

**AMERICAN EXPRESS SAUDI ARABIA**  
**(A SAUDI ARABIAN CLOSED JOINT STOCK COMPANY)**

BOARD OF DIRECTORS' REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2017

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The Board of Directors of American Express (Saudi Arabia) (hereinafter referred to as "AESA" or the "Company") is pleased to present the Annual Report for the year ended 31 December 2017.

#### A. LEGAL STATUS

Pursuant to the Ministry of Commerce and Investment resolution corresponding to 1 November 2015, the Company was converted from a Limited Liability Company to a Saudi Closed Joint Stock Company with its name being changed from "American Express (Saudi Arabia) Limited" to "American Express Saudi Arabia" ("AESA"). AESA is subject to all applicable laws and regulations of the Kingdom of Saudi Arabia and is regulated by the Ministry of Commerce and Investment and Saudi Arabian Monetary Authority ("SAMA").

The accompanying financial statements of the Company have been prepared for the year ended 31 December 2017. The comparative figures, the first financial statements of the Company as a closed joint stock company, covered the period from 1 November 2015 to 31 December 2016. The Company adopted the International Financial Reporting Standards ("IFRS") except for Zakat and Income Tax. As per SAMA circular issued in April 2017, zakat and income tax are to be accrued through shareholders' equity under retained earnings starting 2017, with requirement to restate prior period numbers. Zakat and income tax were reported in the statement of profit or loss in the prior period.

#### B. YEARS 2017 AND 2016 – A GLIMPSE

Due to challenging economic environments AESA witnessed a moderate decline in revenue and profits. However, necessary steps for cost control and revenue protection were taken proactively.

Highlights of the year and comparative figures are set out below:

Particulars	SAR millions	
	Year ended 31 Dec 2017	1 Nov 2015 to 31 Dec 2016
Total operating revenue	394	492
Total expenses	(227)	(280)
Net profit for the period	167	212
Total assets	825	883
Total liabilities	400	493
Total shareholders' equity	426	390

#### *Accounting changes to gear up for 2018*

AESA have ensured systems readiness to comply with the Value Added Tax ('VAT') requirements, effective January 1, 2018.

AESA has successfully transitioned its impairment provisioning model from IAS 39 to IFRS 9. A one-time impact of the additional reserve required of SR 4.2 million will be recorded in the retained earnings on January 1, 2018.

AESA has also identified all areas of impact in respect of the new revenue recognition standard IFRS 15 and will ensure smooth implementation from January 1, 2018.

### **C. VISION AND MISSION**

#### ***Vision***

AESA's vision is "To be the best premium payment card service and corporate expense management provider in the Kingdom by understanding and fulfilling customer needs while meeting the highest international standards".

#### ***Mission***

AESA's mission is to "Deliver state of the art world class products and services in the payment card industry in the Kingdom through innovation and vision by a well-trained team that is the best in class adhering to international service standards. AESA will always aspire to be the employer of choice in the financial service industry. Employees will always take a professional approach in dealing with stakeholders and customers".

### **D. MAJOR BUSINESS ACTIVITIES**

American Express Saudi Arabia is committed to offering unique products and services to its existing and prospective customers. Our objective is to continuously meet and exceed our customers' expectations by introducing innovative products and providing superior customer service. The core values of American Express are quality, professionalism, integrity, courtesy, transparency and efficiency.

AESA's activities are:

- the issuance of all kinds of card products in the Kingdom of Saudi Arabia and the provision of related services including the payment for purchases of goods and services; and
- to establish a network of service establishments in the Kingdom of Saudi Arabia for the acceptance of all kinds of card products as a payment for goods and services.

All cards issued by AESA are Shariah compliant. Additionally, this year AESA commenced the roll out of contactless cards.

### **E. AUDITORS' REPORT – 31 DECEMBER 2017**

An unqualified audit report was issued by Ernst & Young, the external auditors, on AESA's financial statements for the year ended 31 December 2017.

The Board of Directors has recommended to the General Assembly to re-appoint Ernst & Young as auditors for the financial year ending 31 December 2018.

### **F. CORPORATE SOCIAL RESPONSIBILITY**

AESA continues to support humanitarian and social organisations within the Kingdom of Saudi Arabia, which make a meaningful contribution to the society. During 2016, AESA made a contribution of SAR 520 thousand to the Down Syndrome Charity Association, after seeking approval from the Sharia Committee.

AESA will continue to make contributions for the general welfare and betterment of the community at large in the Kingdom of Saudi Arabia.

## G. COMPOSITION OF THE BOARD OF DIRECTORS

The Board of Directors comprised of the following members as of 31 December 2017:

<b>Board Member</b>	<b>Title</b>
1. HH Prince Ahmad bin Khalid bin Abdullah bin Abdulrahman Al Saud	Chairman
2. Mr. Musaed Al Mineefi	Vice-chairman
3. Mrs. Debra J Davies	Board member
4. Mr. Ramzi Al Nassar	Board member
5. Mr. Suliman Al Obaid	Board member
6. Mr. Imtiaz Ahmed	Board member
7. Mr. Saleh Al Augla	Board member
8. Mr. Robert K McDowall	Board member

The Board of Directors met four times during 2017, once each in March 2017, May 2017, September 2017 and December 2017.

## H. BOARD COMMITTEES

The Board of Directors has the following committees:

1. Audit Committee:

The Audit Committee assists the Board in its oversight of the integrity of AESA's financial statements, internal controls and compliance with related legal and regulatory requirements. The Committee reviews the internal audit function, its independence and quality of performance.

The Audit Committee met four times during 2017, once each in February 2017, May 2017, September 2017 and November 2017.

2. Executive Committee:

The Executive Committee is responsible to review and recommend to the Board all matters pertaining to strategic planning, annual budgets, periodic forecasts, major investments, business activities and all other matters that do not specifically fall under the responsibility of other committees.

The Executive Committee met five times during 2017, once each in January 2017, March 2017, April 2017, September 2017 and November 2017.

3. Enterprise Risk Committee:

The Enterprise Risk Committee has the overall oversight for the Company's risk appetite and risk management. It periodically reviews, among others, risks related to credit, regulatory matters, market, liquidity, operations, reputation, information technology and information security.

The Enterprise Risk Committee met four times during 2017, once each in March 2017, April 2017, September 2017 and November 2017.

4. Nomination & Remuneration Committee:

The Nomination & Remuneration (N&R) Committee assists the Board in annual review of the Company's overall compensation and incentive policies. The committee makes recommendations of incentive schemes for all levels of employees including the senior management based on performance ratings. The N&R Committee periodically benchmarks AESA compensation levels versus the market.

The N&R Committee met twice during 2017, once each in January 2017 and December 2017.

## I. RELATED PARTY TRANSACTIONS

AESA deals with its related parties in the normal course of business. Set out below is a summary of transactions with related parties for the year ended 31 December 2017:

<i>Related Party</i>	<i>Nature of Transaction</i>	31 December 2017 <i>SR Thousands</i>
<b><i>Shareholder</i></b>		
The Saudi Investment Bank	Data support services	(4,382)
	Service and annual card fees	867
AMEX (Middle East) BSC (C)	Service fees	(468)
<b><i>Affiliates</i></b>		
American Express Travel Related Services	Merchant transaction fees earned	109,320
	Merchant transaction fees incurred	(10,031)
	Royalty expense	(395)
American Express Overseas Credit Corporation NV	Finance charges paid	(515)
	Short term loans received	674,064
	Short term loans settled	(546,007)

In addition to the above, most of the routine banking transactions of the Company are carried out with The Saudi Investment Bank (SAIB). Bank balances at the end of the reporting period with SAIB amounted to SR 24.37 million.

The compensation of key management personnel for the year ended 31 December 2017 was SR 12.02 million.

The Company does not pay any remuneration or compensation to the non-executive Directors for any expenses they incur to attend and participate in Board and other committee meetings.



## **J. RISK MANAGEMENT**

The Company's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and currency 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.

Risk management is carried out under policies approved by the management. 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.

AESA 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.

AESA 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.

### ***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.

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.

### ***Liquidity risk***

Liquidity risk is the risk that AESA 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. AESA has sufficient liquidity to manage its working capital requirements on ongoing basis.

### ***Currency risk***

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. AESA 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.



#### **K. BORROWINGS FOR WORKING CAPITAL**

As at 31 December 2017, AESA had the following credit facilities, with banks and financial institutions. Short term borrowing facilities represents the following loan / facilities obtained by the Company.

- Short term facilities from banks aggregating SR 986.25 million to finance the working capital requirement of the Company. These loans are secured by promissory notes signed by the Company and facilities will be due for renewal during 2018. As of 31 December 2017, the outstanding balance under these facilities was nil.
- Credit facility from American Express Overseas Credit Corporation NV ("AEOCC NV") aggregating SR 750 million to finance the working capital requirement of the Company. As of 31 December 2017, the outstanding balance under this facility was SR 128.06 million.

AESA has also issued bank guarantees to the General Authority for Zakat and Income Tax, through The Saudi Investment Bank for an amount of SR 10 million.

#### **L. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROLS**

No significant issues were noted by the internal audit department or the external auditors including the IT auditors during the period.

#### **M. INVESTMENT IN AFFILIATED COMPANIES**

AESA has no investment in affiliated companies.

#### **N. CONTRACTS AND TRANSACTIONS WITH RELATED PARTIES**

There have been no contractual arrangements with vendors, contractors and related entities in which the Board members, Chairman, CEO, CFO or other senior officials have interest except on purely commercial terms and as disclosed in the note I above.

#### **O. DIVIDEND**

The Company distributed dividends out of the 2016 profits amounting to SR 114,950,400, subsequent to approval from SAMA and a resolution by the shareholders.

The Board has recommended a dividend payout from 2017 profits amounting to SAR 167,056,000, which is subject to approval from SAMA and the shareholders.

#### **P. CONCLUSION**

We look forward to reversing the trend and achieving a healthy growth in 2018 and beyond.



Chairman