

American Express Services Europe Limited

Registered number 01833139

**REPORT AND FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2012**

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American Express Services Europe Limited

Report and Financial Statements for the year ended 31 December 2012

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American Express Services Europe Limited

Officers & Advisors

DIRECTORS

B Walsh – Chairman
D Bailey – Chief Financial Officer
P Hargreaves
R Nickson
E Turner
C Walsh

SECRETARY

Eversecretary Limited

AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

BANKERS

Lloyds TSB Bank PLC
25 Gresham Street
London
EC2V 7HN

REGULATOR

Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

REGISTERED OFFICE

Belgrave House
76 Buckingham Palace Road
London SW1W 9AX

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2012

The Directors present their report and the audited financial statements of American Express Services Europe Limited ("the Company") for the year ended 31 December 2012

PRINCIPAL ACTIVITY

The Company is part of the American Express group of companies. The principal activity of the Company is the provision of financial services in relation to payment services.

The Company is an authorised payment institution and is regulated by the Financial Conduct Authority ("FCA").

The Company is engaged in the issuing of a wide range of charge and revolving credit cards, including the provision of products and services related to consumers and corporate clients. The Company also offers a range of foreign currency payment solutions, together with a range of rewards schemes which award cardmembers points based on the amount they spend.

The majority of customer services related to the issued cards are provided by the Company through its own organisation. The Company also operates some of its activities outside of the UK in selected countries where it has established branches for the purpose. Branches are operated in Italy, Germany, The Netherlands, Poland, Hungary, Denmark, Norway, Sweden, Finland, Ireland and Switzerland.

The Company also provides services to other companies within the American Express group of companies.

BUSINESS REVIEW

Objectives of the Company

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

Strategy

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

The core elements of the Company's strategy are:

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

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2012 (*continued*)

Measurement

A number of performance indicators are used to monitor the Company's progress against our strategies and objectives. As part of the monitoring of the Company's financial performance, we review the accounts receivable balance and associated credit indicators, cardmember billings, loss provisions, profitability and revenue growth. In addition, non-financial indicators are monitored including cardmember attrition, new card acquisitions, and number of cards in force.

Performance

The Company saw continued growth in billings among consumers and corporate customers across its European business, although this growth was offset by the impact of foreign exchange fluctuations. Total billings for the year to 31 December 2012 increased 1% on the year to 31 December 2011.

The Company continues to be a leading innovator in the payments sector evidenced by its recent awards at the UK Card and Payments Industries Awards in February 2013.

Cards in force as at December 2012 were 1% lower than the total at December 2011. This trend reflects continued efforts to improve the quality of the Company's cardmember base, with managed attrition of higher risk and dormant cardmember accounts, and a focus on attracting and retaining high spending premium cardmembers.

Cardmember accounts receivable net of provisions for credit and fraud losses at 31 December 2012 stood at £2.6bn (2011: £2.4bn).

Total turnover for the year ended 31 December 2012 decreased by 1%. Growth in revenues earned on card member billings and foreign currency international payments were offset by declines in revenues earned on cardmember fees, interest from revolving credit card balances and revenues earned on provision of services to other companies within the American Express group.

The Company continues to invest in advertising and promotion activities in anticipation of the European economic recovery and with a view to investing in its future growth.

The steps the Company has taken in recent years to manage credit risk have resulted in write offs during 2012 remaining at historically low levels. In 2011 the credit and fraud loss provision expense benefited from incremental releases in provision as a result of improved credit performance. In 2012 the credit and fraud loss provision expense has increased driven by the need to sustain provision levels in line with a growing business.

Pre-tax profit for the Company decreased by 50% compared to the previous year, driven by an increase in credit and fraud loss provisions, staff costs, and the negative impact of foreign exchange fluctuations.

Regulation

Until 31 March 2013 the Company was regulated by the Financial Services Authority ("FSA"). On 1 April 2013 the FSA was replaced by the FCA.

The Company operates as an authorised payment institution, supervised by the FCA, and uses this status to provide payment services under the payment services passport in other countries within the European Economic Area.

Governance

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

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2012 (*continued*)

Governance (*continued*)

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

- The Audit and Finance Committee
- The 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 Risk Committee supports the board by giving oversight to the key risks identified for the Company. The Committee has oversight of significant changes and issues arising within the Company. In March 2013 the responsibilities of the Risk Committee were expanded to include those previously carried out by an Outsourcing committee. The Risk committee is now also responsible for ensuring that clear, effective and compliant processes are in place for managing third party and affiliate outsourcing arrangements.

As an authorised payment institution, the Company is required to maintain capital levels which exceed a prescribed level of minimum capital and safeguard relevant funds, as required by the Payment Services Regulations 2009. Capital monitoring processes are in place to ensure the Company exceeds the minimum capital requirements at all times.

In 2012, a number of changes occurred to the Board of Directors reflecting organizational realignments and a continued focus on senior management representation. This includes the appointment to the Board of Directors of Mr Colin Walsh, Executive Vice President of Proprietary Card Services Europe and UK Country Manager.

Outlook, Risks and Uncertainties

In line with American Express group strategy, the Company is focused on maintaining growth in a slow growth environment whilst managing costs and upholding service quality.

Despite a difficult economy and intense competition, the investments made over the past several years have sustained growth positioning the Company well to continue to increase market share in the payments industry sector, and have also enabled operations to be redesigned leading to improved efficiency and customer service.

Having a lean and flexible operating structure is a critical element in the Company's growth strategy. To help in that regard, the company is implementing a restructuring program to reduce operating expenses further in 2013. The goal is to make the Company more nimble, more efficient and more effective in using resources to drive growth, even in a slow-growth environment.

The main uncertainty facing the Company is the recovering yet still fragile economy. The company is transforming in order to capitalise on new opportunities for growth.

After making enquiries and giving consideration to the ongoing availability of funding from American Express group, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2012 (*continued*)

FINANCIAL RISK MANAGEMENT

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

The Company primarily adopts the American Express group's enterprise-wide risk management policies and strategies. The mission of enterprise-wide risk management is to maintain and continuously improve risk management controls and processes in order to enable profitable growth, while delivering outstanding customer service and containing adverse surprises.

The Market Risk Policy establishes processes and criteria to minimise earnings volatility while supporting sustainable profit growth in relation to interest rate management.

Credit Risk

The Company's credit risk comprises two elements, individual and institutional, each with distinct risk management tools and metrics. Cardmember receivables are stated net of provisions for losses, which represent management's evaluation of the losses inherent in the Company's outstanding portfolio of receivables.

(i) Individual Credit Risk

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

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

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

(ii) Institutional Credit Risk

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

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

Institutional credit risk arises within the Company's corporate card business. Unlike individual credit risk, institutional credit risk is characterised by a lower loss frequency but higher severity and is affected by both general economic conditions and by borrower specific events.

Liquidity Risk

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

The Company actively maintains a mixture of long term and short term finance that is designed to ensure the Company has sufficient available funds for operations and any planned expansions.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2012 (*continued*)

Interest Rate Cash Flow Risk

The Company has both interest bearing assets and interest bearing liabilities. Interest bearing assets are primarily cash, inter-company loans that receive interest at floating short term rates and cardmember receivables. The Company has a mix of external and inter-company debt at both fixed and short term rates consistent with its business operations and enterprise-wide Market and Liquidity Risk Policies.

Foreign Exchange risk

The Company is not exposed to any significant foreign exchange risk from its operations. The Company is exposed to foreign exchange translation risk on the financial results of its European branches.

RESULTS AND DIVIDENDS

The results for the year are set out on page 10 and show the profit on ordinary activities before taxation was £44.3m (2011: £88.3m). The profit for the year after taxation amounted to £28.7m (2011: £56.2m) and has been transferred to reserves. The Directors do not propose the payment of a dividend (2011: £nil). Shareholders' funds at 31 December 2012 stood at £370.8m (2011: £341.7m).

BRANCHES OUTSIDE THE UK

The Company has branches in the following European countries: Denmark, Finland, Germany, Hungary, Ireland, Italy, The Netherlands, Norway, Poland, Sweden and Switzerland.

DIRECTORS

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

B Walsh – Chairman
D Bailey – Chief Financial Officer (appointed 11 September 2012)
P Hargreaves
M Kung (resigned 8 February 2012)
R Joabar (resigned 2 February 2012)
C Walsh (appointed 16 March 2012)
K Machin (resigned 15 May 2012)
E Turner (appointed 1 August 2012)
M Quarra (resigned 6 September 2012)
A Filshie (resigned 10 September 2012)
I Lundberg (resigned 28 September 2012)
M Edwards (resigned 10 December 2012)
R Nickson (appointed 30 January 2013)

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 remains in force as at the date of approving the Directors' report.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2012 *(continued)*

EVENTS SINCE THE BALANCE SHEET DATE

On 10 January 2013, American Express announced that it would undertake a company-wide restructuring plan designed to contain future operating expenses, adapt parts of the business as more customers transact online or through mobile channels, and provide the resources for additional growth initiatives in the United States and Internationally. The restructuring plan is expected to be substantially complete by the end of 2013. As a result of this announcement, the Company has recognized a restructuring provision of £13,500,000 in January 2013. The recognition criteria for this provision were not met as of 31 December 2012 and the provision does not form part of the Company's closing balance sheet. The Directors are not aware of any other post balance sheet events that require disclosure in the Financial Statements.

CORPORATE EMPLOYEE POLICY

The Company works to attract and retain talented people. There is strong commitment to diversity and inclusion, focusing on providing a positive work environment for all employees.

The Company places a strong emphasis on developing its employees and supports and encourages formally structured as well as self-directed learning and development.

Consultation with employees or their representatives has continued, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through regular internal communications, newsletters and briefing groups. The American Express Group carry out an annual employee survey with the results communicated to the employees.

The Company gives full consideration to applications for employment from disabled persons where they can adequately fulfil the requirements of the job. Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever possible.

The Company aims to achieve a balance between delivering market competitive remuneration in order to attract and maintain talent and optimising shareholder return. Employees participate in the American Express Company Equity-settled share-based payment plans. The awards are performance driven. A description of the plans and performance measure is available in the ultimate holding company's financial statements. See Note 4 for a summary description of the plans and the awards granted and outstanding during the year.

American Express was ranked 12th in The Sunday Times list of '25 Best Big Companies to Work For' in the UK in 2013. The company competed against hundreds of organisations to secure this position and has regularly featured on the list for the past 10 years. The ranking is particularly rewarding as it is based on employee feedback from an independent survey sent to all staff about the company's workplace culture.

American Express is rated strongly on a range of leadership dimensions, with managers considered approachable and supportive on a day to day basis. The company's investment in training and development through programmes such as e-learning and its internal reward and recognition initiatives including Rewards Blue, were also highlighted as motivating factors which set American Express apart from many other companies on this list.

American Express Services Europe Limited

Directors' Report for the year ended 31 December 2012 (*continued*)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

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 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 these financial statements, the Directors are required to

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

The Directors are 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. They 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.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors also confirm that as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that they have taken all the necessary steps to ensure that both they and the Company's auditors are aware of any relevant audit 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 trade creditors at 31 December 2012 to amounts invoiced during the year was 28 days (2011: 30 days).

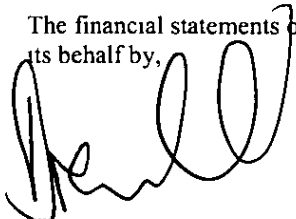
POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, the Company made charitable donations amounting to £12,000 to advance the causes of charitable organisations (2011: £91,000). No donations were made for political purposes (2011: £nil).

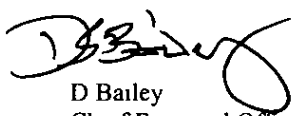
AUDITORS

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

The financial statements on pages 10 to 32 were approved by the Board of Directors on 9 April 2013 and signed on its behalf by,



B Walsh
Chairman



D Bailey
Chief Financial Officer

9 April 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AMERICAN EXPRESS SERVICES EUROPE LIMITED

We have audited the financial statements of American Express Services Europe Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Scott Berryman (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

9 April 2013

American Express Services Europe Limited

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2012

	<i>Note</i>	2012 £000	2011 £000
TURNOVER	<i>2</i>	1,098,509	1,110,034
Administrative expenses	<i>3, 4</i>	<u>(987,485)</u>	<u>(953,762)</u>
OPERATING PROFIT		111,024	156,272
Gain on disposal of investments in associated undertakings		<u>-</u>	<u>5,190</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		111,024	161,462
Interest receivable and similar income	<i>6</i>	2,136	3,649
Interest payable and similar charges	<i>7</i>	<u>(68,900)</u>	<u>(76,770)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	<i>3</i>	44,260	88,341
Tax on profit on ordinary activities	<i>8</i>	<u>(15,608)</u>	<u>(32,100)</u>
PROFIT FOR THE FINANCIAL YEAR	<i>17</i>	<u>28,652</u>	<u>56,241</u>

Turnover and operating profit all derive from continuing activities for the year ended 31 December 2012 and 31 December 2011

There is no difference between the results disclosed in the profit and loss account and the results on an unmodified historical cost basis

The notes on pages 13 to 32 form an integral part of the financial statements

American Express Services Europe Limited

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2012

	2012	2011
<i>Note</i>	£000	£000
Profit for the financial year	28,652	56,241
Foreign exchange gain	<u>1,200</u>	<u>2,807</u>
Total recognised gains for the year	<u>29,852</u>	<u>59,048</u>

American Express Services Europe Limited

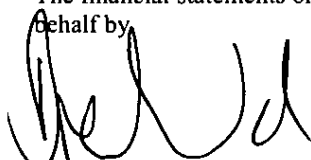
BALANCE SHEET

As at 31 December 2012

Registered number: 01833139

	Note	2012 £000	2011 £000
FIXED ASSETS			
Tangible assets	9	<u>67,187</u>	<u>57,124</u>
		67,187	57,124
CURRENT ASSETS			
Stock		544	649
Debtors	10	3,479,695	3,138,581
Cash at bank and in hand	11	<u>208,897</u>	<u>319,367</u>
		3,689,136	3,458,597
CREDITORS: amounts due within one year	12	(1,949,293)	(1,744,364)
NET CURRENT ASSETS		<u>1,739,843</u>	<u>1,714,233</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,807,030	1,771,357
CREDITORS: amounts falling due after more than one year	13	(1,256,660)	(1,256,934)
PROVISION FOR LIABILITIES	15	<u>(179,533)</u>	<u>(172,674)</u>
		<u>370,837</u>	<u>341,749</u>
CAPITAL AND RESERVES			
Called up share capital	16	191,440	191,440
Share-based payment reserve	17	16,368	17,132
Profit and loss account	17	<u>163,029</u>	<u>133,177</u>
TOTAL SHAREHOLDERS' FUNDS	18	<u>370,837</u>	<u>341,749</u>

The financial statements on pages 10 to 32 were approved by the Board of Directors on 9 April 2013 and signed on its behalf by



B Walsh
Chairman



D Bailey
Chief Financial Officer

The notes on pages 13 to 32 form an integral part of the financial statements

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2012

1. ACCOUNTING POLICIES

Accounting Convention

The financial statements are prepared on a going concern basis under the historical cost convention and in accordance with applicable UK accounting standards and the Companies Act 2006

The principal accounting policies which have been consistently applied throughout the year are set out below

Cash Flow Statement, Related Party Disclosure and Segmental Reporting

The Company has taken advantage of the exemption in FRS 1 (revised 1996) 'Cash Flow Statements', not to prepare a cash flow statement given that 100 per cent of its voting rights are controlled within the group, and its cash flows are included in the consolidated financial statements of American Express Company, which are available from the address given in note 23

The Company has taken advantage of the exemption in FRS 8 (Paragraph 3c) 'Related Party Transactions', not to disclose transactions with other wholly owned entities within the American Express group. The consolidated financial statements of American Express Company are publicly available and may be obtained from the address given in note 23. For details of all other Related Party Transactions see note 22

The Company has taken advantage of the exemption in SSAP 25 not to disclose segmental analysis given that full segmental disclosures are presented in consolidated financial statements of American Express Holdings Limited, the Company's immediate parent

Turnover

Turnover comprises revenue derived from cardmember spending, card fees, interest income on lending products, other commission and fees and income from services to other American Express group companies. Turnover is shown net of value added tax. Income from cardmember spending is recognised in the period in which the cardmember spend occurs. Card fees are deferred and recognised on a straight-line basis over the 12-month card membership period, net of projected membership cancellations. Interest income on lending products is assessed using the average daily balance method. Interest is recognised as earned based upon the principal amount outstanding in accordance with the terms of the applicable account agreement until the outstanding balance is paid or written-off.

Income from services to other American Express group companies is recognised in the period in which the service was provided.

The Company makes volume-based incentive payments to card members and corporate clients under contractual arrangements, where certain performance criteria may need to be met. These rebates are treated as discounts and are deducted from Turnover.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets by the straight line method against cost over the expected useful life of the assets as follows:

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

The carrying values of tangible fixed assets are reviewed for impairment periodically, or if events or changes in circumstances indicate the carrying value may not be recoverable.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

1. ACCOUNTING POLICIES *(continued)*

Investments in associated undertakings

Investments in associated undertakings are stated at cost unless, in the opinion of the Directors, there has been a permanent diminution in value, in which case an appropriate provision is made

Foreign currencies

Transactions of the Company denominated in foreign currencies are translated into sterling at the rates applicable at the end of the month in which the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates prevailing at the end of the year. Resulting exchange gains and losses are borne by a related group entity.

The assets and liabilities of foreign branches are translated into sterling at the year end rate of exchange. Gains and losses arising on retranslation of opening net assets are taken directly to reserves. The profits and losses of foreign branches are translated at rates applicable at the end of the month in which the transaction occurred. The differences resulting from the restatement of profits from month end to year end rates are taken directly to reserves.

Leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Membership Rewards provision

The provision for the cost of Membership Rewards is based upon points awarded that are ultimately expected to be redeemed by cardmembers and the weighted average cost per point of redemption. The ultimate number of points that may be redeemed is estimated based on many factors, including a review of cardmembers' past behaviour segmented by product, their spending levels, their year of enrolment and duration in the scheme. Past behaviour is used to predict when current cardmembers will attrite and their ultimate redemption rate. The weighted average cost per point is affected by the mix of redemptions.

Due to uncertainty over when points will be redeemed by cardmembers, the Directors do not believe that discounting the provision is appropriate. In addition to the variables outlined above, the provision will be affected over time as a result of changes in the number of cardmembers in the Membership Rewards scheme, the actual amount of points awarded and redeemed, the actual weighted average cost per point, the economic environment, the availability of Membership Rewards offerings by vendors, the choices that cardmembers make in considering their rewards options, and possible changes that the Company could make to the Membership Rewards scheme in the future.

Provision for credit losses

Provisions for credit losses relating to cardmember receivables represent management's evaluation of the losses inherent in the Company's outstanding portfolio of receivables. Management's evaluation process requires certain judgments. Provisions for these losses are primarily based upon models that analyse portfolio performance and reflect management's judgment regarding overall reserve adequacy. The analytic models take into account several factors, including average losses and recoveries over an appropriate historical period. Management considers whether to adjust the analytic models for specific factors such as increased risk in certain portfolios, impact of risk management initiatives on portfolio performance and concentration of credit risk based on factors such as tenure, industry or geographic regions. In addition management adjusts the provision for credit losses for other external environmental factors such as leading economic and market indicators, and the legal and regulatory environment.

Cardmember accounts receivables which have aged more than 180 days past due are written off in full. Subsequent recoveries of amounts previously written off are recorded in the profit and loss account as received.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

1. ACCOUNTING POLICIES *(continued)*

Generally, due to the short-term nature of cardmember receivables, the impact of the other external environmental factors on the inherent losses in the portfolio is not significant. As part of this evaluation process, management also considers various provision coverage metrics, such as provisions as a percentage of past-due amounts, provisions as a percentage of cardmember receivables and net write-off coverage.

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 benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are disclosed where there is a present obligation but the amount cannot be estimated reliably or where there is a possible obligation that will probably not require a transfer of economic benefit.

The Company reviews its potential liabilities and contingencies on a regular basis. In certain circumstances liabilities may arise for which the Company would be indemnified by its parent company. In such situations no provision would be recognised.

Sale of cardmember receivables

Credit and charge card receivables for specific markets are sold without recourse to an affiliated company on a cyclical basis. For receivables sold without recourse the asset and liability is derecognised from the balance sheet.

Cardmember receivables acting as security

Cardmember receivables can be used as security against amounts owed to another American Express group entity. These amounts remain recognised as Cardmember receivables within Debtors (note 10).

Pensions

American Express provides pension arrangements for employees through defined benefit plans in the UK, the Netherlands, Germany and Italy, and through defined contribution schemes in the UK, Germany and Sweden.

American Express' defined benefit arrangements and the related costs of the plans are assessed in accordance with the advice of qualified independent actuaries. The participating employers are not able to identify their share of the underlying assets and liabilities on a consistent and reasonable basis, and so account for the plans as if they were a defined contribution arrangement. Contributions are charged to the profit and loss account 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.

Deferred tax

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed, by the balance sheet date, subject to the following exception:

- Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

1. ACCOUNTING POLICIES *(continued)*

Share based compensation plans

The Company engages in equity-settled share-based awards in respect of services received from certain of its 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 profit and loss account over the period that the services are received, which is the vesting period. The fair value of options granted is determined by using an option-pricing model (the Black-Scholes-Merton valuation model), which takes into account the relevant inputs and assumptions as described in note 4.

As options and awards on ultimate parent 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.

Share based compensation plans – Portfolio Grants

In order to ensure that market conditions are reflected in the fair value of Portfolio Grants, the Company determines fair values using a Monte-Carlo model.

Classification of Financial Instruments issued by the Company

As per FRS 25 'Financial Instruments - Presentation and Disclosure', financial instruments issued by the Company are treated as equity (i.e. part of shareholders' funds) only to the extent that they meet the following condition:

- They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company.
- To the extent that this condition is not met, the proceeds of issue are classified as a financial liability.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Financial instruments arising from the Company's operations include amounts owed to and from group companies, and are included within the creditors and debtors to group companies and are recorded at recoverable value.

Derivative Financial Instruments

The Company has elected not to adopt FRS 26 'Financial Instruments – recognition and measurement'. Gains and losses on Forward Foreign Currency contracts are recognised on maturity of the underlying transaction.

Interest receivable and payable

Interest payable is recognised in the profit and loss account as it accrues.

Cash at bank and in hand

Cash at bank and in hand includes cash and amounts due from banks. It also includes funds held on behalf of customers in safeguarded accounts.

Business acquisitions

The identifiable assets and liabilities of acquired businesses are included in the financial statements at their fair value at the date of acquisition. To the extent that consideration exceeds these fair values, goodwill is recognised.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2012

2 TURNOVER

Turnover comprises revenue derived from card member spending, card fees, other commissions and interest income on lending products of £828,539,000 (2011 £833,776,000), and income from services to other American Express group companies of £269,970,000 (2011 £276,258,000)

Segmental reporting of Turnover and profit by region of origin is disclosed within the financial statements of the immediate parent company, American Express Holdings Limited

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2012 £000	2011 £000
Profit on ordinary activities is stated after charging/(crediting)		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	500	489
Fees payable to the Company's auditor and its associates for other,		
- Services pursuant to legislation	4	4
- Other – IXBRL tagging of financial statements	13	15
Depreciation of tangible fixed assets - owned	13,104	10,519
Loss on disposal of fixed assets	5	31
Gain on disposal of investments	-	(5,190)
Operating lease rentals		
- land and buildings	12,949	11,386
- other	3,546	4,065

Operating and administrative expenses include staff costs, cardmember reward and benefit expense, provision for losses, marketing and other administrative expenses

4. STAFF COSTS

	2012 £000	2011 £000
Wages and Salaries	237,830	231,667
Other employee benefits	12,901	12,023
Payroll taxes	38,285	39,192
Pension costs	22,337	13,558
Stock Compensation Expense	6,020	7,396
	<u>317,373</u>	<u>303,836</u>

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

4. STAFF COSTS *(continued)*

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

	2012 No.	2011 No
Managers	495	474
Associates	4,511	4,532
	<u>5,006</u>	<u>5,006</u>

Equity-settled share-based payments

Equity-settled share-based payments under the 2007 Incentive Compensation Plan and previously under the 1998 Incentive Compensation Plan (the "Plans") offered by the ultimate holding corporation, 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 and Restricted Stock Awards ("RSAs"), Portfolio Grants ("PGs") and other similar awards. A summary of stock options and restricted stock award activity as of 31 December 2012 and changes during the year are presented below.

	Stock Options		Restricted Stock Awards	
	Shares Number	Weighted average exercise price* \$	Shares Number	Weighted average grant price* \$
<u>January 2012 – December 2012</u>				
Outstanding at 1 January 2012	1,102,345	40.68	717,600	31.38
Changes in estimates	26,885	-	2,916	-
Granted during the year	10,462	40.51	205,135	49.48
Transferred in / out	(47,796)	-	(13,530)	-
Forfeited during the year	(12,100)	36.35	(43,651)	36.45
Exercised during the year	(455,628)	38.93	(296,892)	29.56
Outstanding at 31 December 2012	624,168	42.37	571,579	38.43
Exercisable at 31 December 2012	544,009	44.18	N/A	N/A
<u>January 2011 – December 2011</u>				
Outstanding at 1 January 2011	1,625,129	38.78	828,031	27.54
Changes in estimates	(10,227)	-	(5,633)	-
Granted during the year	17,850	44.54	210,043	44.82
Transferred in / out	8,541	-	56,803	-
Forfeited during the year	(28,777)	34.21	(53,362)	31.97
Exercised during the year	(510,171)	35.08	(318,282)	29.74
Outstanding at 31 December 2011	1,102,345	40.68	717,600	31.38
Exercisable at 31 December 2011	926,031	42.76	N/A	N/A

* The 2012 year end USD / GBP exchange rate was 1.617 (2011: 1.567)

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

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 the parent company's common stock on the date of grant and a contractual term of 10 years from the date of grant. Stock options vest rateably, substantially all at 25 percent per year beginning with the first anniversary of the grant date.

The fair value of each option is estimated on the date of grant using a Black-Scholes-Merton option-pricing model. The following weighted average assumptions used for grants in 2012 and 2011, the majority of which are granted at the beginning of the year:

	2012	2011
Dividend yield	1.5%	1.6%
Expected volatility	41.05%	40.5%
Risk free interest rate	1.28%	2.4%
Expected life of stock options (in years)	6.3	6.3
Weighted average fair value per option	\$17.46	\$16.13

The expected volatility is based on weighted historical and implied volatilities of the parent company's common stock price. The expected life of the options is based on historical data.

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

Range of exercise prices	31 December 2012			31 December 2011		
	Weighted average exercise price	Number of options	Weighted average remaining contractual life / Years	Weighted average exercise price	Number of options	Weighted average remaining contractual life / Years
\$16.00 - \$31.00	19.89	145,617	4.59	21.49	276,344	4.82
\$31.01 - \$40.00	36.68	34,561	6.64	34.01	143,483	1.57
\$40.01 - \$58.00	50.19	443,990	3.49	49.86	682,518	5.11

The fair value of options granted in 2012 determined using the Black-Scholes-Merton valuation model was £115,000 (2011: £180,000).

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

4. STAFF COSTS *(continued)*

(b) Restricted Stock Awards ("RSA")

An RSA grant is a grant of the parent company's common stock in which the employee's rights in the stock are restricted until the shares vest, subject to continuous employment. Once vested, the employees receive common shares of the parent company stock.

RSAs are valued based on the stock price on the date of grant and recognised rateably over the vesting period, which is generally 25 percent per year, beginning with the first anniversary of the grant date. RSA holders receive non-forfeitable dividends or dividend equivalents. As of 31 December 2012, the total outstanding RSAs are expected to vest over a weighted average period of 1.0 year (2011: 1.0 year).

(c) Portfolio Grants ("PG")

The parent company awards portfolio grants that earn value based on the parent company's financial performance and total shareholder return versus that of the S&P 500 Index. Generally, the awards cliff vest after a 3-year performance period. The fair value of the award is estimated at the date of grant using a Monte-Carlo model.

The parent company issued 768,000 portfolio grants in 2012 (2011: 738,000) and recorded an expense of £282,000 (2011: £371,000).

Stock Compensation Expense

The components of the Company's pre-tax stock-based compensation expense (net of cancellations) for the year ended 31 December 2012 are as follows:

	2012 £000	2011 £000
Stock Options	266	451
Restricted Stock Awards	5,472	6,574
Portfolio Grants	<u>282</u>	<u>371</u>
	<u>6,020</u>	<u>7,396</u>

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

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

5. DIRECTORS' REMUNERATION

	2012 £000	2011 £000
Emoluments	1,349	3,082
Amounts receivable under long term incentive schemes	74	263
Pension costs	35	64
	<u>1,458</u>	<u>3,409</u>
Compensation for loss of office	<u>9</u>	<u>-</u>

The number of directors to whom retirement benefits were accruing in respect of qualifying services during the year ended 31 December 2012 were as follows

	2012 No.	2011 No.
Money purchase schemes	10	6
Defined benefit schemes	<u>4</u>	<u>7</u>

Where a director was accruing retirement benefits under both money purchase and defined benefit schemes during the year they are reflected in both categories

During the year nine (2011: ten) directors exercised share options in American Express Company, the ultimate parent company, and/or received common stock in American Express Company as a result of RSAs and PGs vesting in the period

Three directors were employed by and received their remuneration from another American Express group company, their remuneration was not recharged to the Company

The following payments were made in respect of the highest paid director

	2012 £000	2011 £000
Emoluments including amounts receivable under long term incentive schemes	444	696
Pension Costs	<u>20</u>	<u>15</u>
	<u>464</u>	<u>711</u>
Defined benefit retirement scheme - Accrued lump sum	<u>-</u>	<u>126</u>

The highest paid director did not receive share options in American Express Company, the ultimate parent company, during the year ended 31 December 2012. The highest paid director received an RSA grant but will not receive common stock in American Express Company until the RSAs are fully vested

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

6. INTEREST RECEIVABLE

	2012 £000	2011 £000
Group undertakings	1,756	2,678
Other interest receivable	380	651
Investment income	-	320
	<u>2,136</u>	<u>3,649</u>

7. INTEREST PAYABLE

	2012 £000	2011 £000
Group undertakings	68,375	75,486
Other interest payable	525	1,284
	<u>68,900</u>	<u>76,770</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2012 £000	2011 £000
<u>Current tax</u>		
<i>UK Tax</i>		
Current year at 24.5% (2011: 26.5%)	11,071	20,248
Prior year adjustments	2,676	598
Less: relief for overseas tax	(3,117)	(4,201)
	<u>10,630</u>	<u>16,645</u>
<i>Overseas tax</i>		
Current year	8,208	9,625
Prior year adjustments	(4,211)	2,549
Total Current Tax	<u>14,627</u>	<u>28,819</u>
<u>Deferred Tax</u>		
Origination and reversal of timing differences	(4,688)	(2,060)
Effect of tax rate change	5,669	5,341
Total Deferred Tax	<u>981</u>	<u>3,281</u>
Total tax on profit on ordinary activities	<u>15,608</u>	<u>32,100</u>

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2012

8. TAX ON PROFIT ON ORDINARY ACTIVITIES *(continued)*

Factors affecting the tax charge for the year

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 24.5%.

As a result of the change in UK corporation tax rate from 26% to 24% that was substantially enacted on 26 March 2012 (effective from 1 April 2012) and the subsequent change to 23% substantially enacted on 3 July 2012 (effective from 1 April 2013) the relevant deferred tax balances have been remeasured.

Further reductions to the standard rate of corporation tax are proposed to reduce the rate by 2 per cent to 21% from 1 April 2014 and then by 1 per cent to 20% from 1 April 2015. These proposed changes to the rate had not been substantively enacted at the balance sheet date and, therefore, have not been reflected in the measurement of the deferred tax asset. If they had been enacted at the balance sheet date, the impact would be to reduce the deferred tax asset at 31 December 2012 by a further £4.1m.

The current year tax charge is higher than that at the effective rate (24.5%) and the differences are set out below.

	2012 £000	2011 £000
Profit on ordinary activities before tax	44,260	88,341
Tax on profit/(loss) on ordinary activities at effective rate 24.5% (2011: 26.5%)	10,844	23,410
<u>Adjusted for the effects of</u>		
Permanent differences	(2,111)	(3,845)
Timing differences	2,338	682
Foreign taxes utilised	(3,117)	(4,200)
Overseas taxes	8,208	9,625
Prior year adjustments	(1,535)	3,147
	<u>14,627</u>	<u>28,819</u>

Deferred tax

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

	Share-based payments £000	Other timing differences £000	Total £000
At 1 January 2012	1,660	65,910	67,570
(Debit) / Credit to profit & loss account	(485)	5,173	4,688
Tax rate change	(107)	(5,562)	(5,669)
At 31 December 2012	<u>1,068</u>	<u>65,521</u>	<u>66,589</u>

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS (*continued*) For the year ended 31 December 2012

9. TANGIBLE ASSETS

	Leasehold improvements £000	Furniture and fittings £000	Plant and machinery £000	Assets in course of construction £000	Total £000
Cost:					
At 1 January 2012	68,985	10,794	45,266	8,926	133,971
Exchange differences	(268)	(74)	(151)	(3)	(496)
Transfers (to)/from other group companies	1,175	-	319	(1,125)	369
Additions	835	529	9,202	12,482	23,048
Transfers between asset classes	11,075	1,133	152	(12,360)	-
Disposals	-	-	(67)	-	(67)
At 31 December 2012	81,802	12,382	54,721	7,920	156,825
Depreciation:					
At 1 January 2012	32,690	7,186	36,971	-	76,847
Exchange differences	(42)	(58)	(145)	-	(245)
Transfers (to)/from other group companies	-	-	(1)	-	(1)
Provided during the year	6,214	1,155	5,735	-	13,104
Disposals	-	-	(67)	-	(67)
At 31 December 2012	38,862	8,283	42,493	-	89,638
Net book value					
At 31 December 2012	42,940	4,099	12,228	7,920	67,187
At 31 December 2011	36,295	3,608	8,295	8,926	57,124

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2012

10. DEBTORS

	2012 £000	2011 £000
Cardmember receivables	2,605,172	2,418,987
Amounts owed by group undertakings	663,017	514,700
Deferred tax asset	66,589	67,570
Other debtors	59,261	64,127
Prepayments and accrued income	85,656	73,197
	<u>3,479,695</u>	<u>3,138,581</u>

Cardmember receivables of £1,429,000,000 (2011 £1,332,000,000) act as security against amounts owed to another American Express group entity (See note 12)

Amounts owed by group undertakings are unsecured and repayable on demand. Prepayments and accrued income includes £21,615,000 (2011 £22,096,000) to be expensed after more than one year.

11. CASH AT BANK AND IN HAND

	2012 £000	2011 £000
Cash at bank and in hand	<u>208,897</u>	<u>319,367</u>

Included within cash at bank is £100,384,000 (2011 £109,365,000) held on behalf of customers in a safeguarding account.

12. CREDITORS amounts falling due within one year

	2012 £000	2011 £000
Bank loans and overdrafts	123,358	182,298
Trade creditors	29,842	31,077
Amounts owed to group undertakings	1,376,734	1,117,794
Other taxation and social security	7,102	4,833
Corporation Tax	3,431	8,240
Other creditors	116,247	128,362
Accruals	190,419	174,587
Deferred income	102,160	97,173
	<u>1,949,293</u>	<u>1,744,364</u>

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

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2012

13 CREDITORS: amounts falling due after more than one year

	2012 £000	2011 £000
Other creditors	6,660	6,934
Amounts owed to group undertakings	<u>1,250,000</u>	<u>1,250,000</u>
	<u>1,256,660</u>	<u>1,256,934</u>

Amounts owed to group undertakings are secured against the Company's cardmember receivables and are repayable within two to five years

14 DERIVATIVE FINANCIAL INSTRUMENTS

The Company offers a range of foreign currency payment solutions to both consumer and corporate clients, including the provision of Forward Contracts which allow clients to minimise foreign currency exposure. The Company hedges its foreign currency exposure arising on Forward Contracts with consumer and corporate clients by entering into foreign currency contracts with another group company. The Company has elected not to adopt fair value accounting for financial instruments. The following table provides the total fair value of derivatives not recognised at 31 December 2012

	2012		2011	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Forward foreign currency contracts	<u>1,601</u>	<u>(1,467)</u>	<u>2,943</u>	<u>(2,230)</u>

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

15. PROVISIONS FOR LIABILITIES

	Membership Rewards £000	Restruct- uring £000	Property make good £000	Cardmember claims for merchant disputes £000	Other £000	Total £000
Cost:						
At 1 January 2012	147,516	9,783	9,279	1,582	4,514	172,674
Exchange differences	(1,168)	(74)	-	(3)	(22)	(1,267)
Increase in provision	67,621	13,494	10,855	-	5,573	97,543
Utilisations	(58,146)	(11,361)	(11,679)	(472)	(2,650)	(84,308)
Releases	-	(5,109)	-	-	-	(5,109)
At 31 December 2012	155,823	6,733	8,455	1,107	7,415	179,533

Membership Rewards provision

The provision for the cost of Membership Rewards is based upon points awarded that are ultimately expected to be redeemed by cardmembers and the current weighted average cost per point of redemption. The cumulative balance sheet liability for unredeemed Membership Rewards points is adjusted over time based on actual cost and redemption experience with respect to redemptions.

Restructuring provision

During 2012, the Company recognised £13,494,000 (2011: £12,370,000) of restructuring charges, and (£5,109,000) (2011: (£4,021,000)) for adjustments of previously accrued amounts due to revisions of prior estimates. The 2012 activity primarily relates to restructuring charges the Company recognised to further reduce its operating costs by downsizing and reorganising certain operations.

Property make good provision

The property make good provisions represent the estimated cost of returning buildings leased by the Company to their original state prior to their occupation by American Express, where the requirement to do so is specified in the terms and conditions of the lease.

Cardmember claims for merchant disputes

The cardmember claims for merchant disputes provision represents the Company's liability arising from billing disputes between cardmembers and merchants (in the event of bankruptcy or liquidation of the merchant), primarily for non-delivery of goods and services purchased. The Company credits the cardmember account for the amount of the purchase and seeks recovery from the merchant via another group company.

Other provisions

Other provisions comprise the aggregate anticipated cost of various outstanding litigation cases, none of which are significant in isolation, estimated payments potentially due to third parties, as well as the expected future cost of employers' National Insurance on outstanding share-based awards in respect of services received from certain of the Company's employees.

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

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

16 CALLED UP SHARE CAPITAL

Issued, called up and fully paid

	2012 No.	2011 No	2012 £000	2011 £000
Ordinary shares of £1 each	164,001,000	164,001,000	164,001	164,001
Preference shares of \$1 each	47,604,000	47,604,000	27,439	27,439
	<u>211,605,000</u>	<u>211,605,000</u>	<u>191,440</u>	<u>191,440</u>

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

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

17 STATEMENT OF MOVEMENTS ON RESERVES

	Share based payment reserve £000	Profit and loss account £000	Total £000
At 1 January 2012	17,132	133,177	150,309
Share-based payments	6,020	-	6,020
Amounts paid for share-based payments in the year	(6,784)	-	(6,784)
Profit for the year	-	28,652	28,652
Foreign exchange differences	-	1,200	1,200
At 31 December 2012	<u>16,368</u>	<u>163,029</u>	<u>179,397</u>

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012 £000	2011 £000
Profit for the financial year	28,652	56,241
Exchange differences	1,200	2,807
Share-based payments	6,020	7,396
Amounts paid for share-based payments in the year	<u>(6,784)</u>	<u>(6,382)</u>
Net addition in shareholders' funds	29,088	60,062
Opening shareholders' funds	<u>341,749</u>	<u>281,687</u>
CLOSING SHAREHOLDERS FUNDS	<u>370,837</u>	<u>341,749</u>

19. PENSION COSTS

American Express provides pension arrangements for employees through defined benefit plans in the UK, the Netherlands, Germany and Italy, and through defined contribution schemes in the UK, Germany and Sweden

The most significant of the above schemes is in the UK, where American Express provides pension arrangements for employees through both a defined benefit plan, the American Express UK Pension Plan ('the Plan'), and through a defined contribution stakeholder pension scheme. The Plan was closed to new entrants during the year ended 31 December 2006.

The Plan is a defined benefit arrangement and the related costs of the Plan are assessed in accordance with the advice of qualified independent actuaries. The participating employers are not able to identify their share of the underlying assets and liabilities on a consistent and reasonable basis, and so account for the Plan as if it were a defined contribution arrangement.

The most recent full actuarial valuation of the Plan was conducted as at 31 December 2011 using the projected unit method. Based on this valuation, the Company's actuary has estimated the Plan's funding level at 31 December 2012 in accordance with the valuation method required under FRS 17.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

19. PENSION COSTS *(continued)*

The assumptions used to value the Plan's liabilities on this basis and the results obtained are set out below

Assumptions		Nominal % pa		
		2012	2011	2010
Discount rate		4.30	4.90	5.50
Rate of increase in salaries (exclusive of promotional increases)		3.70	3.90	4.50
Rate of increase in payment of post 88 GMP pensions		1.75	1.70	2.60
Rate of increase in payment of pensions accrued between April 1997 and April 2005		2.65	2.75	3.35
Rate of increase in payment of pensions accrued after April 2005		1.80	1.85	2.20
Rate of increase in price inflation				
RPI		2.70	2.90	3.50
CPI		2.00	1.90	-
Mortality assumption	Base table	SAPS light table	SAPS light table	SAPS light table
	Cohort improvements	Medium Cohort	Medium Cohort	Medium Cohort
	Underpin	Floor of 1.25% per annum	Floor of 1.25% per annum	Floor of 1.25% per annum
Estimated funding level		£m	£m	£m
Present value of liabilities (including £69.8m of AVCs)		835	761	752
Market value of assets (including £69.8m of AVCs)		763	691	707
(Deficit)/Surplus		(72)	(70)	(45)
Funding level		91%	91%	95%

The assets and liabilities shown above include defined contribution assets and liabilities from AVCs as at 31 December 2012 of £69,800,000. The assets shown above also include the Plan's net current assets of £3,200,000 as at 31 December 2012.

During calendar year 2012, the Company made contributions to the Plan totalling £10,000,000 in line with the Schedule of Contributions. There were no ad hoc contributions. The pension cost for 2012 for the Company was therefore £10,000,000 (2011: £3,048,000). This pension cost excludes employer AVC matching contributions but includes all other employer contributions paid during 2012 in accordance with the Schedule of Contributions. Members of the defined benefit scheme are able to make additional voluntary contributions into a separate defined contribution scheme, the Company matches contributions up to a specified limit. Contributions made by the Company during the year ended 31 December 2012 were £3,118,847 (2011: £2,835,000).

There were no outstanding or pre-paid contributions in respect of the Company at the balance sheet date.

The Company also makes a Stakeholder Plan available to all employees. This is a defined contribution arrangement. Contributions by the Company during the year ended 31 December 2012 for the UK scheme were £7,553,000 (2011: £6,474,000).

The Company made contributions during the year ended 31 December 2012 of £1,819,000 (2011: £1,582,000) to retirement schemes in respect of the Company's employees located in overseas branches.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2012

20. COMMITMENTS

At 31 December 2012 the Company had Co-Brand commitments of £79,500,000 (2011 £127,500,000) in respect of non-cancellable minimum annual payments and marketing fees. This amount is due to be paid over a period not exceeding nine years. The Co-Brand agreements allow the Company to issue both Consumer and Corporate Co-Branded products.

At 31 December 2012 the Company had commitments of £23,556,000 (2011 £18,229,000) in respect of deferred dividends, accrued but not declared or paid to holders of preference shares. Deferred dividends accrue in respect of these preference shares in any year where the distributable profits meet a specified threshold but no preference share dividend is declared. The preference share dividend becomes payable in the event of liquidation or capital reduction or at the discretion of the board of Directors.

At 31 December 2012 the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and Buildings		Other	
	2012	2011	2012	2011
	£000	£000	£000	£000
Operating leases which expire				
within one year	957	76	296	427
within two to five years	2,268	2,182	2,003	1,532
in over five years	9,110	10,314	-	-
	<u>12,335</u>	<u>12,572</u>	<u>2,299</u>	<u>1,959</u>

21. CONTINGENT LIABILITIES

Certain American Express Group companies in the UK, including the Company, participate in a group banking arrangement with a third party bank ("the Bank"). Under the terms of this arrangement, the Company's cash deposits with the Bank are available to be offset against outstanding overdraft balances of other participating American Express Group companies. The Company's exposure to this arrangement is limited to the non-safeguarded funds held with the Bank which, as at 31 December 2012, amounted to £1,267,258.

Safeguarded funds are held with other third party banks and so do not form part of the group banking arrangement.

American Express Services Europe Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2012

22. RELATED PARTY TRANSACTIONS

The following directors held American Express personal and corporate cards during the year which are issued by the Company under the normal terms of business

	Balance at 1 January 2012	Highest balance in the year	Balance at 31 December 2012
	£	£	£
B Walsh	19,921	42,962	16,140
P Hargreaves	3,878	12,498	8,024
C Walsh (appointed 16 March 2012)	-	20,982	19,823
E Turner (appointed 1 August 2012)	-	23,448	11,083
D Bailey (appointed 11 September 2012)	-	14,800	3,135
R Joabar (resigned 2 February 2012)	9,542	19,743	-
M Kung (resigned 8 February 2012)	32,082	55,836	-
K Machin (resigned 15 May 2012)	4,824	18,566	-
M Quarra (resigned 6 September 2012)	18,476	26,659	-
A Filshie (resigned 10 September 2012)	27,371	23,452	-
I Lundberg (resigned 28 September 2012)	2,601	36,230	-
M Edwards (resigned 10 December 2012)	9,626	22,172	-

23. PARENT UNDERTAKING

The Company's immediate parent is American Express Holdings Limited, a subsidiary of American Express International Inc. The ultimate parent and controlling entity is American Express Company, incorporated in the United States of America. American Express Company is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2012. Copies of the American Express Company financial statements can be obtained from American Express Company, American Express Tower, World Financial Center, New York, NY 10285, USA. The parent undertaking of the smallest group of undertakings in which the Company's results are included is American Express Holdings Ltd, a company registered in England and Wales.

24. EVENTS SINCE THE BALANCE SHEET DATE

On 10 January 2013, American Express announced that it would undertake a company-wide restructuring plan designed to contain future operating expenses, adapt parts of the business as more customers transact online or through mobile channels, and provide the resources for additional growth initiatives in the United States and Internationally. The restructuring plan is expected to be substantially complete by the end of 2013. As a result of this announcement, the Company has recognized a restructuring provision of £13,500,000 in January 2013. The recognition criteria for this provision were not met as of 31 December 2012 and the provision does not form part of the Company's closing balance sheet. The Directors are not aware of any other post balance sheet events that require disclosure in the Financial Statements.