

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

**FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORT**

**31 DECEMBER 2020**

American Express Saudi Arabia  
(Saudi Closed Joint Stock Company)

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Financial Statements and Independent Auditor's Report  
For the Year Ended 31 December 2020

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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 - Saudi Closed Joint Stock Company (the "Company"), which comprise the statement of financial position as at 31 December 2020, 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 2020, 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.



## **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.



**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 while performing our audit procedures, 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 Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

**Fahad M. Al-Toaimi**  
Certified Public Accountant  
License No. (354)

Riyadh: 6 Rajab 1442H  
(18 February 2021)



American Express Saudi Arabia  
(Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	<u>31 December 2020</u> SR '000	<u>31 December 2019</u> SR '000
<b>OPERATING INCOME</b>			
<i>Revenue from merchants</i>			
Merchant transaction fees, net	6	<b>87,936</b>	169,285
<i>Revenue from card members</i>			
Special commission income on tawarruq		<b>67,451</b>	48,401
Card membership fees, net		<b>60,422</b>	61,847
Foreign exchange income		<b>32,152</b>	82,440
Service and administrative fees		<b>3,716</b>	32,035
Other income, net		<b>6,227</b>	9,919
<b>TOTAL OPERATING INCOME</b>		<b>257,904</b>	403,927
<b>EXPENSES</b>			
General and administration expenses	7	<b>(171,882)</b>	(171,711)
Selling and marketing expenses	8	<b>(56,891)</b>	(71,853)
Impairment charge for card members' receivable, net of recoveries	10 (a)	<b>(5,580)</b>	(5,931)
Special commission expense	23 (a), 28	<b>(2,254)</b>	(10,043)
<b>PROFIT BEFORE ZAKAT AND INCOME TAX</b>		<b>21,297</b>	144,389
Zakat	14 (a)	<b>(3,303)</b>	(11,295)
Income tax, net of deferred tax	14 (a)	<b>(1,136)</b>	(7,221)
<b>NET PROFIT FOR THE YEAR</b>		<b>16,858</b>	125,873

The accompanying notes 1 to 31 form part of these financial statements

American Express Saudi Arabia  
(Saudi Closed Joint Stock Company)

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STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Note</i>	<b>31 December 2020</b>	<b>31 December 2019</b>
		<b>SR '000</b>	<b>SR '000</b>
<b>NET PROFIT FOR THE YEAR</b>		<b>16,858</b>	125,873
<b>OTHER COMPREHENSIVE LOSS</b>			
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement losses on defined benefit plans	19 (c)	<b>(2,644)</b>	(1,987)
<b>Total other comprehensive loss</b>		<b>(2,644)</b>	(1,987)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>14,214</b>	123,886

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The accompanying notes 1 to 31 form part of these financial statements

American Express Saudi Arabia  
(Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	31 December 2020 <u>SR '000</u>	31 December 2019 <u>SR '000</u>
<b>ASSETS</b>			
Cash and cash equivalents	9	95,748	11,088
Card members' receivable, net	10	500,321	885,734
Amounts due from a related party	23 (d)	125	116
Prepaid expenses and other assets	29 (b)	36,845	19,270
Zakat and income tax receivable	14 (b)	199	-
Deferred card acquisition costs		5,661	8,082
Deferred tax asset	14 (c)	3,436	3,260
Property and equipment, net	11	13,509	14,309
Intangible assets, net	12	21,494	17,607
Right of use assets, net	28	6,550	11,344
		<u>683,888</u>	<u>970,810</u>
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Amounts due to a related party	23 (d)	5,818	4,244
Accounts payable and accruals	13	112,539	107,853
Lease liabilities	28	5,748	9,544
Zakat and income tax payable	14 (b)	-	11,666
Short term borrowings	15	90,750	267,413
Card members' margins	16	43,505	48,828
Membership rewards	17	34,200	32,769
Deferred card membership fees	18	26,302	27,036
Employees' terminal benefits	19 (a)	40,609	35,754
		<u>359,471</u>	<u>545,107</u>
<b>TOTAL LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	20	100,000	100,000
Statutory reserve	21	40,943	40,943
Retained earnings		183,474	284,760
		<u>324,417</u>	<u>425,703</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>			
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
		<u>683,888</u>	<u>970,810</u>

The accompanying notes 1 to 31 form part of these financial statements



American Express Saudi Arabia  
(Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2020

<i>31 December 2020</i>	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Total</i>
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Balance at 1 January 2020	100,000	40,943	284,760	<b>425,703</b>
Net profit for the year	-	-	16,858	<b>16,858</b>
Other comprehensive loss (note 19 (c))	-	-	(2,644)	<b>(2,644)</b>
	<u>-</u>	<u>-</u>	<u>14,214</u>	<u><b>14,214</b></u>
Total comprehensive income	-	-	14,214	<b>14,214</b>
Dividend (note 22)	-	-	(115,500)	<b>(115,500)</b>
	<u>-</u>	<u>-</u>	<u>(115,500)</u>	<u><b>(115,500)</b></u>
<b><i>Balance at 31 December 2020</i></b>	<b><u>100,000</u></b>	<b><u>40,943</u></b>	<b><u>183,474</u></b>	<b><u>324,417</u></b>

<i>31 December 2019</i>	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Total</i>
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
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
	<u>-</u>	<u>-</u>	<u>3,247</u>	<u>3,247</u>
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 (note 19 (c))	-	-	(1,987)	(1,987)
	<u>-</u>	<u>-</u>	<u>123,886</u>	<u>123,886</u>
Total comprehensive income	-	-	123,886	123,886
Dividend (note 22)	-	-	(121,266)	(121,266)
	<u>-</u>	<u>-</u>	<u>(121,266)</u>	<u>(121,266)</u>
<b><i>Balance at 31 December 2019</i></b>	<b><u>100,000</u></b>	<b><u>40,943</u></b>	<b><u>284,760</u></b>	<b><u>425,703</u></b>

The accompanying notes 1 to 31 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 2020

		<u>31 December</u> <u>2020</u>	<u>31 December</u> <u>2019</u>
	Notes	SR '000	SR '000
<b>OPERATING ACTIVITIES</b>			
Profit before zakat and income tax		<b>21,297</b>	144,389
<i>Adjustments for:</i>			
Depreciation on property and equipment	11	<b>4,462</b>	4,683
Amortisation of intangible assets	12	<b>5,898</b>	5,006
Depreciation on right of use assets	28	<b>7,084</b>	7,277
Unwinding of special commission interest of lease liabilities	28	<b>186</b>	334
Impairment of card members' receivables, net of recoveries	10 (a)	<b>5,580</b>	5,931
Provision for card membership fees	10 (b)	<b>7,183</b>	4,600
Provision for fraud losses		<b>25</b>	157
Provision for employees' terminal benefits	19 (b)	<b>4,799</b>	4,781
Loss (gain) on sale of property and equipment		<b>56</b>	(41)
Loss on sale of intangible assets		<b>-</b>	90
<i>Operating cash flows before working capital changes</i>		<b>56,570</b>	177,207
<i>Changes in operating assets and liabilities:</i>			
Card members' receivables		<b>372,650</b>	(84,133)
Prepaid expenses and other assets		<b>(17,575)</b>	(6,968)
Deferred card acquisition costs		<b>2,421</b>	(1,114)
Accounts payable and accruals		<b>4,661</b>	9,363
Due to related parties, net		<b>1,565</b>	(4,299)
Card members' margins		<b>(5,323)</b>	(3,313)
Membership rewards		<b>1,431</b>	1,716
Deferred card membership fees		<b>(734)</b>	269
<i>Net cash from operations</i>		<b>415,666</b>	88,728
Zakat and income tax paid	14 (b)	<b>(16,480)</b>	(16,120)
Employees' terminal benefits paid	19 (c)	<b>(2,588)</b>	(3,071)
<i>Net cash from operating activities</i>		<b>396,598</b>	69,537
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	11	<b>(3,718)</b>	(3,413)
Purchase of intangible assets	12	<b>(9,785)</b>	(8,807)
Proceeds from sale of property and equipment		<b>-</b>	49
<i>Net cash used in investing activities</i>		<b>(13,503)</b>	(12,171)
<b>FINANCING ACTIVITIES</b>			
Proceeds from short term borrowing facilities	23 (a)	<b>768,000</b>	1,719,788
Repayment of short term borrowing facilities	23 (a)	<b>(944,663)</b>	(1,650,750)
Settlement of lease liabilities	28	<b>(6,272)</b>	(7,245)
Dividend paid	22	<b>(115,500)</b>	(121,266)
<i>Net cash used in financing activities</i>		<b>(298,435)</b>	(59,473)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>84,660</b>	(2,107)
Cash and cash equivalents at beginning of the year		<b>11,088</b>	13,195
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	9	<b>95,748</b>	11,088
<i>Non-cash elements</i>			
Right of use assets		<b>2,290</b>	18,621
Lease liabilities		<b>-</b>	16,455

The accompanying notes 1 to 31 form part of these financial statements

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

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2020

### 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 Central Bank (“SAMA”).

The registered head office of the Company is  
P. O. Box 6624,  
Riyadh 11652,  
Kingdom of Saudi Arabia.

The Company has the following branches:

<i>Branch Commercial Registration Number</i>	<i>Date</i>	<i>Location</i>
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 up to reporting period ended 31 March 2019 were prepared in compliance with International Financial Reporting Standards (“IFRS”) as modified by SAMA for the accounting of zakat and income tax. As per SAMA Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax (“SAMA Circular”), zakat and income tax were to be accrued through shareholders equity under retained earnings.

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, starting from the three month period ended 30 June 2019, 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. 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.

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.

American Express Saudi Arabia  
(Saudi Closed Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

**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.

***Pandemic***

The coronavirus ('COVID-19') pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures implemented.

The Government has also approved a vaccine which is currently available for certain categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine, the Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed and is closely monitoring its exposures at a granular level.

The Company has made certain accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Company believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. 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.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

***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.

American Express Saudi Arabia  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

**3 SIGNIFICANT ACCOUNTING ESTIMATES (continued)**

*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 following is a summary of the significant accounting policies followed 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.

*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.

*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.

*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.

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

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

### 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *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.

#### *Leases*

- *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. 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. 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.

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.

#### *Zakat, income tax and deferred tax*

##### *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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*Income tax*

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.

*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 statement of changes in shareholders' equity. In this case, the tax is also recognised.

*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).

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

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

### 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *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.

##### *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.



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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Financial instruments (IFRS 9) (continued)*

*Derecognition of financial assets (continued)*

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.

*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.

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

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

### 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Financial instruments (continued)*

##### *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)
- (d) Inflation

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.

##### *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.

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

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

### 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Revenue recognition (continued)*

##### (i) *Variable consideration*

- *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.

#### *Service and administrative fees (for commercial products)*

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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Revenue recognition (continued)*

*Tawarruq fees (non-commercial products)*

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.

*Expenses*

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

*Provision for 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.

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

### 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 2020.

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: Classification of liabilities as current or non-current*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is not expecting to have significant impact of amendments on the financial statements.

#### *IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

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

### 6 MERCHANT TRANSACTION FEES, NET

	<i>31 December</i> <i>2020</i>	<i>31 December</i> <i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>
Transaction fees on 'in Kingdom' spend	<b>45,386</b>	53,644
Local card member transaction fees on 'out of Kingdom' spend (note 23 (a))	<b>44,510</b>	117,842
Airline transaction fees (note 23 (a))	<b>2,711</b>	7,695
	<b>92,607</b>	179,181
Foreign card member transaction fees settled (note 23 (a))	<b>(4,671)</b>	(9,896)
	<b>87,936</b>	169,285

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

**7 GENERAL AND ADMINISTRATION EXPENSES**

	<i>31 December</i> <i>2020</i>	<i>31 December</i> <i>2019</i>
	<u>SR'000</u>	<u>SR'000</u>
Employee related expenses	<b>88,198</b>	96,398
Data processing expenses	<b>29,364</b>	30,678
Contractual services	<b>10,349</b>	9,571
Depreciation on right of use assets (note 28)	<b>7,084</b>	7,277
Professional charges	<b>6,124</b>	6,802
Amortisation of intangible assets (note 12)	<b>5,898</b>	5,006
Telecommunication expenses	<b>4,937</b>	5,986
Depreciation on property and equipment (note 11)	<b>4,462</b>	4,683
Rent and related expenses	<b>4,227</b>	3,112
Credit and collection expenses	<b>3,316</b>	2,216
Withholding taxes and others	<b>1,142</b>	(6,510)
Others	<b>6,781</b>	6,492
	<u><b>171,882</b></u>	<u>171,711</u>

**8 SELLING AND MARKETING EXPENSES**

	<i>31 December</i> <i>2020</i>	<i>31 December</i> <i>2019</i>
	<u>SR'000</u>	<u>SR'000</u>
Membership rewards	<b>18,638</b>	26,831
Marketing and promotion expenses	<b>17,022</b>	23,751
Employee related expenses	<b>12,514</b>	13,677
Contractual services	<b>5,284</b>	4,886
Card member benefits	<b>1,982</b>	1,357
Rent and related expenses	<b>862</b>	636
Telecommunication expenses	<b>589</b>	715
	<u><b>56,891</b></u>	<u>71,853</u>

**9 CASH AND CASH EQUIVALENTS**

	<i>31 December</i> <i>2020</i>	<i>31 December</i> <i>2019</i>
	<u>SR'000</u>	<u>SR'000</u>
Bank balances	<b>95,707</b>	11,050
Cash in hand	<b>41</b>	38
	<u><b>95,748</b></u>	<u>11,088</u>

All bank balances are assessed to have low credit risk as they are held with reputable and high credit rating domestic banking institutions and there has been no history of default with any of the Company's bank balances. Accordingly, the probability of default based on forward looking factors and any loss given defaults are considered to be negligible.

American Express Saudi Arabia  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

**10 CARD MEMBERS' RECEIVABLE, NET**

	<u>31 December 2020</u>	<u>31 December 2019</u>
	SR'000	SR'000
Card members' receivable	<b>511,842</b>	896,734
Less: Impairment in card members' receivable (see note (a) below)	<b>(11,100)</b>	(10,723)
Less: Provision for card membership fees (see note (b) below)	<b>(421)</b>	(277)
	<u><b>500,321</b></u>	<u>885,734</u>

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:

	<u>Total</u>	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>			
			<u>1 - 30 days</u>	<u>31 - 60 days</u>	<u>61 - 90 days</u>	<u>91 - 180 days</u>
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
<b>31 December 2020</b>	<b>500,321</b>	<b>439,589</b>	<b>36,553</b>	<b>15,021</b>	<b>3,345</b>	<b>5,813</b>
31 December 2019	885,734	790,096	75,462	7,183	3,484	9,509

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

	<u>31 December 2020</u>	<u>31 December 2019</u>
	SR'000	SR'000
At beginning of the year	<b>10,723</b>	9,761
Charge for the year	<b>12,941</b>	12,900
Written off during the year	<b>(12,564)</b>	(11,938)
At end of the year	<u><b>11,100</b></u>	<u>10,723</u>

The impairment charge to the statement of profit or loss amounting to SR 5.58 million is net of recoveries during the year of SR 7.36 million (31 December 2019: charge of SR 5.93 million net of recoveries of SR 6.97 million).

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

	<u>31 December 2020</u>	<u>31 December 2019</u>
	SR'000	SR'000
At beginning of the year	<b>277</b>	433
Charge for the year	<b>7,183</b>	4,600
Written off during the year	<b>(7,039)</b>	(4,756)
At end of the year	<u><b>421</b></u>	<u>277</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

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

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

<i>31 December 2020</i>				
<i>Impairment loss on card members' receivable</i>	<i>12 month ECL</i>	<i>Life time ECL not credit impaired</i>	<i>Lifetime ECL credit impaired</i>	<i>Total</i>
<i>SR'000</i>				
Balance at 1 January 2020	4,842	1,929	3,952	10,723
Transfer to 12-month ECL	17	(433)	(895)	(1,311)
Life time ECL not credit impaired	(60)	2,507	(87)	2,360
Lifetime ECL credit impaired	(31)	(204)	2,437	2,202
Net re-measurement of loss allowance	931	(29)	(175)	727
New financial assets originated or purchased	191	23	26	240
Financial assets that have been derecognized	(305)	(404)	(471)	(1,180)
Write offs (see note below)	(34)	(599)	(2,028)	(2,661)
<b><i>Balance at 31 December 2020</i></b>	<b><u>5,551</u></b>	<b><u>2,790</u></b>	<b><u>2,759</u></b>	<b><u>11,100</u></b>

Note:

Card members' receivable written off during the year amounting to SR 12.56 million (see note 10 (a)) includes direct write-offs amounting to SR 9.90 million.

<i>31 December 2019</i>				
<i>Impairment loss on card members' receivable</i>	<i>12 month ECL</i>	<i>Life time ECL not credit impaired</i>	<i>Lifetime ECL credit impaired</i>	<i>Total</i>
<i>SR'000</i>				
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)
<b><i>Balance at 31 December 2019</i></b>	<b><u>4,842</u></b>	<b><u>1,929</u></b>	<b><u>3,952</u></b>	<b><u>10,723</u></b>

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.



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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

**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

	<i>Building and improvements</i>	<i>Computer equipment</i>	<i>Furniture, fixtures and office equipment</i>	<i>Motor vehicles</i>	<i>Capital work-in progress</i>	<b>Total 2020</b>	<i>Total 2019</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<b>SR'000</b>	<i>SR'000</i>
<i>Cost:</i>							
At beginning of the year	16,894	6,718	12,745	767	114	<b>37,238</b>	34,329
Additions during the year	-	-	-	-	3,718	<b>3,718</b>	3,413
Transfers during the year	120	544	2,454	-	(3,118)	-	-
Disposals during the year	(4,768)	(9)	-	-	-	<b>(4,777)</b>	(504)
At end of the year	<u>12,246</u>	<u>7,253</u>	<u>15,199</u>	<u>767</u>	<u>714</u>	<b><u>36,179</u></b>	<u>37,238</u>
<i>Accumulated depreciation:</i>							
At beginning of the year	8,908	5,775	7,909	337	-	<b>22,929</b>	18,742
Charge for the year (note 7)	1,284	670	2,366	142	-	<b>4,462</b>	4,683
Disposals during the year	(4,713)	(8)	-	-	-	<b>(4,721)</b>	(496)
At end of the year	<u>5,479</u>	<u>6,437</u>	<u>10,275</u>	<u>479</u>	<u>-</u>	<b><u>22,670</u></b>	<u>22,929</u>
<i>Net book values:</i>							
<b>At 31 December 2020</b>	<b><u>6,767</u></b>	<b><u>816</u></b>	<b><u>4,924</u></b>	<b><u>288</u></b>	<b><u>714</u></b>	<b><u>13,509</u></b>	
At 31 December 2019	<u>7,986</u>	<u>943</u>	<u>4,836</u>	<u>430</u>	<u>114</u>		<u>14,309</u>

Capital work-in progress as at 31 December 2020 and 2019 represents cost incurred for improvements, telephone, switchboard, office and computer equipment and furniture and fixtures.

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**12 INTANGIBLE ASSETS, NET**

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

	<i>Software</i>	<i>Capital work in progress</i>	<i>Total 2020</i>	<i>Total 2019</i>
	SR'000	SR'000	SR'000	SR'000
<i>Cost:</i>				
At beginning of the year	49,859	2,247	<b>52,106</b>	53,664
Additions during the year	-	9,785	<b>9,785</b>	8,807
Transfers during the year	7,715	(7,715)	-	-
Disposals during the year	(577)	-	<b>(577)</b>	(10,365)
	<u>56,997</u>	<u>4,317</u>	<u><b>61,314</b></u>	<u>52,106</u>
<i>Accumulated amortisation:</i>				
At beginning of the year	34,499	-	<b>34,499</b>	39,768
Charge for the year (note 7)	5,898	-	<b>5,898</b>	5,006
Disposals during the year	(577)	-	<b>(577)</b>	(10,275)
	<u>39,820</u>	<u>-</u>	<u><b>39,820</b></u>	<u>34,499</u>
<i>Net book values:</i>				
<b>As at 31 December 2020</b>	<u><b>17,177</b></u>	<u><b>4,317</b></u>	<u><b>21,494</b></u>	
<i>As at 31 December 2019</i>	<u>15,360</u>	<u>2,247</u>		<u>17,607</u>

Capital work-in progress as at 31 December 2020 and 2019 represents cost incurred mainly for applications and software technical platforms.

**13 ACCOUNTS PAYABLE AND ACCRUALS**

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR'000	SR'000
Advance from card members	<b>44,597</b>	35,826
Accrued expenses	<b>37,805</b>	34,374
Employees' accrued compensation	<b>14,896</b>	21,398
Payable to merchants	<b>13,184</b>	12,807
Withholding taxes	<b>76</b>	176
Other payable	<b>1,981</b>	3,272
	<u><b>112,539</b></u>	<u>107,853</u>

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**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 2020 amounting to SR 1.31 million and SR 3.30 million (see note (b)) (31 December 2019: SR 7.26 million and SR 11.09 million) respectively, have been calculated on the basis of the Income Tax Law and the Zakat Regulations in the Kingdom of Saudi Arabia.

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

	<i>Zakat</i>		<i>Income tax</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Current year charge (note (b))	<b>3,303</b>	11,090	<b>1,312</b>	7,261
Provision / adjustments for prior periods (note (b))	-	543	-	385
Reversals for prior period (note (b))	-	(338)	-	(412)
Deferred tax relating to origination of temporary differences (note (c))	-	-	<b>(176)</b>	(13)
<i>Charged to the statement of profit or loss</i>	<b>3,303</b>	11,295	<b>1,136</b>	7,221

During March 2019, the GAZT published Rules for computation of zakat for 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 years ended 31 December 2020 and 2019 are as set out below:

	<i>31 December</i>	<i>31 December</i>
	<i>2020</i>	<i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>
<b><i>A. Calculation of zakat base</i></b>		
<i>Sources of fund</i>	<b>399,756</b>	487,073
Total assets	683,888	970,810
Less: non-zakatable assets	(47,213)	(31,915)
<b><i>Zakatable assets</i></b>	<b>636,675</b>	938,895
Percentage (%) of zakatable assets to total assets	93%	97%
Zakat base (sources of fund * (zakatable assets / total assets))	372,158	471,061
<b><i>Zakat base attributable to KSA shareholders @75%</i></b>	<b>279,119</b>	353,296

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**14 ZAKAT AND INCOME TAX PAYABLE (continued)**

	<u>31 December 2020</u>	<u>31 December 2019</u>
	SR'000	SR'000
<i>B. Calculation of minimum and maximum zakat base</i>		
Net profit before tax and zakat	<b>21,297</b>	144,389
Attributable to KSA shareholders - considering change in ownership	<b>15,972</b>	107,559
<b>Minimum zakat base</b>	<b>63,890</b>	430,237
<b>Maximum zakat base</b>	<b>127,779</b>	860,475
<i>C. Basis of zakat - higher of the zakat base or minimum zakat base</i>	<b>127,779</b>	430,237
<i>Zakat due</i>	<b><u>3,303</u></b>	<b><u>11,090</u></b>

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

<i>For the year ended 31 December 2020</i>	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
	SR '000	SR '000	SR '000
Balance payable at beginning of the year	<b>11,090</b>	<b>576</b>	<b>11,666</b>
Provision during the year (note a)	<b>3,303</b>	<b>1,312</b>	<b>4,615</b>
Payments during the year	<b>(11,090)</b>	<b>(5,390)</b>	<b>(16,480)</b>
Balance payable (receivable) at end of the year	<b><u>3,303</u></b>	<b><u>(3,502)</u></b>	<b><u>(199)</u></b>
<i>For the year ended 31 December 2019</i>	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
	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 payable at end of the year	<b><u>11,090</u></b>	<b><u>576</u></b>	<b><u>11,666</u></b>

*c) Deferred tax asset*

The deferred tax asset as at 31 December 2020 amounting to SR 3.44 million (31 December 2019 : SR 3.26 million) includes deferred tax credit for the for the year ended 31 December 2020 amounting to SR 0.18 million (31 December 2019: deferred tax credit of SR 0.01 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).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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**14 ZAKAT AND INCOME TAX PAYABLE (continued)**

*c) Deferred tax asset (continued)*

*Movement in deferred tax asset is set out below:*

	<u>31 December 2020</u>	<u>31 December 2019</u>
	SR '000	SR '000
Opening deferred tax asset	3,260	3,247
Origination of temporary differences	176	13
	<u>3,436</u>	<u>3,260</u>

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

	<u>31 December 2020</u>	<u>31 December 2019</u>
	SR'000	SR'000
Accounting profit before zakat and income tax	21,297	144,388
<i>Accounting profit related to Non GCC shareholders</i>		
- @ 25% from 1 January 2020 to 31 December 2020	5,324	-
- @ 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	<u>5,324</u>	<u>36,829</u>
At statutory income tax rate of 20%	1,065	7,366
Tax effect of other items	247	(105)
Effective income tax @ 24.64% (2019: 19.72%)	<u>1,312</u>	<u>7,261</u>

*e) Status of assessments*

The Company has filed zakat and income tax returns for all years up to 31 December 2019 with the General Authority of Zakat and Tax (GAZT). The GAZT has provided zakat certificate, which is valid up to 30 April 2021. The GAZT has finalized the Company's position up to the year ended 31 December 2011.

During 2020, the Company received delay fine assessment for the year 2015 amounting to SR 3.30 million. The Company submitted an appeal against the delay fine assessment. The GAZT, subsequently, confirmed that the delay fine assessment has been cancelled. The assessments for the years ended from 31 December 2012 to 31 December 2014 and 31 December 2016 to 31 December 2019 have not yet been raised by the GAZT.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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**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 2019: USD 200 million equivalent to SR 750.00 million) to finance the working capital requirements of the Company. As of 31 December 2020, the outstanding balance under this facility was USD 24.20 million equivalent to SR 90.75 million (31 December 2019: USD 71.31 million equivalent to SR 267.41 million). The facility will be due for renewal on 23 August 2021.
- b) Short term facilities from banks aggregating USD 80.00 million (equivalent to SR 300 million) (31 December 2019: USD 53.33 million equivalent to SR 200.00 million) to finance the working capital requirements of the Company. These loans are secured by promissory notes signed by the Company. As of 31 December 2020, the outstanding balance under these facilities was nil (31 December 2019: 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 2020 was SR 43.51 million (31 December 2019 : SR 48.83 million).

**17 MEMBERSHIP REWARDS**

	<i>31 December 2020</i>	<i>31 December 2019</i>
	<u>SR’000</u>	<u>SR’000</u>
At beginning of the year	32,769	31,053
Accumulated during the year	15,658	21,702
Utilised during the year	(14,227)	(19,986)
At end of the year	<u>34,200</u>	<u>32,769</u>

**18 DEFERRED CARD MEMBERSHIP FEES**

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

	<i>31 December 2020</i>	<i>31 December 2019</i>
	<u>SR’000</u>	<u>SR’000</u>
At beginning of the year	27,036	26,767
Billed to card members during the year	67,677	66,131
Recognised during the year	(68,411)	(65,862)
At end of the year	<u>26,302</u>	<u>27,036</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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**19 EMPLOYEES' TERMINAL BENEFITS**

The following tables summarise the components of end of service benefits ('EoSb') recognised in the statements of profit or loss, other comprehensive income and financial position:

*a) Amount recognised in the statement of financial position:*

	<u>31 December 2020</u>	<u>31 December 2019</u>
	(SR '000)	(SR '000)
Present value of defined benefit obligation	<u>40,609</u>	<u>35,754</u>

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

	<u>31 December 2020</u>	<u>31 December 2019</u>
	(SR '000)	(SR '000)
Current service cost	3,791	3,356
Special commission cost	1,008	1,425
Benefit expense	<u>4,799</u>	<u>4,781</u>

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

	<u>31 December 2020</u>	<u>31 December 2019</u>
	(SR '000)	(SR '000)
Present value of defined benefit obligation at beginning of the year	35,754	32,057
<i>Charge recognised in statement of profit or loss</i>		
Current service cost	3,791	3,356
Special commission cost	1,008	1,425
Actuarial loss recognised in the statement of other comprehensive income	2,644	1,987
Benefits paid	<u>(2,588)</u>	<u>(3,071)</u>
Present value of defined benefit obligation at end of the year	<u>40,609</u>	<u>35,754</u>

*d) Principal actuarial assumptions:*

	<u>31 December 2020</u>	<u>31 December 2019</u>
Discount rate	1.65%	2.85%
Salary increase rate	1.65%	2.85%

*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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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**19 EMPLOYEES' TERMINAL BENEFITS (continued)**

*d) Principal actuarial assumptions (continued):*

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 6.73 years (31 December 2019 : 6.76 years). For the purpose of valuation, a discount rate of 1.65% (31 December 2019 : 2.85%) 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:

	<u>31 December 2020</u>		<u>31 December 2019</u>	
	<u>Change in basis points</u>	<u>Increase (decrease) in EoS liability SR'000</u>	<u>Change in basis points</u>	<u>Increase (decrease) in EoS liability SR'000</u>
Discount rate	+5	(1,326)	+5	(1,173)
	-5	1,410	-5	1,248
Salary increase rate	+ 5	956	+ 5	1,317
	- 5	(912)	- 5	(1,250)

**20 SHARE CAPITAL**

The Company's share capital of SR 100 million (2019: SR 100 million) consists of 10 million shares of SR 10 each (2019: 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 5 April 2020 approved the distribution of net dividends amounting to SR 115.50 million at SR 11.55 per share (21 March 2019 : SR 121.27 million at SR 12.13 per share).



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**23 RELATED PARTY TRANSACTIONS AND BALANCES**

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

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transactions</i>	
		<i>31 December 2020</i>	<i>31 December 2019</i>
		<i>SR'000</i>	<i>SR'000</i>
<i>Shareholder</i>			
The Saudi Investment Bank ("SAIB")	- Data support and other services	<b>2,784</b>	4,087
	- Service and annual card fees	<b>(1,020)</b>	(1,008)
	- Share of co-brand fee	<b>101</b>	223
<i>Affiliate</i>			
AETRS	- Merchant and airline transaction fees earned (note 6)	<b>(47,221)</b>	(125,537)
	- Merchant transaction fees incurred on foreign cards (note 6)	<b>4,671</b>	9,896
	- Support and other services	<b>609</b>	458
	- Royalty expense	<b>433</b>	457
AEOCC NV	- Special commission expense (note 15 (a))	<b>2,042</b>	9,709
	- Short term loans received	<b>768,000</b>	1,719,788
	- Short term loans settled	<b>(944,663)</b>	(1,650,750)

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 2020 with SAIB amounted to SR 94.95 million and are included under cash and cash equivalents (31 December 2019 : SR 10.10 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 2020 is set out below:

	<i>31 December 2020</i>	<i>31 December 2019</i>
	<i>SR '000</i>	<i>SR '000</i>
Short term benefits	<b>13,732</b>	10,805
Termination and other long term benefits	<b>3,304</b>	3,630
	<b>17,036</b>	14,435

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 2020 of SR 1.08 million (31 December 2019 : SR 0.56 million).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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**23 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

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

<i>Related party</i>	<i>Name</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
		<i>SR '000</i>	<i>SR '000</i>
<b><i>Due from / (to):</i></b>			
Shareholder	SAIB	<b>125</b>	116
Affiliates	AETRS	<b>(5,818)</b>	(4,244)

**24 COMMITMENTS AND CONTINGENCES**

***Capital commitments***

Commitments in respect of capital expenditure outstanding as at 31 December 2020 amounted to SR 14.44 million (31 December 2019 : SR 4.83 million).

***Undrawn commitments***

The undrawn credit commitments in respect of revolve credit cards issued by the Company as at 31 December 2020 amounted to SR 861.70 million (31 December 2019 : SR 874.20 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.

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25 FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

	31 December 2020		31 December 2019	
	Carrying value	Fair value	Carrying value	Fair value
	SR '000	SR '000	SR '000	SR '000
<i>Financial assets</i>				
Cash and cash equivalents	95,748	95,748	11,088	11,088
Card members' receivable, net	500,321	500,321	885,734	885,734
Amounts due from a related party	125	125	116	116
Other assets	20,341	20,341	4,720	4,720
	<b>616,535</b>	<b>616,535</b>	901,658	901,658
<i>Financial liabilities</i>				
Accounts payable and accruals	112,539	112,539	107,853	107,853
Amounts due to a related party	5,818	5,818	4,244	4,244
Lease liabilities	5,748	5,748	9,544	9,544
Card members' margins	43,505	43,505	48,828	48,828
Short term borrowing facilities	90,750	90,750	267,413	267,413
Membership rewards	34,200	34,200	32,769	32,769
	<b>292,560</b>	<b>292,560</b>	470,651	470,651

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.

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At 31 December 2020

**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:

	<i>31 December</i> <b>2020</b>	<i>31 December</i> <b>2019</b>
	<b>SR'000</b>	<b>SR'000</b>
Card members' receivable, net	<b>500,321</b>	885,734
Bank balances	<b>95,707</b>	11,050
Amounts due from a related party	<b>125</b>	116
Other assets	<b>20,341</b>	4,720
	<b>616,494</b>	901,620

Individual card members' receivables of SR 381.61 million (31 December 2019 : SR 590.11 million), corporate card members' receivables of SR 118.71 million (31 December 2019 : SR 295.62 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.

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At 31 December 2020

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 to the capital structure in the years 2020 and 2019.

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 2020 and 2019. 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 2020		31 December 2019	
	<u>Change in basis points</u>	<u>Impact on net income</u> SR'000	<u>Change in basis points</u>	<u>Impact on net income</u> SR'000
Saudi Riyal	+25	(227)	+25	(669)
Saudi Riyal	-25	227	-25	669

Card member receivables are not subject to special commission rate risk as the Company charges fixed monthly service and administrative fees for the overdue balance in respect of commercial products. Further, for non-commercial products are also not subject to special commission rate risk as Tawarruq fee percentage is fixed in nature.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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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 2020 and 2019 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.

	<i>Fixed maturity</i>			<i>Total</i>
	<i>No fixed maturity</i>	<i>Within 3 months</i>	<i>3 months and above</i>	
<i>31 December 2020</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Lease liabilities	-	753	5,043	5,796
Accounts payable and other liabilities	-	106,859	5,680	112,539
Amounts due to a related party	-	5,818	-	5,818
Card members' margins	43,505	-	-	43,505
Short term borrowing facilities	-	90,794	-	90,794
Membership rewards	34,200	-	-	34,200
	<b>77,705</b>	<b>204,224</b>	<b>10,723</b>	<b>292,652</b>
	<b>77,705</b>	<b>204,224</b>	<b>10,723</b>	<b>292,652</b>

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At 31 December 2020

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

*Liquidity risk (continued)*

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

	<i>No fixed maturity</i>	<i>Fixed maturity</i>		<i>Total</i>
		<i>Within 3 months</i>	<i>3 months and above</i>	
<i>31 December 2019</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Lease liabilities	-	632	9,113	9,745
Accounts payable and other liabilities	-	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
<b>Total</b>	<b>81,597</b>	<b>377,881</b>	<b>11,374</b>	<b>470,852</b>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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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:

31 December 2020	On demand	Fixed maturity			Total
	SR'000	Within 3 months SR'000	3 to 12 months SR'000	1 to 5 years SR'000	
<b>Assets</b>					
Cash and cash equivalents	95,748	-	-	-	95,748
Card members' receivable, net	-	500,321	-	-	500,321
Amounts due from a related party	-	125	-	-	125
Other assets	-	17,246	2,663	432	20,341
<b>Financial assets</b>	<b>95,748</b>	<b>517,692</b>	<b>2,663</b>	<b>432</b>	<b>616,535</b>
<b>Liabilities</b>					
Lease liabilities	-	(720)	(4,287)	(741)	(5,748)
Accounts payable and other liabilities	-	(106,859)	(5,680)	-	(112,539)
Amounts due to a related party	-	(5,818)	-	-	(5,818)
Card members' margins	(43,505)	-	-	-	(43,505)
Short term borrowing facilities	-	(90,750)	-	-	(90,750)
Membership rewards	(34,200)	-	-	-	(34,200)
<b>Financial liabilities</b>	<b>(77,705)</b>	<b>(204,147)</b>	<b>(9,967)</b>	<b>(741)</b>	<b>(292,560)</b>
<b>Net financial assets (liabilities)</b>	<b>18,043</b>	<b>313,545</b>	<b>(7,304)</b>	<b>(309)</b>	<b>323,975</b>



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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

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 2019	Fixed maturity				Total SR'000
	On demand SR'000	Within 3 months SR'000	3 to 12 months SR'000	1 to 5 years SR'000	
<i>Assets</i>					
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	2,755	442	4,720
<i>Financial assets</i>	11,088	887,373	2,755	442	901,658
<i>Liabilities</i>					
Lease liabilities	-	(567)	(4,636)	(4,341)	(9,544)
Accounts payable and other liabilities	-	(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)
<i>Financial liabilities</i>	(81,597)	(377,817)	(6,896)	(4,341)	(470,651)
<i>Net financial assets (liabilities)</i>	(70,509)	509,556	(4,141)	(3,899)	431,007

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.

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At 31 December 2020

**27 RESTATEMENTS**

Pursuant to the change in accounting policy as set out in note 2:

- a) Accounting policy changes were carried out in the prior year from the three month period ended 30 June 2019. Accordingly, restatements are not required as at and for the year ended 31 December 2019.
- b) The Company has accounted for deferred tax during the prior period pertaining to the opening statement of financial position (i.e., 1 January 2019).

Consequently, the net profit and total comprehensive income for the opening period (i.e. 1 January 2019 or 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 presented statements of changes in shareholders' equity:

c) *Impact on the statement of financial position*

	<i>Assets</i>	<i>Liabilities</i>	<i>Retained earnings</i>	<i>Total shareholders' equity</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
<i>1 January 2019 balances as previously stated</i>	876,340	456,504	278,893	419,836
<i>Accounting for deferred tax asset**</i>	3,247	-	3,247	3,247
<i>Net effect of restatement</i>	3,247	-	3,247	3,247
<i>1 January 2019 balances, as restated</i>	879,587	456,504	282,140	423,083

\*\* The amount represents accounting for deferred tax in the opening statement of financial position as at 1 January 2019.

**28 RIGHT OF USE ASSETS AND LIABILITIES**

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

<i>31 December 2020</i>	<i>Right of use assets</i>				<i>Total</i>	<i>Lease liabilities</i>
	<i>Commercial buildings</i>	<i>Residential villas</i>	<i>Commercial space</i>	<i>Office equipment</i>		
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<i>As at 1 January 2020</i>	9,818	1,280	23	223	<b>11,344</b>	<b>9,544</b>
<i>Additions</i>	960	1,330	-	-	<b>2,290</b>	<b>2,290</b>
<i>Depreciation expense</i>	(5,606)	(1,232)	(23)	(223)	<b>(7,084)</b>	-
<i>Special commission expense</i>	-	-	-	-	-	<b>186</b>
<i>Payments</i>	-	-	-	-	-	<b>(6,272)</b>
<i>As at 31 December 2020</i>	<b>5,172</b>	<b>1,378</b>	-	-	<b>6,550</b>	<b>5,748</b>

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**28 RIGHT OF USE ASSETS AND LIABILITIES (continued)**

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

31 December 2019	<i>Right of use assets</i>					<i>Lease liabilities</i>
	<i>Commercial buildings</i>	<i>Residential villas</i>	<i>Commercial space</i>	<i>Office equipment</i>	<i>Total</i>	
	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)
<i>As at 31 December 2019</i>	<u>9,818</u>	<u>1,280</u>	<u>23</u>	<u>223</u>	<u>11,344</u>	<u>9,544</u>

**29 IMPACT OF COVID-19 AND REVISION TO FORWARD LOOKING INFORMATION WITH RESPECT TO EXPECTED CREDIT LOSSES AND SAMA PROGRAMS**

*a) Impact of pandemic and expected credit losses*

The coronavirus ("COVID-19") pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

In addition, the Company is closely monitoring the situation and has activated its business continuity planning and other risk management practices, COVID Assistance and Loss Mitigation program ("CALM"), to manage the potential business disruption COVID-19 outbreak may have on its operations and financial performance.

The uncertainties caused by COVID-19 and the volatility in macro-economic factors ("MEFs") such as oil prices, Gross Domestic Product ("GDP") and bank credit, have required the Company to update the inputs and assumptions used in for the determination of expected credit losses as at 31 December 2020. ECL was estimated based on a range of forecast economic conditions as at the reporting date and considering that the situation is fast evolving, the Company considered the impact of higher volatility in the forward-looking MEFs when determining the severity and likelihood of economic scenarios for ECL determination. As a result of the updates and adjustments arising out of the updates, AESA has recognized an additional ECL of SR 0.75 million during the year ended 31 December 2020.

The Company has considered potential impacts of the current economic volatility in the determination of the reported amounts of the Company's financial and non-financial assets and these are considered to represent management's best assessment based on observable information. However, markets remain volatile and the recorded amounts remain sensitive to market fluctuations.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

**29 IMPACT OF COVID-19 AND REVISION TO FORWARD LOOKING INFORMATION WITH RESPECT TO EXPECTED CREDIT LOSSES AND SAMA PROGRAMS (continued)**

***b) SAMA programs and initiatives launched***

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

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

As part of the Point of sale (“POS”) and e-commerce service fee support program, SAMA bore the fees for two services on the stores and private sector establishments for a period of 6 months starting 14 March 2020 with the purpose of the program being to support the participants in the payments ecosystem in the Kingdom of Saudi Arabia, as well as ensuring the continuity of growth and continuous expansion in providing payment services safely and effectively to consumers under the current conditions. The total fees for the 6 months starting from 14 March 2020 to 14 September 2020 borne by SAMA was SR 20.08 million out of which SR 16.67 million is receivable from SAMA as at 31 December 2020 and is included in and presented under “prepaid expenses and other assets”. Subsequent to the year end, the Company received SR 14.86 million and the balance SR 1.81 million is expected to be received during the year 2021.

**30 COMPARATIVE FIGURES**

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

**31 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on 28 Jumada Al-Thani 1442H (corresponding to 10 February 2021).