American Express (Saudi Arabia)

(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2018

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

Financial Statements and Independent Auditor's report
For the Year Ended 31 December 2018

Contents

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

Opinion

We have audited the financial statements of American Express (Saudi Arabia), a Saudi Closed Joint Stock Company (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

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

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as modified by SAMA for the accounting of zakat and income tax and the provisions of 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.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AMERICAN EXPRESS (SAUDI ARABIA)
(SAUDI CLOSED JOINT STOCK COMPANY)
(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 the Audit Committee 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.

for Ernst & Young

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

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

Riyadh: 5 Jumada Al-Thani 1440H
(10 February 2019)

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	31 December 2018 SR '000	31 December 2017 SR '000
OPERATING INCOME			
Revenue from merchants			
Merchant transaction fees, net	6	**157,766**	158,997
Revenue from card members			
Foreign exchange income		**85,367**	88,448
Service and administrative fees		**78,688**	80,224
Card membership fees, net		**64,571**	62,490
Other income, net		**10,359**	9,516
TOTAL OPERATING INCOME		**396,751**	399,675
EXPENSES			
General and administration expenses	7	**(161,950)**	(159,979)
Selling and marketing expenses	8	**(68,984)**	(57,405)
Impairment charge for card members' receivable, net of recoveries	10 (a)	**(8,079)**	(9,483)
Special commission expense		**(6,155)**	(5,752)
NET PROFIT FOR THE YEAR		**151,583**	167,056

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	*31 December 2018* *SR '000*	*31 December 2017* *SR '000*
NET PROFIT FOR THE YEAR		**151,583**	167,056
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on defined benefit plans	19 (c)	**(645)**	-
Total other comprehensive loss		**(645)**	-
TOTAL COMPREHENSIVE INCOME		**150,938**	167,056

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

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	31 December 2018 SR '000	31 December 2017 SR '000
ASSETS			
Cash and cash equivalents	9	**13,195**	25,242
Card members' receivable, net	10	**812,132**	752,348
Amounts due from a related party	23 (c)	**94**	128
Prepaid expenses and other assets		**14,468**	14,216
Deferred card acquisition cots		**6,968**	7,023
Property and equipment, net	11	**15,587**	18,590
Intangible assets, net	12	**13,896**	13,579
TOTAL ASSETS		**876,340**	831,126
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable and accruals	13	**98,333**	101,710
Provision for zakat and income tax	14 (b)	**9,257**	10,280
Short term borrowings	15	**198,375**	128,063
Amounts due to a related party	23 (c)	**8,521**	19,175
Card members' margins	16	**52,141**	60,615
Membership rewards	17	**31,053**	27,412
Deferred card membership fees	18	**26,767**	27,826
Employees' terminal benefits	19 (a)	**32,057**	30,583
TOTAL LIABILITIES		**456,504**	405,664
SHAREHOLDERS' EQUITY			
Share capital	20	**100,000**	100,000
Statutory reserve	21	**40,943**	40,943
Retained earnings		**278,893**	284,519
TOTAL SHAREHOLDERS' EQUITY		**419,836**	425,462
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**876,340**	831,126

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2018

31 December 2018	*Share capital*	*Statutory reserve*	*Retained earnings*	*Total*
	SR '000	*SR '000*	*SR '000*	*SR '000*
Balance at 31 December 2017, as previously reported	100,000	40,943	284,519	**425,462**
Effect of first time adoption of IFRS 9 (note 28 (a) (iii))	-	-	(4,183)	**(4,183)**
Effect of first time adoption of IFRS 15 (note 28 (b) (iv))	-	-	(1,627)	**(1,627)**
Restated balance as at 31 December 2017	100,000	40,943	278,709	**419,652**
Zakat and income tax (note 14 (a))	-	-	(17,109)	**(17,109)**
Net profit for the year	-	-	151,583	**151,583**
Other comprehensive loss	-	-	(645)	**(645)**
Total comprehensive income	-	-	150,938	**150,938**
Dividend (note 22)	-	-	(133,645)	**(133,645)**
Balance at 31 December 2018	**100,000**	**40,943**	**278,893**	**419,836**

31 December 2017				
Balance at 31 December 2016, as previously reported	100,000	24,237	269,015	393,252
Adjustments for deferred tax (note 27)	-	-	(2,924)	(2,924)
Restated balance at 31 December 2016	100,000	24,237	266,091	390,328
Zakat and income tax (note 14 (a))	-	-	(16,972)	(16,972)
Net profit for the year	-	-	167,056	167,056
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	167,056	167,056
Transfer to statutory reserve (note 21)	-	16,706	(16,706)	-
Dividends (note 22)	-	-	(114,950)	(114,950)
Balance at 31 December 2017	100,000	40,943	284,519	425,462

STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	31 December 2018 SR '000	31 December 2017 SR '000
OPERATING ACTIVITIES			
Net profit for the year		**151,583**	167,056
Adjustments for:			
Depreciation	7	**4,795**	4,305
Amortisation of intangible assets	7	**4,917**	5,045
Impairment of card members' receivables, net of recoveries	10 (a)	**8,079**	9,483
Provision for card membership fees	10 (b)	**4,706**	3,416
Provision for fraud losses		**125**	186
Provision for employees' terminal benefits	19 (b)	**4,184**	4,483
Loss (gain) on sale of property and equipment		**233**	(83)
Property and equipment impaired	11	**19**	-
Intangible assets impaired / written off	12	**50**	152
Operating cash flows before working capital changes		**178,691**	194,043
Changes in operating assets and liabilities:			
Card members' receivables		**(76,752)**	22,232
Prepaid expenses and other assets		**(252)**	(1,710)
Deferred card acquisition costs		**(1,572)**	-
Accounts payable and accruals		**(3,502)**	8,088
Due to related parties, net		**(10,620)**	6,407
Card members' margins		**(8,474)**	5,554
Membership rewards		**3,641**	899
Deferred card membership fees		**(1,059)**	(117)
Net cash from operations		**80,101**	235,396
Zakat and income tax paid	14 (b)	**(18,132)**	(18,419)
Employees' terminal benefits paid	19 (c)	**(3,355)**	(1,418)
Net cash from operating activities		**58,614**	215,559
INVESTING ACTIVITIES			
Purchase of property and equipment	11	**(2,085)**	(5,611)
Purchase of intangible assets	12	**(5,284)**	(5,559)
Proceeds from sale of property and equipment		**41**	106
Net cash used in investing activities		**(7,328)**	(11,064)
FINANCING ACTIVITIES			
Proceeds from short term borrowing facilities		**1,632,562**	1,442,818
Repayment of short term borrowing facilities		**(1,562,250)**	(1,558,506)
Dividend paid	22	**(133,645)**	(114,950)
Net cash used in financing activities		**(63,333)**	(230,638)
DECREASE IN CASH AND CASH EQUIVALENTS		**(12,047)**	(26,143)
Cash and cash equivalents at beginning of the year		**25,242**	51,385
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	9	**13,195**	25,242

1 ACTIVITIES

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

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

Branch Commercial Registration Number	*Date*	*Location*
2051041721	2 Safar 1431H	Khobar
4030189461	11 Jumada Awal 1430H	Jeddah
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 have been prepared:

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

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

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

The Company has adopted, from 1 January 2018, IFRS 9 - *Financial Instruments* and IFRS 15 - *Revenue from Contracts with Customers* and accounting policies for these new standards are disclosed in the note 4. Significant impacts relating to these newly adopted standards are disclosed in note 28. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Company.

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

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

3 SIGNIFICANT ACCOUNTING ESTIMATES

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

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

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

Impairment of card members' receivables
Refer notes 4 and 28 (a).

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.

4 SIGNIFICANT ACCOUNTING POLICIES

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

- adoption of IFRS 9 - *Financial Instruments* (see accounting policy 4B and note 28 (a)) effective as of 1 January 2018 and
- IFRS 15 - *Revenue from Contracts with Customers from 1 January 2018* (see accounting policy 4A and note 28 (b)) effective as of 1 January 2018.

A. *IFRS 15 - Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company has adopted the cumulative effect method by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at 1 January 2018, permitted by IFRS 15. Accordingly, comparative information for the corresponding period has not been restated.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

A. IFRS 15 - Revenue from Contracts with Customers (continued)

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 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 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. Prior to the adoption of IFRS 15, the Company recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and volume rebates.

Under IFRS 15, rights of return and volume rebates give rise to a 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 programme

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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

B. ***IFRS 9 – Financial Instruments***

The Company has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 - Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The standard also introduced a new model based on Expected Credit Losses (ECL) for recognizing loan loss provisions. The Company has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Accordingly, the comparative information for 2017 reported under IAS 39 is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 at the opening balance sheet date has been recognised directly in the statement of changes in shareholders' equity under retained earnings as of 1 January 2018 *(see statement of changes in shareholders' equity)*.

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.

Reclassification

The Company did not reclassify its financial assets subsequent to their initial recognition.

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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

B. IFRS 9 – Financial Instruments (continued)

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.

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) Inflation (Consumer Price Index)
(d) Bank Credit to Private Sector (Loans, Advances & Overdrafts Private Sector)

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Zakat and income tax
Zakat and income tax is provided in accordance with the Income Tax law and Zakat Regulations of the General Authority for Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia, on an accrual basis. The provision is charged to statement of changes in shareholders' equity (see note 2 - basis of preparation).

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).

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

Merchant transaction fees

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

Revenue from loyalty programmes - Membership rewards

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

MRLP under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted.

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

Service and administrative fee

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

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

Card fees

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

Foreign exchange

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

Expenses

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

Impairment charge for credit losses

See note 4B for impairment charge of card members' receivable.

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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision for card membership fees

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

Foreign currencies

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

Accounts payable and accruals

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

5 SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE AND ANNUAL IMPROVEMENTS

Significant standards issued but not yet effective

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

IFRS 16 Leases

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

The adoption of IFRS 16 will have an effect on the classification and measurement of the Company's leased assets. The Company has carried out preliminary assessments in measuring the impact of IFRS 16 which will be considered in the opening balance sheet (right of use in respect of leased assets with a corresponding lease liability (commitments)) as at 1 January 2019 by an approximate amount of SR 17.53 million (31 December 2017: SR 19.91 million).

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

5 SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE AND ANNUAL IMPROVEMENTS (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments if any, curtailments, or settlements of the Company.

Annual improvements

IAS 12 Income Taxes
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Starting 1 January 2019, the Company will have to recognize tax consequences when dividend is declared.

6 MERCHANT TRANSACTION FEES, NET

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
Local card member transaction fees on 'out of Kingdom' spend (note 23 (a))	**110,609**	109,320
Transaction fees on 'in Kingdom' spend	**50,495**	54,630
Airline transaction fees	**5,862**	5,078
	166,966	169,028
Foreign card member transaction fees settled (note 23 (a))	**(9,200)**	(10,031)
	157,766	158,997

7 GENERAL AND ADMINISTRATION EXPENSES

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
Employee related expenses	**88,633**	81,023
Data processing expenses	**27,751**	31,761
Contractual services	**8,843**	7,944
Rent and related expenses	**8,283**	8,275
Telecommunication expenses	**6,339**	5,300
Professional charges	**5,577**	5,843
Amortisation of intangible assets (note 12)	**4,917**	5,045
Depreciation (note 11)	**4,795**	4,305
Withholding taxes and others	**882**	7,352
Others	**5,930**	3,131
	161,950	159,979

8 SELLING AND MARKETING EXPENSES

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
Membership rewards	**24,121**	18,862
Marketing and promotion expenses	**24,027**	19,863
Employee related expenses	**12,576**	11,496
Contractual services	**4,515**	4,056
Rent and related expenses	**1,692**	1,690
Card member benefits	**1,297**	805
Telecommunication expenses	**756**	633
	68,984	57,405

9 CASH AND CASH EQUIVALENTS

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
Bank balances	**13,156**	25,204
Cash in hand	**39**	38
	13,195	25,242

10 CARD MEMBERS' RECEIVABLE, NET

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
Card members' receivable	**822,326**	758,603
Less: Impairment in card members' receivable (see note (a) below)	**(9,761)**	(5,866)
Less: Provision for card membership fees (see note (b) below)	**(433)**	(389)
	812,132	752,348

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

	Total	*Neither past due nor impaired*	*Past due but not impaired*			
			1 - 30 days	*31 - 60 days*	*61 - 90 days*	*91 - 180 days*
	SR' 000	*SR' 000*	*SR' 000*	*SR' 000*	*SR' 000*	*SR' 000*
31 December 2018	**812,132**	**745,716**	**41,634**	**12,335**	**4,737**	**7,710**
31 December 2017	752,348	698,869	30,173	12,117	4,664	6,525

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

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
At beginning of the year	**5,866**	5,983
Effect of first time adoption of IFRS 9 (retained earnings)	**4,175**	-
Charge for the year	**13,946**	15,897
Written off during the year	**(14,226)**	(16,014)
At end of the year	**9,761**	5,866

The impairment charge to the statement of profit or loss amounting to SR 8.08 million is net of recoveries during the year of SR 5.87 million (31 December 2017: charge of SR 9.48 million net of recoveries of SR 6.41 million).

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

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
At beginning of the year	**389**	287
Charge for the year	**4,706**	3,416
Written off during the year	**(4,662)**	(3,314)
At end of the year	**433**	389

11 PROPERTY AND EQUIPMENT, NET

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

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

	Building and improvements	*Computer equipment*	*Furniture, fixtures and office equipment*	*Motor vehicles*	*Capital work-in progress*	***Total 2018***	*Total 2017*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	***SR'000***	*SR'000*
Cost:							
At beginning of the year	14,775	5,226	10,780	807	1,558	**33,146**	35,725
Additions during the year	-	-	-	-	2,085	**2,085**	5,611
Transfers during the year	1,322	1,419	749	-	(3,490)	-	-
Disposals during the year	-	(30)	(723)	(132)	-	**(885)**	(296)
Write-offs during the year	-	-	-	-	(17)	**(17)**	(7,894)
At end of the year	16,097	6,615	10,806	675	136	**34,329**	33,146
Accumulated depreciation:							
At beginning of the year	5,948	4,268	3,772	568	-	**14,556**	18,418
Charge for the year (note 7)	1,555	815	2,337	88	-	**4,795**	4,305
Disposals during the year	-	(30)	(449)	(132)	-	**(611)**	(296)
Impaired (write-offs) during the year	-	1	1	-	-	**2**	(7,871)
At end of the year	7,503	5,054	5,661	524	-	**18,742**	14,556
Net book values:							
At 31 December 2018	**8,594**	**1,561**	**5,145**	**151**	**136**	**15,587**	
At 31 December 2017	8,827	958	7,008	239	1,558		18,590

Capital work-in progress as at 31 December 2018 and 2017 represents cost incurred for telephone, switchboard, office and computer equipment and furniture and fixtures.

12 INTANGIBLE ASSETS, NET

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

Software 3-5 years

	Software	*Capital work in progress*	***Total 2018***	*Total 2017*
	SR'000	*SR'000*	***SR'000***	*SR'000*
Cost:				
At beginning of the year	45,395	3,012	**48,407**	54,150
Additions during the year	-	5,284	**5,284**	5,559
Transfers during the year	5,134	(5,134)	-	-
Write-offs during the year	-	(27)	**(27)**	(11,302)
At the end of the year	50,529	3,135	**53,664**	48,407
Accumulated amortisation:				
At beginning of the year	34,828	-	**34,828**	40,933
Charge for the year (note 7)	4,917	-	**4,917**	5,045
Impaired (write-offs) during the year	23	-	**23**	(11,150)
At end of the year	39,768	-	**39,768**	34,828
Net book values:				
As at 31 December 2018	**10,761**	**3,135**	**13,896**	
As at 31 December 2017	10,567	3,012		13,579

Capital work-in progress as at 31 December 2018 and 2017 represents cost incurred mainly for applications and software technical platforms.

13 ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
Advance from card members	**34,672**	29,904
Accrued expenses	**31,144**	28,059
Employees' accrued compensation	**17,644**	18,163
Payable to merchants	**11,137**	16,946
Withholding taxes	**173**	2,846
Other payable	**3,563**	5,792
	98,333	101,710

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, amounting to SR 9.32 million and 7.98 million (31 December 2017: SR 9.07 million and SR 7.90 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 changes in shareholders' equity)*

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
Current zakat and income tax (see note (b))	**17,300**	18,700
Adjustments for prior years	**(191)**	(1,728)
Charged to the statement of changes in shareholders' equity	**17,109**	16,972

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

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
Equity	**291,818**	194,811
Provisions	**40,784**	29,079
Book value of long term assets (net of related financing)	**(45,237)**	(32,852)
Zakatable profit for the year	**160,648**	124,972
Zakat base	**448,013**	316,010
Adjustments to zakat base for 2018		
70% from 1 January 2018 to 27 September 2018)	**232,761**	-
73.75 % from 28 September 2018 to 31 December 2018)	**86,285**	-
	319,046	316,010
Zakat due	**7,976**	7,900

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

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

14 ZAKAT AND INCOME TAX PAYABLE (continued)

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

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

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

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
Accounting profit before zakat and income tax	**151,583**	167,056
Accounting profit related to Non GCC shareholders (for 2017)	-	50,117
Accounting profit related to Non GCC shareholders for 2018)		
- @ 30% from 1 January 2018 to 27 September 2018	**33,639**	-
- @ 26.25% from 28 September 2018 to 31 December 2018	**10,356**	-
Total accounting profit related to Non GCC shareholders	**43,995**	50,117
At statutory income tax rate of 20%	**8,799**	10,023
Tax effect of other items	**525**	777
Effective income tax @ 21.19% (2017: 21.55%)	**9,324**	10,800

d) Status of assessments

The Company has filed zakat and income tax returns for all years up to 31 December 2017 and has obtained provisional zakat certificate, which is valid up to 30 April 2019.

During 2010, the Company received assessments from the General Authority for Zakat and Tax (the "GAZT") for the years 2003 to 2006 claiming additional zakat, income tax and withholding tax of SR 6.17 million. The GAZT also assessed delay fine amounting to SR 4.57 million. The Company paid total claims of SR 7.59 million and submitted an appeal against the GAZT's assessment. The Company's appeal to the Appellate Committee for Zakat and Tax Appeal ("ACZTA") was accepted for certain items which reduced the liability by SR 0.25 million. The Company had filed an appeal with the Board of Grievances ("BoG") in 2016 against the ACZTA's decision. The BoG had rejected the Company's contentions, during 2018. Accordingly, the Company settled the remaining outstanding amount of SR 2.9 million to the GAZT.

14 ZAKAT AND INCOME TAX PAYABLE (continued)

d) Status of assessments (continued)

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

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

Assessments for the years ended 31 December 2012 to 2017 have not yet been raised.

15 SHORT TERM BORROWINGS

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

a) Short term facilities from banks aggregating USD 238.00 million (equivalent to SR 892.50 million) (31 December 2017: USD 263 million equivalent to SR 986.25 million) to finance the working capital requirements of the Company. These loans are secured by promissory notes signed by the Company and facilities will be due for renewal during 2019. As of 31 December 2018, the outstanding balance under these facilities was nil (31 December 2017: nil).

b) Credit facility from American Express Overseas Credit Corporation ("AEOCC") NV ("AEOCC NV") aggregating USD 200 million (equivalent to SR 750 million) (31 December 2017: USD 200 million equivalent to SR 750.00 million) to finance the working capital requirements of the Company. As of 31 December 2018, the outstanding balance under this facility was USD 52.90 million equivalent to SR 198.38 million (31 December 2017: USD 34.15 million equivalent to SR 128.06 million). The facility will be due for renewal on 23 August 2020.

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 2018 was SR 52.14 million (31 December 2017 : SR 60.62 million).

17 MEMBERSHIP REWARDS

	31 December 2018 SR'000	31 December 2017 SR'000
At beginning of the year	**27,412**	26,513
Accumulated during the year	**20,943**	17,943
Utilised during the year	**(17,302)**	(17,044)
At end of the year	**31,053**	27,412

18 DEFERRED CARD MEMBERSHIP FEES

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

	31 December 2018 SR'000	31 December 2017 SR'000
At beginning of the year	**21,996**	22,113
Billed to card members during the year	**66,903**	66,013
Recognised during the year	**(62,132)**	(66,130)
Reclassification to deferred card acquisition costs	-	5,830
At end of the year	**26,767**	27,826

19 EMPLOYEES' TERMINAL BENEFITS

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

a) Amount recognised in the statement of financial position:

	31 December 2018 (SR '000)	31 December 2017 (SR '000)
Present value of defined benefit obligation	**32,057**	30,583

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

	31 December 2018 (SR '000)	31 December 2017 (SR '000)
Current service cost	**2,684**	3,698
Special commission cost	**1,500**	785
Benefit expense	**4,184**	4,483

19 EMPLOYEES' TERMINAL BENEFITS (continued)

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

	31 December 2018	*31 December 2017*
	(SR '000)	*(SR '000)*
Present value of defined benefit obligation at beginning of the period	**30,583**	27,518
Charge recognised in statement of profit or loss		
Current service cost	**2,684**	3,698
Special commission cost	**1,500**	785
Actuarial loss on defined benefit plan recognised in the statement of other comprehensive income	**645**	-
Benefits paid	**(3,355)**	(1,418)
Present value of defined benefit obligation at end of the period	**32,057**	30,583

d) Principal actuarial assumptions:

	31 December 2018	*31 December 2017*
Discount rate	4.45%	5%
Salary increase rate	4.45%	5%

Discount rate

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

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

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

Increments

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

19 EMPLOYEES' TERMINAL BENEFITS (continued)

d) Principal actuarial assumptions (continued):

Sensitivity analysis

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

	31 December 2018		*31 December 2017*	
	Change in basis points	***Increase (decrease) in EoSB liability***	*Change in basis points*	*Increase (decrease) in EoSB liability*
		SR'000		*SR'000*
Discount rate	**+5**	**(1,017)**	+5	(938)
	-5	**1,082**	-5	999
Increments	**+ 5**	**1,143**	+5	1,054
	- 5	**(1,084)**	-5	(997)

20 SHARE CAPITAL

The Company's share capital of SR 100 million consists of 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

During the year, the shareholders approved net dividends amounting to SR 133.65 million amounting to SR 13.365 per share (31 December 2017 : SR 114.95 million amounting to SR 11.495 per share).

23 RELATED PARTY TRANSACTIONS AND BALANCES

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

Related party	*Nature of transaction*	*31 December 2018* *SR'000*	*31 December 2017* *SR'000*
Shareholder			
The Saudi Investment Bank ("SAIB")	Data support services	**(4,405)**	(5,572)
	Service and annual card fees	**885**	867
	Share of co-brand fee	**(155)**	-
American Express Middle East ("AEME")	Service fees	**-**	(468)
Affiliate			
AETRS	Merchant transaction fees earned (note 6)	**110,609**	109,320
	Merchant transaction fees incurred on foreign cards (note 6)	**(9,200)**	(10,031)
	Royalty expense	**(418)**	(395)
AEOCC NV	Finance charges paid (note 15(b))	**(6,155)**	(515)
	Short term loans received	**1,632,562**	674,064
	Short term loans settled	**(1,562,250)**	(546,007)

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 2018 with SAIB amounted to SR 9.36 million and are included under cash and cash equivalents (31 December 2017 : SR 24.37 million).

b) The compensation summary of key management personnel during the year ended 31 December 2018 is set out below:

	31 December 2018 *SR '000*	*31 December 2017* *SR '000*
Short term benefits	**9,581**	9,733
Termination and other long term benefits	**2,061**	2,285
	11,642	12,018

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

Related party	*Name*	*31 December 2018* *SR '000*	*31 December 2017* *SR '000*
Due from / (to):			
Shareholder	SAIB	**94**	128
Affiliates	AETRS	**(8,521)**	(19,175)

24 COMMITMENTS AND CONTINGENCES

Capital commitments
Commitments in respect of capital expenditure outstanding as at 31 December 2018 amounted to SR 1.55 million (31 December 2017 : SR 1.43 million).

Undrawn commitments
The undrawn credit commitments in respect of revolve credit cards issued by the Company as at 31 December 2018 amounted to SR 850.47 million (31 December 2017 : SR 796.01 million).

Bank guarantees
Outstanding bank guarantees issued to the GAZT as at 31 December 2018 and 2017, in respect of its appeals to the HAC and BoG amounted to SR 7.00 million (31 December 2017 : SR 10.00 million).

25 FINANCIAL INSTRUMENTS AND FAIR VALUE

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

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

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

Financial instruments comprise financial asset and financial liabilities.

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

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

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

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

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

25 FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

	31 December 2018		*31 December 2017*	
	Carrying value	*Fair value*	*Carrying value*	*Fair value*
	SR '000	*SR '000*	*SR '000*	*SR '000*
Financial assets				
Cash and cash equivalents	**13,195**	**13,195**	25,242	25,242
Card members' receivable, net	**812,132**	**812,132**	752,348	752,348
Amounts due from a related party	**94**	**94**	128	128
Other assets	**3,650**	**3,650**	5,649	5,649
	829,071	**829,071**	783,367	783,367
Financial liabilities				
Accounts payable and accruals	**98,333**	**98,333**	101,710	101,710
Amounts due to a related party	**8,521**	**8,521**	19,175	19,175
Card members' margins	**52,141**	**52,141**	60,615	60,615
Short term borrowing facilities	**198,375**	**198,375**	128,063	128,063
Membership rewards	**31,053**	**31,053**	27,412	27,412
	388,423	**388,423**	336,975	336,975

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 RISK MANAGEMENT

Financial instruments carried on the statement of financial position comprise cash and cash equivalents, card members' receivable, due from a related party and other receivables, card members' margins, membership rewards, employees' terminal benefits, short term borrowings, accounts payable, due to a related party, accruals and other liabilities.

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

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

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

26 RISK MANAGEMENT (continued)

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

Credit risk

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

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

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

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

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

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

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

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
Card members' receivable, net	**812,132**	752,348
Bank balances	**13,156**	25,204
Amounts due from a related party	**94**	128
Other assets	**3,650**	5,649
	829,032	783,329

Individual card members' receivables of SR 568.68 million (31 December 2017 : SR 570.24 million), corporate card members' receivables of SR 243.88 million (31 December 2016 : SR 182.11 million) and other assets are unrated financial assets.

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

26 RISK MANAGEMENT (continued)

Special commission rate risk

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

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Company's statement of profit or loss for an annual period. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2018 and 2017. 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 2018		*31 December 2017*	
	Change in basis points	***Impact on net income***	*Change in basis points*	*Impact on net income*
		SR'000		*SR'000*
Saudi Riyal	**+25**	**(496)**	+25	(320)
Saudi Riyal	**-25**	**496**	-25	320

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

26 RISK MANAGEMENT (continued)

Liquidity risk

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

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2018 and 2017 based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date.

		Fixed maturity		
	No fixed maturity	*Within 3 months*	*3 to 12 months*	*Total*
31 December 2018	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Accounts payable and accruals	-	91,186	6,528	**97,714**
Amounts due to a related party	-	8,521	-	**8,521**
Card members' margins	52,141	-	-	**52,141**
Short term borrowing facilities	-	198,994	-	**198,994**
Membership rewards	31,053	-	-	**31,053**
Total	**83,194**	**298,701**	**6,528**	**388,423**

26 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

		Fixed maturity		
	No fixed maturity	*Within 3 months*	*3 to 12 months*	*Total*
31 December 2017	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Accounts payable and accruals	-	89,136	12,426	101,562
Amounts due to a related party	-	19,175	-	19,175
Card members' margins	60,615	-	-	60,615
Short term borrowing facilities	-	128,211	-	128,211
Membership rewards	27,412	-	-	27,412
Total	88,027	236,522	12,426	336,975

26 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

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

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

26 RISK MANAGEMENT (continued)

Liquidity risk *(continued)*

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

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

26 RISK MANAGEMENT (continued)

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

27 DEFERRED TAX ADJUSTMENT

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

a) The Company reversed deferred tax assets as at 31 December 2016 amounting to SR 2.92 million.

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

	Assets	*Liabilities*	*Retained earnings*	*Equity*
	SR '000	*SR '000*	*SR '000*	*SR '000*
31 December 2016 balances as previously stated (Audited)	885,578	492,326	269,015	393,252
Reversal of deferred tax asset	(2,924)	-	(2,924)	(2,924)
Restated balances as at 31 December 2016	882,654	492,326	266,091	390,328

28 ADOPTION OF IFRS 9 AND 15 AND ITS RELATED IMPACTS

(a) IFRS 9

Details of the significant changes that have occurred due to the adoption of IFRS 9 by the Company effective 1 January 2018 are set out below:

Classification of financial assets and liabilities

i) *Assets* – Similar to IAS 39, the Company's significant financial assets i.e. card members' receivable, cash equivalents and amounts due from related parties will continue to be held at *amortised cost* under IFRS 9.

ii) *Liabilities* – There has been no change to the classification of financial liabilities due to IFRS 9 and continue to be held at *amortised cost*.

iii) *Measurement*

Based on IFRS 9 impairment provision requirements of ECL, cash equivalents and amounts due from related parties have been remeasured as at 1 January 2018 and a provision of SR 0.01 million has been adjusted opening balance of retained earnings in the statement of changes in shareholders' equity.

28 ADOPTION OF IFRS 9 AND 15 AND ITS RELATED IMPACTS (continued)

(a) IFRS 9 (continued)

iii) Measurement (continued)

Impairment of card members' receivable balance has been remeasured on ECL basis under IFRS 9. Impairment provision as calculated under IFRS 9 was higher by SR 4.18 million which has been adjusted in the opening balance of retained earnings as at 1 January 2018 in the statement of changes in shareholders' equity.

Reconciliations of carrying amounts of financial assets under IAS 39 and IFRS 9 as at 1 January 2018

Financial asset	*IAS 39 carrying amount as at 31 December 2017*	*Reclassification*	*Remeasurement*	*IFRS 9 carrying amount as at 1 January 2018*
			SR'000	
Cash equivalents	25,204	-	(8)	25,196
Card members' receivable, net	752,348	-	(4,175)	748,173
Amounts due from related parties	128	-	-	128
Total impact	777,680	-	(4,183)	773,497

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

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

Note:

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

28 ADOPTION OF IFRS 9 AND 15 AND ITS RELATED IMPACTS (continued)

(a) IFRS 9 (continued)

iii) Measurement (continued)

Reclassifications
There have been no reclassifications of financial assets and liabilities under IFRS 9 as compared to IAS 39. All financial assets and liabilities continue to be held under Amortised Cost.

(b) IFRS 15

Details of the significant changes that have occurred due to the adoption of IFRS 15 by the Company effective 1 January 2018 are set out below:

(i) Merchant transaction fees

Under IFRS 15, liability arising out of MR points are being recognised as costs. Costs to fulfill the Company's liability under MRLP will be accounted for when such points MR are earned. *This will entail only a classification impact on merchant transaction fees reported from 1 January 2018.*

(ii) Return of goods by card members to merchants

Under IFRS 15, the Company will estimate such returns using the expected value method and recognise revenue, net of returns with the unrecognised revenue being reported as a refund liability. *There has been no significant impact on account of return of goods by card member to merchants.*

(iii) Rebates to merchants

Under IFRS 15, the Company has adjusted the amount of this provision from revenue. This provision is reported as a refund liability. *There has been no impact on the opening balance sheet. Rebates to merchants starting 1 January 2018 will be adjusted from merchant transaction fees and reported as a separate liability.*

(iv) Incremental costs to acquire contracts and costs to fulfill contracts

Incremental costs to acquire new card members (acquisition of contracts) and issuance costs including cost of plastic (costs to fulfill contracts) will be deferred and amortised over the expected life of the cards where benefit is deemed to accrue to the Company. Such incremental costs are deferred based on actual costs incurred and there are no estimation involved.

Based on the above, the Company has recalculated the incremental costs to acquire and fulfill contracts in respect of card member acquisitions and adjusted SR 1.63 million in the opening balance of retained earnings in the statement of changes in shareholders' equity. As a result, the carrying value of deferred card acquisition costs have been reduced as at 1 January 2018 by SR 1.63 million.

29 COMPARATIVE FIGURES

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

30 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 5 Jumada Al-Thani 1440H (corresponding to 10 February 2019).