

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

**INTERIM CONDENSED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REVIEW REPORT**

**FOR THE THREE MONTH PERIOD ENDED
31 MARCH 2021**

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

Interim Condensed Financial Statements and Independent Auditor's Review Report
For The Three Month Period Ended 31 March 2021

Contents	Pages
Independent Auditor's Review Report	1 – 2
Interim Statement of Profit or Loss	3
Interim Statement of Other Comprehensive Income	4
Interim Statement of Financial Position	5
Interim Statement of Changes in Shareholders' Equity	6
Interim Statement of Cash Flows	7
Notes to the Interim Condensed Financial Statements	8 – 17



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كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

Commercial Registration No 101425494

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

Independent auditor's report on review of interim condensed financial statements

To the Shareholders of American Express Saudi Arabia

Introduction

We have reviewed the accompanying 31 March 2021 interim condensed financial statements of **American Express Saudi Arabia** ("the Company"), which comprises:

- the interim statement of financial position as at 31 March 2021;
- the interim statement of profit or loss for the three month period ended 31 March 2021;
- the interim statement of other comprehensive income for the three month period ended 31 March 2021;
- the interim statement of changes in shareholders' equity for the three month period ended 31 March 2021;
- the interim statement of cash flows for the three month period ended 31 March 2021; and
- the notes to the interim condensed financial statements.

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34: Interim Financial Reporting ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2021 interim condensed financial statements of **American Express Saudi Arabia** are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.



Independent auditor's report on review of interim condensed financial statements

To the Shareholders of American Express Saudi Arabia (Continued)

Other Matter

The interim condensed financial statements of the Company for the three month period ended 31 March 2020, were reviewed by another auditor who expressed an unmodified conclusion on those interim condensed financial statements on 26 April 2020 and the financial statements of the Company for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 18 February 2021.

KPMG Professional Services

Hani Hamzah A. Bedairi

License no.: 460

Riyadh: 10 Ramadan 1442H
Corresponding to: 22 April 2021



American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

INTERIM STATEMENT OF PROFIT OR LOSS

For the three month period ended 31 March 2021

	Notes	For the three month period ended (Unaudited)	
		31 March 2021 SR '000	31 March 2020 SR '000
OPERATING INCOME			
<i>Revenue from merchants</i>			
Merchant transaction fees, net	5	21,727	33,766
<i>Revenue from card members</i>			
Foreign exchange income		5,303	15,128
Card membership fees, net		14,721	15,905
Special commission income on tawarruq		14,893	19,345
Service and administrative fees		49	1,996
Other income, net		921	1,759
TOTAL OPERATING INCOME		57,614	87,899
EXPENSES			
General and administration expenses		(47,149)	(49,883)
Selling and marketing expenses		(12,009)	(17,089)
Impairment charge for card members' receivable, net of recoveries	6 (a)	(955)	(2,837)
Special commission expense		(228)	(1,677)
(LOSS) PROFIT BEFORE ZAKAT AND INCOME TAX		(2,727)	16,413
Zakat	8 (b)	(713)	(2,071)
Income tax, net of deferred tax	8 (b) (c)	(3)	(1,195)
NET (LOSS) PROFIT FOR THE PERIOD		(3,443)	13,147

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME

For the three month period ended 31 March 2021

	<i>For the three month period ended (Unaudited)</i>	
	<u>31 March 2021</u>	<u>31 March 2020</u>
	<u>SR '000</u>	<u>SR '000</u>
NET (LOSS) PROFIT FOR THE PERIOD	(3,443)	13,147
OTHER COMPREHENSIVE INCOME		
<i>Item not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement gains on defined benefit plans	-	-
Total other comprehensive income	-	-
TOTAL COMPREHENSIVE (LOSS) INCOME	(3,443)	13,147

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

		<i>31 March</i>	<i>31 December</i>
		<i>2021</i>	<i>2020</i>
	<i>Notes</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
		<i>SR '000</i>	<i>SR '000</i>
ASSETS			
Cash and cash equivalents		56,110	95,748
Card members' receivable, net	6	475,550	500,321
Amounts due from a related party	10 (d)	235	125
Prepaid expenses and other assets	14 (b)	16,449	36,845
Zakat and income tax receivable	8 (b)	-	199
Deferred card acquisition costs		4,886	5,661
Deferred tax asset	8 (c)	3,434	3,436
Property and equipment, net		14,323	13,509
Intangible assets, net		20,885	21,494
Right of use assets, net	15	57,697	6,550
		649,569	683,888
TOTAL ASSETS			
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Amounts due to a related party	10 (d)	5,347	5,818
Accounts payable and accruals	7	110,120	112,539
Short term borrowings	9	18,750	90,750
Zakat and income tax payable	8 (b)	515	-
Card members' margins		43,296	43,505
Membership rewards		32,588	34,200
Lease liabilities	15	53,304	5,748
Deferred card membership fees		23,184	26,302
Employees' terminal benefits		41,491	40,609
		328,595	359,471
TOTAL LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital		100,000	100,000
Statutory reserve		40,943	40,943
Retained earnings		180,031	183,474
		320,974	324,417
TOTAL SHAREHOLDERS' EQUITY			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			
		649,569	683,888

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three month period ended 31 March 2021

<i>31 March 2021 (unaudited)</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 2021	100,000	40,943	183,474	324,417
Total comprehensive loss	-	-	(3,443)	(3,443)
<i>Balance at 31 March 2021</i>	<u>100,000</u>	<u>40,943</u>	<u>180,031</u>	<u>320,974</u>
<i>31 March 2020 (unaudited)</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	425,703
Total comprehensive income	-	-	13,147	13,147
<i>Balance at 31 March 2020</i>	<u>100,000</u>	<u>40,943</u>	<u>297,907</u>	<u>438,850</u>

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS

For the three month period ended 31 March 2021

	Notes	<i>For the three month period ended</i>	
		31 March 2021	31 March 2020
		(Unaudited)	(Unaudited)
		SR '000	SR '000
OPERATING ACTIVITIES			
(Loss) profit before zakat and income tax		(2,727)	16,413
<i>Adjustments for:</i>			
Depreciation on property and equipment		1,103	1,111
Amortisation of intangible assets		1,517	1,382
Depreciation on right of use assets		2,294	1,934
Unwinding of special commission expense of lease liabilities		151	65
Impairment of card members' receivables, net of recoveries	6 (a)	955	2,837
Provision for card membership fees		2,198	1,357
Provision for fraud losses		1	28
Provision for employees' terminal benefits		1,431	2,721
<i>Operating cash flows before working capital changes</i>		6,923	27,848
<i>Changes in operating assets and liabilities:</i>			
Card members' receivables		21,618	257,479
Prepaid expenses and other assets		14,896	(1,870)
Accounts payable and accruals		(2,420)	(9,354)
Amounts due to related parties, net		(581)	(267)
Card members' margins		(209)	(716)
Membership rewards		(1,612)	1,343
Deferred card membership fees, net		(3,118)	594
Deferred card acquisition costs, net		775	(421)
<i>Net cash from operations</i>		36,272	274,636
Employees' terminal benefits paid		(549)	(274)
<i>Net cash generated from operating activities</i>		35,723	274,362
INVESTING ACTIVITIES			
Purchase of property and equipment		(1,917)	(274)
Purchase of intangible assets		(908)	(2,181)
<i>Net cash used in investing activities</i>		(2,825)	(2,455)
FINANCING ACTIVITIES			
Proceeds from short term borrowing facilities	10 (a) 9 (b)	118,500	307,125
Repayment of short term borrowing facilities	10 (a)	(190,500)	(488,250)
Lease liabilities, net		(536)	(766)
<i>Net cash used in financing activities</i>		(72,536)	(181,891)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(39,638)	90,016
Cash and cash equivalents at beginning of the period		95,748	11,088
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		56,110	101,104
<i>Non-cash elements:</i>			
Right of use assets		53,441	-
Prepaid/ advance rent		(5,500)	-
Lease liabilities		47,941	-

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements

American Express Saudi Arabia (Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2021

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:

<u>Branch</u>	<u>Commercial Registration Number</u>	<u>Date of registration</u>	<u>Location</u>
	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 KSA.

2 BASIS OF PREPARATION

The interim condensed financial statements of the Company as at and for the three month period ended 31 March 2021 have been prepared in compliance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” as endorsed in KSA, other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) and with the provisions of the Regulations for Companies in KSA and the By-laws of the Company.

These interim condensed 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 interim statement of financial position are presented in the order of liquidity.

3 SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of interim condensed 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 interim condensed 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.

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.

Fraud losses

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

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
At 31 March 2021

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.

Determining the lease term of contracts with renewal and termination options – Company as a lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

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 interim condensed 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.

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 is being made 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 interim condensed financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 March 2021 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.

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
At 31 March 2021

4 SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with IFRS as endorsed in KSA. In addition, results for the period ended 31 March 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

The accounting policies used in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2020.

4A STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards applied in these interim condensed financial statements are those in issue as at the reporting date and are effective for annual periods beginning on 1 January 2021. The Company has not early adopted any standards, interpretations or amendments before their effective date. Standards, interpretations or amendments issued but not effective are not expected to have a significant impact on the interim condensed financial statements of the Company.

5 MERCHANT TRANSACTION FEES, NET

	<i>For the three month period ended</i>	
	<i>31 March 2021</i>	<i>31 March 2020</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>SR'000</i>	<i>SR'000</i>
Local card member transaction fees on 'out of Kingdom' spend (note 10 (a))	12,251	22,104
Transaction fees on 'in Kingdom' spend	9,830	12,507
Airline transaction fees (note 10 (a))	682	1,551
	22,763	36,162
Foreign card member transaction fees (note 10 (a))	(1,036)	(2,396)
	21,727	33,766

6 CARD MEMBERS' RECEIVABLE, NET

	<i>31 March 2021</i>	<i>31 December 2020</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>SR'000</i>	<i>SR'000</i>
Card members' receivable	487,742	511,842
Less: Impairment in card members' receivable (see note (a) below)	(11,475)	(11,100)
Less: Provision for card membership fees	(717)	(421)
	475,550	500,321

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:

	<i>Total</i>	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>			
			<i>1 - 30 days</i>	<i>31 - 60 days</i>	<i>61 - 90 days</i>	<i>91 - 180 days</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>31 March 2021 (Unaudited)</i>	475,550	422,468	28,891	6,230	2,597	15,364
<i>31 December 2020 (Audited)</i>	500,321	439,589	36,553	15,021	3,345	5,813

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
At 31 March 2021

6 CARD MEMBERS' RECEIVABLE, NET (continued)

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

	<i>For the three month period ended</i>	
	31 March 2021 (Unaudited)	31 March 2020 (Unaudited)
	SR'000	SR'000
At beginning of the period	11,100	10,723
Charge for the period	2,691	4,608
Written off during the period	(2,316)	(3,235)
At end of the period	<u>11,475</u>	<u>12,096</u>

The impairment charge to the interim statement of profit or loss for the three month period ended 31 March 2021 amounting to SR 0.96 million is net of recoveries during the period of SR 1.73 million (unaudited) (31 March 2020: charge of SR 2.84 million net of recoveries of SR 1.77 million) (unaudited)).

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

31 March 2021 (Unaudited)	12 month	Lifetime ECL	Lifetime	
<i>Impairment loss on card members' receivable</i>	<i>ECL</i>	<i>not credit</i>	<i>ECL credit</i>	<i>Total</i>
		<i>impaired</i>	<i>impaired</i>	
	SR'000			
Balance at 1 January 2021	5,551	2,790	2,759	11,100
Transfer to 12-month ECL	28	(653)	(390)	(1,015)
Lifetime ECL not credit impaired	(44)	990	(90)	856
Lifetime ECL credit impaired	(88)	(1,528)	4,620	3,004
Net re-measurement of loss allowance	(829)	20	(52)	(861)
New financial assets originated or purchased	31	-	-	31
Financial assets that have been derecognized	(93)	(107)	(320)	(520)
Write offs (see note below)	(2)	-	(1,118)	(1,120)
Balance at 31 March 2021	<u>4,554</u>	<u>1,512</u>	<u>5,409</u>	<u>11,475</u>

Note:

Card members' receivable written off during the period amounting to SR 2.32 million (see note 6 (a)) includes direct write offs amounting to SR 1.20 million.

31 March 2020 (Unaudited)	12 month	Lifetime ECL	Lifetime	
<i>Impairment loss on card members' receivable</i>	<i>ECL</i>	<i>not credit</i>	<i>ECL credit</i>	<i>Total</i>
		<i>impaired</i>	<i>impaired</i>	
	SR'000			
Balance at 1 January 2020	4,842	1,929	3,952	10,723
Transfer to 12-month ECL	16	(519)	(972)	(1,475)
Lifetime ECL not credit impaired	(72)	2,571	(116)	2,383
Lifetime ECL credit impaired	(22)	(643)	3,427	2,762
Net re-measurement of loss allowance	(298)	(19)	(81)	(398)
New financial assets originated or purchased	69	-	-	69
Financial assets that have been derecognized	(64)	(173)	(210)	(447)
Write offs (see note below)	-	-	(1,521)	(1,521)
Balance at 31 March 2020	<u>4,471</u>	<u>3,146</u>	<u>4,479</u>	<u>12,096</u>

Note:

Card members' receivable written off during the period amounting to SR 3.24 million (see note 6 (a)) includes direct write offs amounting to SR 1.72 million.

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
At 31 March 2021

7 ACCOUNTS PAYABLE AND ACCRUALS

	<i>31 March 2021</i> <i>(Unaudited)</i>	<i>31 December 2020</i> <i>(Audited)</i>
	<i>SR'000</i>	<i>SR'000</i>
Advance from card members	42,726	44,597
Accrued expenses	41,520	37,805
Employees' accrued compensation	12,329	14,896
Payable to merchants	11,255	13,184
Withholding taxes	91	76
Other payables	2,199	1,981
	<u>110,120</u>	<u>112,539</u>

8 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 three month period ended 31 March 2021 amounting to SR 0.001 million and SR 0.71 million (31 March 2020: SR 1.08 million and SR 2.07 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 period (interim statement of profit or loss)

	<i>For the three month period ended</i> <i>(Unaudited)</i>	
	<i>31 March 2021</i>	<i>31 March 2020</i>
	<i>SR'000</i>	<i>SR'000</i>
Current zakat and income tax (see note (b))	714	3,153
Deferred tax for reversal of temporary differences (note (c))	2	113
<i>Charged to the interim statement of profit or loss</i>	<u>716</u>	<u>3,266</u>

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

<i>For the three month period ended 31 March 2021 (Unaudited)</i>	<i>Zakat</i>	<i>Income tax</i>	<i>Total</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Balance payable (receivable) at beginning of the period	3,303	(3,502)	(199)
Charge for the period	713	1	714
Application of income tax overpayment	(3,303)	3,303	-
	<u>713</u>	<u>(198)</u>	<u>515</u>
<i>For the three month period ended 31 March 2020 (Unaudited)</i>	<i>Zakat</i>	<i>Income tax</i>	<i>Total</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Balance at beginning of the period	11,090	576	11,666
Charge for the period	2,071	1,082	3,153
	<u>13,161</u>	<u>1,658</u>	<u>14,819</u>

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
At 31 March 2021

8 ZAKAT AND INCOME TAX PAYABLE (continued)

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

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

c) Deferred tax asset (unaudited)

The deferred tax asset as at 31 March 2021 amounting to SR 3.43 million (31 March 2020 : SR 3.15 million) includes deferred tax reversal for the three month period ended 31 March 2020 amounting to SR 0.002 million (31 March 2020: reversal of SR 0.11 million) (see note 8 (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%.

Movement in deferred tax asset is set out below:

	<i>For the three month period ended</i>		<i>For the year ended</i>
	<i>(Unaudited)</i>		<i>(Audited)</i>
	<i>31 March</i>	<i>31 March</i>	<i>31 December</i>
	<i>2021</i>	<i>2020</i>	<i>2020</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Balance at beginning of the period / year	3,436	3,260	3,260
(Reversal) origination of temporary differences	(2)	(113)	176
	<u>3,434</u>	<u>3,147</u>	<u>3,436</u>

d) Status of assessments

The Company has filed zakat and income tax returns for all years up to 31 December 2020 with the General Authority of Zakat and Tax (GAZT). The GAZT has provided zakat certificate, which is valid up to 30 April 2022. The GAZT has finalized the Company's position upto 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 has submitted an appeal against the delay fine assessment and is awaiting the GAZT's decision. Assessments for the years ended from 31 December 2012 to 31 December 2014 and 31 December 2016 to 31 December 2020 have not yet been raised by the GAZT.

9 SHORT TERM BORROWINGS

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

- a) Credit facility obtained from American Express Overseas Credit Corporation NV ("AEOCC NV") aggregating USD 200 million (equivalent to SR 750 million (unaudited)) (31 December 2020: USD 200 million equivalent to SR 750.00 million (audited)) to finance the working capital requirements of the Company. As of 31 March 2021, the outstanding balance under this facility was nil (unaudited) (31 December 2020: USD 24.20 million equivalent to SR 90.75 million (audited)). The facility will be due for renewal on 23 August 2021.

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
At 31 March 2021

9 SHORT TERM BORROWINGS (continued)

- b) Short term facilities from banks aggregating USD 80.00 million (equivalent to SR 300 million) (31 December 2020: USD 80 million equivalent to SR 300.00 million) to finance the working capital requirements of the Company. These loans are secured by promissory notes signed by the Company. As of 31 March 2021, the drawdown and outstanding balance under these facilities was USD 5 million equivalent to SR 18.75 million (31 December 2020: nil).

10 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>For the three month period ended (Unaudited)</i>	
		<i>31 March 2021</i>	<i>31 March 2020</i>
		<i>SR'000</i>	<i>SR'000</i>
<i>Shareholder</i>			
The Saudi Investment Bank ("SAIB")	- Data support services	843	954
	- Service and annual card fees	(164)	(155)
	- Co-brand fees	160	101
<i>Affiliate</i>			
AETRS	- Merchant and airline transaction fees earned (note 5)	(12,993)	(23,655)
	- Foreign card member transaction fees (note 5)	1,036	2,396
	- Support and other services	120	244
	- Royalty expense	101	117
AEOCC NV	- Special commission expense (note 9 (a))	66	1,612
	- Short term loans received	99,750	307,125
	- Short term loans settled	(190,500)	(488,250)

In addition to the above, most of the routine banking transactions of the Company are carried out with SAIB. Bank balances as at 31 March 2021 with SAIB amounted to SR 34.49 million (unaudited) and are included under cash and cash equivalents (31 December 2020 : SR 94.95 million (audited)).

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 for the reporting period is set out below:

	<i>For the three month period ended (Unaudited)</i>	
	<i>31 March 2021</i>	<i>31 March 2020</i>
	<i>SR'000</i>	<i>SR'000</i>
Short term benefits	3,465	3,136
Termination and other long term benefits	809	1,078
	4,274	4,214

- c) Card members' receivable include outstanding balances of key management personnel of the Company, arising out of credit card related transactions, as at 31 March 2021 of SR 0.75 million (unaudited) (31 December 2020: SR 1.16 million (audited)).

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
At 31 March 2021

10 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 March 2021 (Unaudited) SR '000</i>	<i>31 December 2020 (Audited) SR '000</i>
<i>Amounts due from / (to):</i>			
Shareholder	SAIB	<u>235</u>	<u>125</u>
Affiliate	AETRS	<u>(5,347)</u>	<u>(5,818)</u>

11 COMMITMENTS AND CONTINGENCES

Capital commitments

Commitments in respect of capital expenditure outstanding as at 31 March 2021 amounted to SR 13.32 million (unaudited) (31 December 2020 : SR 14.44 million (audited)).

Undrawn commitments

The undrawn credit commitments in respect of revolve credit cards issued by the Company as at 31 March 2021 amounted to SR 852.71 million (unaudited) (31 December 2020 : SR 861.70 million (audited)).

12 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 (unaudited). For the year 2021, the Board of Directors has not recommended a dividend payout to the shareholders.

13 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, card members' 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.

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.

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
At 31 March 2021

13 FINANCIAL INSTRUMENTS AND FAIR VALUE (continued)

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 management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values. These are all classified within Level 2 of the fair value hierarchy. There have been no transfers to and from Level 2 during the current period or prior year.

14 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 March 2021. 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 continues to hold an additional ECL of SR 0.75 million as at 31 March 2021.

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.

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.

American Express Saudi Arabia
(Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
At 31 March 2021

15 COMMERCIAL BUILDING LEASE

During the three month period 31 March 2021, the Company finalized a long term contract in respect of a commercial building lease. The gross additions to such lease held under 'right of use asset' and 'lease liabilities' were SR 53.44 million and SR 47.94 million, respectively.

16 COMPARATIVE FIGURES

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

17 APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed financial statements have been approved by the Board of Directors on 9 Ramadan 1442H (corresponding to 21 April 2021).