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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2019

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

Financial Statements and Independent Auditor's Report
For the Year Ended 31 December 2019

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AMERICAN EXPRESS (SAUDI ARABIA)

Report on Audit of the Financial Statements

Opinion

We have audited the financial statements of American Express (Saudi Arabia) (the "Company"), which comprise the statement of financial position as at 31 December 2019, 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 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

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 that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law 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 AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AMERICAN EXPRESS (SAUDI ARABIA) (CONTINUED)

Report on 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 AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AMERICAN EXPRESS (SAUDI ARABIA) (CONTINUED)

Report on 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 that 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 Regulations 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

Yousef A. Almubarak
Certified Public Accountant
License No. (427)

Riyadh: 18 Jumad Thani 1441H
(12 February 2020)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019

	Notes	31 December 2019 SR '000	31 December 2018 (Restated, note 27) SR '000
OPERATING INCOME			
Revenue from merchants			
Merchant transaction fees, net	6	169,285	157,766
Revenue from card members			
Foreign exchange income		82,440	85,367
Card membership fees, net		61,847	64,571
Special commission income on tawarruq	4B	48,401	-
Service and administrative fees	4B	32,035	78,688
Other income, net		9,919	10,359
TOTAL OPERATING INCOME		403,927	396,751
EXPENSES			
General and administration expenses	7	(171,711)	(161,950)
Selling and marketing expenses	8	(71,853)	(68,984)
Impairment charge for card members' receivable, net of recoveries	10 (a)	(5,931)	(8,079)
Special commission expense	23 (a), 28 (c)	(10,043)	(6,155)
PROFIT BEFORE ZAKAT AND INCOME TAX		144,389	151,583
Zakat	14 (b)	(11,295)	(7,859)
Income tax, net of deferred tax	14 (b) (c)	(7,221)	(9,336)
NET PROFIT FOR THE YEAR		125,873	134,388

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	*31 December 2019 SR '000*	*31 December 2018 (Restated, note 27) SR '000*
NET PROFIT FOR THE YEAR		**125,873**	134,388
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)	**(1,987)**	(645)
Total other comprehensive loss		**(1,987)**	(645)
TOTAL COMPREHENSIVE INCOME		**123,886**	133,743

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 SR '000	31 December 2018 (Restated, note 27) SR '000	1 January 2018 (Restated, note 27) SR '000
ASSETS				
Cash and cash equivalents	9	11,088	13,195	25,242
Card members' receivable, net	10	885,734	812,132	752,348
Amounts due from a related party	23 (c)	116	94	128
Prepaid expenses and other assets		19,270	14,468	14,216
Deferred card acquisition costs		8,082	6,968	7,023
Deferred tax asset	14 (c)	3,260	3,247	3,333
Property and equipment, net	11	14,309	15,587	18,590
Intangible assets, net	12	17,607	13,896	13,579
Right of use assets, net	28 (c)	11,344	-	-
TOTAL ASSETS		970,810	879,587	834,459
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Amounts due to a related party	23 (c)	4,244	8,521	19,175
Accounts payable and accruals	13	107,853	98,333	101,710
Lease liabilities	28 (c)	9,544	-	-
Zakat and income tax payable	14 (b)	11,666	9,257	10,280
Short term borrowings	15	267,413	198,375	128,063
Card members' margins	16	48,828	52,141	60,615
Membership rewards	17	32,769	31,053	27,412
Deferred card membership fees	18	27,036	26,767	27,826
Employees' terminal benefits	19 (a)	35,754	32,057	30,583
TOTAL LIABILITIES		545,107	456,504	405,664
SHAREHOLDERS' EQUITY				
Share capital	20	100,000	100,000	100,000
Statutory reserve	21	40,943	40,943	40,943
Retained earnings		284,760	282,140	287,852
TOTAL SHAREHOLDERS' EQUITY		425,703	423,083	428,795
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		970,810	879,587	834,459

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2019

31 December 2019	*Share capital* SR '000	*Statutory reserve* SR '000	*Retained earnings* SR '000	*Total* SR '000
Balance at 1 January 2019, as previously reported	100,000	40,943	278,893	419,836
Adjustment for deferred tax asset (note 27 (c))	-	-	3,247	3,247
Restated balance as at 1 January 2019	100,000	40,943	282,140	423,083
Net profit for the year	-	-	125,873	125,873
Other comprehensive loss	-	-	(1,987)	(1,987)
Total comprehensive income	-	-	123,886	123,886
Dividend (note 22)	-	-	(121,266)	(121,266)
Balance at 31 December 2019	**100,000**	**40,943**	**284,760**	**425,703**

31 December 2018 (Restated, note 27)	*Share capital* SR '000	*Statutory reserve* SR '000	*Retained earnings* SR '000	*Total* SR '000
Balance at 1 January 2018, as previously reported	100,000	40,943	284,519	425,462
Adjustment for deferred tax (note 27 (c))	-	-	3,333	3,333
Restated balance as at 1 January 2018	100,000	40,943	287,852	428,795
Effect of first time adoption of IFRS 9	-	-	(4,183)	(4,183)
Effect of first time adoption of IFRS 15	-	-	(1,627)	(1,627)
Net profit for the year, as restated	-	-	134,388	134,388
Other comprehensive income	-	-	(645)	(645)
Total comprehensive income	-	-	133,743	133,743
Dividend (note 22)	-	-	(133,645)	(133,645)
Balance at 31 December 2018	100,000	40,943	282,140	423,083

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

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Notes	31 December 2019 SR '000	31 December 2018 SR '000
OPERATING ACTIVITIES			
Profit before zakat and income tax		144,389	151,583
Adjustments for:			
Depreciation on property and equipment	7	4,683	4,795
Amortisation of intangible assets	7	5,006	4,917
Depreciation on right of use assets		7,277	-
Unwinding of special commission interest of lease liabilities	28 (c)	334	-
Impairment of card members' receivables, net of recoveries	10 (a)	5,931	8,079
Provision for card membership fees	10 (b)	4,600	4,706
Provision for fraud losses		157	125
Provision for employees' terminal benefits	19 (b)	4,781	4,184
(Gain) loss on sale of property and equipment		(41)	233
Property and equipment impaired		-	19
Intangible assets' loss on sale / impaired / written off	12	90	50
Operating cash flows before working capital changes		177,207	178,691
Changes in operating assets and liabilities:			
Card members' receivables		(84,133)	(76,752)
Prepaid expenses and other assets		(6,968)	(252)
Deferred card acquisition costs		(1,114)	(1,572)
Accounts payable and accruals		9,363	(3,502)
Due to related parties, net		(4,299)	(10,620)
Card members' margins		(3,313)	(8,474)
Membership rewards		1,716	3,641
Deferred card membership fees		269	(1,059)
Net cash from operations		88,728	80,101
Zakat and income tax paid	14 (b)	(16,120)	(18,132)
Employees' terminal benefits paid	19 (c)	(3,071)	(3,355)
Net cash from operating activities		69,537	58,614
INVESTING ACTIVITIES			
Purchase of property and equipment	11	(3,413)	(2,085)
Purchase of intangible assets	12	(8,807)	(5,284)
Proceeds from sale of property and equipment		49	41
Net cash used in investing activities		(12,171)	(7,328)
FINANCING ACTIVITIES			
Proceeds from short term borrowing facilities	23 (a)	1,719,788	1,632,562
Repayment of short term borrowing facilities	23 (a)	(1,650,750)	(1,562,250)
Settlement of lease liabilities	28 (c)	(7,245)	-
Dividend paid	22	(121,266)	(133,645)
Net cash used in financing activities		(59,473)	(63,333)
DECREASE IN CASH AND CASH EQUIVALENTS		(2,107)	(12,047)
Cash and cash equivalents at beginning of the year		13,195	25,242
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	9	11,088	13,195
Non-cash elements			
Right of use assets	28 (c)	18,621	-
Lease liabilities	28 (c)	16,455	-

The accompanying 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 ("KSA"). The Company operates under commercial registration No. 1010183222 issued in Riyadh on 27 Shawwal 1423H (corresponding to 31 December 2002); and reissued on 28 Muhurram 1437H (corresponding to 10 November 2015), Service License No. 110/1 dated 13 Muhurram 1423H (corresponding to 12 April 2002) issued by the Saudi Arabian General Investment Authority ("SAGIA") and License No. 40/ASH/201512 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
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.

2 BASIS OF PREPARATION

The financial statements of the Company as at and for the year ended 31 December 2018 had been prepared in compliance with International Financial Reporting Standards ('IFRS') as modified by SAMA for the accounting of zakat and income tax.

On 18 July 2019, SAMA instructed finance companies in KSA to account for zakat and income taxes in the statement of profit or loss that aligns with IFRS and interpretations as issued by International Accounting Standards Board ("IASB") as endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8, Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 4 C) and the effects of this change are disclosed in note 27 to the financial statements.

The accompanying financial statements of the Company have been prepared in accordance with IFRS as endorsed in KSA and in compliance with the requirements of Saudi Companies Law and the By-laws of the Company.

Refer note 27 for the impact of change in the accounting policy for prior period, resulting from the SAMA Circular.

The Company has adopted, from 1 January 2019, IFRS 16 – *Leases;* accounting policy for this new standard is disclosed in note 4 A whereas significant impacts relating to this new adopted standard are disclosed in note 28. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company.

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 thousand.

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

3 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 (MR) at the reporting date. These are adjusted periodically to reflect the actual redemptions experienced till the reporting date.

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

Impairment of card members' receivables
The measurement of impairment losses under IFRS 9 in respect of card members' receivables requires certain amount of judgement including the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's Expected Credit Loss ("ECL") calculations are outputs of models with underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include assignment of Probability of Defaults ("PDs"), criteria for assessing significant increase in credit risk, segmentation of receivables if any, development of ECL models, including the various formulas and inputs, determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, Exposures at Default ("EAD") and Loss Given Default ("LGD"), selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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.

Taxes
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented used in the preparation of the accompanying financial statements, except for the change in the accounting policy in relation to:

A. Adoption of IFRS 16 - Leases effective as of 1 January 2019.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A. *IFRS 16 - Leases effective as of 1 January 2019 (continued)*

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of applying the standard to be recognised in the retained earnings at the date of initial application and not to restate prior period. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Accordingly, as the Company recognised the right of use assets at an amount equal to the lease liabilities in accordance with the standard, there was no impact on retained earnings.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

- *Right of use assets*

The Company recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

- *Lease liabilities*

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less lease incentives receivable if any, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Company presents right of use assets that do not meet the definition of investment property and corresponding liabilities in separate line items captioned *'Right of use assets'* and *'Lease liabilities'* respectively, in the statement of financial position.

- *Short-term leases and leases of low-value assets*

The Company applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of property and equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

B. *Service and administrative fees and special commission income on Tawarruq (sharia approved products)*

AESA's card products are shariah approved. The Company charged service and administrative fees (fixed fee) for card services provided to its card members. Starting 1 January 2019, for revolve card products, the Company migrated to a Tawarruq structure from fixed fee structure. The Company expects all its charge card products to be migrated to Tawarruq during 2020.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

B. *Service and administrative fees and special commission income on Tawarruq (sharia approved products) (continued)*

Accordingly, the statement of profit or loss comprises of two reporting lines:

- *service and administrative fees* (for those cards which have not yet been migrated to Tawarruq); and
- *special commission income on tawarruq* (for those cards which have been migrated).

The accounting policy is set out below for both card structures:

Service and administrative fee
Service and administrative fees comprise a fixed monthly fee charged to the Company's card holders 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.

Tawarruq
Tawarruq is an arrangement whereby the Company settles outstanding receivables from its card holders through a series of commodity trade transactions. The Company purchases commodities and sells these commodities to card holders at a marked up price or profit on deferred payment basis. The card holders, through an appointed Tawarruq agent sell their owned commodities to a third party brokerage on spot payment basis, using the proceeds to pay back outstanding balance owed to the Company.

The selling price offered to the card holder by the Company comprises the original cost of commodities which equates the statement balance of the card holder plus an agreed profit margin for the Company. The difference between the gross amounts due from card holders under the Tawarruq sale contract, and the original price at which the Company purchased the commodities being traded is recorded as earned Tawarruq profit payable by card holders before the next cycle date.

Other standards, amendments and interpretations that are effective for the first time from 1 January 2019, do not have any impact on the financial statements of the Company.

C. *Zakat, income tax and deferred tax*

Zakat
As set out under note 2, the basis of preparation of these financial statements has been changed as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in shareholders' equity as per SAMA circular no 381000074519 dated 11 April 2017. With issuance of the latest instructions from SAMA dated 17 July 2019, zakat and income tax shall now be recognised in the statement of profit or loss. The Company has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in note 27 to the financial statements.

Income tax
The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions considered in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses, if any.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

C. *Zakat, income tax and deferred tax (continued)*

Income tax (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (the "Interpretation")
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its financial statements.

The Interpretation did not have an impact on the financial statements of the Company.

Deferred tax
Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in the interim statement of changes in shareholders' equity. In this case, the tax is also recognised.

Zakat
The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat expense is charged to the statement of profit or loss.

4 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. Expenditures 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.

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.

Financial instruments (IFRS 9)

Classification of financial assets
On initial recognition, a financial asset is classified as measured at amortized cost, Fair Value Through Other Comprehensive Income (FVOCI) or Fair Value Through Profit or Loss (FVTPL). Financial assets held by the Company, classified under 'Amortised Cost' are card members' receivable, cash equivalents and amounts due from a related party. There are no other financial assets held by the Company as at the reporting date or at the date of the comparable period.

Financial asset held at amortised cost
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') (the Company charges a service and administrative fee based on contractual terms); on the principal amount outstanding.

Business model assessment
The Company carries out an assessment of the objective of a business model in which financial asset is held at a portfolio level as this best reflects the way the business is managed and information is provided to management. The information considered includes:

a) the policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual fee revenue or realizing cash flows through the sale of the assets, if any;
b) how the performance of the portfolio is evaluated and reported to the Company's management;
c) the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (IFRS 9) (continued)

SPPI Test
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Fixed fee' is deemed consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the financial instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impairment of financial assets
The Company recognizes provision allowances for Expected Credit Losses ('ECL') on card members' receivables, cash equivalents and amounts due from related parties, if any.

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.

Stage classification
The primary step in measuring ECL is performing an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument and categorizing into following three stages in accordance with IFRS 9:

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

Stage 2 – Underperforming assets:
Financial assets that have significantly deteriorated in credit quality since origination and which fall in delinquency bucket 2 or 3 would be classified as Stage 2 – underperforming assets. This credit quality assessment is made by considering a number of qualitative and quantitative factors. The impairment allowance is recorded based on lifetime ECL.

Stage 3 – Impaired assets:
For financial assets that are impaired and which fall in delinquency bucket 4, 5 or 6; impairment allowance is recorded based on lifetime ECL.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

ECL computation

The key inputs into the measurement of ECL are the following variables:

- Probability of default (PD) – which is an estimate of the likelihood of default over a given time horizon;
- Loss given default (LGD) – which is an estimate of the loss amount arising in the case where a default occurs at a given time and
- Exposure at default (EAD) – which is an estimate of the exposure amount at a future default date.

The above parameters are derived from internally developed estimation techniques, other historical data and are adjusted for forward looking information.

The Company's product offering includes a variety of corporate and retail credit cards facilities, in which the Company has the right to cancel and/or reduce the facilities with immediate effect. The Company does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Company's expectations of the customer behaviour, its likelihood of default and the Company's future risk mitigation procedures, which include reducing or cancelling the card limits.

Forward looking information

ECL Computation also considers three macro-economic scenarios (base case, upward trend and downward trend). Based on consideration of a variety of actual external and economic forecast information published by governmental bodies, monetary authorities and supranational organisations such as the International Monetary Fund, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (upward trend and downward trend). The Company then uses these forecasts to adjust its estimates of PDs. The Company relies on the following economic variables as inputs to formulate forward looking scenarios:

(a) Gross Domestic Product (GDP)
(b) Oil Price Change
(c) Bank Credit to Private Sector (Loans, Advances & Overdrafts Private Sector)

Predicted relationships between these key economic indicators and default rates on various portfolios of financial assets have been developed based on analysis of historical data.

Card members' receivable 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.

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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Zakat and income tax
Zakat and income tax is provided in accordance with the Income Tax law and Zakat Regulations on an accrual basis. The provision was charged to statement of changes in shareholders' equity in prior years. During the year there was change in accounting policy (see note 2 - basis of preparation).

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.

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
The Company is in the business of issuing credit and charge cards and acquiring merchant establishment business in the Kingdom of Saudi Arabia. Revenue is measured based on consideration specified in a contract with a customer (referred to also as a card member) and excludes amounts collected on behalf of third parties.

Rendering of services
The Company's contracts with card members include numerous performance obligations that are satisfied over a period of time and with merchants at a point in time. The adoption of IFRS 15 as at 1 January 2018 did not have an impact on the timing of revenue recognition. However, the amount of revenue to be recognised was affected, as set out below:

(i) Variable consideration
Card members when dealing with Company approved merchants have a right of return. Further, certain merchants are also provided with volume rebates on exceeding certain quantitative thresholds.

Under IFRS 15, rights of return and volume rebates give rise to a variable consideration.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (continued)

- *Rights of return*

The Company uses the expected value method to estimate the goods that will be returned (and its fee that may be refunded). The Company applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. Revenue does not include estimated amount of merchant transaction fees that is liable to be refunded on account of return of goods or service by the cardholder and is shown as 'refund liability', when materially significant.

- *Volume rebates to merchants*

The Company estimates volume rebates to merchants which it will settle, by applying the 'most likely amount method' for contracts with a single volume threshold and the 'expected value method' for contracts with more than one volume threshold. The Company recognises contract liabilities for expected future rebates. Revenue does not include the rebates that are estimated by the Company.

(ii) Acquisition of new contracts and costs to fulfill contracts

The Company incurs discrete departmental costs to secure new card members. Incremental costs to acquire new card members (acquisition of contracts) and issuance costs including cost of plastic (costs to fulfill contracts) are deferred (reported in assets under *deferred card acquisition costs*) and amortised over the expected life of the cards.

(iii) Membership rewards loyalty programme (MRLP)

Membership rewards result in an obligation on the Company to incur costs immediately. The Company recognises a provision towards MR liability based on the best estimate of the cost to fulfil the obligation and are reported as separate costs. 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 cumulative liability for unredeemed points is adjusted over time based on actual experience and current trends with respect to redemption.

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.

Foreign exchange income

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

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.

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.

4 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.

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.

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.

5 SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards applied in these financial statements are those in issue as at the reporting date and are effective for annual periods beginning on or after 1 January 2019.

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 the following standard, if applicable, when it becomes effective.

Amendments to IAS 1 and IAS 8: Definition of material

In October 2018, the International Accounting Standards Board ('IASB') issued amendments to "International Accounting Standard ('IAS') 1 – Presentation of Financial Statements" and "IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

The Company has not early adopted any standards, interpretations or amendments before their effective date.

6 MERCHANT TRANSACTION FEES, NET

	31 December 2019 *SR'000*	*31 December 2018* *SR'000*
Local card member transaction fees on 'out of Kingdom' spend (note 23 (a))	117,842	110,609
Transaction fees on 'in Kingdom' spend	53,644	50,495
Airline transaction fees (note 23 (a))	7,695	5,862
	179,181	166,966
Foreign card member transaction fees settled (note 23 (a))	(9,896)	(9,200)
	169,285	157,766

7 GENERAL AND ADMINISTRATION EXPENSES

	31 December 2019 *SR'000*	*31 December 2018* *SR'000*
Employee related expenses	96,398	88,633
Data processing expenses	30,678	27,751
Depreciation on property and equipment (note 11)	4,683	4,795
Depreciation on right of use assets (note 28 (c))	7,277	-
Contractual services	9,571	8,843
Professional charges	6,802	5,577
Telecommunication expenses	5,986	6,339
Amortisation of intangible assets (note 12)	5,006	4,917
Rent and related expenses	3,112	8,283
Withholding taxes and others	(6,510)	882
Others	8,708	5,930
	171,711	161,950

8 SELLING AND MARKETING EXPENSES

	31 December 2019 *SR'000*	*31 December 2018* *SR'000*
Membership rewards	26,831	24,121
Marketing and promotion expenses	23,751	24,027
Employee related expenses	13,677	12,576
Contractual services	4,886	4,515
Card member benefits	1,357	1,297
Rent and related expenses	636	1,692
Telecommunication expenses	715	756
	71,853	68,984

9 CASH AND CASH EQUIVALENTS

	31 December 2019 *SR'000*	*31 December 2018* *SR'000*
Bank balances	11,050	13,156
Cash in hand	38	39
	11,088	13,195

10 CARD MEMBERS' RECEIVABLE, NET

	31 December 2019 *SR'000*	*31 December 2018* *SR'000*
Card members' receivable	**896,734**	822,326
Less: Impairment in card members' receivable (see note (a) below)	**(10,723)**	(9,761)
Less: Provision for card membership fees (see note (b) below)	**(277)**	(433)
	885,734	812,132

AESA's card products are Shariah approved. Accordingly, card members' receivable are unconventional in nature.

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 2019	**885,734**	**790,096**	**75,462**	**7,183**	**3,484**	**9,509**
31 December 2018	812,132	745,716	41,634	12,335	4,737	7,710

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

	31 December 2019 *SR'000*	*31 December 2018* *SR'000*
At beginning of the year	**9,761**	5,866
Effect of first time adoption of IFRS 9 (retained earnings)	**-**	4,175
Charge for the year	**12,900**	13,946
Written off during the year	**(11,938)**	(14,226)
At end of the year	**10,723**	9,761

The impairment charge to the statement of profit or loss amounting to SR 5.93 million is net of recoveries during the year of SR 6.97 million (31 December 2018: charge of SR 8.08 million net of recoveries of SR 5.87 million).

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

	31 December 2019 *SR'000*	*31 December 2018* *SR'000*
At beginning of the year	**433**	389
Charge for the year	**4,600**	4,706
Written off during the year	**(4,756)**	(4,662)
At end of the year	**277**	433

10 CARD MEMBERS' RECEIVABLE, NET *(continued)*

c) *The following table shows reconciliation from the opening to the closing balance of the loss allowance:*

31 December 2019

Impairment loss on card members' receivable	*12 month ECL*	*Life time ECL not credit impaired*	*Lifetime ECL credit impaired*	*Total*
		SR'000		
Balance at 1 January 2019	4,394	2,093	3,274	9,761
Transfer to 12-month ECL	14	(502)	(338)	(826)
Life time ECL not credit impaired	(42)	1,607	(73)	1,492
Lifetime ECL credit impaired	(29)	(261)	3,512	3,222
Net re-measurement of loss allowance	244	(38)	(64)	142
New financial assets originated or purchased	565	176	172	913
Financial assets that have been derecognized	(278)	(502)	(491)	(1,271)
Write offs (see note below)	(26)	(644)	(2,040)	(2,710)
Balance at 31 December 2019	4,842	1,929	3,952	10,723

Note:
Card members' receivable written off during the year amounting to SR 11.94 million (see note 10 (a)) includes direct write-offs amounting to SR 9.23 million.

31 December 2018

Impairment loss on card members' receivable	*12 month ECL*	*Life time ECL not credit impaired*	*Lifetime ECL credit impaired*	*Total*
		SR'000		
Balance at 1 January 2018	4,557	2,656	2,828	10,041
Transfer to 12-month ECL	12	(879)	(213)	(1,080)
Life time ECL not credit impaired	(55)	1,673	(55)	1,563
Lifetime ECL credit impaired	(36)	(268)	2,774	2,470
Net re-measurement of loss allowance	(299)	(35)	(71)	(405)
New financial assets originated or purchased	619	284	198	1,101
Financial assets that have been derecognized	(367)	(543)	(390)	(1,300)
Write offs (see note below)	(37)	(795)	(1,797)	(2,629)
Balance at 31 December 2018	4,394	2,093	3,274	9,761

Note:
Card members' receivable written off during the year amounting to SR 14.23 million (see note 10 (a)) includes direct write-offs amounting to SR 11.60 million.

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 2019*	*Total 2018*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Cost:							
At beginning of the year	16,097	6,615	10,806	675	136	**34,329**	33,146
Additions during the year	-	-	-	-	3,413	**3,413**	2,085
Transfers during the year	797	257	1,969	412	(3,435)	**-**	-
Disposals during the year	-	(154)	(30)	(320)	-	**(504)**	(885)
Write-offs during the year	-	-	-	-	-	**-**	(17)
At end of the year	16,894	6,718	12,745	767	114	**37,238**	34,329
Accumulated depreciation:							
At beginning of the year	7,503	5,054	5,661	524	-	**18,742**	14,556
Charge for the year (note 7)	1,405	873	2,272	133	-	**4,683**	4,795
Disposals during the year	-	(152)	(24)	(320)	-	**(496)**	(611)
Impaired (write-offs) during the year	-	-	-	-	-	**-**	2
At end of the year	8,908	5,775	7,909	337	-	**22,929**	18,742
Net book values:							
At 31 December 2019	**7,986**	**943**	**4,836**	**430**	**114**	**14,309**	
At 31 December 2018	8,594	1,561	5,145	151	136		15,587

Capital work-in progress as at 31 December 2019 and 2018 represents cost incurred for improvements, telephone, switchboard, office and computer equipment and furniture and fixtures.

12 INTANGIBLE ASSETS, NET

The estimated useful lives of assets for calculation of software amortisation is 3 - 5 years.

	Software	*Capital work in progress*	*Total 2019*	*Total 2018*
	SR'000	*SR'000*	***SR'000***	*SR'000*
Cost:				
At beginning of the year	50,529	3,135	**53,664**	48,407
Additions during the year	-	8,807	**8,807**	5,284
Transfers during the year	9,695	(9,695)	**-**	-
Disposals during the year	(10,365)	-	**(10,365)**	(27)
At end of the year	49,859	2,247	**52,106**	53,664
Accumulated amortisation:				
At beginning of the year	39,768	-	**39,768**	34,828
Charge for the year (note 7)	5,006	-	**5,006**	4,917
Disposals during the year	(10,275)	-	**(10,275)**	23
At end of the year	34,499	-	**34,499**	39,768
Net book values:				
As at 31 December 2019	**15,360**	**2,247**	**17,607**	
As at 31 December 2018	10,761	3,135		13,896

Capital work-in progress as at 31 December 2019 and 2018 represents cost incurred mainly for applications and software technical platforms.

13 ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2019	*31 December 2018*
	SR'000	*SR'000*
Advance from card members	**35,826**	34,672
Accrued expenses	**34,374**	31,144
Employees' accrued compensation	**21,398**	17,644
Payable to merchants	**12,807**	11,137
Withholding taxes	**176**	173
Other payable	**3,272**	3,563
	107,853	98,333

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 charge, for the year ended 31 December 2019 amounting to SR 7.26 million and SR 11.09 million (see note (b)) (31 December 2018: SR 9.32 million and SR 7.98 million) respectively, have been calculated on the basis of the Income Tax Law and the Zakat Regulations in the Kingdom of Saudi Arabia.

14 ZAKAT AND INCOME TAX PAYABLE *(continued)*

a) *Charge for the year (statement of profit or loss)*

	Zakat		*Income tax*	
	31 December 2019	*31 December 2018 (Restated, note 27)*	*31 December 2019*	*31 December 2018 (Restated, note 27)*
	SR'000	*SR'000*	*SR'000*	*SR'000*
Current year charge (see note (b))	**11,090**	7,976	**7,261**	9,324
Provision / adjustments for prior periods	**543**	-	**385**	-
Reversals for prior period (see note (b))	**(338)**	(117)	**(412)**	(74)
Deferred tax relating to origination & reversal of temporary differences (note (c))	**-**	-	**(13)**	86
Charged to the statement of profit or loss	**11,295**	7,859	**7,221**	9,336

During March 2019, the GAZT published Rules for computation of zakat for entities conducting financing activities i.e., banks and finance companies licensed under SAMA. The rules are applicable to fiscal years commencing on or after 1 January 2019. The provision for Zakat calculated on the Saudi shareholder's share of zakat base for the year ended 31 December 2019 is as set out below:

	31 December 2019
A. Calculation of zakat base	*SR'000*
Sources of fund	**487,073**
Total assets	**970,810**
Less: non-zakatable assets	**(31,915)**
Zakatable assets	**938,895**
Percentage (%) of zakatable assets to total assets	**97%**
Zakat base (sources of fund * (zakatable assets / total assets))	471,061
Zakat base attributable to KSA shareholders @75%	**353,296**
B. Calculation of minimum and maximum zakat base	*SR'000*
Net profit before tax and zakat	**144,389**
Attributable to KSA shareholders - considering change in ownership	107,559
Minimum zakat base	**430,237**
Maximum zakat base	**860,475**
C. Basis of zakat - higher of the zakat base or minimum zakat base	**430,237**
Zakat due	**11,090**

14 ZAKAT AND INCOME TAX PAYABLE *(continued)*

The provision for Zakat calculated on the Saudi shareholders' share of zakat base for the year ended 31 December 2018 is as set out below:

	31 December 2018
	SR'000
Equity	291,818
Provisions	40,784
Book value of long term assets (net of related financing)	(45,237)
Zakatable profit for the year	160,648
Zakat base	448,013
Adjustments to zakat base for 2018	
70% from 1 January 2018 to 27 September 2018)	232,761
73.75 % from 28 September 2018 to 31 December 2018)	86,285
	319,046
Zakat due	7,976

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

For the year ended 31 December 2019	*Zakat*	*Income tax*	*Total*
	SR '000	*SR '000*	*SR '000*
Balance at beginning of the year	7,975	1,282	9,257
Provision during the year (note a)	11,090	7,261	18,351
Adjustments / provision for prior years (note a)	543	385	928
Provision reversed during the year (note a)	(338)	(412)	(750)
Payments during the year	(8,180)	(7,940)	(16,120)
Balance at end of the year	11,090	576	11,666

For the year ended 31 December 2018	*Zakat*	*Income tax*	*Total*
	SR '000	*SR '000*	*SR '000*
Balance at beginning of the year	7,899	2,381	10,280
Provision during the year (note a)	7,976	9,324	17,300
Provision reversed during the year (note a)	(117)	(74)	(191)
Payments during the year	(7,783)	(10,349)	(18,132)
Balance at end of the year	7,975	1,282	9,257

c) Deferred tax asset

The deferred tax asset as at 31 December 2019 amounting to SR 3.26 million (31 December 2018 : SR 3.25 million) includes deferred tax credit for the for the year ended 31 December 2019 amounting to SR 0.01 million (31 December 2018: reversal of SR 0.09 million) (see note 14 (a)). The deferred tax relates to timing differences due to differential treatment in computation of the book profit and taxable profit in respect of depreciation of property and equipment, amortisation of intangible assets and disallowance of provision for employees' terminal benefits, provision for fraud loss, provision for card members' receivables, provision for card fees and others. The tax impact is calculated based on the income tax rate of 20% (see movement in deferred tax asset below and note 27).

14 ZAKAT AND INCOME TAX PAYABLE *(continued)*

c) *Deferred tax asset (continued)*

Movement in deferred tax asset is set out below:

	31 December 2019 SR '000	31 December 2018 SR '000
Opening deferred tax asset	3,247	3,333
Origination (reversal) of temporary differences	13	(86)
Balance at end of the year	3,260	3,247

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

	31 December 2019 SR'000	31 December 2018 SR'000
Accounting profit before zakat and income tax	144,388	151,583
Accounting profit related to Non GCC shareholders		
- @ 30% from 1 January 2018 to 27 September 2018	-	33,639
- @ 26.25% from 28 September 2018 to 31 December 2018	-	10,356
- @ 26.25% from 1 January 2019 to 28 May 2019	15,368	-
- @ 25% from 29 May 2019 to 31 December 2019	21,461	-
Total accounting profit related to Non GCC shareholders	36,829	43,995
At statutory income tax rate of 20%	7,366	8,799
Tax effect of other items	(105)	525
Effective income tax @ 19.72% (2018: 21.19%)	7,261	9,324

e) *Status of assessments*

The Company has filed zakat and income tax returns for all years up to 31 December 2018 and has obtained provisional zakat certificate, which is valid up to 30 April 2020.

During 2014, the Company received assessments from the GAZT for the years 2007 to 2011 claiming additional zakat, income tax and withholding tax (WHT) 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 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 respectively 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 Appellate Committee for Zakat and Tax ("ACZTA").

14 ZAKAT AND INCOME TAX PAYABLE *(continued)*

e) *Status of assessments (continued)*

The Company had subsequently approached the GAZT for a mutual resolution of the above dispute. Pursuant to this, the position for the above years has been finalized and had resulted in an overpayment of SR 4.78 million since the Company had already paid the income tax and WHT under protest. This overpayment balance has been adjusted against the ongoing dues to the GAZT.

The Company is in the process of withdrawing its appeal against the GAZT upon receiving the confirmation of the overpayments.

Assessments for the years ended 31 December 2012 to 2018 have not yet been raised by the GAZT.

15 SHORT TERM BORROWINGS

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

a) Credit facility from American Express Overseas Credit Corporation ("AEOCC") NV ("AEOCC NV") aggregating USD 200 million (equivalent to SR 750 million) (31 December 2018: USD 200 million equivalent to SR 750.00 million) to finance the working capital requirements of the Company. As of 31 December 2019, the outstanding balance under this facility was USD 71.31 million equivalent to SR 267.41 million (31 December 2018: USD 52.90 million equivalent to SR 198.38 million). The facility will be due for renewal on 23 August 2020.

b) Short term facilities from banks aggregating USD 53.33 million (equivalent to SR 200 million) (31 December 2018: USD 238 million equivalent to SR 892.50 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 2020. As of 31 December 2019, the outstanding balance under these facilities was nil (31 December 2018: nil).

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 2019 was SR 48.83 million (31 December 2018 : SR 52.14 million).

17 MEMBERSHIP REWARDS

	31 December 2019 *SR'000*	*31 December 2018* *SR'000*
At beginning of the year	**31,053**	27,412
Accumulated during the year	**21,702**	20,943
Utilised during the year	**(19,986)**	(17,302)
At end of the year	**32,769**	31,053

18 DEFERRED CARD MEMBERSHIP FEES

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

	31 December 2019 *SR'000*	*31 December 2018* *SR'000*
At beginning of the year	**26,767**	27,826
Reclassification to deferred card acquisition costs	**-**	(5,830)
Billed to card members during the year	**66,131**	66,903
Recognised during the year	**(65,862)**	(62,132)
At end of the year	**27,036**	26,767

19 EMPLOYEES' TERMINAL BENEFITS

The following tables summarise the components of end of service benefits ('EoSB') 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 2019 *(SR '000)*	*31 December 2018* *(SR '000)*
Present value of defined benefit obligation	**35,754**	32,057

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

	31 December 2019 *(SR '000)*	*31 December 2018* *(SR '000)*
Current service cost	**3,356**	2,684
Special commission cost	**1,425**	1,500
Benefit expense	**4,781**	4,184

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

	31 December 2019 *(SR '000)*	*31 December 2018* *(SR '000)*
Present value of defined benefit obligation at beginning of the year	**32,057**	30,583
Charge recognised in statement of profit or loss		
Current service cost	**3,356**	2,684
Special commission cost	**1,425**	1,500
Actuarial loss on recognised in the statement of other comprehensive income	**1,987**	645
Benefits paid	**(3,071)**	(3,355)
Present value of defined benefit obligation at end of the year	**35,754**	32,057

19 EMPLOYEES' TERMINAL BENEFITS *(continued)*

d) Principal actuarial assumptions:

	31 December 2019	*31 December 2018*
Discount rate	2.85%	4.45%
Salary increase rate	2.85%	4.45%

Discount rate
IAS 19 requires the discount rate to be set based on the yields on high quality corporate bonds or government bonds of duration and currency consistent with the liabilities. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and expected term of the post-employment benefit obligation.

Since there is no deep market for high quality corporate bonds in the Kingdom of Saudi Arabia, market yield of United States (US) Dollar denominated Saudi Arabian Sovereign Bonds, traded in international market, for the purpose of determining an appropriate discount rate was considered.

The average duration of the post-employment benefit obligation arrived at was 6.76 years (31 December 2018 : 6.54 years). For the purpose of valuation, a discount rate of 2.85% (31 December 2018 : 4.45%) per annum compounded was used. The assumptions have been determined based on the market conditions at each valuation date.

Salary increase rate
The assumption for future salary increases has been determined by the Company based on its long term expectations, reflecting both inflationary and promotional increases.

e) Sensitivity analysis
The table below shows the change in end of service liability based on a reasonable possible change in the base assumption value for discount and increment rates:

	31 December 2019		*31 December 2018*	
	Change in basis points	*Increase (decrease) in EoSB liability SR'000*	*Change in basis points*	*Increase (decrease) in EoSB liability SR'000*
Discount rate	+5	(1,173)	+5	(1,017)
	-5	1,248	-5	1,082
Salary increase rate	+ 5	1,317	+ 5	1,143
	- 5	(1,250)	- 5	(1,084)

20 SHARE CAPITAL

The Company's share capital of SR 100 million (2018: SR 100 million) consists of 10 million shares of SR 10 each (2018: 10 million shares of SR 10 each).

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 to statutory reserve until it has built up a reserve equal to 30% of the share capital. This having been achieved, the Company has decided to discontinue such transfers. The reserve is not available for distribution.

22 DIVIDEND

The shareholders in their Annual General Meeting held on 21 March 2019 approved the distribution of net dividends amounting to SR 121.27 million at SR 12.13 per share (28 June 2018 : SR 133.65 million at SR 13.37 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*	*Amount of transactions* 31 December 2019 SR'000	31 December 2018 SR'000
Shareholder			
The Saudi Investment Bank ("SAIB")	- Data support services	4,087	4,405
	- Service and annual card fees	(1,008)	(885)
	- Share of co-brand fee	223	155
Affiliate			
AETRS	- Merchant and airline transaction fees earned (note 6)	(125,537)	(116,471)
	- Merchant transaction fees incurred on foreign cards (note 6)	9,896	9,200
	- Support and other services	458	1,130
	- Royalty expense	457	395
AEOCC NV	- Special commission expense (note 15 (a))	9,709	6,155
	- Short term loans received	1,719,788	1,632,562
	- Short term loans settled	(1,650,750)	(1,562,250)

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 2019 with SAIB amounted to SR 10.10 million and are included under cash and cash equivalents (31 December 2018 : SR 9.36 million).

Transactions with related parties are on terms and conditions, as approved by the Board of Directors of the Company.

b) The compensation summary of key management personnel during the year ended 31 December 2019 is set out below:

	31 December 2019 SR '000	*31 December 2018* SR '000
Short term benefits	10,805	9,581
Termination and other long term benefits	3,630	2,061
	14,435	11,642

c) Card members' receivable include outstanding balances of key management personnel of the Company, arising out of credit card related transactions, as at 31 December 2019 of SR 0.56 million (31 December 2018 : SR 0.65 million).

23 RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

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

Related party	*Name*	*31 December 2019* *SR '000*	*31 December 2018* *SR '000*
Due from / (to):			
Shareholder	SAIB	**116**	94
Affiliates	AETRS	**(4,244)**	(8,521)

24 COMMITMENTS AND CONTINGENCIES

Capital commitments
Commitments in respect of capital expenditure outstanding as at 31 December 2019 amounted to SR 4.83 million (31 December 2018 : SR 1.55 million).

Undrawn commitments
The undrawn credit commitments in respect of revolve credit cards issued by the Company as at 31 December 2019 amounted to SR 874.20 million (31 December 2018 : SR 850.47 million).

Bank guarantees
Outstanding bank guarantees issued to the GAZT as at 31 December 2019, in respect of its appeals to the HAC and BoG amounted to SR nil (31 December 2018 : SR 7 million).

25 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 borrowings, 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.

25 FINANCIAL INSTRUMENTS AND FAIR VALUE *(continued)*

	31 December 2019		31 December 2018	
	Carrying value	*Fair value*	*Carrying value*	*Fair value*
	SR '000	*SR '000*	*SR '000*	*SR '000*
Financial assets				
Cash and cash equivalents	11,088	11,088	13,195	13,195
Card members' receivable, net	885,734	885,734	812,132	812,132
Amounts due from a related party	116	116	94	94
Other assets	4,720	4,720	3,650	3,650
	901,658	901,658	829,071	829,071
Financial liabilities				
Accounts payable and accruals	107,853	107,853	98,333	98,333
Amounts due to a related party	4,244	4,244	8,521	8,521
Lease liabilities	9,544	9,544		
Card members' margins	48,828	48,828	52,141	52,141
Short term borrowing facilities	267,413	267,413	198,375	198,375
Membership rewards	32,769	32,769	31,053	31,053
	470,651	470,651	388,423	388,423

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.

26 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

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, card members' margins, membership rewards, employees' terminal benefits, short term borrowings, lease liabilities, 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.

26 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES *(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, if any.

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 2019	*31 December 2018*
	SR'000	*SR'000*
Card members' receivable, net	**885,734**	812,132
Bank balances	**11,050**	13,156
Amounts due from a related party	**116**	94
Other assets	**4,720**	3,650
	901,620	829,032

Individual card members' receivables of SR 590.11 million (31 December 2018 : SR 568.68 million), corporate card members' receivables of SR 295.62 million (31 December 2018 : SR 243.88 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.

26 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through optimization of its capital structure. The Company manages its capital structure in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the capital structure in the years 2019 and 2018.

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Regulations for Companies and SAMA.

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 income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2019 and 2018. 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 2019		*31 December 2018*	
	Change in basis points	*Impact on net income SR'000*	*Change in basis points*	*Impact on net income SR'000*
Saudi Riyal	+25	(669)	+25	(496)
Saudi Riyal	-25	669	-25	496

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 Charge cards. Further, Revolve cards are also not subject to special commission rate risk as Tawarruq fee percentage is fixed in nature.

26 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES *(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 2019 and 2018 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		
31 December 2019	***No fixed maturity*** ***SR'000***	***Within 3 months*** ***SR'000***	***3 months and above*** ***SR'000***	***Total*** ***SR'000***
Lease liabilities	-	632	9,113	**9,745**
Accounts payable and accruals	-	104,920	2,261	**107,181**
Amounts due to a related party	-	4,244	-	**4,244**
Card members' margins	48,828	-	-	**48,828**
Short term borrowing facilities	-	268,085	-	**268,085**
Membership rewards	32,769	-	-	**32,769**
Total	**81,597**	**377,881**	**11,374**	**470,852**

26 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk (continued)

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

		Fixed maturity		
31 December 2018	*No fixed maturity* *SR'000*	*Within 3 months* *SR'000*	*3 months and above* *SR'000*	*Total* *SR'000*
Accounts payable and accruals	-	91,186	6,528	97,714
Amounts due to a related party	-	8,521	-	8,521
Card members' margins	52,141	-	-	52,141
Short term borrowing facilities	-	198,994	-	198,994
Membership rewards	31,053	-	-	31,053
Total	83,194	298,701	6,528	388,423

26 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES *(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			
31 December 2019	*On demand* SR'000	*Within 3 months* SR'000	*3 to 12 months* SR'000	*1 to 5 years* SR'000	*Total* SR'000
Assets					
Cash and cash equivalents	11,088	-	-	-	11,088
Card members' receivable, net	-	885,734	-	-	885,734
Amounts due from a related party	-	116	-	-	116
Other assets	-	1,523	2,756	442	4,721
Financial assets	11,088	887,373	2,756	442	901,659
Liabilities					
Lease liabilities	-	(567)	(4,636)	(4,341)	(9,544)
Accounts payable and accruals	-	(105,593)	(2,260)	-	(107,853)
Amounts due to a related party	-	(4,244)	-	-	(4,244)
Card members' margins	(48,828)	-	-	-	(48,828)
Short term borrowing facilities	-	(267,413)	-	-	(267,413)
Membership rewards	(32,769)	-	-	-	(32,769)
Financial liabilities	(81,597)	(377,817)	(6,896)	(4,341)	(470,651)
Net financial assets (liabilities)	(70,509)	509,556	(4,140)	(3,899)	431,008

26 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk (continued)

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

31 December 2018		*Fixed maturity*			
	On demand	*Within 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Assets					
Cash and cash equivalents	13,195	-	-	-	13,195
Card members' receivable, net	-	812,132	-	-	812,132
Amounts due from a related party	-	94	-	-	94
Other assets	-	798	2,402	450	3,650
Financial assets	13,195	813,024	2,402	450	829,071
Liabilities					
Accounts payable and accruals	-	(91,805)	(6,528)	-	(98,333)
Amounts due to a related party	-	(8,521)	-	-	(8,521)
Card members' margins	(52,141)	-	-	-	(52,141)
Short term borrowing facilities	-	(198,375)	-	-	(198,375)
Membership rewards	(31,053)	-	-	-	(31,053)
Financial liabilities	(83,194)	(298,701)	(6,528)	-	(388,423)
Net financial assets (liabilities)	(69,999)	514,323	(4,126)	450	440,648

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.

27 RESTATEMENTS

Pursuant to the change in accounting policy as set out in note 4 C:

a) Zakat and income tax charge for the year which was charged to the statement of changes in shareholders' equity in prior years has now been charged to the statement of profit or loss in the current year as well as in the comparative period.

b) The Company has accounted for deferred tax during the prior period pertaining to the opening statement of financial position (i.e., 1 January 2018) and onwards.

Consequently, the net profit and total comprehensive income for the comparative period and for the earliest period presented have 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:

c) Impact on the statement of financial position

	Assets	*Liabilities*	*Retained earnings*	*Total shareholders' equity*
	SR '000	*SR '000*	*SR '000*	*SR '000*
1 January 2018 balances as previously stated	831,126	405,664	284,519	425,462
a. Revision of zakat and income tax treatment*	-	-	-	-
b. Accounting for deferred tax asset**	3,333	-	3,333	3,333
Net effect of restatements	3,333	-	3,333	3,333
1 January 2018 balances, as restated	834,459	405,664	287,852	428,795

	Assets	*Liabilities*	*Retained earnings*	*Total shareholders' equity*
	SR '000	*SR '000*	*SR '000*	*SR '000*
31 December 2018 balances as previously stated	876,340	456,504	278,893	419,836
a. Revision of zakat and income tax treatment*	-	-	-	-
b. Accounting for deferred tax asset**	3,247	-	3,247	3,247
Net effect of restatements	3,247	-	3,247	3,247
31 December 2018 balances, as restated	879,587	456,504	282,140	423,083

* There is no impact arising on the retained earnings from the revised treatment of zakat and income tax, as these are now charged through the statement of profit or loss instead of earlier treatment of direct charge to the retained earnings.

** The amount includes accounting for deferred tax for the year ended 31 December 2018 and opening statement of financial position as at 1 January 2018 amounting to SR (0.086) million and SR 3.33 million respectively.

28 ADOPTION OF IFRS 16 AND ITS RELATED IMPACTS

a) The Company has lease contracts for commercial buildings, residential villas, office equipment, and commercial space. *Before the adoption of IFRS 16*, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

- *Before IFRS 16 was adopted*

A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases if any, were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability.

In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepaid expenses and other payables, respectively.

- *After the adoption of IFRS 16*

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

The Company recognised *'right of use assets'* and *'lease liabilities'* for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right of use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.
- Excluded the initial direct costs from the measurement of the right of use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

b) *Based on the foregoing, as at 1 January 2019 (unaudited):*

- Right of use assets and lease liabilities of SR 17.46 million and SR 15.29 million respectively, were recognised and presented separately in the statement of financial position.
- Prepaid expenses of SR 2.2 million and accrued expenses of SR 0.08 million related to previous operating leases were derecognised.
- When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The Company's weighted-average incremental borrowing rate applied was 3.03%.

28 ADOPTION OF IFRS 16 AND ITS RELATED IMPACTS *(continued)*

c) Amounts recognised in the statements of financial position and profit or loss:

	Right of use assets					
	Commercial buildings	*Residential villas*	*Commercial space*	*Office equipment*	*Total*	*Lease liabilities*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*
As at 1 January 2019	15,953	934	83	488	17,458	15,292
Additions	-	1,163	-	-	1,163	1,163
Depreciation expense	(6,135)	(817)	(60)	(265)	(7,277)	-
Special commission expense	-	-	-	-	-	334
Payments	-	-	-	-	-	(7,245)
As at 31 December 2019	**9,818**	**1,280**	**23**	**223**	**11,344**	**9,544**

Note:
The Company recognised rent expense from short-term leases of SR 0.83 million and variable lease payments of SR 0.06 million for the year ended 31 December 2019.

d) The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	SR '000
Operating lease commitments as at 31 December 2018	**16,528**
Weighted average incremental borrowing rate as at 1 January 2019	**3.03%**
Discounted operating lease commitments as at 1 January 2019	**16,013**
Less: commitments relating to short-term leases	**(721)**
Lease liabilities as at 1 January 2019	**15,292**

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 18 Jumada Al-Thani 1441H (corresponding to 12 February 2020).