

American Express Services Europe Limited

Registered number 01833139

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020



American Express Services Europe Limited

Report and Financial Statements for the year ended 31 December 2020

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American Express Services Europe Limited

Officers & Advisors

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D Bailey – Chief Financial Officer
L Fenwick
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P Taswell
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American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020

The Directors present their Directors' report and the audited financial statements of American Express Services Europe Limited ("the Company" or "AESEL") for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Company is registered in England and Wales, domiciled in the United Kingdom and is part of the American Express group of companies ("the Group"). The Company's immediate parent is American Express Holdings Limited. The ultimate parent and controlling entity is American Express Company, incorporated in the United States of America.

The principal activity of the Company is the provision of financial services in relation to payment services.

The Company is engaged in the issuing of a wide range of charge cards and revolving credit cards, including the provision of products and services related to consumer and corporate clients. The Company also offers a range of foreign currency payment solutions, together with a range of rewards schemes, including those which award customers who hold the Company's cards ("Cardmembers") points based on the amount they spend.

The majority of customer services related to the issued cards are provided by the Company through its own organisation. Before the 2019 business transfer (details below) the Company also operated some of its passporting reliant activities outside of the UK in selected countries where it had established branches for this purpose. At the reporting date a number of these branches remain but they either only perform activities which are not reliant on passporting or are in the process of being deregistered.

The Company also provides other services to companies within the Group.

2020 European Insurance back book transfer

On 1 March 2020 the Company disposed of its European insurance back book to an affiliate company, American Express International Inc (Germany Branch) in order to rationalise the European insurance legal entity footprint across the Group. The consideration paid for the underlying back book policies was €4.3m and net assets with a face value of £2.8m were transferred.

2019 Business Transfer

On 1 March 2019, the Company, in response to the regulatory risk posed by Brexit, specifically the ability of the Company to passport its card issuing business from the UK into the European Economic Area ("EEA"), transferred certain passporting reliant card issuing operations ("business transfer") to its Spanish subsidiary, American Express Europe S.A. ("AEESA") and Italian subsidiary, American Express Italia S.r.l. ("AEI").

The results of the operations transferred are reported in the prior year Income Statement as discontinued operations.

Supervision and Regulation

The Company is licensed by the Financial Conduct Authority ("FCA") as an authorised payment institution under the Payment Services Regulations 2017. The Company uses this licence to perform regulated payment services in the UK. The Company is also authorised by the FCA to perform regulated consumer credit and insurance mediation activities. The Company uses its Consumer Credit licence to offer consumer credit to UK Cardmembers. As a result of the business transfer on 1 March 2019, the Company no longer performs regulated payment services or offers consumer credit outside the UK. Since 1 March 2019, these services have been performed and offered by two subsidiaries of the Company, AEI with respect to the card issuing business in Italy and AEESA (and its branches) with respect to the residual card issuing business in the EEA that the Company previously operated outside of the UK and Italy.

The financial services industry in the UK, including the Company, is subject to rigorous scrutiny, high regulatory expectations, and a range of regulations. Regulators have focused, and we believe will continue to focus, considerable attention on reviewing compliance by financial services firms with laws and regulations, and

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

Supervision and Regulation (continued)

as a result, we continually work to evolve and improve our risk management framework, governance structures, practices and procedures. Reviews to assess compliance with laws and regulations by regulators, as well as our own internal reviews, have resulted in, and are likely to continue to result in, changes to our products, practices and procedures, restitution to our customers and increased costs related to regulatory oversight, supervision and examination. We have also been subject to regulatory actions and may continue to be the subject of such actions, including governmental inquiries, investigations, enforcement proceedings and the imposition of fines or civil money penalties, in the event of noncompliance or alleged noncompliance with laws or regulations.

Key regulations and developments:

In 2015, the EU adopted legislation in two parts, covering a wide range of topics across the payments industry. The first part was an EU-wide regulation on interchange fees (the Interchange Fee Regulation); the second consisted of the Revised Payment Services Directive ("the PSD2"). The Group engages with the regulatory authorities responsible for enforcing this legislation in the UK, the Financial Conduct Authority ("FCA") and the Payment Systems Regulator ("PSR"), as required, which oversee compliance with this legislation in the UK.

The Group brought a legal challenge and sought a ruling from the EU Court of Justice to clarify the interpretation and validity of the application of fee cap provisions in the Interchange Fee Regulation in circumstances where three party networks work with co-brand or agent partners. In a ruling issued on 7 February 2018, the EU Court of Justice confirmed the validity of the application of the fee cap provisions as well as other provisions; although the ruling gives only limited guidance as to when or how the provisions might apply in such circumstances. The Company is confident it is complying with applicable law and remains engaged with the relevant UK regulators with regards to its compliance approach.

The PSD2 makes revisions to the original Payment Services Directive adopted in 2007 ("PSD") and prescribes common rules across the EU for licensing and supervision of payment service providers. It also contains regulatory requirements on strong customer authentication, open access to customer data and payment capabilities, and measures to prevent security incidents. Member States had until 13 January 2018 to transpose the PSD2 into national law. AESEL and the Group have taken steps to comply with the legislation, including the strong customer authentication requirements which require full compliance by September 2021.

The FCA's rules on persistent debt came into force on 1 March 2018 and firms had until 1 September 2018 to be fully compliant. The FCA defines a persistent debtor as a customer that has paid more in interest and charges than they have repaid of their borrowing over an 18 month period.

An initial population of Cardmembers classified as a persistent debtors was identified on 1 March 2018 (after reviewing accounts retrospectively to establish whether Cardmembers met the 18 month definition). The rules require the Company to assess accounts on a monthly basis and put in place appropriate prompts and reminder communications at defined periods if meeting the persistent debt criteria. If Cardmembers are in persistent debt for two-consecutive 18 month periods ("month 36"), firms are obligated to intervene and provide options to Cardmembers to assist them pay down within a reasonable period of 3-4 years. Where a Cardmember is unable to afford increased repayments or a more suitable repayment plan, then the FCA's expectation is for firms to offer forbearance. Given the challenges facing many customers due to the ongoing Covid-19 situation, the FCA extended the timeframe to 1 October 2020 for Cardmembers to respond to the Company's communications.

The FCA introduced a range of measures in 2020 to support customers who have experienced a change in financial circumstances due to Covid-19, these measures allowing customers to request a freeze on repayments of up to 6 months in total. The Company, in addition to implementing its own measures to support Cardmembers impacted by Covid-19, has complied with these measures. A limited number of Cardmembers have taken up these measures.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

The Group is a globally integrated payments organisation that provides customers with access to products, insights and experiences that enrich lives and build business success. American Express' purpose, values and strategies are determined at a global level prior to being communicated to and implemented in local jurisdictions. Given the global nature and complexity of the Group's business operations, the Group has implemented a matrix organisational structure. This is composed of an extensive global network of legal entities from which it conducts its activities. The Company sits within this structure and is primarily responsible for the Group's card issuing activities in the UK, in addition to providing strategic and operational services to other legal entities within the Group. It is the Company Board's responsibility to implement policies, principles and strategies in a manner that aligns with those set at the global level, while taking into account local legislation, operational requirements and opportunities, thereby contributing to a cohesive approach across the organisation.

The Board recognises the importance of good corporate governance and rigorous supervision of the management of the Company to ensure that business operations are conducted competently, with integrity and due regard to the interests of all stakeholders. Consequently, under the Companies (Miscellaneous Reporting) Regulations 2018, the Company applies the Wates Corporate Governance Principles for Large Private Limited Companies (published by the Financial Reporting Council ("FRC") in December 2018 and available on the FRC website). Details of the Company's corporate governance arrangements are set out below.

• Purpose and leadership

American Express strives to provide the world's best customer experience every day and to become essential to customers by providing differentiated products and services to help them achieve their aspirations. The Board is responsible for overseeing the Company's strategy, decisions, processes and culture in a manner that aligns with the Group's global approach, which provides for the long-term sustainability of both the Company and the Group's business. To this end, the Board hold regular meetings with key stakeholders across the Company's lines of business and other departmental groups to ensure that proper oversight and control of the Company's business is maintained and, where necessary, to provide constructive challenge. This enables the Company's business and wider Group organisation to pursue opportunities in a manner consistent with American Express' principles. American Express' vision and strategies, while initially set at the global level, are designed to take account of the specific circumstances of different jurisdictions. The strategy for the UK (the Company's primary market) is regularly communicated across the UK organisation in various formats such as internal announcements by senior leaders, many of whom sit on the Board, and/or regular leadership presentations ("townhalls") that outline the progress of and developments within the UK business. In addition, the Chairperson of the Board is also the UK Country Manager and regularly communicates to the UK organisation on various matters impacting the UK organisation. The UK Country Manager has responsibility for the UK market, ensuring collaboration across multiple UK lines of business in support of the Group's strategic objectives and initiatives.

The brand and attributes – trust, security and services – of American Express are key assets and the Group's continued success depends on its ability to preserve, grow and leverage the values of the brand. American Express' ability to attract and retain customers is highly dependent upon the external perceptions of the organisation, including its trustworthiness, business practices and workplace culture. The Group invests heavily in managing, marketing, promoting and protecting the brand, with the Company specifically focusing on developing and enhancing the brand in the UK. The Board, being comprised of senior UK based representatives from each line of business and other critical functions, is well placed to provide the necessary leadership, input and challenge required to manage, market, promote and protect the brand. The Board is also able to ensure that a high level of accountability across the business is maintained so that product offerings and services are consistent with American Express' brand and values. While not legal entity specific, the Company also benefits from American Express internal policies which provide for effective procedures in cases of misconduct, anti-corruption, conflicts of interests, whistleblowing and more. American Express' culture and internal policies align with the overall purpose, strategy and brand of American Express where the Group holds itself to the highest standards of business ethics and integrity.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS (Continued)

• Board composition

The Board is comprised of eight executive directors and is chaired by the UK Country Manager who plays an important role in promoting open debate and constructive discussion. The Chair of the Board works closely with the Company Secretary to ensure that the Board receives accurate information in a clear and timely manner necessary for the Board to make informed decisions. The Chair also provides the leadership, guidance and challenge required for the Board, and individual directors, to remain effective in the task of setting and implementing the Company's direction and strategies.

The Company's business activities are comprised of multiple lines of business in a complex and regulated industry. Consequently, it is essential that the Board possesses the necessary collective knowledge, experience and skills in order to operate effectively. As such, the Board is comprised of senior UK based representatives from each line of business and other critical functions thereby enabling increased levels of oversight and accountability at the board level. The Board, together with its advisors, possess significant experience in areas such as general management, finance, sales/marketing, risk management, operations, technology, law, and regulatory compliance necessary to provide effective oversight. The Board's composition is reviewed regularly to ensure that the Board maintains the correct balance of skills and experience necessary to function properly and keep abreast of developments in a dynamic business environment and aligned with the Senior Managers and Certification Regime.

Members of the Board are expected to act with integrity and independence while possessing the energy, forthrightness, analytical skills, and commitment to devote the necessary time and attention to the Company's affairs. Directors are also expected to possess a willingness to challenge senior management and the ability to work collaboratively in an environment of trust. The Chair regularly ensures that time is dedicated for Directors to discuss and, where necessary, provide constructive challenge to management on key decisions the Board is asked to make.

Ensuring a diverse and inclusive environment is a key priority for the Group, Company and the Board. American Express' Global Inclusion and Diversity aspiration is to be a global leader in inclusivity and a company where being yourself matters. American Express' business is sustained by innovation and engaging with and supporting its unique differences helps to drive creative and complex problem solving.

As part of the commitment to inclusion and diversity, American Express Company has signed the Women in Finance Charter, committing to:

- Getting a 50:50 gender balance (with 10% tolerance) of senior management roles in the UK by 2024;
- Continue boosting awareness of gender diversity across the organisation; and
- Continue reviewing our employee development programs to ensure a diverse and fair workforce and foster a culture of inclusion.

As of the signing date, the gender balance of the Board is 4 (female): 3 (male).

• Directors responsibilities

(i) Accountability

Good governance is essential to maintaining rigorous supervision of the management of a company, ensuring that business is done competently, with integrity and with due regard to the interests of all stakeholders. The Company is authorised and regulated by the Financial Conduct Authority ("FCA") in the UK. On account of being a consumer credit firm with an annual revenue of £100m or more, it is subject to the Senior Managers and Certification Regime ("SMCR") as an Enhanced Firm. The SMCR is part of the FCA's drive to improve culture, governance and accountability within financial services firms. It aims to deter misconduct by improving individual accountability and awareness of conduct issues across firms. As such, each Director of the Company is considered a Senior Manager and has been allocated specific prescribed responsibilities and business activities linked to their role covered by a "Statement of Responsibility". All appointments to the Board are subject to FCA approval and Directors are required to agree to a Statement of Responsibility prior to being appointed to the Board. This means that Directors have a clear understanding of their roles and responsibilities prior to joining the Board, while ensuring that Directors take all reasonable steps in the furtherance of their duties and responsibilities on an ongoing basis.

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Directors' Report for the year ended 31 December 2020 (Continued)

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS (continued)

- **Directors responsibilities (continued)**

- (i) **Accountability (continued)**

In addition to the above, each member of the Board is subject to the American Express Code of Conduct (the "Code"). The Code is intended to focus on areas of potential conflicts of interest and other ethical issues, provide mechanisms to report potential conflicts or unethical conduct and help to foster a culture of openness and accountability. All reporting of conflicts of interest is centrally managed by the Corporate Secretary's Office. Directors are required to review and renew their commitment to the Code annually.

- (ii) **Committees**

The Directors are responsible for managing the Company's affairs and for ensuring that the operations of the Company, including those of its branches, are carried out effectively and with due regard to the reputation of the Group and the requirements imposed upon it by law, regulation and relevant regulatory bodies.

To fulfil these responsibilities, the Company maintains a governance framework including the following committees ("the Committees"), each reporting regularly to the Board:

- The Audit and Finance Committee;
- The Operational Risk Committee; and
- The Payment Protection Insurance Committee (via the Operational Risk Committee)

The Audit and Finance Committee focuses principally on the Company's financial accounting, internal control and integrity of its financial statements. It is chaired by the Chief Financial Officer and membership is made up of representatives from all relevant departments, including Tax, Treasury, Regulatory Compliance, Internal Audit and Controllershship. The Audit and Finance Committee meets five times a year to monitor key issues and changes within the Committee's remit, make non-critical decisions and to conclude upon items and/or risks which should be raised for the Board's consideration.

The Operational Risk Committee ("ORC") supports the Board by giving oversight to the key operational risks identified for the Company. It is chaired by the Chief Compliance Officer and membership is made up of representatives of each of the Company's lines of business. The ORC has oversight of significant operational and compliance changes and issues arising within the Company. The ORC is also responsible for ensuring that clear, effective and compliant processes are in place for managing third party and affiliate outsourcing arrangements. The ORC meets in advance of every board meeting in order to consider items and/or risks which should be raised for the Board's consideration.

The Payment Protection Insurance Committee oversees the fair assessment, calculation and remediation of potential redress in respect of Payment Protection Insurance ("PPI") and reports to the Operational Risk Committee. Membership is made up of representatives from all relevant departments, including Compliance, Legal, Customer Research & Solutions, Marketing, Finance, Operational Excellence and Internal Audit.

The Committees meet regularly and report at Board meetings. Any matters which cannot be resolved by the Committees are escalated to the Board for its consideration. Due to the make-up of the Board, in many instances, items and risks escalated to the Board are already known to individual directors well in advance of Board meetings which leads to a greater upfront understanding of the issues at play. Furthermore, the Board has, or has access to, the right level of subject matter expertise to provide constructive challenge, input and/or take decisive action when called upon to do so. In addition to a Risk Tolerance Statement, the Board has implemented an escalation framework to ensure the effective reporting of risks, issues and changes within the Company to relevant key internal and external stakeholders.

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Directors' Report for the year ended 31 December 2020 (Continued)

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS (continued)

- **Directors responsibilities (continued)**

- (iii) Integrity of Information

The Board receives information on all areas deemed crucial to maintaining proper oversight and control of the Company's business on a regular and timely basis from a wide group of stakeholders. Such information includes reports from, but is not limited to, the Committees, Line of Business, Compliance, Legal, Internal Audit, Information Technology & Data Security. In order to ensure the correct level of oversight and control over the business is maintained, the Board meets frequently throughout the course of the year.

All information the Board receives is provided by subject matter experts who have the relevant qualifications, experience and skills necessary to ensure the integrity of the information while also advising on developments impacting the Company. The Board has, or has access to, the right level of subject matter expertise to validate the integrity of the information. The Company, and groups supporting the Company, are subject to regular comprehensive reviews undertaken by the Group's Internal Audit Function which reports to the Board on its findings on a regular basis. Furthermore, the Company's financial statements are externally audited by PricewaterhouseCoopers LLP on an annual basis.

- **Opportunity and risk**

The Group follows a consistent approach to strategic decision making and risk management, with the Board overseeing the implementation of strategies for the future growth of the Company.

Due to the size of the Company's business, the Board have taken certain steps to streamline the decision-making process to increase the overall effectiveness of the Company's operations. Consequently, certain decision-making powers have been delegated to the Committees and controls put in place to safeguard the Company and the interests of other key stakeholders. As part of this, the Board has implemented a risk appetite statement which is grounded in the core operating principles of the Group: *"provide superior customer value; enhance the brand respected for service, trust, integrity, and security; create best-in-class economics through long-term business cycles"*. In support of these principles, the Company clearly articulates and maintains a risk profile that would, at a minimum, withstand the stresses of a severe macroeconomic downturn, while at the same time meeting the Company's capital goals. The Company controls its risk profile through its risk management processes, with a system of limits, escalations, and other controls. The Company evaluates its risk capacity and its risk profile and may adjust its risk strategies, its business or capital plan, or its risk limits.

As an authorised payment institution, the Company is required to maintain capital levels which exceed a prescribed level of minimum capital, as required by the Payment Services Regulations 2009. The Company has an FCA minimum capital requirement for the year of £8.1m. Capital monitoring processes are in place to ensure the Company exceeds the minimum capital requirements at all times. The Company is also required to undertake daily safeguarding of relevant funds.

Disclosures on future strategies and risk management as well as a business outlook, with a summary of risks and uncertainties are included within the Strategic Report.

The Company has a robust internal control framework with clear roles and responsibilities for escalation and remediation of risks. The Committees, as referenced in the earlier section (Directors' responsibilities), each adhere to Terms of Reference to ensure appropriate escalations to the Board. The framework consists of governance, risk assessment, issue management, and reporting and monitoring by which the Company identifies, assesses, measures, monitors and controls risks facing the business. The Company has the "three lines of defense" approach to risk management. Independence is maintained from First Line (the business) – functions directly initiating revenue, expense management, or risk decision activities, Second Line (compliance function) – independent functions overseeing risk in the first line and Third Line (internal audit) – independent group providing assurance that the first and second lines are operating effectively.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS (continued)

• **Remuneration**

Executive pay is set by the Compensation and Benefits Committee ("CBC") of the Board of Directors of American Express Company. A significant portion of executive pay is given via long term equity awards with payouts that are linked to Group performance and support a long-term, high performance business model. Long term incentives have performance metrics that are tied to stock appreciation which helps create a sense of shared purpose with shareholders. All executive pay structures noted above also apply to the Company, and to all other subsidiaries of American Express Company.

• **Stakeholder relationships and engagement**

The Company considers its primary stakeholders to be its customers, internal and external suppliers, co-brand partners and its workforce. Our engagement with and consideration of these stakeholders is detailed below.

(i) External Impacts

The Corporate Social Responsibility team works closely with the Global Real Estate and the American Express Technologies groups to identify, measure, manage and report on environmental risks, performance and opportunities. Given the scope of our activity (financial products and services), the direct impact of the American Express activity on the environment is limited and no substantial environmental risks and impacts have been identified. American Express is committed to exploring new ways to evolve our products and services to reduce our footprint, help our customers make more informed decisions and collaborate with our partners to promote responsible travel and consumption patterns.

Streamlined Energy and Carbon Reporting (SECR)

As part of the Company's commitment to comply with all relevant environmental legislation, this section of our Directors' Report discloses our operational energy consumption and carbon footprint in line with the UK government's SECR initiative, including data from this and the previous financial year.

Climate change represents one of the greatest challenges facing our planet, and at American Express we are committed to supporting the transition to a low-carbon economy to meet the science-based recommendations of the Intergovernmental Panel on Climate Change (IPCC). In 2018, we became a CarbonNeutral® company and began powering our operations with 100% renewable electricity through on-site solar, renewable energy credits, carbon offsets and reduced greenhouse gas (GHG) emissions. We are committed to maintaining these efforts moving forward.

Methodology

American Express emissions are calculated in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard (revised edition). The boundaries of the GHG inventory are defined using the operational control approach and cover the emissions we are responsible for across scopes 1, 2 and 3:

Scope 1* – Direct emissions from mobile fleet vehicles**, stationary combustion of fuels in buildings, and fugitive hydrofluorocarbon (HFC) emissions from air conditioning systems

Scope 2 – Indirect emissions from purchased electricity

Scope 3 – Other indirect emissions from business travel in employee-owned vehicles **

The operation of internal data centers, office facilities, mobile fleet vehicles and business travel are our main sources of GHG emissions. Data is gathered on an ongoing basis, with primary evidence being sourced from office managers and managed centrally via the GHG Emissions Reporting Operating Procedure.

* Fuel economy conversion for Scope 1 emissions is US government based to align with corporate level inventory reporting and sourced from the US EPA Emissions Factor Hub

** For global reporting, we quantify energy consumption (and therefore GHG emissions) from the vehicle fleet based on the number of vehicles in operation. Specifically, each vehicle in operation is conservatively assumed to travel 15,000 miles per year regardless of actual miles driven. Then, the assumed fuel economy of the vehicle fleet is used to quantify fuel consumption. For SECR reporting, we quantify energy consumption (and therefore GHG emissions) from the UK vehicle fleet based on actual mile reports for each UK entity. Emissions and fuel economy conversions are US government based to align with corporate level inventory reporting. Gasoline emission factors are sourced from the US EPA Emissions Factor Hub.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS (continued)

• Stakeholder relationships and engagement (continued)

Methodology (continued)

In order to better reflect the environmental benefit of purchasing renewable energy and in line with the GHG Protocol Scope 2 Guidance, we quantify and report two Scope 2 emissions totals from purchased electricity: using both 'market-based' and 'location-based' methods. Market-based emissions consider the contractual arrangements under which we procure power from specific sources such as renewable energy. Location-based emissions consider the average emission factors for the electricity grids that provide electricity to American Express. To estimate GHG emissions associated with the fugitive release of hydrofluorocarbon (HFC) gases from space cooling in our buildings, the refrigerant charge for each facility is estimated based on the square footage of air-conditioned space, using rules of thumb for cooling capacity required per square foot and refrigerant charge per cooling capacity. To estimate emissions, the total refrigerant charge is multiplied by annual leakage rates from the US EPA. It is conservatively assumed that estimated facilities use the refrigerant HFC-134a.

The primary metric that American Express use for normalising emissions for annual comparison is tCO₂e (tonnes of carbon dioxide equivalent) per employee.

UK Annual Energy & Carbon

Due to the nature of our business, in some instances multiple reporting entities occupy the same office space and so are jointly responsible for energy consumed in that particular space. For SECR purposes, American Express have estimated entity-specific UK energy consumption and GHG emissions based on the proportion of each entity's employee headcount within that space. The following tables summarise the Company specific energy consumption and subsequent emissions.

As part of our public disclosure, the American Express ESG Report includes a detailed section summarising our global energy consumption and global GHG inventory. The following link provides access to our latest ESG Report: <https://about.americanexpress.com/corporate-responsibility/reports/corporate-responsibility-reports/default.aspx>

As shown below (Table 1 and 2), the Company had a reduction in both total energy and emissions compared to the previous year. The intensity ratio has also shown a reduction when comparing between 2019 and 2020 as shown in Table 3.

Table 1: Annual Energy Consumption

Energy	Unit	2019	2020
Natural Gas	kWh	3,513,657	2,679,833
Fuel Oil	kWh	19,170	28,705
Mobile Fuel	kWh	94,118	12,384
Total Direct Energy Consumption	kWh	3,626,945	2,720,922
Purchased electricity	kWh	9,038,088	6,984,182
Solar	kWh	11,559	10,577
Total Intermediate Energy Consumption	kWh	9,049,647	6,994,759
Transport	kWh	296,260	56,639
Total	kWh	12,972,852	9,772,318

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS (continued)

• Stakeholder relationships and engagement (continued)

UK Annual Energy & Carbon (continued)

Table 2: Annual tCO₂e emissions

Greenhouse Gas (GHG) Emissions	Unit	2019	2020
Scope 1 – Direct	tCO ₂ e	800.96	622.52
Scope 2 (Location) – Indirect	tCO ₂ e	2,310.14	1,628.29
Scope 2 (Market) – Indirect	tCO ₂ e	0	0
Scope 3: Category 6 – Business Travel	tCO ₂ e	119.75	22.91
Total (Location)	tCO₂e	3,230.85	2,273.72
Total (Market)	tCO₂e	920.71	645.44

Table 3: tCO₂e vs normalisation metric

Intensity Ratio	Unit	2019	2020
Market-based	tCO ₂ e/employees	0.2237	0.1557
Location-based	tCO ₂ e/ employees	0.7849	0.5485

Efficiency Measures

American Express' Global 2025 Environmental Goals include covering 60% of our operations by Green Building certifications, reducing energy usage by 35% (from a 2011 baseline), continuing to power our operations with 100% renewables and remaining carbon neutral across our operations. American Express has maintained its CarbonNeutral certification through reducing emissions by investing in internal energy efficiency measures, supporting the production of renewable energy and financing projects to offset emissions.

To help achieve our target of reducing absolute energy consumption, we are making a conscious effort to increase energy efficiency. We have evaluated several cost-effective energy efficiency measures across our portfolio. Some examples of measures identified from recent audits include:

Table 4: Energy efficiency projects

Location	Project name	Savings (kWh)	Savings (£)	Cost (£)	Status	Payback
1 John Street	Gas AMR	32,690	659	1,573	Implemented	1-3 Years
36 Mighell Street	Gas AMR	1,520	31		Implemented	
Sussex House	Gas AMR	13,760	277		Implemented	
Sussex House	Optimization of the IT room cooling systems controls	43,875	4,874	4,710	Implemented	<1 Year
Sussex House	Desk phones removed	18,870	2,614	-	Implemented	<1 Year
Sussex House	4 EV chargers installed	-	-	7,170	Implemented	-
1 John Street	Desk phones removed	57,658	7,712	-	Implemented	<1 Year
Belgrave House	Desk phones removed	62,899	8,413	-	Implemented	<1 Year
Belgrave House	Installation of timers to control TV screens	657	77	80	Implemented	1-3 Years
Belgrave House	Lighting system of the MER upgraded to LED	11,133	1,236	802	Implemented	<1 Year

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS (continued)

- **Stakeholder relationships and engagement (continued)**

- (ii) Stakeholders

External suppliers are identified and managed in accordance with the Company's Third Party Lifecycle Management Policy. The Company's Global Supply Management organisation completes risk assessments on suppliers in its scope and the type and level of risk identified assists to prioritise those relationships along with: (1) the applicable due diligence artefacts to be collected and evaluated; (2) the frequency of any ongoing reviews; and (3) any specific language to be included in the procurement contract (e.g. relating to data security). The Company has an outsourcing policy which is maintained and controlled by the Outsourcing Governance Team which reports into the ORC.

Due to the matrix structure within American Express, other entities within the Group constitute a significant portion of the Company's suppliers. These relationships are governed by American Express internal governance, policies and controls, with arm's length pricing and formal intercompany agreement documentation.

The Company has direct relationships with Cardmembers and businesses, actively working to engage with them through customer service, direct-to-customer channels, and social media. The Company believes that delivering products and services in a fair and transparent manner is critical to providing best-in-class customer service. As part of our fundamental commitment to meet customer credit needs, the Company is dedicated to engaging in customer practices that embody transparency, truthfulness, fairness, and a culture of non-discrimination throughout the credit lifecycle. The Company manages and mitigates customer practices risk through dedicated resources and ongoing monitoring, testing, and oversight. This also applies to third-party vendors and their subcontractors, also known as fourth-party vendors.

The Company's activities are subject to regulation and supervision by various regulatory authorities in the UK, most notably the Financial Conduct Authority, Payment Systems Regulator and Information Commissioner's Office. When providing information to regulators, either through exams, reporting or ad hoc requests, the Company looks to ensure consistency, integrity and transparency. Additionally, the Company may seek to engage with regulators pro-actively to facilitate dialogue on regulatory change, either by taking part in formal consultation processes or through less formal engagement such as ad hoc relationship meetings. The Compliance organisation, with input from the Board, maintains a regular dialogue with the Company's various regulators throughout the year to keep them apprised of developments on existing matters under review or make them aware of new items as and when they arise.

- (iii) Workforce

The American Express Workforce within the UK, including, but not limited to, the Company's employees, is split among multiple UK based legal entities. The employing entity is typically determined based on the line of business or the department in which an individual employee sits. Consequently, many of American Express' interactions with the workforce, being cross functional in nature, are dealt with at a centralised level (such as the UK Country Executive Team and the UK Crisis Management Team) rather than at the legal entity level. These centralised teams consist of senior leaders based in the UK, some of whom also sit on the Board of the Company. American Express regularly engages with its workforce to solicit feedback and to share information via a variety of forums, including quarterly global Town Halls (company-wide and by line of business), regular UK market Town Halls, an annual Colleague Experience Survey designed to gain insights into workforce engagement and concerns, and telephone and email-based resources, which provides leaders and colleagues with the opportunity to seek advice and guidance on employment matters. Notwithstanding the above, certain decisions/actions which have the potential to impact a significant number of the Company's employees must first be approved by the Board.

Additionally, American Express has an Ethics Hotline, which provides colleagues and suppliers/vendors the opportunity to report concerns without fear of retaliation (i.e., confidentiality and anonymity), as well as a UK Employee Forum, in which UK Employee Representatives meet at least twice annually with senior business leaders to discuss and provide feedback on business strategy, workforce management, and financial results. Finally, these policies are aligned to the Group's values and are reviewed regularly to ensure they are in line with statutory requirements and changes.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

RESULTS AND DIVIDENDS

The results for the year are set out on page 31 and show the total loss before taxation was £76m (2019: Profit £232m). The loss for the financial year amounted to £58m (2019: Profit £189m) which has been transferred to reserves. The Directors do not propose the payment of a dividend in 2020 (2019: £Nil). Total Shareholders' funds at 31 December 2020 stood at £988m (2019: £1,047m). The Financial Performance section of the Strategic report gives a more detailed review of the Company's performance indicators.

OPERATIONS OUTSIDE THE UK

The Company has branches in the following European countries: Austria, Finland, Germany, Hungary, Italy, Norway and Sweden. The Company also has directly owned subsidiaries in Spain, AEE (American Express de Espana S.A.) and AEESA (American Express Europe S.A.) and a subsidiary in Italy, AEI (American Express Italia s.r.l) (refer to Note 15 Investments).

Branches that no longer perform any business activities and have no other requirement to remain will be deregistered in the foreseeable future. It should be noted that the Italian branch is expected to remain indefinitely as it will continue to service AEI.

FINANCIAL RISK MANAGEMENT

The Company's operations expose it to a variety of financial risks. An overview of these risks and how they are managed by the Company is included in the Financial Risk Management section of the Strategic report.

FUTURE DEVELOPMENTS

In line with Group strategy, the Company is focussed on maintaining growth in an uncertain economic, political and regulatory environment whilst managing costs and upholding service quality. The Strategic report includes an Outlook, Risks and Uncertainty section which considers how future developments may impact the Company.

DIRECTORS

The Directors of the Company who served during the year and up to the date of signing the financial statements were:

C Duerden - Chairperson
D Bailey - Chief Financial Officer
L Fenwick
H Lewis (appointed 26 Feb 2020)
C O'Flaherty (resigned 26 May 2021)
B Sawyers (appointed 5 March 2020)
P Taswell (appointed 5 March 2020)
A Varadhan (resigned 13 May 2020)
S Monga (appointed 22 May 2020)

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Company has granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in S.234 of the Companies Act 2006, and as outlined in the Company's Articles of Association. Such a qualifying third-party indemnity provision was in force during the financial year and remains in force as at the date of approving the Directors' report.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

EMPLOYEE ENGAGEMENT STATEMENT

As referenced in the Statement of Corporate Governance Arrangements, the American Express workforce within the UK, including, but not limited to, the Company's employees, is split among multiple UK based legal entities. Consequently, many of the Company's interactions with its employees, being cross functional in nature, are managed at a centralised level.

At American Express, our colleagues are constantly redefining what's possible and we're proud to back each other every step of the way. American Express provides a meaningful career journey, an inclusive and diverse workplace where every voice is valued, learning experiences to allow our colleagues to deliver their best, and holistic well-being support for every stage of their lives and careers.

There is a strong commitment to inclusion and diversity, ensuring all employees can be themselves at work; grow their careers; and enable great results. The Company fosters an inclusive workforce culture through leading best practices such as pay equity processes with transparent guiding principles; supporting career progression; and enabling a broad range of flexible working practices.

In 2020, American Express was once again voted one of the Top 10 Employers in the UK by Working Families, the UK's leading work-life balance organisation. American Express was also voted one of the Top 25 employers in the UK in the Glassdoor Best Places to Work list in 2020.

American Express backed our colleagues in response to the Covid-19 pandemic in several ways throughout 2020. First, American Express moved to a full-time work from home arrangement in all office locations around the world within a two-week period. Whilst offices remained closed, American Express paid base pay to colleagues who were unable to work from home through 2020. The Company was also committed to no Covid-19 related layoffs in 2020 to ensure that colleagues felt secure in their jobs and had the flexibility and support they needed to stay safe and healthy. Finally, American Express' work from home policy has been extended through September 2021 to offer colleagues more flexibility to balance work and family obligations and to remain safe. Looking forward, we continue to take a principled approach to re-opening our offices in line with government guidelines, with the safety of our employees our priority at all times. Given that, all employees are eligible for paid time off to attend their Covid-19 vaccination appointment if it needs to take place during working hours.

It is the Company's policy not to discriminate against anyone or treat anyone less favourably than others on the basis of their disability or any protected characteristic. Opportunities for employment, training and promotion are equally open to all candidates. Selection for employment, promotion, transfer and training, and access to benefits, facilities and services are fair and equitable and based solely on merit, implementing workplace adjustments where appropriate. The Company has a dedicated Workplace Adjustments team and obtains additional advice, assessment and provision through a specialist external provider. The Company has a well-established Disability Awareness Network ("DAN") open to all employees across the organisation. The DAN seeks to create a fully inclusive workplace where employees with disabilities are encouraged and enabled to reach their full potential, through an environment that recognises, develops and leverages their talent. The Group has also established a strategic and multi-functional Disability Council which uses the Business Disability Forum's Disability Standard to ensure the Group continues to work towards becoming a disability-confident organisation. Furthermore, the Group has an active Diversity Council that partners with over twelve Colleague Networks to enable inclusion and diversity; and has delivered mandatory Inclusive Leadership training for all senior leaders; this has also been cascaded through the Company.

In 2020, American Express further deepened its commitment to Inclusion and Diversity by creating an Office of Inclusion, Diversity, and Business Engagement, directly reporting to the CEO. This Office is designed to strengthen Inclusion and Diversity across the Company's brand, culture, colleague base, customers, business partners, and community. American Express also launched Self-Identification, a voluntary effort designed to give colleagues the opportunity to share their diversity data with the company, including their gender identity and sexual orientation. The initiative is designed to inform diversity, career and learning strategies and strengthen the Company's inclusive culture so that everyone feels invited to bring their whole selves to work.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

EMPLOYEE ENGAGEMENT STATEMENT (continued)

Employee mental health is a priority for the Group, and the Company has a number of initiatives and resources to support employee mental wellbeing. The Company has a team dedicated to health and wellbeing, which oversees the Healthy Living Hub (a wellbeing concierge service), the Healthy Minds Employee Assistance Programme with licensed counsellors offering virtual and in person sessions, two Emotional Wellbeing Therapists onsite offering Cognitive Behavioral Therapy and counseling, education and training, plus an online emotional wellbeing support platform. The Company also offers GP, nurse and Virtual GP services for fast and easy access to healthcare, as well as providing frequent webinars and virtual wellbeing sessions covering topics such as stress management, resiliency, mindfulness, and work life balance.

Consultation with employees and their representatives, with the aim of ensuring their views are taken into account when decisions are made that are likely to affect their interests; and ensuring they are aware of the financial and economic performance of their business units and of the Company as a whole, is well established.

Communication continues through regular internal communications, newsletters and briefing groups. The Group carries out an annual employee survey with a strong record of favourable results of which the results are communicated to all employees, discussed by the Board and acted upon if necessary.

The Company aims to achieve a balance between delivering market competitive remuneration in order to attract and retain talent; and optimising shareholder return. Eligible employees participate in the American Express Company Equity-settled share-based payment plans. Eligibility is based on seniority and the awards are performance driven. A description of the plans and performance measure is available in the American Express Company's financial statements. See Note 8 for a summary description of the plans and the awards granted and outstanding during the year.

STAKEHOLDER ENGAGEMENT STATEMENT

The Board recognises that the fostering of good business relationships is crucial to the long-term success of the Company and Group as a whole. To this end, the Company has implemented an escalation framework (via the Committees) so that issues impacting the business and/or key stakeholders (including, but not limited to, the Company's suppliers and customers) are escalated to the Board for its consideration. This helps ensure that the Board has visibility of issues impacting our key stakeholders and that such issues are dealt with and resolved in an effective, timely and appropriate manner. In addition, American Express has a number of policies in place which require that, prior to the Board taking decisions deemed critical to the Company, the impact on a wide group of stakeholders be identified and considered. This better enables the Board to make informed decisions while acting in the best interests of the Company and its key stakeholders.

As directors of a regulated entity, the Board must also adhere to the FCA's Conduct Rules which, in addition to acting with integrity, due skill, care and diligence, includes an obligation to pay due regard to the interests of customers and treat them fairly.

The Company's principal decisions during the financial year ended 31 December 2020 were centered around the Company's response to Covid-19. During the year, the Board spent a significant amount of time and resources on reviewing and mitigating the associated impacts of Covid-19 in order to provide additional support to the Company's key stakeholders. The Company took steps to address issues being faced by Cardmembers, business partners and other stakeholders through the introduction of financial relief and hardship programs (e.g. payment holidays). As part of this, the Company implemented its Customer Crisis Recovery credit plans inline with FCA guidance first issued on 8 April 2020. In addition, the Company also worked closely with its suppliers to address operational difficulties and challenges they faced as a result of Covid-19.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

CREDITOR PAYMENT POLICY

It is the Company policy to pay vendors 60 days after receipt of a correct, undisputed, timely provided and properly VAT due invoice unless specific payment terms dictate otherwise. The Company's average creditor period, calculated by reference to the ratio of trade creditors at 31 December 2020 to amounts invoiced during the year was 36 days (2019: 43 days).

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2020 (Continued)

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, the Company made charitable donations amounting to £373 to advance the causes of charitable organisations (2019: £2,439). No donations were made for political purposes (2019: £Nil).

The Company partners with local and national charities, forging impactful partnerships and providing volunteer opportunities for employees. Through our philanthropic and civic participation, the Company serves and empowers the people and organisations that are confronting some of society's most complex issues. In 2020 a number of new partnerships were formed, and existing relationships strengthened, in order to respond to the additional community needs arising from the Covid-19 pandemic.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP are deemed to be reappointed as independent auditors under section 487(2) of the Companies Act 2006.

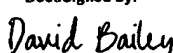
The financial statements on pages 31 to 102 were reviewed by the Board of Directors on 27 May 2021 and approved on the date specified below on its behalf by:

DocuSigned by:

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C Duerden

Chairperson

DocuSigned by:

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D Bailey

Chief Financial Officer

Date: 27 May 2021

American Express Services Europe Limited

Strategic Report for the year ended 31 December 2020

The Directors present their strategic report of American Express Services Europe Limited (“the Company”) for the year ended 31 December 2020.

BUSINESS REVIEW

Objectives of the Company

The key objective of the Company is to generate payment business through its core activity of issuing American Express corporate and consumer cards and providing payment services.

Business Strategy

To generate payment business the Company is focused on acquiring new customers, retaining existing ones, delivering high quality service and incentivising spending through rewards and other benefits.

The core elements of the Company’s strategy are:

- Attracting new customers for our premium products;
- Continuing to monitor the performance of our product range against key competitors;
- Maintaining a competitive, consistent, premium customer experience by ensuring value-added end-to-end service;
- Enhancing customer relationships through partnerships;
- Continuing to invest in incentives attached to card products, including the Membership Rewards program;
- Attracting and retaining talented employees; and
- Focusing on increasing payment business revenues, while controlling costs and improving efficiency.

Employee Strategy

To support business objectives, key employee-related strategies include:

- Deliver a great employee experience, with leading inclusion and diversity practices at the forefront;
- Grow the best talent, including the best-in-class people leaders; and
- Develop new ways of working to unlock enterprise value by focusing on continuous improvement, ensuring that total rewards fuel individual and enterprise performance, and creating an environment where well-being is a focus for all colleagues.

FINANCIAL PERFORMANCE

A number of performance indicators are used to monitor the Company’s progress against our strategies and objectives. As part of the monitoring of the Company’s financial performance, we review Cardmember billings; the accounts receivable balance and associated credit indicators; reserves for Cardmember losses; revenue; and expenses growth. In addition, non-financial indicators such as cards in force are monitored (net of Cardmember acquisition and attrition). All performance indicators quantified below are for the Company’s continuing operations.

With the outbreak of Covid-19 in the first quarter of 2020, the Company saw a decline in billings among consumers and corporate customers across its UK business. Total billings for the year to 31 December 2020 declined 25% on the year to 31 December 2019.

Cards in force as at 31 December 2020 increased 3% on the year to 31 December 2019. This trend reflects continued efforts to sustain the quality of the Company’s Cardmember base, with managed attrition of higher risk and dormant Cardmember accounts, and a focus on attracting and retaining high spending premium Cardmembers.

American Express Services Europe Limited

Strategic Report for the year ended 31 December 2020 (Continued)

FINANCIAL PERFORMANCE (Continued)

Turnover from continuing operations decreased by 25% with the Company experiencing a decline across most categories of Turnover. Billing Credit and amounts charged to Cardmembers in respect of interest both declined due to the decrease in UK Cardmember billings and a reduction in the billing credit rate that the Company earns on its billings. In addition, the outbreak of Covid-19 resulted in a significant decline in the revenue the Company received from services to other Group companies, this being linked to the level of card issuing subsidiary profitability and Cardmember spend in foreign currency.

Administrative expenses from continuing operations decreased by 4%. These were incurred primarily in relation to both the Company's payment services business and in providing other services to companies within the Group. Expenses attributable to the card issuing business can be both variable and fixed in nature. During the year the decrease in variable expenses such as Membership Rewards were in line with the associated turnover categories and were in line with Management's expectations. Another key variable expense for the Company was the £160m (2019: £144m) loss on the sale of Cardmember loans and receivables to a related party. Despite a reduction in the underlying value of the loan and receivable balances sold this increased by 11% due to an increase in the associated credit risk.

In 2019 the Company received a successful verdict in respect of its challenge to an assessment of indirect tax in the UK (further details in Note 30). As a result, the Company recognised an administrative expense recovery of £96m relating to historic indirect tax overpayments. This has been presented as an exceptional item within the 2019 Income Statement with no equivalent entry being recorded in 2020.

Loss before taxation of £76m for the Company represents a decrease of £314m, compared to the prior year profit from continuing operations of £238m. This decrease was due to strong UK business growth in January and February being offset by the impact on billings of the outbreak of Covid-19 and the aforementioned administrative expense recovery resulting from the favourable UK indirect tax assessment verdict recognised in the prior year with no equivalent 2020 impact.

The Company's 2020 tax credit is consistent with the current year loss before taxation.

FINANCIAL RISK MANAGEMENT

The Company's operations expose it to a variety of financial risks. The Company places great significance on ensuring sound management of credit, liquidity and market risk.

The Company primarily adopts the Group's Enterprise-wide Risk Management ("ERM") program policies and strategies. The objective of the ERM is to identify, aggregate, monitor and manage risks in order to maintain and continuously improve risk management controls and processes that will enable profitable growth, while delivering outstanding customer service.

Credit Risk

The Company's credit risk comprises two elements, individual and institutional, each with distinct risk management tools and metrics.

American Express Services Europe Limited

Strategic Report for the year ended 31 December 2020 (Continued)

FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

(i) Individual Credit Risk

The Company defines Individual Credit Risk as the risk of loss to the Company due to non-payment of an amount contractually owed to the Company by an individual, whether acting as an individual or on behalf of their small business.

The Company adheres to the American Express Individual Credit Risk Policy, which assigns key governance responsibilities, prescribes rules for escalating risks, and sets forth the Company's guidelines for measuring, assessing, and reporting Individual Credit Risk.

Individual Credit Risk arises principally from the Company's portfolio of consumer and small business charge and credit cards. Given that the portfolio comprises a large volume of Cardmembers, the level of Individual Credit Risk losses is driven by general economic conditions rather than by borrower specific events. Individual Credit Risk is managed using various tools including prospecting, approvals, collections and fraud prevention.

Cardmember loans and receivables are sold for funding purposes. The business model for managing the loans and receivables is determined to have a primary objective of realising cash flow through the sale of the financial assets.

(ii) Institutional Credit Risk

The Company defines Institutional Credit Risk as the risk of loss to the Company due to the non-payment of an amount contractually owed to the Company by a business or organisation.

The Company adheres to the American Express Institutional Credit Risk Policy which details its approach to managing Institutional Credit Risk and assigns key governance responsibilities, prescribes rules for escalating risks, and sets forth American Express guidelines for measuring, assessing, and reporting institutional credit risk.

Institutional Credit Risk arises indirectly via Cardmembers within the Company's corporate card business. Unlike Individual Credit Risk, Institutional Credit Risk is characterised by a lower loss frequency but higher severity and is affected by both general economic conditions and by borrower specific events.

Cardmember loans and receivables are sold for funding purposes. The business model for managing the loans and receivables is determined to have a primary objective of realising cash flow through the sale of the financial assets.

The Company also has various intercompany loans both to and from other Group entities. These facilities and amounts drawn are centrally managed by Treasury. In relation to these mid to long term financing arrangements a letter has been secured from American Express Company to express its intention to support the Company's liquidity position and maintain its safe and sound operations for the next year. Therefore the level of credit risk attached to intercompany positions is limited.

Liquidity Risk

The enterprise wide Liquidity Risk Policy aims to ensure the Company strives to maintain franchise continuity during periods when its regular sources of funding including the sale of Cardmember loans and receivables to a related party, become impaired. Franchise continuity includes the ability to fulfil the cash requirements arising from providing its products and services as it would if its funding sources were not impaired, as well as to satisfy its contractual cash obligations in the event it cannot raise new funds.

American Express Services Europe Limited

Strategic Report for the year ended 31 December 2020 (Continued)

FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The Group will maintain access to diverse liquidity sources, which are available to the Company. The sources will be maintained in amounts sufficient to meet the Company's business requirements and expected future financial obligations for a period of at least twelve months in the event the Company is unable to raise new funds under its regular funding programs during a substantial weakening in economic conditions. The Company actively maintains a mixture of sustainable long-term and short-term finance that is designed to ensure that it has sufficient available funds for business continuity.

Market Risk

The Market Risk Policy objective is to identify and manage market risk exposures within the policy limits in the context of the Group's overall business model while supporting sustainable earnings growth. This is accomplished by identifying, measuring and reporting such exposures on a periodic basis and by managing its exposures within the policy limits.

(i) Interest Rate Risk

The Company has both interest bearing assets and interest bearing liabilities. Interest bearing assets are primarily cash, intercompany loans and Cardmember loans and receivables. The Company manages its exposure through having a mix of external and intercompany debt at both fixed and short term rates consistent with its business operations and enterprise-wide Market and Liquidity Risk Policies.

(ii) Foreign Exchange Risk

The Company is not ultimately exposed to any significant transaction foreign exchange risk from its operations as they are borne by a related Group entity. The Company manages foreign exchange translation risk on the financial results and any foreign currency net assets exposure of its European branches by taking out derivative forward foreign exchange contracts designated as net investment hedging instruments.

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006

The Directors of the Company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows:

A Director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole and, in doing so have regard (amongst other matters) to:

- the likely consequences of any decisions in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

As part of their induction, a Director is briefed on their duties and they can access professional advice on these, either from the Company Secretary or, if they judge it necessary, from an independent adviser. It is important to recognise that in a large organisation such as ours, the Directors fulfil their duties partly through a governance framework that delegates day-to-day decision making to employees of the Company. Furthermore, it is important that they understand both the short and long term consequences of these decisions.

American Express Services Europe Limited

Strategic Report for the year ended 31 December 2020 (Continued)

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006 (continued)

The following paragraphs summarise how the Directors fulfil their duties:

1. Risk management

The Company provides services to its customers in a highly regulated environment. As the Company grows, its business and risk environment become more complex. It is therefore vital that the Board effectively identify, evaluate, manage and mitigate the risks faced by the Company, and that their approach to risk management is continually evolving.

For details of the Company's principal risks and uncertainties, and how the Board and wider governance structure manages the Company's risk environment, please refer to the Statement of Corporate Governance Arrangements and Financial Risk Management section of the Directors' and Strategic reports respectively.

The Company has a robust internal control framework with clear roles and responsibilities for escalation and remediation of risks. The framework consists of governance, risk assessment, issue management, and reporting and monitoring by which the Company identifies, assesses, measures, monitors and controls risks facing the business. The Company has the "three lines of defense" approach to risk management (detailed within the opportunity and risk section of the Statement of Corporate Governance Arrangements).

During the year, this framework and risk management approach was utilised in the context of Covid-19 whereby the Board was regularly briefed on the key operational, financial and regulatory risks associated with the outbreak. In particular, the Board closely monitored risks to the Company's employees, cardmembers and business partners. Consequently, the Board took steps to mitigate these risks and provide support to the aforementioned groups through facilitating of employees working from home and the implementation of financial relief and support programs for those cardmembers and business partners suffering financial hardship.

2. Our People

The Company is committed to being a responsible business. The Board's behavior on behalf of the Company is aligned with the expectations of our people, customers, investors, communities and society as a whole. People are at the heart of what the Company does. For the Company's business to succeed, the Directors are ultimately responsible for managing employee performance and development, bringing through talent whilst ensuring that the Company operates as efficiently as possible. The Board must also ensure that all Company employees share common values that inform and guide their behaviour so they achieve their goals in the right way.

During the year, the Board received regular updates on the steps that were being taken to ensure the safety of the Company's employees in light of the Covid-19 pandemic, including measures to provide a safe work environment in each of our offices and enabling our employees to work from home wherever possible. In order to mitigate the associated risks and keep employees sufficiently informed and reassured throughout this period of uncertainty, the Board ensured that appropriate actions were taken by the relevant departments (e.g. HR, Global Real Estate, Global Security and Global Services Group).

For further details on our people, please refer to the Employee Engagement Statement in the Directors' report.

American Express Services Europe Limited

Strategic Report for the year ended 31 December 2020 (Continued)

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006 (continued)

3. Business relationships

The Company's strategy implemented by the Directors prioritises organic growth, by continually enhancing the Company's customer value propositions, its brand and developing and maintaining strong client relationships. The Company values all of its suppliers and partners and has multi-year contracts with many of them.

The Directors believe that delivering products and services in a fair and transparent manner is critical to providing best-in-class customer service. As part of its fundamental commitment, the Company is dedicated to engaging in customer practices that embody transparency, truthfulness, fairness, and a culture of non-discrimination. The Company manages and mitigates customer practices risk through dedicated resources and ongoing monitoring, testing, and oversight. This also applies to third-party vendors and their subcontractors, also known as fourth-party vendors.

Since the outbreak of Covid-19, the Board ensured that steps were taken to proactively engage with our customers, business partners and suppliers to mitigate identified risks. For further details on business relationships and the actions the Board took during 2020 in this regard, please refer to the Stakeholder Engagement Statement within the Directors' report.

During the year, the Board was engaged to advise upon the implementation of Strong Customer Authentication (SCA) due to the potential of disruption to the Company's business partners. Decisions were made to mitigate the identified risks and careful consideration was made to avoid any detrimental impact to customers, suppliers or partners.

4. Community and environment

The Company's approach is to use our position of strength to create positive change for the people and communities with which we interact. The Board on behalf of the Company wants to leverage the expertise of its people and enable colleagues to support local communities.

The Directors do this in three ways: providing leadership training that empowers local social-sector leaders to create sustainable change; helping citizen volunteers to improve their communities; and preserving diverse, vibrant historic places. By providing critical services that contribute to economic stability and mobility, the non-profit sector plays a vital role in building a healthy society. Through our philanthropic and civic participation, the Company serves and empowers the people and organisations that are confronting some of society's most complex issues.

The Company, along with the Group's approach to environmental stewardship within its operations includes a focus across various themes, such as energy and emissions management, waste management, third-party green building certifications, and responsible sourcing. American Express prioritises the management and improvement of its own footprint, including the environmental impacts of our offices and operations. It is also powering its network and data centres more efficiently and with the use of renewable resources, as well as exploring more sustainable payment solutions, including utilising reclaimed ocean-bound plastic to make its cards. Finally, the Company strives to work with diverse suppliers and source environmentally and socially responsible products and services from approved third-party vendors.

Although there were no significant events during the year in relation to the community or the environment that warranted escalation to the Board or specific consideration by the Company rather than the Group, if such an event were to arise it would be escalated to the Board through the Company's existing risk management and governance framework. For further details concerning the environment please refer to the 'Streamlined Energy and Carbon Reporting' section within the Directors' report.

American Express Services Europe Limited

Strategic Report for the year ended 31 December 2020 (Continued)

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006 (continued)

5. Shareholders

The Company is a wholly owned subsidiary within the American Express group, who's ultimate parent is listed on the New York Stock Exchange. The Board of American Express Company is committed to openly engaging with its shareholders, as it recognises the importance of a continuing effective dialogue, whether with major institutional investors, private or employee shareholders. It is important to American Express that shareholders understand our strategy and objectives, so these must be explained clearly, feedback received, and any issues or questions raised and properly considered. The Company Board ensures that it applies consistent shareholder priorities. To this end, the Board regularly reviews its business strategy to ensure the steps being taken in this regard align with shareholder priorities and that said strategies maximise shareholder return. The Company's immediate parent, American Express Holdings Limited ("AEHL"), is represented on the Board by the Company's Chief Financial Officer who is also a director of AEHL.

For further details on our people, please refer to the stakeholder relationships and engagement section of the Statement of Corporate Governance Arrangements.

OUTLOOK, RISKS AND UNCERTAINTIES

In line with Group strategy, the Company is focused on maintaining growth in an uncertain economic, political and regulatory environment whilst managing costs and upholding service quality.

The investments that the Company has made over the past several years have sustained growth, positioning the Company well to continue to increase its share in the payments industry sector, and have also enabled operations to be redesigned leading to improved efficiency and customer service. The Company continues to invest carefully in order to capitalise on new opportunities for growth.

During 2020, the Covid-19 pandemic and containment measures have contributed to increased business and financial risks, including but not limited to adverse impacts on the Company's co-brand and airline partners; travel and entertainment industries; and on the credit worthiness of the Company's Cardmembers. Factors such as consumer spending and confidence, unemployment rates, business investment, government spending and interest rates, affect the economic environment and ultimately impact the Company's Cardmember spending levels and credit risk. These, and other impacts of the Covid-19 pandemic may continue even after the outbreak has subsided and containment measures are lifted. The extent to which the Company's business and results of operations will continue to be adversely affected will depend on numerous evolving factors and future developments, including the imposition of further containment measures; the extent and duration of the effect on the economy, unemployment, consumer confidence and consumer and business spending; and how quickly and to what extent normal operating conditions and customer behaviours resume with respect to travel, dining and in-person events.

The organisational changes implemented by the Company in 2019 mitigate the financial, trade and legal risks of Brexit and ensure business continuity. The operating model implemented as part of these changes includes revenue from services to other Group companies which will have some variability linked to the performance of AEESA and AEI's card issuing businesses. The future underlying performance of these entities will therefore continue to have some impact on the future profitability of the Company.

American Express Services Europe Limited

Strategic Report for the year ended 31 December 2020 (Continued)

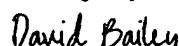
STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006 (continued)

After making enquiries and giving consideration to the Group's intention to provide ongoing support to the Company, as well as the integral nature of the Company's operations to the broader group, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

The Strategic report was reviewed by the Board of Directors on 27 May 2021 and approved on the date specified below on its behalf by:

DocuSigned by:

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C Duerden
Chairperson

DocuSigned by:

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D Bailey
Chief Financial Officer

Date: 27 May 2021

Independent auditors' report to the members of American Express Services Europe Limited

Report on the audit of the financial statements

Opinion

In our opinion, American Express Services Europe Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements for the year ended 31 December 2020 (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the income statement, the statement of comprehensive income, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's forecasts and stresses, with a focus on capital and liquidity risk, and testing their reasonableness, including by comparison to historic performance;
- Considering the American Express group's intention to provide ongoing support to the Company as well as the integral nature of the Company's operations to the broader group;
- Assessing the capital and liquidity position of the ultimate parent undertaking; and
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine 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, the directors are 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 ISAs (UK) 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority, the Payment Services Regulations 2017 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management and those charged with governance, including review of minutes of meetings in so far as they related to the financial statements and consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of correspondence with the regulators;
- Identifying and testing journal entries, including duplicate journal postings, and backdated journals
- Challenging the assumptions and judgements made by management in their accounting estimates, in particular in relation to the fair value of the unfunded commitment and membership reward liability; and
- Testing of the financial statement disclosures.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 May 2021

American Express Services Europe Limited

INCOME STATEMENT

For the year ended 31 December 2020

		2020	2020	2020	2019	2019	2019
		Continuing	Discontinued	Total	Continuing	Discontinued	Total
	Note(s)	Operations	Operations	Total	Operations	Operations	Total
		£000	£000	£000	£000	£000	£000
TURNOVER	5	1,110,968	—	1,110,968	1,478,522	94,497	1,573,019
Administrative expenses							
before exceptional items		(1,185,502)	—	(1,185,502)	(1,333,266)	(103,776)	(1,437,042)
Exceptional items	7	—	—	—	96,000	—	96,000
Total Administrative expenses	7, 8	<u>(1,185,502)</u>	<u>—</u>	<u>(1,185,502)</u>	<u>(1,237,266)</u>	<u>(103,776)</u>	<u>(1,341,042)</u>
OPERATING (LOSS)/PROFIT		(74,534)	—	(74,534)	241,256	(9,279)	231,977
Interest receivable and similar income	10	7,134	—	7,134	13,331	4,068	17,399
Interest payable and similar expenses	11	<u>(8,213)</u>	<u>—</u>	<u>(8,213)</u>	<u>(16,111)</u>	<u>(934)</u>	<u>(17,045)</u>
(LOSS)/PROFIT BEFORE TAXATION	7	(75,613)	—	(75,613)	238,476	(6,145)	232,331
Tax on (loss)/profit	12	<u>17,238</u>	<u>—</u>	<u>17,238</u>	<u>(39,169)</u>	<u>(4,087)</u>	<u>(43,256)</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(58,375)	—	(58,375)	199,307	(10,232)	189,075

The notes on pages 36 to 102 form an integral part of the financial statements.

American Express Services Europe Limited

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 £000	2019 £000
(Loss)/Profit for the financial year		(58,375)	189,075
Other comprehensive (loss)/income: items that may be reclassified to income statement:			
Foreign exchange (loss)/gain		(4,149)	2,918
Net Investment Hedges	17	3,190	(4,369)
Total other comprehensive expense		(959)	(1,451)
Total comprehensive (loss)/income for the year net of tax		(59,334)	187,624

The notes on pages 36 to 102 form an integral part of the financial statements.

American Express Services Europe Limited

BALANCE SHEET

As at 31 December 2020

Registered number: 01833139

	Note	2020 £000	2019 £000
NON CURRENT ASSETS			
Intangible assets	13	—	2,802
Tangible assets	14	129,317	82,569
Investments	15	140,796	139,155
Debtors	19	760,445	1,335,535
		<u>1,030,558</u>	<u>1,560,061</u>
CURRENT ASSETS			
Stocks		9,199	8,457
Debtors	18	1,391,477	723,492
Cash at bank and in hand	20	378,766	397,772
		<u>1,779,442</u>	<u>1,129,721</u>
TOTAL ASSETS		<u>2,810,000</u>	<u>2,689,782</u>
CREDITORS: Amounts falling due within one year			
Creditors	21	(1,190,081)	(945,465)
		<u>(1,190,081)</u>	<u>(945,465)</u>
NET CURRENT ASSETS		<u>589,361</u>	<u>184,256</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,619,919</u>	<u>1,744,317</u>
CREDITORS: Amounts falling due after more than one year	22	(506,356)	(555,379)
PROVISIONS FOR LIABILITIES			
Provisions	25	(125,542)	(142,338)
		<u>(125,542)</u>	<u>(142,338)</u>
NET ASSETS		<u>988,021</u>	<u>1,046,600</u>

American Express Services Europe Limited

BALANCE SHEET

As at 31 December 2020

Registered number: 01833139

	Note	2020 £000	2019 £000
CAPITAL AND RESERVES			
Called up share capital	27	211,788	211,788
Share Premium account		52,574	52,574
Share based payment reserve		14,627	13,872
Translation reserve		(11,332)	(7,183)
Retained earnings		720,364	775,549
TOTAL SHAREHOLDERS' FUNDS		988,021	1,046,600


The financial statements on pages 31 to 102 were approved by the Board of Directors on 27 May 2021 and signed on its behalf by:

DocuSigned by:

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C Duerden

Chairperson

DocuSigned by:

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D Bailey

Chief Financial Officer

Date:

27 May 2021

The notes on pages 36 to 102 form an integral part of the financial statements.

American Express Services Europe Limited

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

Registered number: 01833139

	Called up Share Capital	Share Premium Account	Share Based Payment Reserve	Translation Reserve	Retained Earnings	Total Shareholders' Funds
	£000	£000	£000	£000	£000	£000
At 1 January 2020	211,788	52,574	13,872	(7,183)	775,549	1,046,600
Loss for the financial year	—	—	—	—	(58,375)	(58,375)
Other comprehensive expense	—	—	—	(4,149)	3,190	(959)
Total comprehensive expense	—	—	—	(4,149)	(55,185)	(59,334)
Current and Deferred tax movements in equity (Note 12)	—	—	512	—	—	512
Share-based payments charge	—	—	12,988	—	—	12,988
Recharge paid to parent for share based payments	—	—	(12,745)	—	—	(12,745)
At 31 December 2020	211,788	52,574	14,627	(11,332)	720,364	988,021

	Called up Share Capital	Share Premium Account	Share Based Payment Reserve	Translation Reserve	Retained Earnings	Total Shareholders' Funds
	£000	£000	£000	£000	£000	£000
At 1 January 2019	211,788	52,574	21,739	(10,101)	578,610	854,610
Profit for the financial year	—	—	—	—	189,075	189,075
Other comprehensive expense	—	—	—	2,918	(4,369)	(1,451)
Total comprehensive income	—	—	—	2,918	184,706	187,624
Current and Deferred tax movements in equity (Note 12)	—	—	3,233	—	—	3,233
Share based payment reserve transfer	—	—	(12,233)	—	12,233	—
Share based payments charge	—	—	12,037	—	—	12,037
Recharge paid to parent for share based payments	—	—	(10,904)	—	—	(10,904)
At 31 December 2019	211,788	52,574	13,872	(7,183)	775,549	1,046,600

As at 31 December 2020 £78.7m of retained earnings were non-distributable (2019: £80.9m).

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The principal activity of American Express Services Europe Limited ("AESEL" or "the Company") is the provision of financial services in relation to payment services.

The Company is engaged in the issuing of a wide range of charge cards and revolving credit cards, including the provision of products and services related to consumer and corporate clients. The Company also offers a range of foreign currency payment solutions, together with a range of rewards schemes, including those which award customers who hold the Company's cards ("Cardmembers") points based on the amount they spend.

On 1 March 2019, the Company, in response to the regulatory risk posed by Brexit in relation to the ability of the Company to passport its card issuing business from the UK into the European Economic Area ("EEA"), transferred certain passporting reliant card issuing operations in Europe ("business transfer") to its Spanish subsidiary, American Express Europe S.A. ("AEESA") and Italian subsidiary, American Express Italia S.r.l. ("AEI"). The results of the operations transferred are reported in the prior year Income Statement as discontinued operations. Branches that no longer perform any business activities and have no other requirement to remain will be deregistered in the foreseeable future.

AESEL is a private company limited by shares, registered in England and Wales, domiciled in the United Kingdom and is part of the American Express group of companies ("the Group"). The address of its registered office is Belgrave House, 76 Buckingham Palace Road, London, SW1W 9AX.

2. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101

The financial statements of the Company for the year ended 31 December 2020 were reviewed by the Board of Directors on 27 May 2021 and approved on the Board's behalf by C Duerden and D Bailey.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company is able to take advantage of certain disclosure exemptions available under FRS 101 as it is a wholly owned subsidiary of American Express Company.

The Company has taken advantage of the exemptions under s401 of the Companies Act 2006 not to prepare consolidated financial statements as it is a wholly owned subsidiary of American Express International Inc. ("AEII") incorporated in the United States of America, a larger Group entity incorporated outside of the European Economic Area.

The Company's immediate parent is American Express Holdings Limited, a subsidiary of AEII. American Express Holdings Limited owns 90.15% of the Company, with the remaining 9.85% belonging to Amex NL Holdings 99, LLC (another subsidiary of AEII). AEII is the parent undertaking of the smallest group of undertakings to consolidate these financial statements as at 31 December 2020. The ultimate parent and controlling entity is American Express Company, incorporated in the United States of America. American Express Company is the parent undertaking of the largest group of undertakings to consolidate these financial statements as at 31 December 2020.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101 (continued)

Copies of the American Express Company and American Express International Inc. financial statements can be obtained from American Express Company, American Express Tower, World Financial Center, New York, NY 10285, USA.

The principal accounting policies adopted by the Company are set out in Note 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been consistently applied in the preparation of these financial statements are set out below:

3.1 Basis of preparation

The financial statements are prepared in accordance with The Companies Act 2006 as applicable to companies using FRS 101. The financial statements are prepared on a going concern basis under the historical cost convention, modified by the revaluation of certain financial instruments and derivatives to fair value through profit and loss. The Board remain satisfied with the appropriateness of preparing the financial statements on a going concern basis, considering the Group's intention to provide ongoing support to the Company as well as the integral nature of the Company's operations to the broader group. The functional currency is pounds sterling (£) and the financial statements are presented in pounds sterling with values rounded to the nearest thousand (£000) unless otherwise stated.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.27.

The Company has taken advantage of the following disclosure exemptions allowed under FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- the requirements of paragraph 52 of IFRS 16 Leases.
- the requirements of IAS 1 'Presentation of Financial Statements' paragraph 38 to present comparative information in respect of
 - paragraph 79(a)(iv) of IAS 1 (reconciliation of shares outstanding);
 - paragraph 73(e) of IAS 16 Property, plant and equipment;
 - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period).
- the requirements of the following paragraphs of IAS 1 'Presentation of Financial Statements':
 - 10(d) *statement of cash flows*;
 - 10(f) *balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements*;
 - 16 *statement of compliance with all IFRS*;

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of preparation (continued)

- 38(a) *requirement for minimum of two primary statements, including cash flow statements;*
- 38(b)-(d) and 40 (a) *additional comparative information;* and
- 111 *cash flow statement information;*
- the requirements of IAS 7 'Statement of Cash Flows' to prepare a statement of cash flows;
- the requirements of IAS 8 'Accounting Policies Changes in Accounting Estimates and Errors' paragraphs 30 and 31, concerning new IFRS that have been issued but are not yet effective;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers';
- the requirements of IAS 24 'Related Party Disclosures' paragraphs 17 and 18A to disclose the compensation of key management personnel; and
- the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

(a) Standards and Interpretations effective in 2020

The entity has adopted the following standards and amendments to standards with an initial date of application of 1 January 2020.

- **Definition of Material – Amendments to IAS 1 and IAS 8**
The new definition of the term "material" clarifies that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific entity. This amendment did not have any impact upon the Company's financial statements upon adoption.
- **Definition of Business – Amendments to IFRS 3**
The amendments to IFRS 3 Business Combinations clarify the minimum requirements to be considered a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also introduce an optional concentration test to permit a simplified assessment. There was no impact upon the Company's financial statements upon adoption.
- **Revised Conceptual Framework – Amendments to Conceptual Framework for Financial Reporting**
The new conceptual framework contains revised definitions of an asset and a liability along with new guidance on measurement and derecognition and presentation and disclosure. There was no impact upon the Company's financial statements upon adoption.
- **Interest Rate Benchmark Reform (IBOR) – Amendments to IFRS 9, IAS 39 and IFRS 7**
The amendment provides targeted relief to Companies by modifying hedge accounting requirements such that Companies are able to change the benchmark interest rates without causing changes in hedging relationships. This amendment is not expected to significantly affect the Company's financial statements in current or future periods.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of preparation (continued)

- **Amendments to IFRS 16, Leases, Covid-19 related rent concessions**

Effective for annual periods beginning on or after 1 June 2020 (early adoption permitted)

As a result of the Covid-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. This amendment provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications, this results in accounting for the concessions as variable lease payments in the period in which they are granted. This amendment is not expected to significantly affect the Company's financial statements in current or future periods.

(b) Standards and amendments early adopted by the Company

No new or amended standards and interpretations were adopted early by the Company.

3.2 Foreign currency translation

(a) Functional and presentational currency

The Company records financial transactions in a variety of currencies across its operating units. Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements of the Company are presented in pounds sterling (£), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are borne by a related Group entity.

Translation differences on financial instruments measured at fair value through profit or loss are reported as part of the fair value gain or loss in the Income Statement.

(c) Foreign Branches

The assets and liabilities of foreign branches that have a different functional currency are translated into pounds sterling (£) as follows;

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that Balance Sheet;
- income and expenses for each Income Statement are translated at average exchange rate; and
- all resulting exchange differences are recognised in Other Comprehensive Income.

3.3 Disposal groups held for sale and discontinuing operations

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the disposal group to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of disposal groups, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the disposal groups is recognised at the date of derecognition.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Disposal groups held for sale and discontinuing operations (continued)

Disposal groups are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised. Assets of a disposal group classified as held for sale are presented separately from the other assets in the Balance Sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the Balance Sheet.

A discontinuing operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinuing operations are presented separately in the Income Statement.

All the quantitative information forming part of the notes to the financial statements is presented in relation to continuing operations unless otherwise stated.

3.4 Tangible assets

Cost

Tangible assets are measured at cost less accumulated depreciation and any accumulated impairment losses which are recognised within administrative expenses. Costs include expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company's management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Right-of-use assets are recognised and measured at the respective lease liabilities, adjusted by prepaid lease payments, initial direct costs, and offset by lease incentives received.

Depreciation

Depreciation is provided on a straight-line basis to write off the net cost of each item of property or plant and equipment to its residual value over their expected useful life to the Company. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Balance Sheet date.

Right-of-use assets are depreciated over the shorter of the useful life and the lease term.

The estimated useful lives of each class of assets are:

Leasehold improvements	- over 5 to 10 years
Furniture & fittings	- over 3 to 8 years
Plant and Machinery	- over 3 to 8 years
Right of Use	- over 1 to 15 years
Assets in course of construction	- not depreciated until brought into use

In the event of an impairment trigger event being enacted, an asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing net proceeds with carrying amount and are included in the Income Statement.

Repairs and maintenance (as opposed to improvements and enhancements of existing assets) are charged to the Income Statement during the period in which they are incurred.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Intangible assets

Acquired customer relationships, customer lists and other contract-based intangible assets are carried at historical cost less accumulated amortisation and any accumulated impairment losses which are recognised within administrative expenses. Amortisation is calculated using the straight-line method to allocate the cost of customer relationships over their estimated useful lives of fifteen years.

3.6 Investment

Investments in subsidiaries are held at historical cost less any applicable provision for impairment.

3.7 Business combinations, acquisitions and disposals

Business combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties after the combination are accounted for in the financial statements prospectively ("the predecessor values method") from the date the Company obtains the ownership interest. Upon the acquisition of a business or entity, the assets and liabilities of the combined entities or businesses are recognised at their book values. Under the predecessor values method, the investments in subsidiaries are recognised at cost. The cost at the point of recognition is deemed to be equivalent to net book value if the entities involved in such transaction are under common control. No goodwill or discount on acquisition is recognised. An impairment assessment is carried out annually and recognised if the recoverable amount of the investment is less than the carrying amount and the loss is recognised in the Income Statement.

For disposals where a business is transferred to a subsidiary within a business combination, the cost is the consideration paid to acquire the investment in the subsidiary, not the consideration received from the subsidiary for the acquisition of the net assets comprising the business. The consideration paid is therefore the carrying value (equivalent to book value) of the assets transferred.

3.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever market or economic events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (i.e. the higher of an asset's fair value less costs to sell and its value-in-use). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value on a systematic basis over its remaining useful life.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition.

3.10 Financial assets

The Company classifies its financial assets at fair value through profit or loss (FVTPL) and at amortised cost. The Company did not hold any financial assets classified as fair value through other comprehensive income (FVTOCI) during the reporting period.

The classification is determined on the basis of both: 1) the Company's business model for managing the financial assets and 2) the contractual cash flow characteristics of the financial asset. For an asset to be measured at amortised cost, the contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI). For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition.

Interest is the 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, as well as profit margin.

Management determines the classification of financial assets and liabilities at initial recognition and re-evaluates this designation at every reporting date. The designation of financial assets at fair value through profit or loss is generally irrevocable. Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrower.

(a) Financial assets at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Company may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in Other Comprehensive Income. The Company may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so either:

- (i) eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or liabilities or recognising the gains and losses on them on different bases; or
- (ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Financial assets cannot be transferred into or out of this category after inception except under very specific circumstances, whereby they are recognised initially at fair value, with transaction costs are taken directly to the Income Statement. Financial assets at fair value through profit and loss are subsequently measured at fair value. Fair value is determined in the manner described in Note 16.

Assets in this category are classified as current assets if they are expected to be realised within 12 months after the Balance Sheet date. If the Company intends to realise the assets 12 months after the Balance Sheet date, they are classified as non-current.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Financial assets (continued)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Income Statement within other income (included within administrative expenses in the Income Statement) in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognised in the Income Statement as part of other income when the Company's right to receive payment is established.

Cardmember loans or receivables are classified under IFRS 9 as mandatorily measured at FVTPL because they are held within a business model whose objective is achieved by selling the financial assets.

(b) Financial assets at amortised cost

Financial assets at amortised cost are financial assets that are held within a business model whose objective is to hold financial assets in order 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 on the principal amount outstanding.

They are included in current assets, except for maturities greater than 12 months after the Balance Sheet date. These are classified as non-current assets.

Financial assets at amortised cost are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Certain Cardmember loans and receivables are classified under IFRS 9 as mandatorily measured at amortised cost because they are held within a business model whose objective is achieved by collecting contractual cash flows.

(i) Cardmember receivables

Cardmember receivables represent amounts due from Charge card customers. These receivables are recorded at the time a Cardmember enters into a point-of-sale transaction with a merchant. Cardmember receivable balances at amortised cost are presented on the Balance Sheet net of reserves for expected credit losses, and include principal and any related accrued fees.

IFRS 9 classification is dependent on the relevant business model applied (see 3.10(a) and 3.10(b)).

(ii) Cardmember loans

Cardmember loans represent amounts due from lending product customers. These loans are recorded at the time a lending Cardmember enters into a point-of-sale transaction with a merchant or when a Charge card customer enters into an extended payment arrangement. Cardmember loans at amortised cost are presented on the Balance Sheet net of reserves for Cardmember expected credit losses, and include accrued interest receivable and fees as of the Balance Sheet date. Cardmember loans also include balances with extended payment terms on certain Charge card products.

IFRS 9 classification is dependent on the relevant business model applied (see 3.10(a) and 3.10(b)).

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Financial assets (continued)

(b) Financial assets at amortised cost (continued)

(iii) Other loans

Other loans are recorded at the time any extension of credit is provided to consumer and commercial customers for non-card financing products. Non-card financing products are not associated with a Cardmember agreement, and instead are governed by a separate borrowing relationship

(iv) Loans due from Group undertakings

Loans due from Group undertakings represent amounts due from other Group companies. Expected credit losses are not material given the nature of the lending and the strong credit position of the Group.

(v) Other debtors

Other debtors relate to travel and regular trade receivables due to the Company in the normal course of business. Expected credit losses are not material given the typically short term nature of these balances.

3.11 Impairment of financial assets

The Company assesses financial assets, other than those at fair value through profit or loss, for credit losses at each Balance Sheet date, and measures loss allowance for expected credit losses. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company will measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. The Company will measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

(a) Cardmember loans and receivables

For the purposes of a collective evaluation of impairment, Cardmember loans and receivables are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors, with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. The aggregation of financial instruments to assess whether there are changes in credit risk on a collective basis may change over time as new information becomes available on groups of, or individual, financial instruments.

The expected credit losses in a group of financial assets that are collectively evaluated for impairment are estimated in a way that reflects:

- (i) an unbiased and probability-weighted amount that is determined by evaluating a range on the basis of possible outcomes;
- (ii) the time value of money; and
- (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

A credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract, and the cash flows that the entity expects to receive. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Impairment of financial assets (continued)

(b) Loans due from Group undertakings

Loans due from Group undertakings represent amounts due from other Group companies and as such are not subject to any material impairment losses given the nature of the lending and the strong credit position of the Group.

3.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. A transferred asset and the associated liability are not offset where a transfer of a financial asset does not qualify for derecognition.

3.13 Derecognition of financial instruments, including receivables

Financial instruments are derecognised when the rights to receive cash flows have expired or a transfer of the financial instruments has taken place where the Company has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

Transfers of financial assets that do not meet derecognition criteria are accounted for as secured borrowings in the Balance Sheet. Financial liabilities are derecognised when they are extinguished.

3.14 Derivatives financial instruments and hedge accounting

Derivative financial instruments allow the Company and its customers to transfer, modify or reduce their foreign exchange, interest rate and credit risks. These are either held for hedging Company positions, or for trading purposes in relation to the Company's Foreign Exchange International Payments ("FXIP") business.

(a) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The fair value of the Company's derivative financial instruments are determined using either market quotes or valuation models that are based upon the net present value of estimated future cash flows and incorporate current market data inputs. The Company reports its derivative assets and liabilities on a net basis (by counterparty) where management has the legal right of offset under enforceable netting arrangements and intends to settle on a net basis or to realise the asset and settle the liability simultaneously. Fair value is determined in the manner described in Note 16.

(b) Hedge accounting

Derivative financial instruments that are entered into for hedging purposes are designated as such when the Company enters into the contract. For all derivative financial instruments that are designated for hedging activities, the Company formally documents all of the hedging relationships between the hedge instruments and the hedged items at the inception of the relationships. Management also formally documents its risk management objectives and strategies for entering into the hedge transactions.

In accordance with its risk management policies, the Company generally structures its hedges with very similar terms to the hedged items; therefore, when applying the accounting requirements, the Company generally recognises insignificant amounts of ineffectiveness through earnings. If it is determined that a derivative is not highly effective as a hedge, the Company will discontinue the application of hedge accounting.

The Company has a formal process for assessing whether derivatives designated as hedges are highly effective in offsetting the fair value or cash flows of hedged items, at inception and on a monthly basis. These assessments usually are made through the application of the 'dollar-offset' method.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Derivatives financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Hedges of net investments

The Company designates certain derivatives as hedges of a net investment in a foreign operation (net investment hedge).

A net investment hedge in a foreign operation is used to hedge future changes in currency exposure of a net investment in a foreign operation. Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges; the effective portion of the gain or loss on the hedging instrument is recognised directly in equity and the ineffective portion is recognised immediately in the Income Statement. The cumulative gain or loss previously recognised in equity is recognised in the Income Statement on the disposal or partial disposal of the foreign operation.

The foreign exchange gains/losses on net investment hedging instruments in relation to non-consolidated subsidiaries are recognised in the Income Statement.

Further information about the Company's hedging arrangements is given in Note 17.

3.15 Cash at bank and in hand

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 90 days or less, and bank overdrafts. It also includes funds held on behalf of customers in safeguarded accounts, primarily caused by Cardmember overpayments.

Bank overdrafts are shown as bank loans and overdrafts within creditors falling due within one year on the Balance Sheet.

All cash and bank balances and money market instruments are carried at the principal amount. Interest is recognised using the effective interest method.

3.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.17 Financial liabilities

(a) Financial liabilities at fair value through profit or loss

Financial instruments are classified in this category if they are derivatives, held for trading, or if they are designated by management under the fair value option.

Financial liabilities at fair value through profit or loss are initially measured at fair value, with transaction costs taken directly to the Income Statement, and subsequently stated at fair value, with any resultant gain or loss recognised in the Income Statement. The net gain or loss recognised in the Income Statement incorporates any interest paid on the financial liability.

(b) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Subsequent measurement is at amortised cost using the effective interest method, with interest expense recognised in the Income Statement on an effective yield basis. Other financial liabilities are classified as borrowings, trade creditors, other creditors and accruals in the Balance Sheet.

Preference shares which are mandatorily redeemable on a specific date, are classified as liabilities.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Financial liabilities (continued)

(c) Financial loan commitments

These commitments represent the amount of unutilised credit outstanding on the Cardmember loans issued by the Company and are not applicable to Cardmember receivables due to the short term nature of these balances and there being no deemed commitment. Given that Cardmember loans are classified as FVTPL (due to past practice of selling these assets) IFRS 9 requires the recognition of an undrawn commitment which is also classified as FVTPL. The fair value of the undrawn commitments leverages IFRS 9 expected credit loss calculation methodology of the unfunded commitment (refer to Note 3.27 on accounting estimates and judgements and Note 16 classification of financial instruments) and is reported as part of other creditors. The Company has not provided any loan commitments at below market interest rates or that can be settled net in cash or by delivering or issuing another financial instrument.

3.18 Borrowings

Borrowings are recognised initially at fair value, generally their cash equivalents, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method. Borrowings which are due to be settled within 12 months after the Balance Sheet date are presented as current borrowings even if the original term was for a period longer 12 months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the Balance Sheet date and before the financial statements are authorised for issue.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. All other borrowing costs are recognised as an expense in the Income Statement using the effective interest method in the period in which they are incurred.

3.19 Current and deferred tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the Balance Sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset where the deferred tax balances relate to the same taxation authority, and a legally enforceable right to offset exists. Current tax assets and tax liabilities are offset (where a legally enforceable right exists) where the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax charges and credits are recognised in the Income Statement, except to the extent that they relate to items recognised in other comprehensive income or directly in equity. In this case, the tax charge is recognised in other comprehensive income or directly in equity.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Employee benefits

(a) Wages and salaries, annual leave and sick leave, bonuses and long service leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in provisions and accruals in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(b) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date as a result of restructuring or whenever an employee accepts voluntary redundancy in exchange for termination benefits. The Company recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal. Benefits falling due more than 12 months after the Balance Sheet date are discounted to present value.

(c) Pension obligation

American Express Company provides pension arrangements for employees through defined benefit plans in the UK, the Netherlands, Germany and Italy, and through defined contribution schemes in the UK, Germany and Sweden. The participating employers of the UK plan share the associated risks of the plan under common control, with no stated policy of sharing net defined benefit cost or for determining the contributions to be paid by each sponsoring employer. None of the participating legal entities have been assessed as being sponsoring employers of the plan. As a result, American Express UK legal entities account for the plans as if they were a defined contribution arrangement with additional disclosure notes for the material plans (UK and Germany), compliant with IAS 19. Contributions are charged to the Income Statement in the period in which they are paid. Payments to the Company's defined contribution stakeholder pension schemes are recognised as an expense as they fall due.

(d) Share based compensation plans

The Company engages in equity-settled share-based awards in respect of services received from certain employees. For equity-settled awards, the fair value of services received is measured by reference to the fair value of the stock awards or share options granted on the date of grant. The cost of employee services received in respect of the stock awards or share options granted is recognised in the Income Statement over the vesting period. The vesting period is the shorter of the vesting schedule as defined in each award agreement or the date an individual will become eligible to retire. Retirement eligibility is dependent upon age and/or years of service.

The fair value of options granted is determined by using the 'Black-Scholes-Merton' option-pricing model. Restricted Stock awards that do not include the Relative Total Shareholder Return (R-TSR) modifier are valued using American Express Company's stock price on the date of grant and the performance-based Restricted Stock Awards that include the R-TSR modifier are valued using a Monte Carlo valuation model. The R-TSR modifier is a specific performance condition that defines total shareholder return as the stock price appreciation over the performance period in comparison to American Express' peers and is a determining factor in the final shares issued to an employee.

As options and awards on American Express Company shares are granted by the ultimate parent company to the employees of the Company, those awards are accounted for in equity. The Company has an obligation to repay the ultimate parent company for the share-based payments, and that repayment is offset against equity to the extent that it has been paid or is payable to the ultimate parent company.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Employee benefits (continued)

(d) Share based compensation plans (continued)

Portfolio Grants are primarily cash-settled, however since the Company does not have an obligation to settle the award it is recorded as an equity transaction. An expense is recognised in the Company's Income Statement over the vesting period; and a credit is recognised in equity. These awards earn value based on American Express Company's financial performance, market and service conditions, and vest over periods from one to three years.

3.21 Provisions and contingent liabilities

Provisions are recognised where the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that a transfer of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised on future operating losses. Provisions are reviewed at each Balance Sheet date and adjusted to reflect the current best estimate.

Provisions are measured at the present value of the expected required expenditures to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities are disclosed when there is a present obligation that arises from past events but are not recognised because the amount of the obligations cannot be measured reliably, or where there is a possible obligation arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

3.22 Exceptional items

Items that are (i) material, (ii) result in the generation of revenues or expenses outside the ordinary course of the Company's business and (iii) are not expected to recur in subsequent years are separately presented in the Income Statement as an exceptional item.

3.23 Revenue recognition

Revenue comprises income arising in the course of the Company's ordinary activities net of value-added and other taxes, rebates and discounts.

The Company recognises revenue at an amount that reflects the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. Revenue is recognised as follows:

- Billing Credit revenue is earned from another Group company for the service and functions the Company provides to the American Express network. The revenue that the Company earns is a proportion of the charges it bills to its Cardmembers, on account of their spend. Revenue is recognised in the period in which the Cardmember spend occurs and is presented net of a trademark royalty payable to another Group company. The Company satisfies its obligations under these agreements over the contract term, often on a daily basis, through the processing of Cardmember transactions and the availability of our payment network.
- Card fees represent revenue earned from annual card membership fees, which vary based on the type of card and the number of cards for each account. The Company offers various card products, including both charge and lending products, with a range of associated services and benefits. The annual fee entitles the Cardmember to use the card to make purchases at merchants on the American Express network, as well as provides the Cardmember with access to the card-related services and benefits. Benefits associated with a card product may include access to the Membership Rewards program, or a third-party reward program, and the ability to earn points that are redeemable for a variety of goods and services in these programs by spending on the card product.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23 Revenue recognition (continued)

The Company satisfies its obligations to the Cardmember over the annual membership term, through the processing of Cardmember transactions and enabling the availability of the card-related benefits and services. Card fees, net of a reserve for projected refunds for Cardmember cancellation, are deferred and recognised on a straight-line basis over the 12-month card membership period as net card fees in the Income Statement. Credit and Charge card fees are recognised in turnover in the Income Statement and the unamortised net card fee balance is reported in creditors in the Balance Sheet. Incremental costs incurred to acquire Cardmembers are capitalised as an asset within debtors and amortised on a straight-line basis over the expected Cardmember account life which is estimated based on historical experience and any relevant current information. Cash rewards or statement credits representing cash consideration payable to customer are recorded as a reduction of the card fee, with any excess classified as expense, when the statement credit is awarded to the Cardmember.

- Spread revenue arises from remittance and money changing operations and is recognised when there is an exchange rate difference arising from the buying and selling of foreign currencies, as these currency transactions take place.
- Interest revenue is recognised using the effective interest rate method based upon the principal amount outstanding in accordance with the terms of the applicable account agreement (further information is provided in Note 3.25).
- Other commissions and fees include certain variable fees charged to Cardmembers, including foreign currency conversion fees, delinquency fees and travel commission and fees. Currency conversion and delinquency fees are primarily recognised in the period in which the Cardmember uses the card-related service (such as the foreign currency conversion). Travel commissions and fees for travel agency services include commissions from third-party travel suppliers, such as hotels and airlines, as an agent for facilitating travel arrangements between the travel suppliers and Cardmembers, which are primarily recognised at the point in time the reservations or travel arrangements are booked.
- Revenue from services to other related Group entities arises when the Company performs a service on behalf of another related Group entity. The Company charges the related Group entity on an arm's length basis, with this revenue being recognised in the period in which the service is provided. The Company determines these revenues using either traditional transaction methods or transactional profit methods. This category of revenue includes post-business transfer operating model income for the Company's entrepreneurial role which is calculated using a combination of inputs, including subsidiary targeted arm's length profit margins and subsidiary Cardmember spend. Entrepreneurial fee income is recognised throughout the year based on forecast data and aligned to actual results at the end of the reporting period.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24 Membership rewards expense

Cardmembers can earn Membership Rewards points for purchases charged on their enrolled card products. Membership Rewards points are redeemable for a broad variety of rewards, including travel, shopping, gift cards, and covering eligible charges. Membership Rewards points typically do not expire, and there is no limit on the number of points a Cardmember may earn. Membership Rewards expense is driven by spend volume on enrolled cards, customer participation in the program and contractual arrangements with redemption partners.

The Company records a Membership Rewards liability that represents the estimated cost of Membership Rewards points earned that are expected to be redeemed by Cardmembers in the future. The Membership Rewards liability is impacted over time by enrolment levels, attrition, the volume of points earned and redeemed, and the associated redemption costs. The Company estimates the Membership Rewards liability by determining the ultimate redemption rate ("URR") and the weighted average cost ("WAC") per point, which are applied to the points of current enrollees. The URR assumption is used to estimate the number of Membership Rewards points earned by current enrollees that will ultimately be redeemed in future periods. The WAC per point is derived from the previous 12 months of redemptions and is adjusted as appropriate for certain changes in redemption costs that are not representative of future cost expectations and expected developments in redemption patterns. The Membership Rewards reserve is currently measured on an undiscounted basis. Management has assessed the amount of the reserve incorporating a discount, and the difference is not material to the financial statements.

The Company periodically evaluates its liability estimation process and assumptions based on developments in redemption patterns, cost per point redeemed, partner contract changes and other factors. The process of estimating the Membership Rewards liability includes a high degree of judgement. Actual redemptions and associated redemption costs could differ significantly from our estimates, resulting in either higher or lower Membership Rewards expense. Changes in the Membership Rewards URR and WAC per point have the effect of either increasing or decreasing the liability through the current period Marketing, promotion, rewards and Card Member services expense by an amount estimated to cover the cost of points previously earned but not yet redeemed by current enrollees as of the end of the reporting period.

3.25 Interest income and expense

Interest on Group financing activities and Cardmember lending is earned or recognised using the average daily balance method. Interest is recognised based upon the loan principal amount outstanding in accordance with the terms of the applicable account agreement until the outstanding balance is paid or written-off.

Interest income is presented gross of the related interest expense. Interest income associated with Cardmember lending is presented as turnover and represents income earned from the fair valued assets. Interest income on Group related financing activities is presented as Interest receivable and similar income.

Interest income and expense are recognised in the Income Statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

For amortised cost receivables that are not credit impaired ("stage 1" and "stage 2"), interest income is calculated based on the gross carrying amount of the asset. When a receivable is impaired ("stage 3"), interest income will be calculated based on the net carrying amount (net of credit allowances). Interest income on impaired loans is recognised using the original effective interest rate.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) **For the year ended 31 December 2020**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.26 Leases

The Company primarily maintains operating leases for its office real estate facilities, under non-cancellable and cancellable lease agreements.

The Company recognises right-of-use assets and lease liabilities for operating leases with terms greater than twelve months. The Company's policy is not to separate lease and non-lease components when measuring the real estate right-of-use assets and lease liabilities.

Lease liabilities are recognised at lease commencement date and measured at the present value of the remaining contractual fixed lease payments, discounted using the Company's incremental borrowing rate. Right-of-use assets are depreciated over the shorter of the useful life and the lease term. Variable lease payments are excluded from the Right-of-use assets and lease liabilities, and are recognised in the period in which the obligation for those payments is incurred.

The Company presents right-of-use assets in tangible assets and lease liabilities in creditors in the Balance Sheet. The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases for real estate leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.27 Accounting estimates, assumptions and judgements

The preparation of the financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Company's accounting policies.

Estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Membership Rewards provision

The Company records a Membership Rewards liability that represents the estimated cost of Membership Rewards points earned that are expected to be redeemed by Cardmembers in the future. The Membership Rewards liability is impacted over time by enrolment levels, attrition, the volume of points earned and redeemed, and the associated redemption costs. The Company estimates the Membership Rewards liability by determining the ultimate redemption rate ("URR") and the weighted average cost ("WAC") per point, which are applied to the points of current enrollees. The URR assumption is used to estimate the number of Membership Rewards points earned by current enrollees that will ultimately be redeemed in future periods. The Company uses statistical and actuarial models to estimate the URR of points earned to date by current Cardmembers based on redemption trends, card product type, enrolment tenure, card spend levels and credit attributes. The WAC per point assumption is used to estimate future redemption costs and is primarily based on redemption choices made by Cardmembers, reward offerings by partners, and Membership Rewards program changes. The WAC per point is derived from the previous 12 months of redemptions and is adjusted as appropriate for certain changes in redemption costs that are not representative of future cost expectations. The Company has considered the Covid-19 pandemic and resulting restrictions on travel and tourism, with respect to the carrying value of the Membership Rewards liability. Due to the travel restrictions and the resulting change in Cardmember redemption behaviour, the WAC per point decreased in 2020. As the change in Cardmember redemption behaviour is expected to be temporary in nature and not reflective of the future cost expectations of the Membership Rewards liability, a WAC floor has been implemented based on the Company's Q2 2020 WAC per point. If the floor had not been implemented the Membership Rewards expense and liability would have been lower by £4.8m as at 31 December 2020.

An increase of 1% (100 bps) in the URR would result in an increase in the Membership Rewards provision of £4.4m. An increase of 0.05% (5 bps) in the WAC would result in an increase in the Membership Rewards provision of £9.7m.

- Fair value of undrawn commitments

The fair value of undrawn commitments is calculated using the unfunded IFRS9 expected credit loss calculation methodology as a proxy (refer to the judgements associated with this methodology later in this note). Note 4 (c) Expected Credit Loss (ECL) measurement, provides details of the methodology and key inputs used to estimate the expected credit losses on the unfunded commitment, including when a significant increase in credit risk has occurred and what forward looking macroeconomic information to incorporate. Significant estimation is required in determining which macroeconomic scenarios to incorporate and the relative weightings ascribed to each scenario. To demonstrate the sensitivity of estimated credit losses to the macroeconomic scenarios, the modelled estimates under the baseline scenario have been compared to that under the very pessimistic downside scenario.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.27 Accounting estimates, assumptions and judgements (continued)

Estimates and assumptions (continued)

- Fair value of undrawn commitments (continued)

The sensitivity analysis comprises dynamic staging and a 20 percentage points change in weighting from the very pessimistic to the baseline scenario results in the estimated losses on the unfunded commitment, and consequently the undrawn commitment liability, decreasing by approximately £2.2m.

This sensitivity analysis relates only to the modelled credit loss estimates without including any potential changes in other adjustments to the quantitative reserve component, or the impact of management judgement for the qualitative reserve component, which may have positive or negative effect on the results.

There are a number of other estimates made in the preparation of the financial statements. However, these are not considered critical accounting estimates based on the IAS 1 definition.

Judgements

The preparation of the financial statements involves a number of judgements. The items with a higher degree of judgement or complexity are:

Held for sale balances and discontinued operations Income Statement line items

In order to separately present the prior year results from discontinued operations, management applied various judgements. These included the application of historical results, product performance metrics and the balance split ratio quantified upon business transfer.

Management applied different methodologies dependent on the granularity of available information and the nature of the transactions and balances in order to ensure the accuracy of the discontinued operations presented.

Business model assessment and FVTPL designation of Cardmember loans and receivables

As outlined in Note 3.10 (a) and (b) Cardmember loans and receivables are classified as FVTPL due to there being a business model in place whose objective is achieved by selling those loans and receivables to an affiliate entity on a regular basis. The Company's judgement in making this determination and consequently in classifying those Cardmember loans and receivables at FVTPL is formed on the basis of management's intention to continue such sales for the foreseeable future and the past practice of realising cashflows on these assets through sale.

Fair value of undrawn commitment – Note 3.17(a) Financial liabilities at fair value through profit or loss

Under IFRS 9, the undrawn commitment in relation to future Cardmember spend should be measured at fair value when there is a past practice of selling the assets resulting from these commitments shortly after origination. Management applied judgement in determining that the undrawn commitment should only consist of the expected credit losses on future spend, discounted at the effective interest rate. In assessing whether the fair value of future card fees and future expenses to support the commitment should be included within this fair value calculation, management concluded that both elements relate more to the overall Cardmember relationship rather than specifically the undrawn commitment. These elements were therefore excluded. The calculation of the fair value of the undrawn commitments leverages IFRS 9 expected credit loss calculation methodology (see Note 4 (c) for further details). Other methodologies could also be applied but management have made a judgement to apply this approach.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.27 Accounting estimates, assumptions and judgements (continued)

Judgements (continued)

Defined benefit pension scheme

Certain employees participate in defined benefit pension schemes with several participating employers sharing the risks between entities under common control. The plans do not have a stated policy for sharing net defined benefit cost or for determining the contributions to be paid by each participating legal entity for these schemes. None of the participating legal entities have been assessed as being sponsoring employers of the plans. In the judgement of the directors, the Company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligation and plan assets. Therefore the scheme is accounted for a defined contribution scheme (see Note 28 for further details).

Accounting for the business transfer

In the absence of specific guidance around common control transactions, particularly from the perspective of the transferring entity, Management made a judgement around what constitutes consideration in exchange for the assets and liabilities disposed of in relation to the business transfer. Management concluded that the cost is the consideration paid to acquire the investment in the subsidiary, not the consideration received from the subsidiary for the acquisition of the net assets comprising the business. The consideration paid is therefore deemed the carrying value (equivalent to net book value) of the assets transferred as opposed to the fair value.

Membership rewards provision

The choice of methodology used to estimate the Membership Rewards liability requires the application of judgement. A judgement has been made that the most appropriate way of reflecting expected unused points when customers leave, is to allocate these unused points linearly over the expected life. Alternative methodologies could be used, for example a first in first out approach, which would result in a different liability.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT

Governance

Risk management of the Company is overseen by its Directors who are responsible for managing the Company's affairs and for ensuring that the operations of the Company, including those of its branches, are carried out effectively and with due regard to the reputation of the Group and the requirements imposed upon it by law, regulation and relevant regulatory bodies.

To fulfil these responsibilities, the Company maintains a governance framework including the following committees, each reporting regularly to the Board:

- The Audit and Finance Committee;
- The Operational Risk Committee; and
- The Payment Protection Insurance Committee (via the Operational Risk Committee).

For further details on the committees and the responsibilities of the Directors, please refer to the Directors' and Strategic reports.

The Company primarily adopts the Group's Enterprise-wide Risk Management (ERM) program policies and strategies. The objective of the ERM is to identify, aggregate, monitor and manage risks in order to maintain and continuously improve risk management controls and processes that will enable profitable growth, while delivering outstanding customer service.

Capital risk management

The Company manages its capital within the guidelines set by the Board of Directors and Audit and Finance Committee.

As an authorised payment institution, the Company is required to maintain capital levels which exceed a prescribed level of minimum capital, as required by the Payment Services Regulations 2017. The Company has an FCA minimum capital requirement for the year of £8.1m which is considerably lower than the capital levels it maintains. Capital monitoring processes are in place to ensure the Company exceeds the minimum capital requirements at all times. The Company is also required to undertake daily safeguarding of relevant funds.

The Company's capital is managed to ensure adherence to its minimum capital requirement as a payment institution in addition to ensuring that it will be able to support the business' objectives and continue as a going concern. In order to support these objectives, the capital structure of the Company is monitored on a monthly basis. The capital structure of the Company consists of debt, which includes the borrowings disclosed in Note 23, cash at bank and in hand disclosed in Note 20 and amounts attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity and Note 27.

(a) Market risk

Market risk is the risk to earnings or asset and liabilities values resulting from movements in market prices. The Company's market risk exposure includes:

- Interest rate risk driven by changes in the relationship between the interest rates on the Company's assets such as loans and receivables and the interest rates on the Company's liabilities such as debt and deposits; and
- Foreign exchange risk arising from earnings, funding, transactions and investments in currencies other than the functional currency in its operations outside the United Kingdom.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market Risk (continued)

The Company adopts the Market Risk Policy within the ERM program, which establishes processes and criteria to minimise earnings volatility while supporting sustainable profit growth in relation to interest rate risk management.

(i) Interest rate risk management

The Company's interest rate exposure can vary over time as a result of, among other things, the proportion of total funding provided by variable and fixed-rate debt and deposits compared to Cardmember loans and receivables.

Residual interest rate exposure within the Company's charge card and lending products along with the exposure from 'Loans due to/from Group undertakings' is managed at a Group level by varying the proportion of total funding provided by variable-rate debt and deposits compared to fixed-rate debt and deposits. The Group may change the mix between variable-rate and fixed-rate funding based on changes in business volumes and mix, among other factors.

For the purposes of interest rate risk management, the Group (including the Company) does not enter into any contract that gives rise to the recognition of derivative financial instruments for trading purposes.

The table below summarises the re-pricing profiles of the Company's financial instruments and other assets and liabilities at their carrying value on 31 December 2020. Items are allocated to time periods by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (continued)

(i) Interest rate risk management (continued)

2020	0 – 3 months £000	3 – 12 months £000	1-5 years £000	Over 5 year £000	Non- interest bearing £000	Total £000
ASSETS						
Cash at bank and in hand	378,766	—	—	—	—	378,766
Debtors:						
- Cardmember receivables	—	—	—	—	108,221	108,221
- Receivables from Group undertakings	—	—	—	—	1,120,943	1,120,943
- Other debtors	—	—	—	—	13,217	13,217
Derivative financial instruments	—	—	—	—	5,790	5,790
Investment securities	—	—	—	—	39	39
Loans:						
- Cardmember lending	30,623	—	—	—	—	30,623
- Loans due from Group undertakings	25,931	—	636,138	—	—	662,069
- Loans due from related parties	24	—	—	—	—	24
Total Financial Assets	435,344	—	636,138	—	1,248,210	2,319,692
Non-Financial Assets	—	—	—	—	490,308	490,308
TOTAL ASSETS	435,344	—	636,138	—	1,738,518	2,810,000
LIABILITIES						
Trade and other creditors	2,495	5,121	30,551	54,387	172,135	264,689
Accruals	—	—	—	—	137,810	137,810
Derivative financial instruments	—	—	—	—	8,840	8,840
Borrowings:						
- Loans due to Group undertakings	62,876	613,088	421,418	—	—	1,097,382
- Bank borrowings	102,236	—	—	—	—	102,236
Total Financial Liabilities	167,607	618,209	451,969	54,387	318,785	1,610,957
Non-Financial Liabilities	—	—	—	—	211,022	211,022
TOTAL LIABILITIES	167,607	618,209	451,969	54,387	529,807	1,821,979
Net interest rate gap	267,737	(618,209)	184,169	(54,387)	1,208,711	988,021

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (continued)

(i) Interest rate risk management (continued)

	0 – 3 months £000	3 – 12 months £000	1-5 years £000	Over 5 year £000	Non- interest bearing £000	Total £000
2019						
ASSETS						
Cash at bank and in hand	397,772	—	—	—	—	397,772
Debtors:						
- Cardmember receivables	—	—	—	—	130,580	130,580
- Receivables from Group undertakings	—	—	—	—	282,914	282,914
- Other debtors	—	—	—	—	5,063	5,063
Derivative financial instruments	—	—	—	—	53,215	53,215
Investment securities	—	—	—	—	37	37
Loans:						
- Cardmember lending	39,591	—	—	—	—	39,591
- Loans due from Group undertakings	31,621	—	1,225,467	—	—	1,257,088
- Loans due from related parties	139	—	—	—	—	139
Total Financial Assets	469,123	—	1,225,467	—	471,809	2,166,399
Non-Financial Assets	—	—	—	—	523,383	523,383
TOTAL ASSETS	469,123	—	1,225,467	—	995,192	2,689,782
LIABILITIES						
Trade and other creditors	2,991	9,421	18,038	13,700	204,893	249,043
Accruals	—	—	—	—	264,911	264,911
Derivative financial instruments	—	—	—	—	22,921	22,921
Borrowings:						
- Loans due to Group undertakings	31,567	201,669	523,641	—	—	756,877
- Bank borrowings	88,540	—	—	—	—	88,540
Total Financial Liabilities	123,098	211,090	541,679	13,700	492,725	1,382,292
Non-Financial Liabilities	—	—	—	—	260,890	260,890
TOTAL LIABILITIES	123,098	211,090	541,679	13,700	753,615	1,643,182
Net interest rate gap	346,025	(211,090)	683,788	(13,700)	241,577	1,046,600

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (continued)

(ii) Interest rate sensitivity

The sensitivity analysis is a measure of the potential change in net interest income over the prior financial year and held constant throughout the reporting period. A 100 basis point change is used when reporting interest rate risk to key management personnel and represents management's assessment of the possible change in interest rates and the potential impact to earnings. This effect is calculated by applying a 100 basis point shift up or down on base interest rates across every currency interest rate.

As at 31 December 2020, if base interest rates had been 100 basis points higher or lower* across each currency:

	2020		2019	
	Shift Up £000	Shift Down £000	Shift Up £000	Shift Down £000
Impact on loss or profit before taxes	(13,648)	4,032	(30,066)	20,642

The above impact is broadly representative of the equivalent movements in equity.

**Lower base of interest rate is currently capped at Zero for purpose of calculating the Interest Rate sensitivity.*

(iii) Foreign currency risk management

Foreign exchange risk is generated by Cardmember cross currency spend, foreign currency Balance Sheet exposures, translation exposure of foreign operations, and foreign currency earnings.

The Company's foreign exchange risk is managed primarily by entering into foreign exchange spot transactions or hedged using foreign exchange forward contracts. These contracts are only entered into when the hedge costs are economically justified and are in notional amounts designed to offset pre-tax impacts from currency movements in the period in which they occur.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (continued)

(iii) Foreign currency risk management (continued)

The table below shows the net foreign exchange positions of the Company by major non-sterling currencies as at the Balance Sheet date.

	US Dollars £000	Euro £000	Other £000	Total £000
2020				
FINANCIAL ASSETS				
Cash at bank and in hand	64,452	9,397	4,469	78,318
Debtors:				
- Cardmember receivables	—	20,413	—	20,413
- Receivables from Group undertakings	8,799	3,174	39	12,012
- Other debtors	690	3,182	1,893	5,765
Investment securities	—	39	—	39
Loans:				
- Loans due from Group undertakings	—	660,791	888	661,679
- Loans to related parties	—	9	—	9
TOTAL FINANCIAL ASSETS	73,941	697,005	7,289	778,235
FINANCIAL LIABILITIES				
Trade and other creditors	14,276	19,511	5,351	39,138
Accruals	11,958	16,383	102	28,443
Borrowings:				
- Loans due to Group undertakings	49,929	99,989	1,869	151,787
TOTAL FINANCIAL LIABILITIES	76,163	135,883	7,322	219,368
Total	(2,222)	561,122	(33)	558,867

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (continued)

(iii) Foreign currency risk management (continued)

	US Dollars £000	Euro £000	Other £000	Total £000
2019				
FINANCIAL ASSETS				
Cash at bank and in hand	141,907	10,330	5,596	157,833
Debtors:				
- Cardmember receivables	160	35,495	—	35,655
- Receivables from Group undertakings	7,299	3,220	52	10,571
- Other debtors	773	1,180	304	2,257
Investment securities	—	37	—	37
Loans:				
- Loans due from Group undertakings	275,492	977,358	4,238	1,257,088
- Loans to related parties	—	6	—	6
TOTAL FINANCIAL ASSETS	425,631	1,027,626	10,190	1,463,447
FINANCIAL LIABILITIES				
Trade and other creditors	13,355	23,046	3,802	40,203
Accruals	69,403	34,942	369	104,714
Borrowings:				
- Loans due to Group undertakings	340,540	3,080	2,409	346,029
TOTAL FINANCIAL LIABILITIES	423,298	61,068	6,580	490,946
Total	2,333	966,558	3,610	972,501

Note 4(a)(iv) foreign currency sensitivity discloses the Company's foreign currency exposure in relation to foreign currency positions.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market Risk (continued)

(iv) *Foreign currency sensitivity*

All transactional foreign exchange gains or losses are borne by a related Group entity.

Both before and after the business transfer, the Company's branches, with the exception of its Italian Branch, remit their profits (if any) to their UK parent on a monthly basis. As a result only the Italian branch will have net assets subject to foreign currency sensitivity impacting other equity when translated into the functional currency of the Company.

The Company continues to enter into derivative forward foreign exchange contracts designated as net investment hedges to manage the Company's exposure to foreign exchange translation of its net assets in its Italian branch (following the business transfer, the Italian branch remains active and services AEI). As a result, there is limited foreign exchange exposure to the Company recorded in other comprehensive income. Residual reported translation movements represent the under hedged position in relation to the Company's Italian branch, where flexing for any significant change in foreign exchange rate will have in an immaterial impact to the Company's overall hedging position. Any translation gain movements caused by changes in foreign exchange rates impacting the Company's under hedged position are considered to be of limited risk.

(b) Credit risk management

Credit risk is defined as loss due to obligor or counterparty default or changes in the credit quality of a security. Credit risks in the Company are divided into two broad categories: Individual and Institutional. Each category has distinct risk management capabilities, strategies and tools. Business units that create individual or institutional credit risk exposures of significant importance are supported by dedicated risk management teams, each led by a Chief Credit Officer.

(i) *Individual credit risk*

Individual credit risk arises from consumer and small business Cardmember loans and receivables, and term loans. These portfolios consist of millions of customers across multiple industries and levels of net worth. The Company benefits from the high quality credit profile of its customers, which is driven by brand, premium customer servicing, product features and risk management capabilities which span underwriting, customer management and collections. Externally, the risk in these portfolios is generally correlated with broad economic trends, such as unemployment rates and GDP growth. A customer's ability and willingness to repay the Company can be negatively impacted not only by economic, market, political and social conditions but also by a customer's other payment obligations, and increasing leverage can result in a higher risk that customers will default or become delinquent in their obligations to the Company.

The Company adheres to the American Express Individual Credit Risk Management Policy, which assigns key governance responsibilities, prescribes rules for escalating risks and sets forth the Company's guidelines for measuring, assessing, and reporting Individual Credit Risk.

Business unit leaders and Chief Credit Officers take the lead in managing the credit risk process. These Chief Credit Officers are guided by the Individual Credit Risk Committee ("ICRC") at a Group level, which is responsible for implementation and enforcement of the Individual Credit Risk Management Policy. The ICRC ensures compliance with the Enterprise-wide Risk Management Committee ("ERMC") guidelines and procedures and escalates to the ERMC as appropriate.

Credit risk management is supported by sophisticated proprietary scoring and decision-making models that use up-to-date information on prospects and customers, such as spending and payment history and data feeds from credit bureaus. The Company has developed data-driven economic decision logic for customer interactions to better serve its customers. The majority of the Company's overall exposure to individual credit risk is mitigated by the sale of Cardmember loans and receivables to a related party.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk management (continued)

(ii) Institutional credit risk

Institutional credit risk represents the risk of loss to the Company due to the non-payment of an amount contractually owed to the Company by a business or organisation.

In addition to the individual credit risk, financial difficulties associated with the corporates engaged can also indirectly contribute to the credit risk attached to the corporate charge cards and foreign currency payment solutions.

Unlike individual credit risk, institutional credit risk is characterised by a lower loss frequency but higher severity. It is affected both by general economic conditions and by client-specific events. The absence of large losses in any given year or over several years is not necessarily representative of the level of risk of institutional portfolios, given the infrequency of loss events in such portfolios.

The Company adheres to the American Express Institutional Credit Risk Policy which details its approach to managing institutional credit risk and assigns key governance responsibilities, prescribes rules for escalating risks, and sets forth American Express guidelines for measuring, assessing, and reporting institutional credit risk.

Similar to individual credit risk, business units taking institutional credit risks are supported by embedded enterprise wide Chief Credit Officers. These officers are responsible for the implementation and enforcement of the Institutional Credit Risk Management Policy and for providing guidance to each business unit with substantial institutional credit risk exposures.

The Chief Credit Officers formally review large institutional exposures to ensure compliance with ERM guidelines and procedures and escalates them to the Board as appropriate. A centralised risk rating unit and a specialised airline risk group provide independent risk assessment of institutional obligors.

In relation to these mid to long term financing arrangements a letter has been secured from American Express Company which expresses its intention to support the Company's liquidity position and maintain its safe and sound operations for the next year. The level of credit risk attached to intercompany positions is therefore limited.

(iii) Significant credit concentration and Credit Quality

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Company's total credit exposure. The Company's customers operate in diverse industries, economic sectors and geographic regions. The maximum exposure to credit risk for debtors, derivative financial instruments and related party loans equals their carrying amount.

The maximum exposure to credit risk for Cardmember loans equals the full amount of the committed facilities.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk management (continued)

(iii) Significant credit concentration and Credit Quality (continued)

The following table represents the Company's maximum credit exposure (therefore excluding debtor categories that have no credit risk) by type of customer or counterparty, including the credit exposure associated with derivative financial instruments, at 31 December:

	2020	2019
	£000	£000
Cash and deposits with regulated financial institutions	378,766	397,772
Cardmember receivables	108,221	130,580
Cardmember loans	30,623	39,591
All other financial assets	1,802,082	1,598,456

Cardmember loans and receivables disclosed above include the Cardmember loans and receivables carried at fair value amounting to £31m (2019: £40m) and £83m (2019: £95m) respectively. The majority of the Company's exposure is mitigated by the sale of Cardmember loans and receivables to a related party.

As disclosed in the table above, at 31 December 2020 the Company's most significant concentration of credit risk was with institutions included within other financial assets. These mainly comprise loans and amounts due from other Group companies. Cardmember loans and receivables on 'individual' accounts are generally advanced on an unsecured basis. However, the Company reviews each potential customer's credit application and evaluates the applicant's financial history and ability and willingness to repay. The Company also considers credit performance by customer tenure, industry and geographic location in managing credit exposure. Information on credit quality is given in the relevant notes to the financial statements including Note 18.

The Company is not exposed to any significant credit risk on investment securities and other financial assets which mainly comprise of loans and amounts due from other Group companies.

(c) Expected Credit Loss (ECL) measurement

The Company determines the "stage" of the major financial assets based on the criteria below, and measures the expected credit losses on its financial instruments with inputs discussed in the following sections. The expected credit losses calculated in this way in respect of the unfunded commitment are used as a proxy for the fair value of the undrawn commitments as disclosed in Note 16.

There is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

(i) Significant increase in Credit Risk

The criteria for determining whether a financial instrument has experienced a significant increase in credit risk since initial recognition varies by financial asset, and includes both qualitative and quantitative factors. The majority of the Company's overall exposure to credit risk is mitigated by the sale of Cardmember loans and receivables to a related party.

Cardmember receivables

The Company considers that credit risk has increased significantly when the account is more than 30 days past due.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Expected Credit Loss (ECL) measurement (continued)

(i) Significant increase in Credit Risk (continued)

Cardmember loans

The Company defines the criteria for significant credit risk increase separately for the “transition” (accounts originated before 1 January 2018) and “post-transition” (accounts originated after 1 January 2018) population, based on the availability of risk scores with forward-looking information before and after transition.

A “post-transition” account is assigned to Stage 2 if the 39 month Comprehensive Capital Analysis and Review (CCAR) probability of default in the reporting month has increased more than a threshold amount, compared to the 39 month CCAR probability of default assessed at origination. The probability of default increase threshold is approximated by the mean plus one standard deviation of the absolute change in probability of default for each risk group (segmented by market, product and account tenure). This calculation is used as a proxy for the relative approach required under IFRS9.

For “pre-transition” population; CCAR probability of default (PD) with forward looking macroeconomic information are not available at historical originations; and could not be obtained without undue cost and effort. For these accounts CCAR like PD was calculated for both origination and reporting month to assess significant increase in credit risk by:

- Neutralizing the effect of macro-economic conditions to the calculated PD;
- Addressing Long tenure accounts where information at account origination is not available

Considering the above revised PDs were calculated for the pre-transition population for the purpose of assessing significant increase in credit risk. This methodology was implemented in models starting 2020; although ECL was adjusted qualitatively for 2019 reporting to address the observations.

(ii) Definition of default

Cardmember receivables and Cardmember loans

The Company considers an account to be in default when it is more than 90 days past due, or in the event of credit cancellation due to credit reasons.

(iii) Measurement of Expected Credit Losses

Cardmember loans and receivables

Under the IFRS 9 expected credit loss model, the Company incorporates past events, current conditions, and future economic conditions. The process of estimating 12-month and lifetime credit reserves involves account level risk-based inputs, which includes the following key variables: probability of default, exposure at default, and loss given default:

- Probability of default models are used to estimate an account’s conditional probability of default and its unconditional probability of default. Conditional probability of default is the likelihood an account will write-off, attrite or neither in each month of the forecast. Unconditional probability of default is the cumulative likelihood an account will write-off within certain forecast period.
- Exposure at default models are used to estimate an account’s balance before defaulting.
- Loss given default is the final output of the expected credit loss model for all accounts in the portfolio. Loss given default is the final component needed to project net write offs. It equals to the projected gross write offs minus expected recoveries. Recoveries are the amounts received from Cardmembers after default occurs, typically as a result of collection efforts. The amount of recoveries available to be recouped is a function of the size of the past gross write-off. Estimating recoveries incorporates macroeconomic conditions and an account’s time since write-off.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Expected Credit Loss (ECL) measurement (continued)

(iii) Measurement of Expected Credit Losses (continued)

While there has been no significant change made to the estimation techniques and significant assumptions made during the reporting period management have also given consideration to the inclusion of qualitative reserves to cover losses that are expected but, in our assessment may not be adequately represented in the quantitative methods or economic assumptions. For the current reporting period the Company feels the Cardmembers who have not asked for Consumer Pandemic Relief (CPR) on our card but have availed of CPR on cards from other third party providers do carry a higher risk and hence a qualitative reserve has been booked for such cardmembers.

(iv) Forward-looking information

Cardmember loans and receivables

The Company has defined the "reasonable and supportable" forward-looking period to be 39 months, and explicitly considers macro-economic forward-looking information. All other forward-looking information will be implicitly modelled or addressed via a qualitative reserve.

The Company usually considers three possible economic scenarios when incorporating forward looking information into the estimation of expected credit losses, a baseline, an "optimistic" and a "pessimistic" scenario. Each economic scenario is weighted based on probabilities obtained from independent rating agencies. Management reviews these economic scenarios and applies judgement to weight them in order to reflect uncertainty surrounding these scenarios. These macroeconomic scenarios contain certain variables, including unemployment rates and real gross domestic product, that are significant to our models. The multiple macroeconomic variables will be used for two purposes: 1) to determine the stages of assets based on the weighted average probability of default prior to expected credit loss measurement; 2) to derive the weighted average probability of default, exposure at default and loss given default scores as the key inputs for the expected credit loss measurement. As a result of the economic impacts of the Covid-19 pandemic a fourth "very pessimistic" scenario has been incorporated into the assessment. For the measurement of expected credit losses as of 31 December 2020, the Company has weighted 50% to the baseline scenario and 50% to the very pessimistic scenario.

The following table reflects the range of key variables in the macroeconomic scenarios used for the measurement of expected credit losses as of 31 December 2020:

	31 December 2020
UK Unemployment Rate	
Fourth quarter of 2020	5.6%
First quarter of 2021	6.2%-6.5%
Fourth quarter of 2021	7.3%-10.4%
Fourth quarter of 2022	6.4%-11.1%

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Funding & Liquidity risk management

Funding & liquidity risk is defined as the inability of the Company to meet its ongoing financial and business obligations as they become due at a reasonable cost.

The Company primarily adopts the enterprise-wide funding & liquidity Risk Policy, which aims to ensure diversified funding during business as usual periods by source, maturity and instrument and that the Group can continuously meet all of its liquidity needs throughout scenarios in which they cannot access the capital or money markets for up to 12 months.

The Group manages funding & liquidity risk by maintaining access to a diverse set of cash, readily-marketable securities and contingent sources of liquidity, such that each American Express operating company can continuously meet its business requirements and expected future financing obligations for at least a twelve-month period, even in the event it is unable to raise new funds under its regular funding programs. The Group balances the trade-offs between maintaining too much liquidity, which can be costly and limit financial flexibility, and having inadequate liquidity, which may result in financial distress during a liquidity event.

The Audit and Finance Committee and the Board are informed of any changes in Group funding policy or practices that would materially affect the Company and its ability to continuously fund its business requirements. This includes an annual overview of the Company's access to existing internal lines of credit from Group entities.

While the Company is perceived to carry little in the way of funding and liquidity risk, management have secured a letter from American Express Company which expresses its intention to support the Company's liquidity position and maintain its safe and sound operations for the next year.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Funding & Liquidity risk management (continued)

Liquidity Risk

The following table details the Company's remaining contractual maturity for its non-derivative and derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities.

2020	On Demand £000	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
LIABILITIES							
Trade and other payables (Note 21 & 22)	—	145,391	29,239	5,121	30,551	54,387	264,689
Accruals	—	137,810	—	—	—	—	137,810
Derivative financial instruments	—	8,840	—	—	—	—	8,840
Borrowings:							
- Loans due to Group undertakings	62,876	—	—	613,088	421,418	—	1,097,382
- Bank borrowings	102,236	—	—	—	—	—	102,236
Total Financial Liabilities	165,112	292,041	29,239	618,209	451,969	54,387	1,610,957
Non-Financial Liabilities							211,022
TOTAL LIABILITIES	165,112	292,041	29,239	618,209	451,969	54,387	1,821,979
2019	On Demand £000	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
LIABILITIES							
Trade and other payables (Note 21 & 22)	—	98,228	109,656	9,421	18,038	13,700	249,043
Accruals	—	264,911	—	—	—	—	264,911
Derivative financial instruments	—	22,921	—	—	—	—	22,921
Borrowings:							
- Loans due to Group undertakings	31,567	—	—	201,669	523,641	—	756,877
- Bank borrowings	88,540	—	—	—	—	—	88,540
Total Financial Liabilities	120,107	386,060	109,656	211,090	541,679	13,700	1,382,292
Non-Financial Liabilities							260,890
TOTAL LIABILITIES	120,107	386,060	109,656	211,090	541,679	13,700	1,643,182

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. TURNOVER

Turnover comprises revenue derived from Cardmember spending, card fees including delinquency fees, other commissions and interest received on Cardmember loans classified as FVTPL of £814,662,000 (2019: £1,118,429,000) and revenue from services to other Group companies of £296,306,000 (2019: £454,590,000). These amounts are net of a £Nil (2019: £40,502,000) trademark royalty payable to another Group company.

6. SEGMENTAL REPORTING

Turnover by territory or region is as follows:

	Turnover	
	2020	2019
	£000	£000
UK & Ireland	1,095,982	1,478,215
Germany, Austria & Netherlands	3,041	43,202
Italy	7,648	37,807
Norway, Denmark, Finland & Sweden	4,297	13,164
Poland & Hungary	—	631
	<u>1,110,968</u>	<u>1,573,019</u>

Turnover disclosed above for various segments includes revenue generated from discontinued operations. The portion of the above turnover amounts that relate to discontinued operations is detailed below.

	2020	2019
	£000	£000
UK & Ireland turnover from discontinued operations	—	5,324
Turnover outside UK & Ireland from discontinued operations	—	89,173
	<u>—</u>	<u>94,497</u>

In 2019 revenue was generated from discontinued operations during January and February, ahead of the 1 March 2019 business transfer.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

7. (LOSS)/PROFIT BEFORE TAXATION

	2020 £000	2019 £000
(Loss)/Profit before taxation is stated after charging/(crediting):		
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	760	745
Fees payable to the Company's auditors and its associates for other:		
- Services to the American Express UK Pension Plan Trustees	28	28
- Services pursuant to legislation	8	8
Gain on derivative financial instruments	(155)	(152)
Amortisation of intangible assets	46	273
Depreciation of tangible assets	13,959	13,127
Depreciation of right of use assets	8,502	8,329
Loss on disposal of fixed assets	465	223
Net fair value loss on financial assets/liabilities mandatorily measured at fair value through profit or loss	160,780*	145,784*
Fair value loss on financial assets/liabilities mandatorily measured at fair value through profit or loss - Incremental adjustment	36,392 ^W	—
Impairment of Cardmember receivables	2,726**	10,520**
Impairment of Cardmember loans	5,075**	7,958**
Operating lease rentals		
- Land and buildings	302***	1,540***
- Others	221***	971***
Exceptional items	—	(96,000)*

Administrative expenses include staff costs, Cardmember reward and benefit expense, fair value loss/(gain) on financial assets classified as FVTPL, impairment of Cardmember loans and receivables, marketing and other administrative expenses.

Expenses for 2019 disclosed in the table above include expenses incurred in respect to discontinuing operations.

*Includes a £15m (2019: £48m) expense increase in the fair value loss for Cardmember loans and receivables (see Note 16).

^W In 2020, following negotiations an incremental payment of £36.4m (2019: £Nil) was made by the Company to the affiliate entity that purchases the Company's Cardmember loans and receivables, the payment enabled the Company to continue to sell its Cardmember loans and receivables as part of its existing arrangement with the affiliate.

**Expense primarily consists of fraud loss.

***Residual balance due to low value and short term lease costs.

^YDue to UK indirect tax assessment favorable verdict (see Note 30).

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

8. STAFF COSTS

	2020	2019
	£000	£000
Wages and salaries	236,017	264,142
Other employee benefits	10,121	12,058
Social security costs	32,209	34,819
Other pension costs	44,075	42,568
Stock Compensation expense	12,988	12,037
	335,410	365,624

Included within staff costs is an amount of £4.1m (2019: £6.9m) related to restructuring expenses.

The monthly average number of staff employed by the Company during the year was as follows:

	2020	2019
	Number	Number
Sales and marketing	891	1,001
Customer servicing	1,770	1,841
Technologies development and support	712	686
Other support groups	839	857
	4,212	4,385

(a) Stock Options

Each stock option has an exercise price equal to the market price of the American Express Company's common stock on the date of grant and a contractual term of 10 years from the date of grant. Stock options generally vest 100 percent on the third anniversary of the grant date.

71,400 stock options were outstanding at 31 December 2020 (2019: 122,500). 51,100 stock options were exercised during 2020 (2019: 51,013) at a weighted average exercise price of USD 64.76 (2019: USD 64.32).

The following information applies to options outstanding at the end of each year:

	31 December 2020			31 December 2019		
	Weighted average exercise price	Number of options	Weighted average remaining contractual life / Years	Weighted average exercise price	Number of options	Weighted average remaining contractual life / Years
Range of exercise prices						
\$40.01-\$65.43	\$65.11	71,400	5.24	\$64.97	122,500	6.21

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

8. STAFF COSTS

b) Restricted Stock Awards ("RSA") and units ("RSU")

An RSA/RSU grant is a grant of American Express Company's common stock which contains either (a) service conditions or (b) both service and performance conditions. Once vested, the employees receive common shares of American Express Company.

RSAs/RSUs containing only service conditions generally vest 25 percent per year beginning with the first anniversary of the grant date. RSAs containing both service and performance conditions generally vest on the third anniversary of the grant date, and the number of shares depends on the achievement of predetermined metrics. Beginning in 2019, the R-TSR modifier was added to the performance-based RSAs/RSUs, so that American Express Company's actual shareholder return relative to a competitive peer group is one of the performance conditions that determines the number of shares ultimately granted upon vesting.

The fair value of RSAs/RSUs that do not include the R-TSR modifier is determined using American Express Company's stock price on the date of grant and the performance-based RSAs/RSUs that include the R-TSR modifier is determined using a Monte Carlo valuation model. All RSA/RSU holders receive non-forfeitable dividends or dividend equivalents. As of 31 December 2020, the total outstanding RSAs/RSUs are expected to vest over a weighted average period of 1.08 years (2019: 1.09 years).

As at 31 December 2020 out of the 401,262 (2019: 426,415) RSAs/RSUs outstanding Nil (2019: Nil) were exercisable. During 2020, 161,047 (2019: 205,477) RSAs/RSUs were exercised with a weighted average grant price of USD 78.66 each (2019: USD 64.28).

(c) Other Incentive Awards

American Express Company awards certain employees other incentive awards that are generally settled by cash. These awards earn value based on American Express Company's financial performance, market and service conditions, and vest over periods from one to three years.

American Express Company ceased issuing portfolio grants as of the beginning of 2019 and there were no portfolio grants issued in 2019 or 2020. However for the grants that were issued before 2019, the Company has recorded a recovery of £0.34m (2019: £0.24m) and the grants outstanding at the year-end were 1,505,000 (2019: 2,460,000). The face value of a grant is equal to one US dollar.

The recovery in 2020 was due to adjustments in the expected payout of 2018 PG awards. Specifically, as of December 2019, the payout expectation was 112.1% and ultimately reduced to 85% as of December 2020, causing a true-down in expense exceeding the 2020 accruals.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

9. DIRECTORS' REMUNERATION

	2020 £000	2019 £000
Emoluments	1,491	1,341
Amounts receivable under long term incentive schemes	626	589
Pension costs	51	47
	<u>2,168</u>	<u>1,977</u>

The number of Directors to whom retirement benefits were accruing in respect of qualifying services during the year ended 31 December 2020 were as follows:

	2020 No.	2019 No.
Money purchase schemes	8	9
Defined benefit schemes	—	—

During the year nine (2019: ten) Directors exercised share options in American Express Company, the ultimate parent company, and/or received common stock in American Express Company as a result of Restricted Stock Awards ("RSAs") vesting in the year.

The following remuneration was earned by the highest paid Director:

	2020 £000	2019 £000
Emoluments including receivable under long term incentive scheme	729	761
Pension Costs	3	17
	<u>732</u>	<u>778</u>

In addition, the highest paid Director also exercised share options in American Express Company, the ultimate parent company, and/or received common stock in American Express Company as a result of RSAs vesting in the year.

One Director who served during the year was employed by and received their remuneration from another American Express group company; services provided by employees of one American Express group company to another fall under the enterprise-wide Transfer Pricing Policy and are recharged appropriately.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

10. INTEREST RECEIVABLE AND SIMILAR INCOME

	2020 £000	2019 £000
Interest earned from Group undertakings	5,874	12,077
Other interest receivable	1,260	5,322
	<u>7,134</u>	<u>17,399</u>

11. INTEREST PAYABLE AND SIMILAR EXPENSES

	2020 £000	2019 £000
Interest payable to Group undertakings	8,256	15,690
Other interest payable	(43)	1,355
	<u>8,213</u>	<u>17,045</u>

Following the renegotiation of the Belgrave House lease the existing Asset Retirement Obligation (ARO) provision was extinguished resulting in the reversal of previous impacts to depreciation and interest payable. The negative 'Other interest payable' balance shown above arises from this reversal.

12. TAX ON (LOSS)/PROFIT

	2020 £000	2019 £000
(Loss)/Profit before taxation	(75,613)	232,331
Tax (credit)/charge on profit at effective rate 19% (2019: 19%)	(14,366)	44,143
<u>Adjusted for the effects of:</u>		
Non-deductible expenses	2,844	4,660
Income not taxable	(356)	—
Effect of different tax rates in other countries	(2,125)	(236)
Adjustment for prior years	(1,934)	3,309
Others	22	165
Unrelieved foreign tax not previously recognised	490	526
Net deferred tax asset not previously recognised	(1,902)	(11,014)
Write off of DTAs following business transfer transaction	—	2,331
Share based payments net tax deduction	89	(628)
Total tax (credit)/charge on (loss)/profit	<u>(17,238)</u>	<u>43,256</u>

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

12. TAX ON (LOSS)/PROFIT (Continued)	2020 £000	2019 £000
Current income tax		
UK tax		
Current income tax	1,516	45,195
Adjustment for prior years	(2,524)	(1,280)
Less: relief for overseas tax	—	(1,574)
	<u>(1,008)</u>	<u>42,341</u>
Overseas tax		
Current income tax	490	2,099
Adjustment for prior years	1,247	3,137
Total current tax	<u>729</u>	<u>47,577</u>
Deferred tax		
Origination and reversal of temporary differences	(15,185)	(5,536)
Adjustment for prior years	(413)	145
Impact of change in tax rate	(2,826)	(577)
	<u>(18,424)</u>	<u>(5,968)</u>
Overseas tax		
Origination and reversal of temporary differences	701	340
Adjustment for prior years	(244)	1,307
Total deferred tax	<u>(17,967)</u>	<u>(4,321)</u>
Income tax (credit)/expense	<u>(17,238)</u>	<u>43,256</u>
	2020	2019
Taxation on items not (credited) / charged to the Income Statement	£000	£000
Current tax credit		
Tax deduction on share options / awards in excess of expense recognised	(1,516)	(1,449)
Adjustment for prior years	(830)	(1,023)
Deferred tax (credit) / charge		
Tax deduction on share options / awards in excess of expense recognised	1,361	(898)
Impact of change in tax rate	(292)	89
Adjustment for prior years	765	—
Deferred tax asset written off	—	48
Total	<u>(512)</u>	<u>(3,233)</u>

Factors affecting the tax charge for the year:

On 11 March 2020 it was announced (and substantively enacted on 17 March 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. The deferred tax balances included within the accounts have been calculated with reference to the rate of 19%, as required under International Financial Reporting Standards.

The UK Government also announced on 3 March 2021 its intention to increase the UK rate of corporation tax to 25% from 19% from 1 April 2023. As this rate was not substantively enacted at the year end, deferred tax has been calculated based on the prevailing rate of 19%. The maximum impact of the new 25% rate on the deferred tax asset would be an increase of £13,719k.

The Company has an unrecognised deferred tax asset of £35m (2019: £44m) relating to temporary differences in its overseas branches.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

12. TAX ON (LOSS)/PROFIT (Continued)

Deferred tax

UK

The following are the major deferred tax assets recognised by the Company and movements thereon:

	Fixed Assets £000	Share based payments £000	Other temporary differences £000	Offset to overseas deferred tax £000	Tax Losses £000	Total £000
As at 1 January 2020	19,875	6,903	4,410	(4,333)	—	26,855
Credit/(Debit) to Income Statement	2,447	440	(546)	1,902	10,942	15,185
Debit to Equity	—	(1,361)	—	—	—	(1,361)
Adjustment for prior years through Income Statement	(352)	765	—	—	—	413
Adjustment for prior years through Equity	—	(765)	—	—	—	(765)
Tax rate change to Income Statement	2,297	520	519	(510)	—	2,826
Tax rate change to Equity	—	292	—	—	—	292
As at 31 December 2020	24,267	6,794	4,383	(2,941)	10,942	43,445

	Fixed Assets £000	Share based payments £000	Other temporary differences £000	Offset to overseas deferred tax £000	Tax Losses £000	Total £000
As at 1 January 2019	22,707	5,577	7,189	(15,347)	—	20,126
(Debit)/Credit to Income Statement	(3,139)	633	(2,972)	11,014	—	5,536
Credit to Equity	—	850	—	—	—	850
Adjustment for prior years through Income Statement	(24)	—	(121)	—	—	(145)
Tax rate change to Income Statement	331	(68)	314	—	—	577
Tax rate change to Equity	—	(89)	—	—	—	(89)
As at 31 December 2019	19,875	6,903	4,410	(4,333)	—	26,855

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

12. TAX ON (LOSS)/PROFIT (Continued)

Deferred tax (continued)

Italy

	Bad Debts	Other temporary differences	Tax losses	Total
At 1 January 2020	52,586	—	7,989	60,575
Revaluation of opening balance	3,490	—	530	4,020
Adjustment for prior years through Income Statement	—	966	(722)	244
Business transfer adjustment	—	(189)	—	(189)
(Debit)/Credit to Income Statement	(7,636)	—	6,935	(701)
At 31 December 2020	48,440	777	14,732	63,949

	Bad Debts	Other temporary differences	Tax losses	Total
At 1 January 2019	55,754	—	15,192	70,946
Revaluation of opening balance	(3,061)	—	(834)	(3,895)
Adjustment for prior years through Income Statement	—	3,602	(4,909)	(1,307)
Business transfer adjustment	—	(4,829)	—	(4,829)
(Debit)/Credit to Income Statement	(107)	1,227	(1,460)	(340)
At 31 December 2019	52,586	—	7,989	60,575

13. INTANGIBLE ASSETS

	Customer Relationship Assets £000
Cost:	
As at 1 January 2020	4,100
Additions	—
Disposals	(4,100)
At 31 December 2020	—
Accumulated amortisation:	
As at 1 January 2020	1,298
Amortisation charged during the year	46
Disposals	(1,344)
At 31 December 2020	—
Net book value:	
At 31 December 2020	—
At 31 December 2019	2,802

The residual net book value of these assets was transferred as part of the 1 March 2020 Company disposal of its European back book to an affiliate company.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

14. TANGIBLE ASSETS

	Leasehold improvements £000	Furniture and fittings £000	Plant and machinery £000	Assets in course of construction £000	Right of use Assets £000	Total £000
Cost:						
At 1 January 2020	94,000	16,235	28,547	3,601	38,977	181,360
Exchange differences	58	188	185	—	750	1,181
Transfers (to)/from other Group companies	—	—	(65)	20	—	(45)
Additions	1,299	476	7,416	6,983	53,896	70,070
Disposals	(9,887)	(1,077)	(2,648)	—	(1,928)	(15,540)
At 31 December 2020	85,470	15,822	33,435	10,604	91,695	237,026
Accumulated depreciation:						
At 1 January 2020	57,286	13,049	20,197	—	8,259	98,791
Exchange differences	46	123	138	—	150	457
Transfers to other Group companies	—	—	(24)	—	—	(24)
Charge for the year	7,083	1,315	5,561	—	8,502	22,461
Disposals	(9,390)	(931)	(2,523)	—	(1,132)	(13,976)
At 31 December 2020	55,025	13,556	23,349	—	15,779	107,709
Net book value:						
At 31 December 2020	30,445	2,266	10,086	10,604	75,916	129,317
At 31 December 2019	36,714	3,186	8,350	3,601	30,718	82,569

Included within Leasehold improvements in 2020 is a building where the Company is a lessee under a finance lease. The associated cost and accumulated depreciation as at the end of 31 December is detailed below.

	2020 £000	2019 £000
Cost – capitalised finance leases	41,861	41,861
Accumulated depreciation	17,741	14,466
Net amount	24,120	27,395

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

15. INVESTMENTS

Investments comprise of investment securities and wholly owned subsidiaries, American Express Italia s.r.l., American Express Europe S.A and American Express de Espana S.A

The listed investment securities are classified within Level 1 of the fair value hierarchy.

Investment securities

	2020 £000	2019 £000
Investment securities – Listed	39	37
- Non-Current	39	37
Total	39	37

Movement in listed investment securities:

	2020 £000	2019 £000
Fair value as at 1 January	37	—
Assets reinstated (previously classified as held for sale)	—	782
Exchange and other adjustments	2	(43)
Acquisitions and transfers	—	(704)
Gain/ (loss) from changes in fair value	—	2
Assets classified as held for sale	—	—
At 31 December	39	37

Listed investment securities previously deemed to be in scope for the business transfer were ultimately retained and therefore have been re-instated for 2019.

The fair value of all listed investment securities is based on their current bid prices in an active market.

Investment in Subsidiaries

	2020 £000	2019 £000
At 1 January	139,118	54,718
Additions	1,639	84,400
At 31 December	140,757	139,118
Net book value	140,757	139,118

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

15. INVESTMENTS (Continued)

Undertaking	Number of shares held	Description of shares held	Principal activity	Office address
American Express Italia s.r.l.	100%	Ordinary	Trading Company	Viale Alexander Gustave Eiffel 15, 00148, Rome, Italy
American Express de Espana S.A.	100%	Ordinary	Holding Company	Avenida del Partenon, 12-14, Campo de las Naciones, Madrid, 28042
American Express Europe S.A.	54%	Ordinary	Trading Company	Avenida del Partenon, 12-14, Campo de las Naciones, Madrid, 28042

In 2019 the Company completed its business transfer in respect of those operations impacted by the regulatory risk posed by Brexit. American Express Europe S.A. (AEESA) issued 27,513 new ordinary shares at par value of €1,000 and premium of €4,974 as consideration for the transfer assets and liabilities associated with AESEL's passporting reliant issuing business (excluding Italy). American Express Italia s.r.l. (AEI) issued share capital for €40,351 as consideration for the transfer assets and liabilities associated with the Italian passporting - reliant issuing business. The transfers were accounted for at book value under the Company's 'Business combinations, acquisitions & disposals' policy. Additionally in 2019 the Company contributed an additional €43.3m (£38.7m) capital to AEESA in exchange for new ordinary shares.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

16. CLASSIFICATION OF FINANCIAL INSTRUMENTS

		Financial Assets at fair value through Profit and Loss	
As at 31 December 2020	Amortised Cost £000	Account £000	Total £000
ASSETS			
Cash at bank and in hand	378,766	—	378,766
Debtors:			
- Cardmember receivables	25,697	82,524	108,221
- Receivables from Group undertakings	1,120,943	—	1,120,943
- Other debtors	13,217	—	13,217
Investments	—	39	39
Derivative financial instruments	—	5,790	5,790
Loans:			
- Cardmember loans	—	30,623	30,623
- Loans due from Group undertakings	662,069	—	662,069
- Loans to related parties	24	—	24
Total Financial Assets	2,200,716	118,976	2,319,692
Non-Financial Assets			490,308
Total Assets	2,200,716	118,976	2,810,000
		Financial liabilities measured through Profit and Loss	
As at 31 December 2020	Amortised Cost £000	Account £000	Total £000
LIABILITIES			
Trade and other payables:			
- Trade creditors	26,744	—	26,744
- Amounts due to Group undertakings	984	—	984
- Other creditors	186,504	50,457	236,961
Accruals	137,810	—	137,810
Borrowings:			
- Bank loans and overdrafts	102,236	—	102,236
- Loans due to Group undertakings	1,097,382	—	1,097,382
Derivative financial instruments	—	8,840	8,840
Total Financial Liabilities	1,551,660	59,297	1,610,957
Non-Financial Liabilities			211,022
Total Liabilities	1,551,660	59,297	1,821,979
Equity			988,021
Total Liabilities and Equity	1,551,660	59,297	2,810,000

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

16. CLASSIFICATION OF FINANCIAL INSTRUMENTS (Continued)

The table below excludes held for sale balances.

	Financial Assets at fair value through Profit and Loss		
As at 31 December 2019	Amortised Cost	Account	Total
	£000	£000	£000
ASSETS			
Cash at bank and in hand	397,772	—	397,772
Debtors:			
- Cardmember receivables	35,547	95,033	130,580
- Receivables from Group undertakings	282,914	—	282,914
- Other debtors	5,063	—	5,063
Investments	—	37	37
Derivative financial instruments	—	53,215	53,215
Loans:			
- Cardmember loans	—	39,591	39,591
- Loans due from Group undertakings	1,257,088	—	1,257,088
- Loans to related parties	139	—	139
Total Financial Assets	1,978,523	187,876	2,166,399
Non-Financial Assets			523,383
Total Assets	1,978,523	187,876	2,689,782

As at 31 December 2019	Amortised Cost £000	Financial liabilities at fair value through Profit and Loss Account £000	Total £000
LIABILITIES			
Trade and other payables:			
- Trade creditors	106,665	—	106,665
- Amounts due to Group undertakings	1,848	—	1,848
- Other creditors	95,913	44,617	140,530
Accruals	264,911	—	264,911
Borrowings:			
- Bank loans and overdrafts	88,540	—	88,540
- Loans due to Group undertakings	756,877	—	756,877
Derivative financial instruments	—	22,921	22,921
Total Financial Liabilities	1,314,754	67,538	1,382,292
Non-Financial Liabilities			260,890
Total Liabilities	1,314,754	67,538	1,643,182
Equity			1,046,600
Total Liabilities and Equity	1,314,754	67,538	2,689,782

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

16. CLASSIFICATION OF FINANCIAL INSTRUMENTS (Continued)

The table below presents the Company's financial assets and liabilities that are measured at fair value at 31 December 2020 and 2019, by valuation method. The different levels have been defined as follows:

- Level 1 – inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs that are unobservable and reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances (e.g. internally derived assumptions surrounding the timing and amount of expected cash flows).

There were no transfers between levels in the year, and the movement in fair value in the year has been taken to administrative expenses

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
As at 31 December 2020				
Assets				
Derivative financial assets				
- Forward foreign exchange contracts	—	5,790	—	5,790
Financial assets at fair value through profit or loss				—
- Cardmember receivables	—	—	82,524	82,524
- Cardmember loans	—	—	30,623	30,623
- Investments	39	—	—	39
Total assets	39	5,790	113,147	118,976
Liabilities				
Derivative financial liabilities				
- Forward foreign exchange contracts	—	8,840	—	8,840
Fair value of undrawn commitments	—	—	50,457	50,457
Total liabilities	—	8,840	50,457	59,297
As at 31 December 2019				
Assets				
Derivative financial assets				
- Forward foreign exchange contracts	—	53,215	—	53,215
Financial assets at fair value through profit or loss				—
- Cardmember receivables	—	—	95,033	95,033
- Cardmember loans	—	—	39,591	39,591
- Investments	37	—	—	37
Total assets	37	53,215	134,624	187,876
Liabilities				
Derivative financial liabilities				
- Forward foreign exchange contracts	—	22,921	—	22,921
Fair value of undrawn commitments	—	—	44,617	44,617
Total liabilities	—	22,921	44,617	67,538

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

16. CLASSIFICATION OF FINANCIAL INSTRUMENTS (Continued)

Derivative financial instruments

The fair value of the Company's derivative instruments is estimated using internal pricing models, where the inputs to those models are readily available from actively quoted markets. The pricing models are consistently applied and reflect the contractual terms of the derivatives. The Company reaffirms its understanding of the valuation techniques at least annually and validates the valuation output on a quarterly basis. The Company's derivative instruments are classified within Level 2 of the fair value hierarchy.

The fair value of foreign exchange forward contracts are determined based on a discounted cash flow method using the following significant inputs: the contractual terms of the forward contracts such as the notional amount, maturity dates and contract rate, as well as relevant foreign currency forward curves, and discount rates consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Credit and debit valuation adjustments are necessary when the market parameters (for example, a benchmark curve) used to value the derivative instruments are not indicative of the credit quality of the Company or its counterparties. The Company considers the counterparty credit risk by applying an observable forecasted default rate to the current exposure.

Cardmember loans and receivables

The fair value of Cardmember loans and receivables is determined using a discount charged for the subsequent sale of these assets to a related party. This discount was determined in an arm's length manner after taking into account compensation for the buyer's risk of loss and funding costs. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

As a result of these assets being sold each month end the majority of the remaining balance at the reporting date consists of unbilled Cardmember spend. The fair value of the remaining balance is determined using a discount charged for the subsequent sale of these assets to a related party.

For Cardmember loans and receivables, the Company performed a sensitivity analysis by adjusting the discount charged for the subsequent sale of these assets to a related party by 10 basis points. This adjustment is representative of a range that is consistent with observed past sales and management's assessment of forecast movements in the buyer's risk of loss and funding cost.

	Carrying amount as at 31 Dec 2020 £000	Impact of sensitivity analysis (+/-) £000	Carrying amount as at 31 Dec 2019 £000	Impact of sensitivity analysis (+/-) £000
Financial assets				
Cardmember Receivables	82,524	82	95,033	96
Cardmember Loans	30,623	31	39,591	40

The average discount rate charged during the year was 0.53%.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

16. CLASSIFICATION OF FINANCIAL INSTRUMENTS (Continued)

Cardmember loans and receivables (continued)

Below is an analysis of movement in Cardmember loans and receivables during the year:

	2020	2019
	£000	£000
Fair value of Cardmember receivables and loans at 1 January	134,624	3,145,741
Foreign exchange impact on opening balances	(2,023)	(2,755)
Cardmember spend, interest and other charges during the year	28,692,782	38,205,448
Proceeds received from the sale of Cardmember loans and receivables	(28,552,677)	(41,069,668)
Fair value adjustments	(159,559)	(144,142)
Fair value of Cardmember loans and receivables at 31 December	113,147	134,624

Fair value of undrawn commitments

This balance consists of the fair value of the undrawn commitment in relation to Cardmember loans classified as FVTPL (Note 3.17(c)). The fair value calculation leverages the unfunded commitment IFRS 9 expected credit loss calculation methodology as a proxy for the fair value of undrawn commitments.

The fair value of undrawn commitments is a significant accounting estimate and Note 3.27 provides sensitivity analysis around the weighting between the baseline and very pessimistic scenarios.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

17. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments include forward contracts for the purchase and sale of foreign currencies. These instruments allow the Company and its customers to transfer, modify or reduce their foreign exchange, interest rate and credit risks. The following outlines the nature and terms of the most common types of derivatives used:

- (i) Forward foreign exchange contracts are agreements to exchange a specified amount of one currency for another on a future date at an agreed rate.

The derivative financial instruments shown in the following tables are either held for hedging or held for trading purposes in relation to the Company's Foreign Exchange International Payments ("FXIP") business. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative receivables) and negative (derivative payables) fair values at the Balance Sheet date are analysed below. Changes in fair values of futures contracts which are exchange traded are subject to daily settlement and the margins relating to these futures contracts are included in balances with the counterparty.

At 31 December:	2020			2019		
	Notional Amount £000	Assets £000	Liabilities £000	Notional Amount £000	Assets £000	Liabilities £000
Derivatives held for hedging						
Forward foreign exchange:						
Designated as net investment hedge	54,478	416	6	66,895	—	5,612
Other	133,897	523	5	84,474	481	83
Total	188,375	939	11	151,369	481	5,695
Derivatives held for trading						
Forward foreign exchange	1,149,256	4,851	8,829	1,864,116	52,734	17,226
Total	1,149,256	4,851	8,829	1,864,116	52,734	17,226

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedge item is less than 12 months. The Company only holds derivatives which are short term in nature, maturing within 12 months. The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the Balance Sheet.

Other derivatives held for hedging represent forward foreign exchange contracts entered into for the purposes of hedging the Company's subsidiary foreign currency exposure. Gains or losses associated with these derivatives have been recognised in the Income Statement.

Included within Other Comprehensive expense is a gain of £3,190,000 for 2020 (2019: loss of £4,369,000) in relation to the Company's effective portion of its derivatives designated as net investment hedges. No ineffective portion of the hedge was recorded for 2020 (2019: £Nil) in the Income Statement within administrative expenses.

Reported foreign exchange gains from the Company's derivatives not designated in a hedge accounting relationship were £155,000 (2019: £152,000).

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

18. DEBTORS : CURRENT	2020	2019
	£000	£000
Cardmember loans	30,623	39,591
Cardmember receivables	108,221	130,580
Loans due from Group undertakings	25,931	31,621
Loans due from related parties	24	139
Receivables from Group undertakings	1,120,943	282,914
Other debtors	68,404	153,571
Deferred Cardmembers acquisition costs	10,335	14,655
Prepayments and accrued income	21,206	17,206
Derivative financial instruments	5,790	53,215
	1,391,477	723,492

Reported within Cardmember loans, Cardmember receivables, Loans due from Group undertakings and Loans to related parties are the following amortised cost financial assets:

	2020	2019
	£000	£000
Cardmember receivables	26,118	36,750
Provision for impairment of Cardmember receivables	(421)	(1,203)
	25,697	35,547
Loans due from Group undertakings & related parties	25,955	31,760
	25,955	31,760
Total	51,652	67,307

For Cardmember loans and receivables, the carrying amount is deemed to approximate fair value due to the short term nature of the balances.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

18. DEBTORS : CURRENT (continued)

18.1 Analysis of provision for impairment on Cardmember receivables

The majority of the Company's Cardmember loans and receivables are sold to a related party on a monthly basis and are therefore classified as FVTPL. For the small proportion of the Company's Cardmember receivables that are not sold, the total provision for impairment on Cardmember receivables as at 31 December 2019 was £1.2m which has decreased to £0.4m as at 31 December 2020. The table below details the associated staging and expected credit loss movements during 2020.

(amounts in £'000)

	2020							
	Cardmember Receivables							
	12 month Expected Credit Losses (Stage 1)		Lifetime Expected Credit Losses					
			Not Credit Impaired (Stage 2)		Credit Impaired (Stage 3)			
	Gross Carrying Value	Allowance	Gross Carrying Value	Allowance	Gross Carrying Value	Allowance	Total Gross Carrying Value	Total Allowance
At 1 January 2020	35,572	247	240	123	938	833	36,750	1,203
Transfer to 12-month ECL	112	46	(105)	(40)	(7)	(6)	—	—
Transfer to lifetime ECL not credit impaired	(223)	(1)	223	1	—	—	—	—
lifetime ECL credit impaired	(58)	—	—	—	58	—	—	—
Change due to stage assignment transfer	(100)	(46)	7	124	75	111	(18)	189
New financial assets originated	1,573	8	1	—	—	—	1,574	8
Write-offs	—	—	(58)	(58)	(1,331)	(1,331)	(1,389)	(1,389)
Gross Carrying value / Net remeasurement of loss allowance	(13,483)	(82)	(92)	(31)	337	447	(13,238)	334
Other	2,361	13	16	8	62	55	2,439	76
At 31 December 2020	25,754	185	232	127	132	109	26,118	421

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

18. DEBTORS : CURRENT (continued)

(amounts in £'000)

	2019							
	Cardmember Receivables							
	12 month Expected Credit Losses (Stage 1)		Lifetime Expected Credit Losses					
			Not Credit Impaired (Stage 2)		Credit Impaired (Stage 3)			
	Gross Carrying Value	Allowance	Gross Carrying Value	Allowance	Gross Carrying Value	Allowance	Total Gross Carrying Value	Total Allowance
At 1 January 2019	38,658	103	290	106	69	52	39,017	261
Transfer to 12-month ECL	24	9	(24)	(9)	—	—	—	—
Transfer to lifetime ECL not credit impaired	(109)	(1)	109	1	—	—	—	—
Transfer to lifetime ECL credit impaired	(546)	(2)	—	—	546	2	—	—
Change due to stage assignment transfer	(17)	(9)	94	117	377	827	454	935
New financial assets originated	4,594	21	37	5	15	4	4,646	30
Write-offs	(10)	(10)	—	—	(1,098)	(1,098)	(1,108)	(1,108)
Change in Gross Carrying value / Net remeasurement of loss allowance	(4,787)	58	(251)	(93)	1,033	1,049	(4,005)	1,014
Other	(2,235)	78	(15)	(4)	(4)	(3)	(2,254)	71
At 31 December 2019	35,572	247	240	123	938	833	36,750	1,203

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

18. DEBTORS : CURRENT (continued)

18.2 Deferred Cardmembers Acquisition Cost

Deferred Cardmembers acquisition costs relate to incremental fees paid to third-parties and internal sales teams to obtain the Cardmember contracts, as well as certain set-up or fulfilment costs required to provide the card services, such as the cost of the plastic card. These costs are amortised on a straight line basis over the estimated Cardmember account life, as this reflects the period over which the Company will provide the related card services and benefit from the acquisition and fulfilment costs. The impact of Covid-19 has not had a significant impact on Cardmember life. In 2020, amortisation amounting to £22.1m (2019: £19.2m) was recognised within administrative expenses. There was no impairment loss in relation to the costs capitalised.

A reconciliation of deferred Cardmembers acquisition cost as follows:

	£000
At 1st January 2020	31,494
Cost deferred during the year	15,301
Expense recognised during the year	(22,078)
At 31st December 2020	<u>24,717</u>
Current	10,335
Non-current	14,382
	<u>24,717</u>

19. DEBTORS : NON CURRENT

	2020	2019
	£000	£000
Loans due from Group undertakings	636,138	1,225,467
Deferred tax asset (Note 12)	107,394	87,430
Deferred Cardmembers acquisition costs (Note 18.2)	14,382	16,839
Prepayments and accrued income	2,531	5,799
	<u>760,445</u>	<u>1,335,535</u>

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

20. CASH AT BANK AND IN HAND

	2020	2019
	£000	£000
Cash at bank and in hand	378,766	397,772

Included within cash at bank is £113,987,821 (2019: £68,577,509) held on behalf of customers in a designated client funds account.

Certain American Express Group companies in the UK, including the Company, participate in a group banking arrangement with a third party bank (the "Bank"). Under the terms of this arrangement, the Company's cash deposits with the Bank are available to be offset against outstanding overdraft balances of other participating American Express Group companies. The Company's exposure to this arrangement is limited to the non-safeguarded funds held with the Bank which, as at 31 December 2020, amounted to £9,665,207 (2019: £Nil).

21. CREDITORS: amounts falling due within one year

	2020	2019
	£000	£000
Bank loans and overdrafts (Note 23)	102,236	88,540
Trade creditors	26,744	106,665
Loans due to Group undertakings (Note 23)	675,964	233,236
Amounts due to Group undertakings	984	1,848
Derivative financial instruments (Note 17)	8,840	22,921
Other taxation and social security	4,973	8,369
Corporation tax	92	26,219
Lease Liability (Note 24)	6,301	10,232
Other creditors	153,433	109,985
Accruals	137,810	264,911
Deferred income (Note 26)	72,704	72,539
	1,190,081	945,465

The current portion of trade and other payables are carried at cost which approximates fair value due to the short term nature thereof.

Terms and conditions of the above financial instruments are:

- (i) Trade creditors are non-interest bearing and are normally settled within 60 days.
- (ii) Loans due to Group undertakings and falling due within one year are unsecured, repayable on demand and are subject to a variable rate of interest.

Reported within Creditors: amounts falling due within one year are bank loans and overdrafts, and Loans due to Group undertakings which are further disclosed in Borrowings (Note 23).

Reported within Other creditors is £50.5m (2019: £44.6m) relating to undrawn commitments classified as FVTPL (Note 16).

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

22. CREDITORS: amounts falling due after more than one year

	2020 £000	2019 £000
Loans due to Group undertakings	421,418	523,641
Lease Liability (Note 24)	82,083	28,772
Other creditors	2,855	2,966
	<u>506,356</u>	<u>555,379</u>

23. BORROWINGS

	2020 £000	2019 £000
Non-current		
Loans from Group undertakings	421,418	523,641
Current		
Bank overdrafts	102,236	88,540
Loans from:		
Group undertakings	675,964	233,236
Others	298	958
	<u>1,199,916</u>	<u>846,375</u>

24. LEASE LIABILITIES

Lease liabilities included in Creditors as at 31 December are as follows:

	2020 £000	2019 £000
Current	6,301	10,232
Non-current	82,083	28,772
Total	<u>88,384</u>	<u>39,004</u>

The total cash outflow for leases in 2020 was £10.8m (2019: £11m).

The following sets out a maturity analysis of the Company's lease liabilities under IFRS 16 with the present value, as of 31 December:

	2020 £000	2019 £000
No later than 1 year	7,815	11,038
Later than 1 year and no later than 5 years	34,368	18,838
Later than 5 years	55,302	12,841
Total	<u>97,485</u>	<u>42,717</u>
Future finance charges	(9,101)	(3,713)
Lease Liabilities	<u>88,384</u>	<u>39,004</u>

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

25. PROVISIONS FOR LIABILITIES

	Restructuring	Dilapidation	Provision for Customer Redress	Membership Rewards	Other	Total
	£000	£000	£000	£000	£000	£000
Cost:						
At 1 January 2020	2,774	5,375	12,816	117,787	3,586	142,338
Exchange differences	15	5	—	35	344	399
Increase in provision	3,728	841	—	58,856	480	63,905
Utilisations	(6,704)	(4,843)	(8,363)	(54,751)	(3,758)	(78,419)
Releases	353	—	(3,034)	—	—	(2,681)
At 31 December 2020	166	1,378	1,419	121,927	652	125,542

Restructuring provision

From time to time, the Company initiates restructuring programs to become more efficient and effective, and to support new business strategies. In connection with these programs, the Company will typically incur severance and other exit costs. During 2020, the Company recognised £3.7m (2019: £7.8m) of restructuring charges, and £0.4m (2019: £0.9m) for adjustments of previously accrued amounts due to revisions of prior estimates.

Dilapidation provision

The dilapidation provision represents the estimated cost of returning buildings leased by the Company to their original state prior to their occupation by the Company, where the requirement to do so is specified in the terms and conditions of the lease.

Provision for customer redress

During 2009 and 2010, the Financial Conduct Authority issued guidance for customer complaints handling, with regard to fair assessment and calculation of potential redress in respect of Payment Protection Insurance ("PPI"). These rules have led to increased levels of claims for refund from present and past policy holders. A provision has been recognised for the expected cost of policy premium, interest refunds and Financial Ombudsmen Service ("FOS") fees. Compensation amounts are determined in accordance with the FOS guidelines.

The provision is based on recent trends and future anticipated refunds activity.

During the year ending 31 December 2020, the Company released £3m of its provision for customer redress. The decrease in year is representative of the fact that new claims are no longer forthcoming given that the FCA deadline has now passed.

There remains uncertainty around the volume of future complaints which will be upheld for redress and therefore the actual amount paid is likely to be different from the amount provided. However, the provision represents management's best estimate at this point in time of the redress that will be paid.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

25. PROVISIONS FOR LIABILITIES (Continued)

Membership rewards

The Company records a Membership Rewards liability that represents the estimated cost of Membership Rewards points earned that are expected to be redeemed by Cardmembers in the future. The Membership Rewards liability is impacted over time by enrolment levels, attrition, the volume of points earned and redeemed, and the associated redemption costs. The Company estimates the Membership Rewards liability by determining the ultimate redemption rate ("URR") and the weighted average cost ("WAC") per point, which are applied to the points of current enrollees. The URR assumption is used to estimate the number of Membership Rewards points earned by current enrollees that will ultimately be redeemed in future periods (Note 3.27).

The Company uses statistical and actuarial models to estimate the URR of points earned to date by current Cardmembers based on redemption trends, card product type, enrolment tenure, card spend levels and credit attributes. The WAC per point assumption is used to estimate future redemption costs and is primarily based on redemption choices made by Cardmembers, reward offerings by partners, and Membership Rewards program changes. The WAC per point is derived from the previous 12 months of redemptions and is adjusted as appropriate for certain changes in redemption costs that are not representative of future cost expectations. The timing of the outflow of economic benefits is dependent on Cardmember redemption behaviours.

The impact of the Covid-19 pandemic and the associated restrictions on travel and tourism has affected card member redemption patterns in the short term, reducing the WAC per point. The change in card member redemption behaviour is expected to be temporary in nature and not reflective of the future cost expectations of the Membership Rewards liability. As a result, a WAC floor has been implemented based on the Company's Q2 2020 WAC per point in calculating the Membership Rewards liability as at 31 December 2020.

Other provisions

Other provisions comprise the aggregate anticipated cost of various outstanding claims and litigation cases.

Potential liabilities have been assessed in line with the Company's accounting policy on Provisions and Contingent Liabilities, and have been provided for accordingly.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

26. DEFERRED INCOME

	2020	2019
	£000	£000
Deferred card fees income	72,348	72,126
Other deferred income	356	413
	<u>72,704</u>	<u>72,539</u>

A reconciliation of deferred card fees income is as follows:

	2020
	£000
At 1 January 2020	72,126
Card fees deferred during the year	161,850
Revenue recognised during the year	(161,672)
Other foreign currency adjustments	44
At 31 December 2020	<u>72,348</u>

27. CALLED UP SHARE CAPITAL

Issued, called up and fully paid

	2020	2019	2020	2019
	No.	No.	£000	£000
Opening ordinary shares of £1 each	184,348,573	184,348,573	184,349	184,349
Issued during the year of £1 each	—	—	—	—
Closing Ordinary shares	184,348,573	184,348,573	184,349	184,349
Preference shares of \$1 each	47,604,000	47,604,000	27,439	27,439
	<u>231,952,573</u>	<u>231,952,573</u>	<u>211,788</u>	<u>211,788</u>

The company does not have a limited amount of authorised capital.

The \$1 preference shares have diluted voting rights, one vote for every two shares held. In any year when the Company's distributable profits exceed the amount which would be necessary in order to declare and pay a dividend of \$0.20 per share but no dividend is declared, the holders accrue the right to a deferred dividend of \$0.20 per share, which shall be payable in the event of a return of capital or otherwise at the discretion of the Company. On winding up, the \$1 preference shareholders rank above ordinary shareholders and are entitled to receive the amounts paid up plus an additional amount of \$1 dollar per preference share held; deferred dividends rank for payment after amounts paid up on ordinary shares.

The \$1 preference share capital is converted at the historic exchange rate as at the date of issuance.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

28. PENSIONS

American Express provides retirement benefits through a variety of arrangements comprising defined benefit and defined contribution plans. The material plans ('the Plans') comprise the American Express UK Pension Plan ('the UK Plan') and several pension arrangements in Germany ('the German Plans').

The UK and German Plans and the related costs are assessed in accordance with the advice of qualified independent actuaries. The Plans identified have several participating employers sharing the risks between entities under common control. Both the UK and German Plans do not have a stated policy for sharing net defined benefit cost or for determining the contributions to be paid by each participating legal entity for these schemes. None of the participating legal entities have been assessed as being sponsoring employers of these Plans. As a result, American Express UK legal entities account for these Plans as if they were defined contribution arrangements with additional disclosure notes compliant with the IAS19 requirements for these types of arrangements. The information of these Plans as a whole is presented below.

The UK Plan

The UK Plan is a defined benefit pension plan with a normal retirement age of 65. The UK Plan was offered to employees who joined the company before 1 July 2006 and has a weighted average duration of around 15 years. The UK Plan was closed to future accrual on 31 July 2013, although the link to future salary increases was retained up to the end of 2016. The benefit payable from the Plan varies depending on whether the member joined before 1996 or after. For those joining before 1996, there is a pension benefit payable from the Plan that increases in line with statutory requirements. For those joining after 1996, there is a lump sum benefit payable at retirement which the employees can use to purchase an annuity or transfer to an approved plan. All employees in the UK are now offered a defined contribution scheme.

The UK Plan operates under trust law and is governed by a Trustee board in accordance with the terms of the Trust Deed and Rules and relevant legislation. The Plan's assets are held by the trust.

The contributions paid to the UK Plan are agreed with the Trustees on the basis of a valuation carried out every three years by the Scheme Actuary. Principal factors that the Scheme Actuary will have regard to include the covenant offered by the Sponsor, the level of risk in the Plan, the Plan's investment strategy and the Plan's funding level. In compliance with the Pensions Act 2004, the Sponsor and the Trustee agreed a scheme-specific funding target, statement of funding principles, a schedule of contributions and a recovery plan accordingly.

The IAS19 liability is most sensitive to changes in discount rate, which depends on market yields on Sterling-denominated AA-rated corporate bonds. In addition to the interest rate risk, the value of liability also depends on the assumptions made about future inflation and life expectation and the risks associated with actual experience in these two areas differing over the long term from the assumptions adopted.

German Plans

There are five defined benefit plans in Germany, of which only one is open to new hires. The normal retirement age is generally 65 and the benefit is generally paid as a lump sum at retirement, although one Plan pays a monthly pension for life. The weighted average duration of the German Plans is around 16 years.

The German Plans are unfunded with the exception of the open Plan, which is a cash balance Plan with assets held in insurance contracts and where there is a guaranteed minimum level of investment return applied to members' cash balance account. For the most part therefore, each participating employer pays and records the cost of benefits as they arise.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

28. PENSIONS (Continued)

German Plans (Continued)

As benefits are paid mostly as lump sums, the total liability is not dependent on the level of inflationary increases of pension benefits in payment or the period of time the pension will be paid (life expectancy) and so the Plans are not exposed to inflationary or significant longevity risks. The total liability is dependent on future salary increase levels (linked to the level of benefits payable) and the discount rate (which depends on market yields on Euro-denominated AA corporate bonds). These are the two main risks affecting the level of the German Plans' liabilities.

Key assumptions and valuation results

The key assumptions used to value the UK and German Plans' liabilities based on IAS19 requirements together with the results obtained are set out below. Although there are multiple plans in Germany, all plans were valued using the same financial and demographic assumptions.

Assumptions	Nominal % pa			
	UK		Germany	
	2020	2019	2020	2019
Discount rate	1.25	1.85	0.65	0.90
Rate of increase in salaries	n/a	n/a	2.90	2.90
Social Security increases	n/a	n/a	2.40	2.40
Rate of pension increase in payment*	0.00-2.84	0.00-3.01	1.90	1.90
Rate of increase in price inflation				
RPI**	3.00	3.00	n/a	n/a
CPI**	2.50	2.25	1.90	1.90
Mortality table				
	SAPS S3 mortality table CMI 2019 model with trend of 1.50% per annum	SAPS S3 mortality table CMI 2018 model with trend of 1.50% per annum	Heubeck 2018G	Heubeck 2018G

* post 88 GMP = 2.03%; pre 1997 excess = 0%; April 1997 to April 2005 = 2.84%; post April 2005 = 1.90%

** RPI = Retail Price Inflation; CPI = Consumer Price Inflation

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

28. PENSIONS (Continued)

Key assumptions and valuation results (Continued)

The table below shows the value of IAS19 liabilities and assets as at 31 December 2020.

	UK		Germany	
IAS19 Defined Benefit Obligation and Market Value of Assets	2020 (£m)	2019 (£m)	2020 (£m)	2019 (£m)
Present value of Plan liabilities	1308.7*	1,233.0*	115.0	103.2
Market value of assets**	1209.8*	1,126.6*	4.5	3.9
Deficit	(98.9)	(106.4)	(110.5)	(99.3)
Sensitivity analysis - 2020 Defined Benefit Obligation				
Discount rate assumption being 1% higher	1144.4*		98.4	
Discount rate assumption being 1% lower	1498.2*		135.8	

* Includes £66m of Additional Voluntary Contribution ("AVCs") (£69m in 2019)

** There are no self-invested assets in the UK Plan or in the German Plans

As a result of the 2018 and 2020 UK court rulings requiring the equalisation of Guaranteed Minimum Pensions (GMP) in UK pension schemes including historic transfer values, the 2020 UK Plan liabilities include an allowance for GMP equalisation.

The German Plans are for the majority unfunded with only 4% of the liabilities covered by assets. It is common practice in Germany for defined benefit plans to be unfunded. German plan assets are 100% invested in insurance contracts. The UK Plan's major asset categories are shown in the table below.

Asset Allocation as at 31 December	2020 (£m)	2019 (£m)
Domestic equities	21.4	21.0
Foreign equities	364.9	288.2
Government bonds	272.5	231.0
Corporate bonds	58.8	54.0
Buy-in contract	253.8	245.1
Additional voluntary contributions	65.6	69.1
Cash and cash equivalents	30.8	51.9
Other	142.0	166.3
Total	1,209.8	1,126.6

There was a special event in 2017 for the UK Plan involving a pensioner buy-in transaction to partially insure the UK pensioner liabilities. The value of the buy-in contract is £253.8m and has been included within the allocation above. The assets under the "Other" category represent amounts mainly invested in diversified funds and include investments in hedge funds which make use of different investment styles including the use of derivatives.

All securities invested by the UK Plan have a quoted market price in an active market (with the exception of £277.4m mainly attributable to the pensioner buy-in contract).

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

28. PENSIONS (Continued)

Key assumptions and valuation results (Continued)

The assets and liabilities shown above include defined contribution assets and liabilities (from AVCs) as at 31 December 2020.

Contributions

The employer contributions to the UK Plan and German Plans during the calendar year 2020 and expected for 2021 are summarised in the table below.

Country/Plan(s)	2021 Expected Contributions (£m)	Actual 2020 Contributions (£m)	Actual 2019 Contributions (£m)
UK	21.4*	20.4*	20.4*
Germany**	2.9	1.9	1.8

* In addition during 2020, the employer contributed £36.0m (2019: £32.9m) (including salary sacrifice contributions) to the defined contribution Stakeholder Plan in the UK.

** Contributions in Germany include benefit payments made directly by the employer and contributions into the Cash Balance Plan.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

29. COMMITMENTS

The Company has commitments to extend credit to its Cardmembers for its lending products. These commitments are not contractual and are cancellable at the discretion of the Company if there is an objectively justifiable reason to do so. The commitment for these products represents the maximum potential credit risk, assuming the amount is fully utilised and the Cardmember defaults and collection efforts are unsuccessful. As at 31 December 2020 these commitments were £18,298,205,327 (2019: £16,595,635,864). These amounts are not fully drawn by the Company's Cardmembers and, therefore these amounts in aggregate are not indicative of future cash requirements. Management does not expect any material adverse consequence to the Company's financial position to result from these commitments.

At 31 December 2020 the Company had Co-Brand commitments of £52,376,498 (2019: £68,891,667) in respect of non-cancellable minimum annual payments and marketing fees. This amount is due to be paid over a period not exceeding seven years. The Co-Brand agreements allow the Company to issue both consumer and corporate co-branded products.

30. CONTINGENT LIABILITIES

The Company previously had an open matter in relation to assessments of indirect tax in the UK for £58.3m, inclusive of interest of £3.2m, from HMRC relating to the period October 2010 to October 2014. Management formally disputed both the assessment and the ruling and requested a reconsideration of the decision.

In 2015, the Company entered into the litigation phase of appealing the assessment and engaged external counsel. In order to contest the assessment, the Company was required to lodge a deposit recorded within Other Debtors for the value of the assessment and file an appeal to the tax tribunal, both of which were completed in 2015, with the deposit being recorded in Other Debtors.

A tribunal hearing took place in December 2018 and management subsequently received a favourable verdict. Of the £58.3m deposit, £51.8m was refunded in December 2019 with the remaining £6.5m received by September 2020. Furthermore, during the year the Company recognised an administrative expense recovery of £96m and interest income of £3m relating to historic indirect tax overpayments. The expense recovery has been presented as an exceptional item within the 2019 Income Statement and this amount was fully refunded in 2020.

The matter is now closed therefore a contingent liability assessment is no longer applicable.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2020

31. RELATED PARTY TRANSACTIONS

The following 2020 Directors and Key Management Personnel held American Express personal and corporate cards during the year which are issued by the Company under the normal terms of business:

	Balance at 1 January 2020*	Highest balance in the year*	Balance at 31 December 2020*
	£	£	£
Directors			
C Duerden– Chairperson	6,632	4,862	3,264
D Bailey – Chief Financial Officer	12,266	12,699	3,624
L Fenwick	8,862	10,773	9,415
H Lewis	3,251	14,801	7,405
C O'Flaherty	11,129	15,751	8,707
B Sawyers	6,687	19,478	4,029
P Taswell	3,380	5,581	2,146
A Varadhan	2,732	6,590	2,967
Key Management Personnel			
P Brown	4,748	7,249	7,249
E K Chang	2,954	3,598	3,027
L Johnston	19,716	26,923	11,849

*amounts are inclusive of Close Family Member balances

32. EVENTS AFTER THE BALANCE SHEET DATE

With the continued evolution of the Covid-19 pandemic across the globe, management has considered the potential financial effects of the Covid-19 pandemic when preparing the Company's financial statements for the year ended 31 December 2020. As of 27 May 2021, there is no indication of any reportable events impacting the financial position of the Company at the reporting date. Therefore, management has determined that there are no associated non-adjusting subsequent events to be disclosed.