American Express Payment Services Limited

Registered number 06301718

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

American Express Payment Services Limited

Report and Financial Statements for the year ended 31 December 2019

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American Express Payment Services Limited

Officers & Advisors

DIRECTORS

D Edelman - Chair
D Bailey - Chief Financial Officer
A Holmes
V Raynaud

COMPANY SECRETARY

D Muddiman

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American Express Payment Services Limited

Directors' Report for the year ended 31 December 2019

The Directors present their Directors' Report and the audited financial statements of American Express Payment Services Limited ("the Company" or "AEPSL") for the year ended 31 December 2019.

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 International Inc. and the Company's ultimate parent and controlling entity is American Express Company, both incorporated in the United States of America.

The principal activity of the Company is the provision of merchant acquirer services. The Company also provides services to other companies within the American Express Group.

Before the 2019 business transfer (details below) the Company operated some of its passporting reliant activities outside of the UK, where it had established branches for this purpose. At the reporting date these branches remain but they only perform activities which are not reliant on passporting.

2019 Business Transfer
On 1st March 2019 the Company, in response to the regulatory risk posed by Brexit in relation to the ability to passport its merchant acquiring business from the UK into the European Economic Area ("EEA"), transferred its passport reliant merchant acquiring operations ("Business Transfer") to its wholly owned Spanish subsidiary, American Express Payments Europe S.L. ("AEPE"). Financial information related to the sale is presented in Note 22.

Given that the decision to transfer was made in 2018, the assets and liabilities within the scope of the Business Transfer are presented as held for sale in the 2018 comparative.

At the date of signing the financial statements, the Company's branches no longer perform passport reliant activities. Branches that no longer perform any business activities and have no other requirement to remain open will be deregistered in the foreseeable future. It should be noted that the Germany branch will continue to service employee related obligations.

Regulation
The Company is licensed by the Financial Conduct Authority ("FCA") as an authorised payment institution under the Payment Services Regulations 2009. The Company uses this license to perform regulated payment services in the UK and previously in other countries within the EEA.

As a result of the Business Transfer on 1st March 2019, the Company no longer performs regulated payment services outside of the UK. Since 1st March 2019, these services are performed by a wholly owned subsidiary in Spain, AEPE.

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 authority responsible for enforcing this legislation in the UK, the Payment Systems Regulator (PSR), as required, which oversees 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 February 7, 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.

Directors' Report for the year ended 31 December 2019 (Continued)

PRINCIPAL ACTIVITIES (Continued)

While the Group is confident it is complying with applicable law, the Company and its subsidiary, AEPE, are engaged with the relevant regulators with regards to their compliance approach, which may vary from country to country.

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 January 13, 2018 to transpose the PSD2 into national law. AEPSL and the Group have taken steps to comply with the legislation including the first submission in 2019 of new reports to the FCA and the new strong customer authentication requirements which require full compliance by September 2021. In addition, AEPSL has obtained permission to conduct Payment Initiation Services (PIS) and Account Initiation Services (AIS).

Governance

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

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

- The Audit and Finance Committee; and
- The Risk Committee

The Audit and Finance Committee focuses principally on the Company's financial accounting, internal control and the integrity of the financial statements. The Audit and Finance Committee meets in advance of every board meeting, 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 Risk Committee supports the board by giving oversight to the key operational risks identified for the Company. It has oversight of significant operational and compliance changes and issues arising within the Company and is also responsible for ensuring that clear, effective and compliant processes are in place for managing third party and affiliate outsourcing arrangements. The Risk Committee meets in advance of every board meeting to consider items and/or risks which should be raised for the Board's consideration.

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 currently has an FCA minimum capital requirement of £10.9m. Capital monitoring processes are in place to ensure the Company exceeds the minimum capital requirements at all times.

Disclosures on future strategies and risk management are included within the Strategic Report.

RESULTS AND DIVIDENDS

The results for the full year are set out on page 18 and show the loss before taxation for the year ended 31 December 2019 was £3.8m (2018 loss: £1.4m). The loss after taxation for the financial year was £12.1m (2018 loss: £3.7m) and has been transferred to reserves. The Directors do not propose the payment of a dividend (2018: £nil). Total Shareholders' Funds at 31 December 2019 stood at £183.6m (2018: £203.4m).

Directors' Report for the year ended 31 December 2019 (Continued)

OPERATIONS OUTSIDE THE UK

The Company has a wholly owned subsidiary in Spain, American Express Payments Europe S.L. and branches in France, Germany, Italy, Netherlands, Spain, Sweden and Austria.

As a result of the Business Transfer, the Company intends to deregister its branches in France, Italy Netherlands, Spain, Sweden and Austria in the foreseeable future. The branch in Germany will continue to service employee related obligations.

DIRECTORS

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

D Edelman	Chairman (appointed 6 May, 2020)
D Bailey	Chief Financial Officer
A Holmes	(appointed 17 January, 2019)
V Raynaud	(appointed 2 June, 2020)
S Bhatia	(resigned 3 April, 2020)
W Decker	(resigned 9 March, 2020)
T De La Pena	(resigned 12 May, 2020)
C O'Flaherty	(resigned 12 September, 2019)
R Marquez	(resigned 30 September, 2019)

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 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.

EMPLOYEE ENGAGEMENT STATEMENT

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.

American Express appreciates that what its employees choose to do for a living is one of the most meaningful decisions they can make. American Express' role is to help everyone excel in their chosen roles. The Company and American Express as a whole provide experiences to become a great leader, a world of opportunities to grow careers, and an inclusive culture to help everyone thrive.

American Express believes that the best way to back its customers is to back its people. Accordingly, the Company places great emphasis on creating an environment where talented and diverse employees want to join, stay and grow their careers with the Group.

The Company enables all employees to maximise their potential through the American Express Leadership Academy providing formally structured, as well as self-directed, learning and development opportunities.

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.

Directors' Report for the year ended 31 December 2019 (Continued)

EMPLOYEE ENGAGEMENT STATEMENT (Continued)

In 2019, 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.

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 12 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.

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, an Emotional Wellbeing Therapist 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 4 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.

Directors' Report for the year ended 31 December 2019 (Continued)

STAKEHOLDER ENGAGEMENT STATEMENT (Continued)

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 decision during the financial year ended 31 December 2019 was concerning the Business Transfer on 1 March 2019 (see '2019 Business Transfer' section for additional details). Prior to the completion of the transfer, an extensive body of work, managed by the Brexit Project Management Office ('PMO') and overseen by the Board, was undertaken to consider and remediate for the operational, financial and regulatory impacts of the Business Transfer on the Company, its suppliers, customers and other key stakeholders. As part of the project, numerous potential impacts to the Company's suppliers, customers and other key stakeholders were identified and a comprehensive action plan was devised and implemented to avoid disruption to them. The Board received regular status updates from the Brexit PMO where they reviewed risks identified and progress made against the project plan. As part of the Board's approval process of the Business Transfer, one of the key criteria for the approval was to ensure that all steps to minimise disruption to the Company, its suppliers, customers and other key stakeholders had been completed, or would be completed prior to the transfer date. Consequently, although the decision to go ahead with the Business Transfer was made in 2018, the Board did not formally approve the agreements relating to the Business Transfer until 2019, once it was satisfied that the actions taken to minimise disruption to the Company's suppliers, customers and other key stakeholders had been completed, or were near completion.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

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 going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 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.

Directors' Report for the year ended 31 December 2019 (Continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS (Continued)

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 Company policy to pay vendors 60 days after submission of an invoice. The Company's average creditor period, calculated by reference to the ratio of vendor payables at 31 December 2019 to amounts invoiced during the year, was 17 days (2018: 47 days). The reduction was driven by the Business Transfer.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, the Company made no donations to advance the causes of charitable organisations (2018: £nil). No donations were made for political purposes (2018: £nil).

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 18 to 56 were approved by the Board of Directors on 7 July 2020 and signed on its behalf by:

DocuSigned by:
Daniel Edelman
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D Edelman
Chairman
7 July 2020

DocuSigned by:
David Bailey
EBCDF257355E4BD...

D Bailey
Chief Financial Officer

American Express Payment Services Limited

Strategic Report for the year ended 31 December 2019

The Directors present their strategic report of American Express Payment Services Limited for the year ended 31 December 2019.

BUSINESS REVIEW

Objectives of the Company
The key objective of the Company is to generate business through its core activity of merchant acquiring services. Integral to this objective are activities to maintain and enhance existing merchant relationships, established through card acceptance agreements, and to expand the number of locations at which the American Express card is accepted. The Company continually seeks to improve the quality of service and value delivered to merchants.

Business Strategy
At the beginning of 2019, AEPSL was the American Express merchant acquirer for the UK and a number of European countries including France, Italy, Germany, Spain, Netherlands, Sweden, Austria and Finland amongst others. The Company also utilised agency arrangements in certain markets. Following the Business Transfer on 1st March 2019 (see Note 22), the Company ceased to perform regulated payment services outside the UK, with these services now being performed by a wholly owned subsidiary in Spain, AEPE. On 1st March 2019 the Company changed its functional currency from euro to pounds sterling.

The Company now focuses on the UK market only and continues to invest to strengthen its data management, business insights and marketing capabilities. In addition, as an authorised provider of payment initiation services (PIS), the Company launched its Pay with Bank transfer service in 2019, allowing consumers to pay for purchases made online directly from their bank account. These developments have enhanced the broad range of premium value services delivered to merchants and are under-pinned by AEPSL's core competence in advanced payment services continuing the strategy of providing a premium service experience and operational excellence.

The core elements of the Company's strategy are:

- Acquiring new merchants for the acceptance of American Express card transactions;
- Continuing to monitor the performance of our merchant acquirer offering against key competitors;
- Maintaining and enhancing the relationship with entities that issue cards on the American Express network, to drive increased usage of the American Express card at the Company's acquired merchants;
- Attracting and retaining talented employees; and
- Focus on 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
- 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 employees

FINANCIAL PERFORMANCE

A number of performance indicators are used to monitor the Company's progress against its strategies and objectives. As part of the monitoring of AEPSL's financial performance the Directors review turnover, profitability, business volumes by country of spend origin and industry sector, and key balance sheet metrics including capital adequacy. In addition, further financial indicators including merchant credit risk and average discount rates as well as further non-financial indicators including disputes and complaints are monitored and reviewed.

Strategic Report for the year ended 31 December 2019 (Continued)

FINANCIAL PERFORMANCE (Continued)

The Company saw continued growth in spend at its UK acquired merchants. Total reported business volumes, upon which discount revenue (turnover) is earned, for the year to 31 December 2019 decreased 42% on the year to 31 December 2018, with a 54% reduction as a result of the Business Transfer offset by a 12% increase for the remaining UK business. Turnover, net of customer rebates, for the year ended 31 December 2019 decreased by 44% compared to the prior year, reflecting the impact of the Business Transfer together with lower average discount rates due to competitive pressures across the markets. This has been offset by an increase in revenue from services to other Group companies due to implementation of the post-Brexit operating model which is linked to the profitability of AEPE's merchant acquiring business. During 2019 the Company continued to invest in marketing and promotional activities and merchant acquisition programs to increase coverage and drive future growth. Capital resources at 31 December 2019 stood at £148m (2018: £183m), significantly higher than the regulatory minimum of £10.9m.

The results for the full year are set out on page 18 and show the loss before taxation for the year ended 31 December 2019 was £3.8m (2018 loss: £1.4m). The loss after taxation for the financial year was £12.1m (2018 loss: £3.7m) and has been transferred to reserves. The increase in pre-tax loss in 2019 has been driven by lower average discount rates, offset by a reduction in the rate payable by the Company to American Express Travel Related Services Company, Inc. ("TRSCo") for the provision of American Express network payment services with effect from 1st March 2019, and the implementation of the post-Brexit operating model which is linked to the profitability of AEPE's merchant acquiring business.

Accounts Payable for amounts due to the Company's merchants at 31 December 2019 stood at £588m (2018: £674m). The decrease is driven by timing of settlement with merchants.

The net asset position of the Company at 31 December 2019 was £184m (2018: £203m).

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, capital and market risk.

The Company primarily adopts the American Express 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.

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. Institutional Credit Risk arises within the Company's merchant business, when the Company has a receivable from a merchant as a result of credit transactions, disputes, or discount revenue being settled on a gross basis. Institutional Credit Risk is affected by both general economic conditions and by merchant specific events.

The Company adheres to the American Express Institutional Credit Risk Management 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.

The Company is supported by a dedicated risk management team and 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.

FINANCIAL RISK MANAGEMENT (Continued)

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.

Exposure to the Airline and Travel Industry
The Company has multiple card acceptance arrangements with airlines. The ERM program evaluates the risks posed by our airline partners and the overall airline strategy across the Group through comprehensive business analysis of those airlines, and the travel industry more broadly, including cruise lines, travel agencies, and tour operators. The Company is exposed to credit risk in these industries where payment has been remitted to the merchant for a card member purchase of tickets, but they have not yet been used or "flown".

To mitigate this risk, the Company includes protective actions within its card acceptance agreements, which include modifying the merchant's speed of pay and permitting a reserve to be created upon the occurrence of certain trigger events.

The COVID-19 pandemic has contributed to an increased risk of card member reimbursements for goods or services purchased from merchants that cease operations or are unable to ultimately provide them. The Company continues to monitor any resulting receivable positions closely and will take protective actions wherever possible but may ultimately incur additional losses which will have a negative impact on the Company's earnings in future periods.

The Group operates a funding arrangement under which amounts owed by group undertakings are cash settled on a monthly basis, with any resulting cash surplus being loaned to affiliate entities through short-term interest-bearing loans. Group financing arrangements are such that in the event a loan is not recoverable, support would be provided by the parent entity. Therefore, the level of credit risk attached to intercompany positions is limited.

Liquidity Risk
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 Liquidity Risk Policy, which strives to ensure the Company can maintain franchise continuity during periods when its regular sources of funding 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.

The Group maintains access to diverse liquidity sources, which are available to the Company. The sources are maintained in amounts sufficient to meet the Group's business requirements and expected future financial obligations for a period of at least twelve months in the event the Group 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 it has sufficient available funds for business continuity.

The Audit & 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.

Strategic Report for the year ended 31 December 2019 (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

In accordance with Group funding arrangements, cash is loaned by the Company to other Group entities through short and long-term loan arrangements. In accordance with the Primary Acquiring Operating Agreement, TRSCo will remit to AEPSL the amount due for charges incurred by cards issued on the American Express network, on the day on which AEPSL is due to make payment for those charges to the merchant. Accordingly, through this contractual relationship with TRSCo and the ongoing support of the Group, sufficient liquidity exists to pay merchants and settle other liabilities as they fall due.

A letter has been secured from American Express International Inc. for the purposes of supporting the Company's liquidity position and maintaining its safe and sound operations for the next year from the date of signing the financial statements.

Capital Risk Management
The Company manages its capital within the guidelines set by the Board of Directors and Audit & 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 2009. The Company currently has an FCA minimum capital requirement of £10.9m which is considerably lower than the capital levels it maintains, as detailed in the Financial Performance section. Capital monitoring processes are in place to ensure the Company exceeds the minimum capital requirements at all times.

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 its business objectives and continue as a going concern. The capital structure of the Company consists of cash at bank and in hand as disclosed in Note 16 and equity 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 19.

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 and the interest rates on the Company's liabilities; and
- Foreign exchange risk arising from earnings, funding, transactions and investments in currencies other than the functional currency.

The Company adopts the Market Risk Policy within the ERM. 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 or intercompany loans that receive and pay interest at floating short-term rates. 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.

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

FINANCIAL RISK MANAGEMENT (Continued)

(ii) Foreign Exchange Risk
Foreign exchange risk is generated by cross currency transactions, 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 hedges 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.

The Company is not ultimately exposed to any transactional foreign exchange gains or losses as they are borne by a related Group entity.

The Company's branches remit their profits (if any) to the UK parent on a monthly basis. As a result, there is no foreign exchange sensitivity from translation of European branches into the functional currency.

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. 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.

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 Governance and Financial Risk Management sections of the Directors' and Strategic Reports respectively.

Strategic Report for the year ended 31 December 2019 (Continued)

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

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. 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 (independent audit) - independent group providing assurance that the first and second lines are operating effectively.

During the year, this framework and risk management approach was utilised in the context of the Business Transfer whereby the Board was regularly briefed on the key risks, some of which had to be resolved prior to the Business Transfer to minimise disruption. This information enabled the Board to make more effective decisions when seeking solutions to mitigate these risks.

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 AEPSL employees share common values that inform and guide their behaviour, so they achieve their goals in the right way.

During the year, the Business Transfer resulted in a significant portion of the Company's branch employees being transferred to the equivalent branches of its Spanish subsidiary AEPE. This created the risk of potential employee confusion and uncertainty during this period of transition. In order to mitigate these risks and keep impacted individuals sufficiently informed and reassured throughout this process, the Board ensured that appropriate actions were taken by the relevant departments (e.g. HR, Payroll, Legal, Tax) well in advance of the Business Transfer. The increased levels of engagement with employees and helped to minimise confusion and uncertainty during this period of transition.

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

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.

Ahead of the Business Transfer, the Board ensured that steps were taken to proactively engage with our business partners and suppliers. For further details on business relationships and the actions the Board took during 2019 in this regard, please refer to the Stakeholder Engagement Statement within the Directors' report.

Strategic Report for the year ended 31 December 2019 (Continued)

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

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 employees 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 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 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.

5. Shareholders
The Company is a wholly owned subsidiary within the American Express group, whose 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 properly considered. The Board of AEPSL 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 International Inc. ("AEII"), is represented on the Board by the Company's Chief Financial Officer who is also a director of AEII.

OUTLOOK, PRINCIPAL 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.

AEPSL's market positioning and broad range of premium value services will enable it to continue to drive its strategy in the short term and be well placed to develop even stronger merchant relationships and take advantage of growth opportunities into the future. The Directors are confident that the Company can maintain a sufficient capital position and will remain liquid with regular funding being provided by the Group to meet all liabilities as they fall due.

With the outbreak of COVID-19 and its evolvement across the globe in first half of 2020, the Directors understand that the Company now faces associated risks, such as a reduction in discount revenue earned from merchants due to lower cardmember spend, lower discount rates and increased merchant credit risk.

Strategic Report for the year ended 31 December 2019 (Continued)

OUTLOOK, PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

The deterioration of revenues due to lower cardmember spend and lower discount rates, and the non-recovery of balances owed by merchants, has had a negative impact on the Company's earnings. In addition, certain categories of the Company's revenue from services to other Group companies are linked to the performance of AEPE's merchant acquiring business. The deterioration in the performance of this subsidiary has also resulted in a reduction to the Company's earnings. Management will continue to closely monitor the position, but do not consider the forecasted impact to the Company's profitability to represent a significant going concern risk, given the capital resources available and ongoing support of the Group.

The balance sheet, capital and liquidity profile of American Express Company remains very strong, with access to broad and well diversified funding sources, providing significant flexibility to maintain the strength of the balance sheet in periods of uncertainty or stress. The Group is closely monitoring the rapidly changing macroeconomic environment and is actively managing its balance sheet to reflect evolving circumstances, suspending share repurchases to support its objective of remaining financially strong against a backdrop of a highly uncertain operating environment and outlook. While the expansion of the COVID-19 pandemic has led to significant volatility in funding markets, the Group believes that it has sufficient liquidity sources to meet all internal and regulatory liquidity requirements. Accordingly, the ongoing support from the Group, recoverability of amounts due from affiliates, and continued access to liquidity sources is not considered to be significantly at risk.

The financial, trade and legal implications of Brexit remain unclear, however the Business Transfer effected in 2019 is expected to mitigate these risks and ensure business continuity. Following the transfer, a new operating model was implemented which includes revenue from services to other Group companies with some variability linked to the performance of AEPE's merchant acquiring business. The future underlying performance of its subsidiary AEPE will therefore have some impact on the future profitability of the Company.

The Company continues to face uncertainty through increased pressure from regulation putting significant indirect pressure on the discount rates that AEPSL can charge to merchants. This downward trend is also reflected in the rate payable by the Company to TRSCo for the provision of American Express network payment services (the billing debit), which has been further reduced from 1st January 2020.

Despite the above risks and uncertainties, after making enquiries and giving consideration to the ongoing support from the Group, including a letter of support issued by American Express International Inc., the Directors have a reasonable expectation that the Company has adequate resources and sufficient available liquidity 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 approved by the Board of Directors on 7 July 2020 and signed on its behalf by:

DocuSigned by:
David Edelman
7F319C78BBA9498...

D Edelman
Chairman
7 July 2020

DocuSigned by:
David Bailey
EBCDF257355E4BD...

D Bailey
Chief Financial Officer

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the Income Statement, the Statement of Comprehensive Income, 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of American Express Payment Services Limited (Continued)

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 2019 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 in respect of Financial Statements set out on page 6, 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.

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 received 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

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 July 2020

American Express Payment Services Limited

INCOME STATEMENT
For the year ended 31 December 2019

	Note	2019 £000	2018 £000
TURNOVER	3	**931,250**	1,656,998
Cost of sales		**(825,726)**	(1,490,826)
GROSS PROFIT		**105,524**	166,172
Administrative expenses		**(114,445)**	(173,060)
OPERATING LOSS		**(8,921)**	(6,888)
Interest receivable and similar income	6	**5,137**	5,786
Interest payable and similar expenses	7	**(4)**	(253)
LOSS BEFORE TAXATION	8	**(3,788)**	(1,355)
Tax on loss	9	**(8,360)**	(2,363)
LOSS FOR THE FINANCIAL YEAR		**(12,148)**	(3,718)

The Notes on pages 23 to 56 form an integral part of the financial statements.

American Express Payment Services Limited

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	2019	2018
	£000	£000
		Restated
Loss for the financial year	**(12,148)**	(3,718)
Other comprehensive (loss)/ income: items that may be reclassified to income statement		
Foreign exchange (loss)/gain	**(7,584)**	3,151
Total other comprehensive (loss)/ income	**(7,584)**	3,151
Total comprehensive loss for the year	**(19,732)**	(567)

The Notes on pages 23 to 56 form an integral part of the financial statements.

BALANCE SHEET
As at 31 December 2019
Registered number: 06301718

	Note	2019 £000	2018 £000 *Restated*
NON-CURRENT ASSETS			
Tangible assets	10	**3**	9
Investments	11	**53,526**	13,642
Loans to affiliates	12	**6,846**	129,200
Deferred tax asset	9	**-**	6,446
		60,375	149,297
CURRENT ASSETS			
Debtors	15	**819,778**	751,179
Cash at bank and in hand	16	**91,551**	5,392
Assets classified as held for sale		**-**	876,317
		911,329	1,632,888
CREDITORS: Amounts falling due within one year	17	**(788,030)**	(710,149)
Creditors directly associated with assets held for sale		**-**	(867,522)
NET CURRENT ASSETS		**123,299**	55,217
TOTAL ASSETS LESS CURRENT LIABILITIES		**183,674**	204,514
PROVISIONS FOR LIABILITIES	18	**(69)**	(173)
Provisions directly associated with assets held for sale		**-**	(939)
NET ASSETS		**183,605**	203,402
CAPITAL AND RESERVES			
Called up share capital	19	**13,150**	13,150
Share-based payment reserve		**1,705**	1,770
Translation reserve		**7,795**	15,379
Retained earnings		**160,955**	173,103
TOTAL SHAREHOLDERS' FUNDS		**183,605**	203,402

The Notes on pages 23 to 56 form an integral part of the financial statements.

BALANCE SHEET

As at 31 December 2019

Registered number: 06301718

The financial statements on pages 18 to 56 were approved by the Board of Directors on 7 July 2020 and signed on its behalf by:

DocuSigned by:

Daniel Edelman

7F319C78BBA9498...

D Edelman

Chairman

7 July 2020

DocuSigned by:

David Bailey

EBCDF257355E4BD...

D Bailey

Chief Financial Officer

American Express Payment Services Limited

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Registered number: 06301718

	Called up share capital	Share-based payment reserve	Translation reserve	Retained earnings	Total Shareholders' Funds
	£000	£000	£000	£000	£000
At 1 January 2019	13,150	1,770	15,379	173,103	203,402
Loss for the financial year	-	-	-	(12,148)	(12,148)
Other comprehensive loss for the year	-	-	(7,584)	-	(7,584)
Total comprehensive loss for the year	-	-	(7,584)	(12,148)	(19,732)
Current & deferred tax movements in equity (Note 9)	-	(1)	-	-	(1)
Share based payments charge	-	1,520	-	-	1,520
Recharge paid to parent for share based payments	-	(1,584)	-	-	(1,584)
At 31 December 2019	**13,150**	**1,705**	**7,795**	**160,955**	**183,605**

	Called up share capital	Share-based payment reserve	Translation reserve	Retained earnings	Total Shareholders' Funds
	£000	£000	£000	£000	£000
			Restated	*Restated*	
At 31 December 2017 (as previously reported)	13,150	2,070	-	189,049	204,269
Effect of change in presentation currency	-	-	12,228	(12,228)	-
At 1 January 2018 (restated)	13,150	2,070	12,228	176,821	204,269
Loss for the financial year	-	-	-	(3,718)	(3,718)
Other comprehensive income for the year	-	-	3,151	-	3,151
Total comprehensive loss for the year	-	-	3,151	(3,718)	(567)
Current & deferred tax movements in equity (Note 9)	-	(133)	-	-	(133)
Share based payments charge	-	2,465	-	-	2,465
Recharge paid to parent for share based payments	-	(2,632)	-	-	(2,632)
At 31 December 2018	**13,150**	**1,770**	**15,379**	**173,103**	**203,402**

The Notes on pages 23 to 56 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

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

The financial statements of American Express Payment Services Limited (the "Company" or "AEPSL") for the year ended 31 December 2019 were authorised for issue by the board of directors on 7 July 2020 and the balance sheet was signed on the board's behalf by D Edelman 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's immediate parent is American Express International Inc., incorporated in the United States of America, which is the parent undertaking of the smallest group in which the Company's results are consolidated. The ultimate parent and controlling entity is American Express Company, incorporated in the United States of America, which is the parent undertaking of the largest group in which the Company's results are consolidated. Copies of the American Express International Inc. and American Express Company financial statements can be obtained from American Express Company, American Express Tower, World Financial Center, New York, NY 10285, USA. The Company is a private company limited by shares registered in England and Wales and domiciled in the United Kingdom.

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.

2. 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.

2.1. Basis of preparation

The financial statements are prepared in accordance with FRS101 Reduced Disclosure Framework (FRS101) and the Companies Act 2006. The financial statements are prepared on a going concern basis under the historical cost convention, except in accordance with relevant accounting policies where assets and liabilities are stated at their fair values. 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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.23.

The Company has taken advantage of the following disclosure exemptions allowed under FRS101:

- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis of preparation (Continued)

- the requirements of IFRS 7 'Financial Instruments: Disclosures' provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;
- the requirements of IFRS 13 'Fair Value Measurement' paragraphs 91-99, provided that equivalent disclosures are included in the financial statements of the group in which the entity is consolidated;
- the requirements of IAS 1 'Presentation of Financial Statements' paragraph 38 to present comparative information in respect of
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
  - (iii) 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;*
  - 38(a) *requirement for minimum of two primary statements, including cash flow statements;*
  - 38(b)-(d) *additional comparative information*;
  - 111 *cash flow statement information; and*
  - 134-136 capital management disclosures
- 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 18 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 2019

The entity has adopted the following standards and amendments to standards with an initial date of application of 1 January 2019.

- **IFRS 16 Leases**

  Effective 1 January 2019, the Company adopted the new lease standard 'IFRS 16 Leases' issued by the IASB, but this had no impact on revenues, profits for the year or financial position, as the Company holds no applicable leases. Refer to note 2.21 for further details.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis of preparation (Continued)

- **IFRIC 23 Uncertainty over Income Tax Treatment-IAS 12**
  Effective for annual periods beginning on or after 1 January 2019 with earlier application permitted.

  The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatment. This amendment did not have any impact on the Company's financial statements upon adoption.

(b) Standards and amendments early adopted by the Company
No new or amended standards and interpretations were adopted early by the Company.

(c) Change in functional and presentational currency
On 1st March 2019, following the transfer of its European passport reliant merchant acquiring operations to its subsidiary in Spain, the Company changed its functional currency from euros to pounds sterling.

As a result of this change in functional currency, the Company also changed its presentational currency from euros to pounds sterling on the same date. This represents a change in accounting policy and requires comparative amounts to be restated as if pounds sterling had always been the presentation currency. The effect of the restatement on the Statement of Comprehensive Income and Balance Sheet is shown below:

Extract from the Statement of Comprehensive Income

	Year Ended 31 December 2018 (£'000) *As previously reported*	**Change in presentation currency (£'000)**	**Year Ended 31 December 2018 (£'000)** *Restated*
Loss for the financial year	(3,718)	-	(3,718)
Foreign exchange gain	-	3,151	3,151
Total comprehensive loss for the year	(3,718)	3,151	(567)

Extract from the Balance Sheet

	As at 31 December 2018 (£'000) *As previously reported*	**Change in presentation currency (£'000)**	**As at 31 December 2018 (£'000)** *Restated*
Called up share capital	13,150	-	13,150
Share based payment reserve	1,770	-	1,770
Retained earnings	188,482	(15,379)	173,103
Translation reserve	-	15,379	15,379
Total Shareholders' Funds	203,402	-	203,402

The effect of the restatement on the Statement of Equity is separately presented on page 22.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 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'). On 1st March 2019, following the transfer of its European passport reliant merchant acquiring operations to its subsidiary in Spain, the Company changed its functional currency from euros to pounds sterling. As a result of this change in functional currency, the Company also changed its presentational currency from euros to pounds sterling on the same date. The financial statements of the Company are presented in pounds sterling (£).

b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated into the functional currency based on exchange rates prevailing at the end of the year; non-monetary assets and liabilities are translated at the historic exchange rate at the date of the transaction. The resulting exchange gains and losses are borne by a related Group entity.

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

- assets and liabilities are translated at the closing rate at the date of the balance sheet;
- income and expenses are translated at average exchange rate; and
- resulting exchange differences are recognised in other comprehensive income.

2.3 Disposal groups held for sale

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.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Tangible assets

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.

Depreciation is provided on a straight-line basis to write off the net cost of each item of plant and equipment to their 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.

The estimated useful lives of each class of assets are:

Furniture, Fittings and Machinery	- over 3 to 8 years

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.

2.5 Investments

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

2.6 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, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Impairment of non-financial assets (Continued)

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.

2.7 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 at 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. The Company classifies loans to affiliates, amounts owed to group undertakings, trade debtors and cash at amortised cost and derivative assets at FVTPL.

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 shall be 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:

1) eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

2) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets (Continued)

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 taken directly to the income statement. Financial assets at fair value through profit and loss are subsequently measured at fair value.

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid price in an active market wherever possible. Where no such active market exists for the particular asset, the Company uses valuation techniques to arrive at the fair value. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. Commonly used techniques include the use of prices obtained in recent arms-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows, discounted at actively quoted interest rates. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them to support the conclusion that such valuations meet the requirements of FRS 101, including the level in the fair value hierarchy in which such valuations should be classified. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Profits or losses are only recognised on initial recognition when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of the instruments. The fair value of other financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

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's management intends to realise the assets 12 months or more after the balance sheet date, it is classified as non-current.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are borne by a related group entity.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets (Continued)

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. Financial assets at amortised cost as disclosed in the balance sheet include the following categories:

2.7.1. Loans to affiliates

Loans to affiliates represents unsecured loans extended by the Company to other group companies. Interest is computed on actual daily principal outstanding during the preceding monthly period and is paid annually in October on the third to last business day of the month until the principal is repaid.

2.7.2. Trade and other debtors

(i) *Amounts owed by group undertakings*
Amounts owed by group undertakings represent amounts recoverable for services within the American Express Group.

(ii) *Trade debtors*
Trade debtors relate to regular trade receivables due to the Company in the normal course of business.

2.7.3. Cash and cash equivalents – refer Note 2.12.

2.8 Impairment of financial assets

The Company assesses financial assets, other than those measured 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) Trade and other debtors
Given the short-term nature of trade and other debtors the loss allowance is determined by the lifetime expected credit losses. Forward looking information that indicates the debtor will experience financial difficulties, enter bankruptcy or financial reorganisation, default or become delinquent is incorporated in the determination of the loss allowance.

(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.

2.9 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 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.

2.11 Derivative financial instruments

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 is 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 by counterparty basis 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.

Derivatives not designated as hedges

The Company has derivatives that act as economic hedges but are not designated as such for hedge accounting purposes. Foreign currency transactions from time to time may be partially or fully economically hedged through foreign currency contracts, primarily foreign exchange forwards. These hedges generally mature within one year. Foreign currency contracts involve the purchase and sale of designated currencies at an agreed upon rate for settlement on a specified date.

The changes in the fair value of derivatives that are not designated as hedges are intended to offset the related foreign exchange gains or losses of the underlying foreign currency exposures. The changes in fair value for derivatives that are not designated as hedges are borne by a related Group entity.

The foreign exchange gains/losses on hedging instruments in relation to non-consolidated subsidiaries are recognised in the income statement.

2.12 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. 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.

2.13 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Financial liabilities (Continued)

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, generally their cash equivalents, 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 bank loans and overdrafts, amounts owed to group undertakings. trade creditors, other creditors and accruals in the balance sheet.

2.14 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 though the original term was for a period longer than 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.

2.15 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, the deferred income tax is not accounted for if it arises from 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 substantially 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Current and deferred tax (Continued)

Deferred tax assets and liabilities are offset where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset 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 is also recognised in other comprehensive income or directly in equity.

2.16 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 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 possibility of withdrawal. Benefits falling due more than 12 months after balance sheet dates are discounted to present value.

(c) Pension obligations
American Express Company provides pension arrangements for employees through defined benefit plans and defined contribution schemes in the UK and Germany.

The participating employers of the UK plan share 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 sponsoring employers of these plans. As a result, the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Employee benefits (Continued)

The fair value of options granted is determined using the Black-Scholes-Merton option pricing model. Restricted Stock awards that do not include the Relative Total Shareholder Return (R-TSR) modifier are determined using the stock price on the date of grant and the performance-based Restricted Stock Awards that include the R-TSR modifier are determined 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.

Portfolio Grants are primarily cash-settled but are treated as equity-settled at the Company level. 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 a period of three years.

2.17 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 where there is a present obligation that arises from past events but are not recognised because the amount of the obligation 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.

2.18 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.

2.19 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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

- Discount Revenue: Discount revenue primarily represents the amount the Company earns on transactions occurring at merchants that have entered into card acceptance agreements with the Company, for facilitating transactions between the merchants and card members. The amount of fees charged, or merchant discount, varies with, among other factors, the industry in which the merchant conducts business, the merchant's overall transaction volume, the timing and method of payment to the merchant, the method of submission of transactions and, in certain instances, the geographic scope of the card acceptance agreement signed with us (e.g., local or global) and the transaction amount. The merchant discount is generally deducted from the payment to the merchant and recorded as discount revenue at the time the card member transaction occurs.

  The card acceptance agreements, which outline the agreed-upon terms for charging the merchant discount fee, vary in duration. Contracts with small and medium-sized merchants generally have no fixed contractual duration, while those with large merchants are generally for fixed periods, which typically range from three to seven years in duration. Fixed period agreements may include auto-renewal features, which may allow the existing terms to continue beyond the stated expiration date until a new agreement is reached. The Company satisfies its obligations under these agreements over the contract term, often on a daily basis, through the processing of card member transactions and the availability of our payment network.

  When a cardmember returns goods, it will generate a credit transaction with the merchant, but the merchant discount amount is generally retained by the Company.

- Other Merchant Services: The Company earns other revenue from merchants for services which include marketing and administration. Revenue in respect of these services is recognised by the Company in the period in which the services were performed.

- Entrepreneurial and Strategic Services: The Company provides entrepreneurial and strategic support to grow and develop the American Express merchant business in Europe, which is calculated using a combination of inputs including subsidiary targeted arm's length profit margins. This variable consideration is recognised as revenue throughout the year to the extent reversal is considered highly unlikely and is aligned to actual results at the end of the reporting period.

- Other Services to Group Companies: The Company earns revenue when it performs a service on behalf of another related Group entity. The Company charges the related entity on an arm's length basis, with 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.

2.20 Interest receivable and interest payable

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.

Interest expense includes interest incurred on the Company's long term and short-term borrowings which are required to fund general purposes and liquidity needs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Leases

Effective January 1, 2019 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 recognised and measured at the respective lease liabilities, adjusted by prepaid lease payments, initial direct costs, and offset by lease incentives received. 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 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.

2.22 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.

2.23 Critical accounting estimates, assumptions and judgments

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 judgment in applying the Company's accounting policies.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Critical accounting estimates, assumptions and judgments (Continued)

(b) Critical judgements in applying accounting policies
The preparation of the financial statements involves a number of judgments. The items with a higher degree of judgment or complexity are:

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 judgment 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 as a defined contribution scheme, see Note 21 for further details.

Discontinued operations
On 1st March 2019, the Company transferred its European passport reliant merchant acquiring operations to its Spanish subsidiary AEPE. The associated assets and liabilities were consequently presented as held for sale in the 2018 financial statements.

To meet the definition of a discontinued operation the component of the entity classified as held for sale must represent a separate major line of business or geographical area. A significant portion (>50%) of the business transferred related to contracts with multinational merchants which spanned multiple different geographies. The European Economic Area portion of this multinational merchant business had never been considered a separate segment as the operations and cashflows could not be distinguished from the rest of the entity. Therefore, management considered that it did not meet the definition of a discontinued operation.

Accounting for the Business Transfer
In the absence of specific guidance around common control transactions, particularly from the perspective of the transferring entity, Management have made a judgement on what constitutes consideration in exchange for the assets and liabilities disposed of in relation to the Business Transfer. Management have 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 to be the carrying value (equivalent to net book value) of the assets transferred, as opposed to the fair value.

3. TURNOVER

	2019	2018
	£000	£000
Merchant discount revenue net of merchant rebates	**845,690**	1,621,996
Other merchant services	**15,225**	26,706
Entrepreneurial and strategic services	**64,965**	-
Other services to American Express Group companies	**5,370**	8,296
	931,250	1,656,998

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

3. TURNOVER (Continued)

Turnover for the financial year by region of origin is as follows:

	2019	2018
	£000	£000
UK and Multinational	**839,012**	1,053,085
Continental Europe	**92,238**	603,913
	931,250	1,656,998

The reduction in turnover was driven by the Business Transfer.

4. STAFF COSTS

	2019	2018
	£000	£000
Wages and salaries	**36,592**	48,374
Social security costs	**5,974**	9,454
Other pension costs	**4,020**	4,702
Stock compensation expense	**1,520**	2,465
	48,106	64,995

Included within wages and salaries is an amount of £0.3m (2018: £0.7m) related to restructuring expense.

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

	2019	2018
	Number	Number
Sales and marketing	**299**	438
Customer servicing	**253**	276
Other support groups	**34**	29
	586	743

The reduction in staff was driven by individuals transferred to AEPE and its branches, from the AEPSL branches as a part of the Business Transfer.

Equity-settled share-based payments

Equity-settled share-based payments under the 2016 Compensation Plan and previously under the 2007 Incentive Compensation Plan (the "Plans") offered by the ultimate parent holding company, American Express Company, may be granted to officers and other key individuals who perform services for the Company. These awards may be in the form of Stock Options, Restricted Stock Awards ("RSAs"), Portfolio Grants ("PGs") and other similar awards.

4. STAFF COSTS (Continued)

Details of the stock plans are set out below:

(a) Stock Options

Each stock option has an exercise price equal to the market price of 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% on the third anniversary of the grant date.

Stock options outstanding at 31 December 2019 were 6,000 at a weighted average price of USD 65.43 (2018: 12,000 at a weighted average price of USD 65.43). 6,000 stock options were exercised at a weighted average price of USD 65.43 during 2019 (2018: 18,000 stock options were exercised at a weighted average price of USD 65.43).

(b) Restricted Stock Awards

An RSA grant is a grant of American Express Company's common stock, valued based on the stock price on the date of grant, 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 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. Effective in 2019, the Company added a Relative Total Shareholder Return (R-TSR) modifier to the performance-based RSAs, under which the number of shares ultimately granted is also impacted by American Express Company's actual shareholder return relative to a competitive peer group.

The fair value of RSAs 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 that include the R-TSR modifier is determined using a Monte Carlo valuation model. All RSA holders receive non-forfeitable dividends or dividend equivalents. As of 31 December 2019, the total outstanding RSAs are expected to vest over a weighted average period of 1.14 years (2018: 0.94 years).

As at 31 December 2019, out of the 52,658 (2018: 66,672) RSAs outstanding, none (2018: nil) were exercisable. During 2019, 21,904 (2018: 26,882) RSAs were exercised with a weighted average grant price of USD 64.64 each (2018: USD 77.13 each).

(c) Portfolio Grants and Other Incentive Awards

Portfolio Grants are long-term cash incentives designed to earn value based on overall business and Group performance metrics. American Express Company awards certain employees portfolio grants and other incentive awards that are generally settled by cash. These awards earn value based on the American Express Company's financial performance, market and service conditions, and vest over periods from one to three years.

In 2019, American Express Company issued no portfolio grants (2018: USD 260,000) to the Company's employees. The Company has recorded an expense of £0.1m (2018: £0.3m) and the grants outstanding at the year-end were 480,000 (2018: 700,000). The face value of a grant is equal to one US dollar.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

4. STAFF COSTS (Continued)

Stock Compensation Expense

The components of the Company's pre-tax stock-based compensation expense (net of cancellations) for the year ended 31 December are as follows:

	2019	2018
	£000	£000
Stock Options	33	64
Restricted Stock Awards	1,381	2,131
Portfolio Grant Expense	106	270
	1,520	2,465

The Company is required to reimburse American Express Company over the vesting period for stock awards issued to the Company's employees.

5. DIRECTORS' REMUNERATION

	2019	2018
	£000	£000
Emoluments	1,087	1,458
Amounts receivable under long term incentive schemes	444	440
Pension costs	22	21
	1,553	1,919
Compensation for loss of office	-	117

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

	2019	2018
	Number	Number
Money purchase schemes	6	5

During the year six (2018: six) 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 RSAs vesting in the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

5. DIRECTORS' REMUNERATION (Continued)

The following remuneration was earned by the highest paid Director:

	2019	2018
	£000	£000
Emoluments including amounts receivable under long term incentive schemes	**607**	1,012
Pension Costs	**6**	-
	613	1,012

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.

Five Directors who served during the year are employed by and receive 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019	2018
	£000	£000
Group undertakings	5,137	5,786
	5,137	5,786

7. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019	2018
	£000	£000
Other interest payable	4	253
	4	253

8. LOSS BEFORE TAXATION

	2019	2018
	£000	£000
Loss before taxation is stated after charging:		
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	235	208
Amortisation of intangible assets	-	774
Depreciation of tangible assets	17	110
Loss on disposal of tangible assets	2	5
Operating lease rentals	140	811

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

9. TAX ON LOSS

The differences between the taxation reflected in the financial statements and the amounts calculated at the statutory rate of 19.00% (2018: 19.00%) are as follows:

	2019 £000	2018 £000
Loss before taxation	**(3,788)**	(1,355)
Tax calculated at a tax rate of 19.00% (2018: 19.00%)	**(720)**	(257)
Adjusted for the effects of:		
Non-deductible expenses/(non-taxable income)	**(155)**	70
Gain on Business Transfer	**2,266**	-
Prior year adjustments	**244**	365
Overseas tax	**257**	1,249
Other reconciling items in respect of fixed assets	**6**	40
Write-off of unrecoverable deferred tax assets	**6,268**	342
Rate change impact	**(148)**	511
Translation difference	**-**	43
Write-off of deferred tax assets following Brexit transaction	**402**	-
Permanent difference in respect of share-based payments	**(60)**	-
Total Tax expense	**8,360**	**2,363**

	2019 £000	2018 £000
Current income tax		
UK Tax		
Current income tax	**1,557**	-
	1,557	-
Overseas tax		
Current income tax	**318**	1,543
Prior year adjustments	**233**	439
Total Current Tax	**2,108**	1,982
Deferred Tax		
Origination and reversal of temporary differences	**6,389**	(99)
Prior year adjustments	**11**	(74)
Translation difference	**-**	43
Impact of change in tax rate	**(148)**	511
Total Deferred Tax	**6,252**	381
Income Tax expense	**8,360**	2,363

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

9. TAX ON LOSS (Continued)

Taxation on items not (credited) / charged to the income statement	2019 £000	2018 £000
Current Tax credit		
Tax deduction on share options / awards in excess of expense recognised	**(189)**	-
Deferred Tax credit		
Tax deduction on share options / awards in excess of expense recognised	**(58)**	125
De-recognition of deferred tax asset	**242**	-
Impact of change in tax rate	**6**	8
Total	**1**	133

Factors affecting the tax charge for the year:
The Company has an unrecognised gross temporary differences and unused tax losses of £78m (2018: £56m). Deferred tax has not been recognised in respect of these temporary differences due to uncertainty over future profitability and the resulting uncertainty regarding their recoverability.

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

	Fixed Assets £000	Provisions £000	Share Payments £000	Tax Losses £000	Other £000	Total £000
At 1 January 2019	2,266	215	695	2,868	402	6,446
Exchange Differences	-	-	(3)	-	-	(3)
Debit to Income Statement	(2,272)	(240)	(498)	(2,962)	(417)	(6,389)
Debit to Equity	-	-	(184)	-	-	(184)
Prior year adjustments	11	-	-	-	(23)	(12)
Tax rate change to Income Statement	(5)	25	(4)	94	38	148
Tax rate change to Equity	-	-	(6)	-	-	(6)
At 31 December 2019	-	-	-	-	-	-

	Fixed Assets £000	Provisions £000	Share Payments £000	Tax Losses £000	Other £000	Total £000
At 1 January 2018	2,116	297	836	3,103	378	6,730
Exchange Differences	77	1	11	70	14	173
(Debit) / Credit to Income Statement	182	(60)	(3)	-	(20)	99
Debit to Equity	-	-	(113)	-	-	(113)
Prior year adjustments	1	-	-	-	73	74
Tax rate change to Income Statement	(110)	(23)	(30)	(305)	(43)	(511)
Tax rate change to Equity	-	-	(6)	-	-	(6)
At 31 December 2018	2,266	215	695	2,868	402	6,446

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

10. TANGIBLE ASSETS

	Furniture, Fittings and Machinery £000
Cost:	
At 1 January 2019	91
Exchange differences	(24)
Additions	2
Transfers (to)/from other group companies	15
Disposals	(62)
At 31 December 2019	**22**
Accumulated depreciation:	
At 1 January 2019	82
Exchange differences	(19)
Provided during the year	17
Transfers (to)/from other group companies	-
Disposals	(61)
At 31 December 2019	**19**
Net book value:	
At 31 December 2019	**3**
At 31 December 2018	9

11. INVESTMENTS

	2019 £000	2018 £000
Investment in subsidiaries		
Cost:		
At 1 January	**13,642**	113
Additions	**17,534**	-
Capital contributions	**22,350**	13,529
At 31 December	**53,526**	13,642
Net Book Value at 31 December	**53,526**	13,642

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

11. INVESTMENTS (Continued)

Undertaking	Number of shares held	Description of shares held	Principal Activity	Registered Office Address
American Express Payments Europe S.L.	100%	Ordinary €10	Merchant Acquirer	Avenida Partenon, 12-14 28042 Madrid

American Express Payments Europe S.L. ("AEPE") is a Company limited under Spanish Law which commenced operations on 1st March 2019 as a Merchant Acquirer.

On 1st March 2019, the Company transferred its passport reliant merchant acquiring operations to AEPE in exchange for 4,330,080 ordinary €10 shares. The transaction was accounted for at book value in accordance with the Company's 'Business combinations, acquisitions and disposals' policy (Note 2.22), with an analysis of the assets and liabilities transferred at book value provided in Note 22 Business Transfer.

On 16th January 2019, the Company contributed additional capital of £13.57m (€16m) to AEPE to support a regulatory requirement, and on 15th July 2019 contributed further capital of £8.78m (€10m) to meet Spanish corporate law requirements.

12. LOANS TO AFFILIATES

Loans to affiliates for the years ended 31 December comprise the following:

	2019 £000	2018 £000
American Express Europe LLC[(a)]	**6,846**	127,224
American Express Services Europe Limited [(a)]	**-**	1,976
	6,846	129,200

(a) Represents unsecured loans extended by the Company to affiliates on a floating rate. Interest is computed on actual daily principal outstanding during the preceding monthly period on a 360-day basis and is payable annually in October.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

13. FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE

The table below presents the Company's financial assets and liabilities that are measured at fair value at 31 December 2019 and 2018, 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).

	Level 1	Level 2	Level 3	Total
As at 31 December 2019	**£000**	**£000**	**£000**	**£000**
Assets				
Derivative financial assets				
- Forward foreign exchange contracts	-	8,058	-	8,058
Total assets	-	**8,058**	-	**8,058**
Liabilities				
Derivative financial liabilities				
- Forward foreign exchange contracts	-	1,426	-	1,426
Total liabilities	-	**1,426**	-	**1,426**

	Level 1	Level 2	Level 3	Total
As at 31 December 2018	**£000**	**£000**	**£000**	**£000**
Assets				
Derivative financial assets				
- Forward foreign exchange contracts	-	592	-	592
Total assets	-	**592**	-	**592**
Liabilities				
Derivative financial liabilities				
- Forward foreign exchange contracts	-	7,831	-	7,831
Total liabilities	-	**7,831**	-	**7,831**

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

13. FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE (Continued)

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.

14. DERIVATIVE FINANCIAL INSTRUMENTS

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 act as economic hedges but are not designated as such for hedge accounting purposes. 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.

At 31st December: **(£'000)**

Particulars	2019			2018		
	Notional Amount	**Assets**	**Liabilities**	Notional Amount	Assets	Liabilities
Forward foreign exchange contracts	**683,843**	**8,058**	**1,298**	746,371	592	7,831
Other derivatives*	**41,206**	**-**	**128**	-	-	-
Total	**725,049**	**8,058**	**1,426**	746,371	592	7,831

*Other derivatives represent forward foreign exchange contracts entered into for the purposes of economically hedging the Company's subsidiary foreign currency exposure. For the Company's standalone reporting, no hedge accounting is applied and gains or losses associated with these derivatives have been recognised in the Income Statement.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

15. DEBTORS

	2019 £000	2018 £000
Trade debtors	**27,678**	17,381
Less: reserves	**(4,271)**	(3,152)
Loans due from group undertakings	**787,007**	630,634
Amounts owed by group undertakings	**585**	104,972
Corporate tax	**-**	715
Derivative financial instruments (refer Note 14)	**8,058**	592
Prepayments	**721**	37
	819,778	751,179

Reserves on trade debtors are determined based on the methodology outlined in Note 2.8 and are 100% reserved for after 90 or 180 days past due dependent on the nature of the receivable, this is when the underlying amounts are no longer expected to be recovered. In addition assessments, taking into account forward looking information, are performed on a case by case basis and additional reserves are booked when required. Amounts are generally written off when 360 days past due.

Loans due from group undertakings represents unsecured loans extended by the Company to affiliates on a floating rate. Interest is computed on actual daily principal outstanding during the preceding monthly period on a 365-day basis and is payable at monthly or annual intervals.

Amounts owed by group undertakings are unsecured and repayable on demand.

16. CASH AT BANK AND IN HAND

	2019 £000	2018 £000
Cash at bank and in hand	**91,551**	5,392
	91,551	5,392

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 funds held with the Bank which, as at 31 December 2019, amounted to £47 (2018: nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

17. CREDITORS: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	**587,921**	673,654
Bank loans and overdrafts	**30**	5
Accruals and deferred income	**20,357**	24,583
Derivative financial instruments (Note 14)	**1,426**	7,831
Amounts owed to group undertakings	**175,185**	-
Other taxation and social security	**863**	1,522
Corporation tax	**1,096**	1,054
Other creditors	**1,152**	1,500
	788,030	710,149

In accordance with the Primary Acquiring Operating Agreement, TRSCo will remit to AEPSL the amount due for charges incurred by cards issued on the American Express network, on the day on which AEPSL is due to make payment for those charges to the merchant. Accordingly, sufficient liquidity exists to pay merchants as they fall due.

Included within Creditors is £785m (2018: £706m) classified as financial liabilities.

The current portion of trade and other creditors 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 generally settled within a maximum of 30 days.
(ii) Other creditors are non-interest bearing and are normally settled within 60 days.
(iii) Amounts owed to group undertakings are unsecured and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

18. PROVISIONS FOR LIABILITIES

	Merchant Provisions £000	Restructuring Reserve £000	Total £000
At 1 January 2019	173	-	173
Balance transfer from other liabilities	-	393	393
Net change in provision	(173)	(324)	(497)
At 31 December 2019	-	69	69

Increases, utilisations and releases in provisions are not material to the Company so have been presented on a net basis.

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 2019, the Company recognised £0.3m (2018: £0.7m) of restructuring charges.

19. CALLED UP SHARE CAPITAL

	2019 Number	2018 Number	2019 £000	2018 £000
Authorised				
Ordinary shares of £1 each	**100,000,000**	100,000,000	**100,000**	100,000
Issued, called up and fully paid				
Ordinary shares of £1 each	**13,150,000**	13,150,000	**13,150**	13,150
	13,150,000	13,150,000	**13,150**	13,150

20. DIVIDENDS PAID

The Directors do not propose the payment of a dividend (2018: £nil)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

21. 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 an annual valuation carried out 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. 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 17 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.

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.

American Express Payment Services Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

21. PENSIONS (Continued)

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	
	2019	2018	**2019**	2018
Discount rate	1.85	2.65	0.90	1.85
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*	0.00-3.01	0.00-3.01	1.90	1.90
Rate of increase in price inflation				
RPI**	3.00	3.25	n/a	n/a
CPI**	2.25	2.25	1.90	1.90
Mortality table	SAPS S3 Light mortality table CMI 2018 model with trend of 1.50% per annum	SAPS Light mortality table CMI 2017 model with trend of 1.50% per annum	Heubeck 2018G	Heubeck 2018G

* post 88 GMP = 1.90%; pre 1997 excess = 0%; April 1997 to April 2005 = 2.84%; post April 2005 = 1.90%
** RPI = Retail Price Inflation; CPI = Consumer Price Inflation

The table below shows the value of IAS19 liabilities and assets as at 31 December 2019.

IAS19 Defined Benefit Obligation and Market Value of Assets	UK 2019 (£m)	UK 2018 (£m)	Germany 2019 (£m)	Germany 2018 (£m)
Present value of Plan liabilities	1,233.0*	1,100.5*	103.2	93.6
Market value of assets**	1,126.6*	1,020.5*	3.9	3.7
Deficit	(106.4)	(80.0)	(99.3)	(89.9)
Sensitivity analysis - 2019 Defined Benefit Obligation				
Discount rate assumption being 1% higher	1,079.4*		88.0	
Discount rate assumption being 1% lower	1,410.2*		121.6	

* Includes £69m of Additional Voluntary Contribution ("AVCs") (£68m in 2018)
** There are no self-invested assets in the UK Plan or in the German Plans

21. PENSIONS (Continued)

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 following table.

Asset Allocation as at 31 December

	2019 (£m)	2018 (£m)
Domestic equities	21.0	18.9
Foreign equities	288.2	235.4
Government bonds	231.0	231.9
Corporate bonds	54.0	44.4
Buy-in contract	245.1	235.7
Additional voluntary contributions	69.1	67.8
Cash and cash equivalents	51.9	30.0
Other	166.3	156.4
Total	1,126.6	1,020.5

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 £245m and has been included within the allocation above. The remaining assets under the "Other" category represent amounts mainly invested in diversified funds. As a result of the 2018 UK court ruling requiring the equalisation of Guaranteed Minimum Pensions (GMP) in UK pension schemes, the 2019 UK Plan liabilities include an allowance for GMP equalisation.

All securities invested by the UK Plan have a quoted market price in an active market (with the exception of £269.1m mainly attributable to the pensioner buy-in contract).

The assets and liabilities shown above include defined contribution assets and liabilities (from AVCs) as at 31 December 2019. Please note that the other assets shown above include the UK Plan's net current assets of £51.9m as at 31 December 2019.

Contributions

The participating employers contributions to the UK Plan and German Plans during the calendar year 2019 and expected for 2020 are summarised in the table below.

Country/Plan(s)	2020 Expected Contributions (£m)	Actual 2019 Contributions (£m)	Actual 2018 Contributions (£m)
UK	20.4	20.4*	20.6*
Germany**	2.5	1.8	1.7

* In addition during 2019, the participating employers contributed £32.9m (2018: £34m) (including salary sacrifice contributions) to the defined contribution Stakeholder Plan in the UK.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

22. BUSINESS TRANSFER

On 1st March 2019, the Company transferred its passport reliant merchant acquiring operations to its Spanish subsidiary AEPE. The transaction has been accounted for at book value in accordance with the Company's 'Business combinations, acquisitions and disposals' policy (Note 2.22). A summary of the assets and liabilities transferred is provided below:

	1 March 2019 £'000
Assets	
Intangible assets	14,893
Tangible assets	64
Loans to affiliates	560,251
Trade debtors	33,140
Other debtors	2,307
Cash at bank and in hand	245,034
	855,689
Liabilities	
Trade creditors	680,351
Amounts owed to group undertakings	109,749
Other liabilities	46,899
Provisions	1,156
	838,155
Total Net Assets	17,534

AEPE issued 4,330,080 ordinary shares at par value of €10 as consideration for the transfer of assets and liabilities.

The Business Transfer was not reported as a discontinued operation for the reasons detailed in Note 2.23. Assets and liabilities within the scope of the Business Transfer were classified as held for sale at 31st December 2018.

23. RELATED PARTY TRANSACTIONS

The Company had no transactions with Directors or Key Management Personnel during the year ended 31st December 2019 (2018: nil) except for the transactions relating to directors' emoluments disclosed in Note 5.

24. EVENTS AFTER THE BALANCE SHEET DATE

The rate payable by the Company to TRSCo for the provision of American Express network payment services (the billing debit) has been reduced from 1st January 2020.

With the outbreak of COVID-19 and its evolvement across the globe in the first half of 2020, management has considered the potential financial effects of the COVID-19 pandemic when preparing the Company's financial statements for the year ended 31st December 2019. As of 7th July 2020, there is no indication of any adjusting events impacting the financial position of the Company at the reporting date, therefore management has determined this to be a non-adjusting post balance sheet event. However, the Company now faces new risks from COVID-19, such as a reduction in discount revenue earned from merchants due to lower cardmember spend, lower discount rates and increased merchant credit risk.

The deterioration of revenues due to lower cardmember spend and lower discount rates, and the non-recovery of balances owed by merchants, has had a negative impact on the Company's earnings. In addition, certain categories of the Company's revenue from services to other Group companies are linked to the performance of AEPE's merchant acquiring business. The deterioration in the performance of this subsidiary has also resulted in a reduction to the Company's earnings. Management will continue to closely monitor the position, but do not consider the forecasted impact to the Company's profitability to represent a significant going concern risk, given the capital resources available and ongoing support of the Group.

The balance sheet, capital and liquidity profile of American Express Company remains very strong, with access to broad and well diversified funding sources, providing significant flexibility to maintain the strength of the balance sheet in periods of uncertainty or stress. The Group is closely monitoring the rapidly changing macroeconomic environment and is actively managing its balance sheet to reflect evolving circumstances, suspending share repurchases to support its objective of remaining financially strong against a backdrop of a highly uncertain operating environment and outlook. While the expansion of the COVID-19 pandemic has led to significant volatility in funding markets, the Group believes that it has sufficient liquidity sources to meet all internal and regulatory liquidity requirements. Accordingly, the ongoing support from the Group, recoverability of amounts due from affiliates, and continued access to liquidity sources is not considered to be significantly at risk.