	-	752,348
Amounts due from a related party	-	128	-	-	128
Other assets	-	1,218	3,986	445	5,649
Financial assets	25,242	753,694	3,986	445	783,367
Liabilities					
Accounts payable and accruals	-	(89,284)	(12,426)	-	(101,710)
Amounts due to a related party	-	(19,175)	-	-	(19,175)
Card members' margins	(60,615)	-	-	-	(60,615)
Short term borrowing facilities	-	(128,063)	-	-	(128,063)
Membership rewards	(27,412)	-	-	-	(27,412)
Financial liabilities	(88,027)	(236,522)	(12,426)	-	(336,975)
Net financial assets (liabilities)	(62,785)	517,172	(8,440)	445	446,392

27 RISK MANAGEMENT (continued)

Liquidity risk (continued)

b) *Analysis of financial assets and liabilities according to when they are expected to be recovered or settled (continued)*

		Fixed maturity			
	On demand	*Within 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
31 December 2016	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Assets					
Cash and cash equivalents	51,385	-	-	-	51,385
Card members' receivable, net	-	787,479	-	-	787,479
Amounts due from a related party	-	316	-	-	316
Other assets	-	1,310	2,770	464	4,544
Financial assets	51,385	789,105	2,770	464	843,724
Liabilities					
Accounts payable and accruals	-	(90,040)	(3,396)	-	(93,436)
Amounts due to a related party	-	(12,956)	-	-	(12,956)
Card members' margins	(55,061)	-	-	-	(55,061)
Short term borrowing facilities	-	(243,751)	-	-	(243,751)
Membership rewards	(26,513)	-	-	-	(26,513)
Financial liabilities	(81,574)	(346,747)	(3,396)	-	(431,717)
Net financial assets (liabilities)	(30,189)	442,358	(626)	464	412,007

27 RISK MANAGEMENT (continued)

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. Since Saudi Riyals is on a fixed parity to the US Dollar, management believes that the Company is not subject to any significant currency risk.

28 SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE

Significant standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
Implementation strategy
In July 2014, the International Accounting Standards Board ('IASB') issued IFRS 9 - Financial Instruments, the standard that replaces IAS 39 - Financial Instruments: Recognition and Measurement effective from 1 January 2018, with early adoption permitted. AESA considered implementing IFRS 9 as a significant project and therefore set up a multidisciplinary implementation team with members from its Credit risk and Finance functions, to achieve a successful and robust implementation. The project is managed by the Chief Risk Officer and the Chief Financial Officer.

Classification and measurement
The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVTPL').

The majority of financial assets that are classified as card members' receivable (nomenclature in AESA's accompanying financial statements) and are measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9 as well.

Under IFRS 9, the accounting for AESA's financial liabilities will largely remain similar to IAS 39. The de-recognition rules have been transferred from IAS 39 and have not changed. AESA therefore does not expect any material impact on its financial liabilities and the de-recognition accounting policy.

Impairment
AESA will recognise impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are carried at amortised cost. These, to a significant extent include AESA's card members' receivable that are measured at amortised cost. The key inputs into the measurement of ECL are the following variables:
- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The above parameters are derived from historical data. The Company will categorise its financial assets into following three stages in accordance with IFRS 9 methodology:

Stage 1- Performing assets:
Financial asset(s) that have not significantly deteriorated in credit quality since origination and which fall in delinquency bucket 0 or 1 are classified as performing assets. The impairment allowance will be recorded based on 12 months ECL.

28 SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)

Stage 2 - Underperforming assets:
Financial asset(s) that have significantly deteriorated in credit quality and which fall in delinquency bucket 2 or 3 would be classified as Stage 2 assets. The impairment allowance will be recorded based on lifetime ECL.

Stage 3 - Impaired assets:
For Financial asset(s) that are impaired and which fall in delinquency bucket 4, 5 or 6, the Company will recognise the impairment allowance based on lifetime ECL.

The Company will, in future, also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

To evaluate a range of possible outcomes, the Company intends to formulate various scenarios. For each scenario, the Company will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

The Company has implemented IFRS 9 undertaking a parallel run exercise together with various levels of validation before going live on 1 January 2018.

Overall expected impact
The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of IFRS 9 on 1 January 2018:

- According to transitional provisions for initial application of IFRS 9, the Company is allowed to recognise any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings under the statement of changes in shareholders' equity. Accordingly, the overall effect is approximated to be SR 4.2 million on the date of initial application in opening retained earnings arising due to application of expected credit loss model as against incurred loss model;

- IFRS 9 also introduces extended disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Governance and controls
The Governance structure and controls is currently under implementation in line with the leading practices. The Company shall establish a Board approved Governance framework with detailed policies and controls, including roles and responsibilities. The Company has a centrally managed IFRS 9 programme which includes subject matter experts on methodology, data sourcing, modelling and reporting. The Company's work to date has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and developing an impairment methodology to support the calculation of the Expected Credit Loss (ECL) allowance. Specifically during 2017, the Company conducted business model assessments and financial instrument's contractual cash flow analysis, developed its approach for assessing significant increase in credit risk ("SICR") and developed the Expected Credit loss models incorporating forward looking information, including macro-economic factors and preparing the process architecture. The Company has performed a full end to end parallel run based on 31 December 2017 data to assess procedural readiness. Overall governance of the program's implementation is through the IFRS 9 Steering Committee and includes representation from Finance and Risk. The Company is in the process of enhancing its governance framework to implement appropriate validations and controls over new key processes and significant areas of judgment such as SICR determining and applying forward looking information in multiple economic scenarios and computation of ECL.

28 SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)

Caveat:
The estimated decrease in shareholders' equity includes the impact of both balance sheet classification and measurement changes and the increase to credit impairment provisions compared to those applied at 31 December 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Company could vary significantly from this estimate. The Company continues to refine models, methodologies and controls, and monitor developments in regulatory rule-making in advance of IFRS 9 adoption on 1 January 2018. Although parallel runs were carried out in the second half of 2017, the new models and associated controls in place have not been operational for a more extended time. As a result, the Company has not finalised the testing and assessment of controls over its new models and changes to its governance framework. All estimates are based on the Company's current interpretation of the requirements of IFRS 9, reflecting industry guidance and discussions to date.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15.

IFRS 16 Leases
In January 2016, the IASB issued the final version of IFRS 16 Leases which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 is effective for annual periods beginning on or after 1 January 2019 with early application permitted but only if it also applies IFRS 15 Revenue from Contracts with Customers.

The adoption of IFRS 16 will have an effect on the classification and measurement of the Company's leased assets. The Company is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

29 COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform with the presentation in the current year.

30 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 11 Jumada Al Thani 1439H (corresponding to 27 February 2018).

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