American Express Europe LLC

Registered number FC11790

Financial Statements
December 31, 2018

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American Express Europe LLC

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C Barclay
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Independent auditors' report to the directors of American Express Europe LLC

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America.

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 2018; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of shareholders' 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

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 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.

Independent auditors' report to the directors of American Express Europe LLC (Continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As set out below, the directors are responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for being satisfied that they give a true and fair view of the state of affairs of the company as at 31 December 2018, and of the profit and loss for the year then ended. 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 selecting suitable accounting policies and then applying them consistently, stating whether applicable accounting principles generally accepted in the United States of America have been followed, making judgements and accounting estimates that are reasonable and prudent, 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.

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, as well as 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.

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 opinion, has been prepared for and only for the company's directors as a body for management purposes to assist you to discharge your stewardship obligations and fiduciary responsibilities in accordance with our engagement letter dated 3 December 2018 and for no other purpose. We do not, in giving this opinion, 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, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 May 2019

American Express Europe LLC
Income Statement

Years Ended December 31 (*US$ Thousands*)	Note	2018	2017
Revenues			
Travel commissions and fees		**14,192**	15,692
Intercompany service fees	9	**44,024**	41,519
Other		**-**	1,994
Total non-interest revenue		**58,216**	59,205
Interest income:			
Interest on loans to affiliates	9	**22,735**	18,372
Other		**125**	59
Total interest income		**22,860**	18,431
Interest expense:			
Interest on loans from affiliates	9	**13,198**	17,038
Other		**21**	19
Total interest expense		**13,219**	17,057
Net interest income		**9,641**	1,374
Total revenues net of interest income		**67,857**	60,579
Provision for losses		**802**	1,123
Total revenues net of interest income after provision for losses		**67,055**	59,456
Expenses			
Salary and employee benefits		**37,585**	37,255
Professional services		**2,920**	5,635
Occupancy and equipment		**4,348**	6,471
Communications		**685**	1,030
Intercompany service fee expense	9	**5,571**	4,511
Other, net		**2,295**	(2,464)
Total expenses		**53,404**	52,438
Pretax income		**13,651**	7,018
Income tax benefit	5	**631**	1,851
Net income		**14,282**	8,869

The Notes on pages 9 to 25 form an integral part of the financial statements.

American Express Europe LLC
Statement of Comprehensive Income

Years Ended December 31 (*US$ Thousands*)	**2018**	2017
Net income	**14,282**	8,869
Other comprehensive income (expense):		
Foreign currency translation adjustments, net of tax	**(1,886)**	1,688
Other comprehensive income (expense):	**(1,886)**	1,688
Comprehensive income	**12,396**	10,557

The Notes on pages 9 to 25 form an integral part of the financial statements.

American Express Europe LLC
Balance Sheet

As at December 31 *(US$ Thousands)*	Note	2018	2017
Assets			
Cash and cash equivalents		**100,296**	101,508
Accounts receivable	10	**46,230**	137,452
less reserves: 2018, $1,005; 2017, $664			
Premises and equipment, less accumulated		**3**	491
depreciation: 2018, $29; 2017, $166			
Loans to affiliates	9	**1,166,975**	765,000
Due from affiliates	9	**1,299,890**	3,099,694
Derivative financial assets		**31,321**	28,680
Other assets		**178**	620
Total assets		**2,644,893**	4,133,445
Liabilities and Shareholders' Equity			
Liabilities			
Accounts payable	11	**1,012,836**	1,052,421
Short term borrowings		**612,270**	265,479
Deferred tax liability	5	**8,392**	8,752
Due to affiliates	9	**631,246**	2,586,880
Long term affiliate debt	9	**160,792**	-
Derivative financial liabilities		**30,171**	28,267
Other liabilities		**8,231**	23,087
Total liabilities		**2,463,938**	3,964,886
Contingencies and Commitments	13	**-**	-
Shareholders' Equity			
Membership interests		**50,000**	50,000
Additional paid-in capital		**85,283**	85,283
Retained earnings		**50,246**	35,964
Accumulated other comprehensive loss			
Foreign currency translation adjustments		**(4,574)**	(2,688)
Total accumulated other comprehensive loss		**(4,574)**	(2,688)
Total shareholders' equity		**180,955**	168,559
Total liabilities and shareholders' equity		**2,644,893**	4,133,445

The classification of liabilities within the 2017 comparative has been adjusted to be consistent with the current year presentation. The Notes on pages 9 to 25 form an integral part of the financial statements.

Approved by the Board of Directors on 13 May 2019 and signed on its behalf by:

C Morlen
Chairman
13 May 2019

J Huson
Director

American Express Europe LLC
Statement of Cash Flows

Years ended December 31 (*US$ Thousands*)	**2018**	2017
Cash Flows from Operating Activities		
Net income	**14,282**	8,869
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses	**341**	1,123
Depreciation and amortization	**63**	179
Deferred taxes, net	**(360)**	(1,310)
Stock-based compensation	**979**	760
Changes in operating assets and liabilities:		
Accounts receivable and accrued interest	**90,881**	(29,794)
Due to affiliates, net	**(156,808)**	(302,535)
Other operating assets	**(2,199)**	117,487
Accounts payable and other liabilities	**(52,377)**	371,793
Cash collateral	**(160)**	2,930
Net cash (used in) provided by operating activities	**(105,358)**	169,502
Cash Flows from Investing Activities		
(Increase) decrease in loans to affiliates	**(401,975)**	9,486
Purchase of plant and equipment	**(703)**	(79)
Sale of plant and equipment	**1,128**	379
Net cash (used in) provided by investing activities	**(401,550)**	9,786
Cash Flows from Financing Activities		
Net increase (decrease) in short-term borrowings	**346,790**	(396,373)
Net increase in long term affiliate debt	**160,792**	-
Net cash provided by (used in) financing activities	**507,582**	(396,373)
Effect of exchange rate changes on cash	**(1,886)**	1,688
Net decrease in cash and cash equivalents	**(1,212)**	(215,397)
Cash and cash equivalents at beginning of year	**101,508**	316,905
Cash and cash equivalents at end of year	**100,296**	101,508

The Notes on pages 9 to 25 form an integral part of the financial statements.

American Express Europe LLC
Statement of Shareholders' Equity

Years Ended December 31, 2018 and 2017 *(US$ Thousands)*	Total Shareholders' Equity	Additional Paid-in Capital	Membership Interests	Accumulated Other Comprehensive (Expense) Income	Retained Earnings
Balances as of January 1, 2017, as previously reported	156,298	85,283	50,000	(4,376)	25,391
Cumulative effect of change in accounting principle- Revenue recognition	1,704	-	-	-	1,704
Net income	8,869	-	-	-	8,869
Other comprehensive income	1,688	-	-	1,688	-
Balances as of December 31, 2017	168,559	85,283	50,000	(2,688)	35,964
Net income	14,282	-	-	-	14,282
Other comprehensive expense	(1,886)	-	-	(1,886)	-
Balances as of December 31, 2018	180,955	85,283	50,000	(4,574)	50,246

The Notes on pages 9 to 25 form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

The Company

American Express Europe LLC ("the Company") is incorporated in Delaware, United States of America (US). The Company is part of the American Express Group and has a registered branch in England and Wales (BR000897). The ultimate parent and controlling undertaking is American Express Company ("American Express"), incorporated in the US. The smallest group undertaking within which the Company is included is American Express International Inc. ("AEII") which is also incorporated in the US. Copies of the AEII financial statements can be obtained from American Express Company, 200 Vesey Street, New York, NY 10285, USA.

The Company operates with two separate divisions and accordingly has two distinct principal activities, being: the provision of travel and lifestyle services to customers through its branch operation in the UK; and the provision of services to other American Express Group companies, operating as the multicurrency clearing house for American Express internationally.

The Company has various transactions with American Express and its subsidiaries. See Note 9 to the Financial Statements for information regarding transactions with affiliates.

The Company is licensed through its travel services operations by the Civil Aviation Authority (CAA) and the International Air Transport Association (IATA) and is also a member of the Association of British Travel Agents (ABTA).

In its role as a treasury foreign exchange and settlement function, the Company, as a wholly owned subsidiary of American Express, a US Banking Entity, is required to perform various foreign exchange trading activities, for which it is required to comply with elements of the Dodd–Frank Wall Street Reform and Consumer Protection Act, including the Volcker Rule, DTCC regulatory reporting, and Margining of certain Non-Cleared Derivatives.

Principles of Preparation

By virtue of its branch operation, the Company is deemed to have an establishment in the UK and therefore complies with Part 34 of the Companies Act 2006 and SI 2009/1801 'The Overseas Company Regulations 2009'. The Company is not required to prepare and disclose accounts under parent law (Delaware General Corporation Law and the Delaware Limited Liability Company Act), so under the Overseas Company Regulations 2009 chooses to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) as issued by the Financial Accounting Standards Board (FASB), being the recognized set of standards for the preparation of financial statements in the country of incorporation.

The financial statements of the Company are prepared on a going concern basis under the historical cost convention, modified by the revaluation of financial instruments and derivatives to fair value through profit and loss. All monetary amounts are presented in thousands unless otherwise indicated.

The Board remains satisfied with the appropriateness of preparing the financials on a going concern basis following the additional consideration of the Company's ongoing support from the American Express Group. The Company has performed an evaluation of subsequent events through May 13, 2019, which is the date the financial statements were available to be issued.

Foreign Currency

The Company operates with two separate divisions, recording clear and separable activities. On this basis the divisions have been established with different functional currencies and the entity operates with a dual functional currency. For the purposes of presenting its financial statements, the Company adopts a reporting currency of US Dollars.

The travel and lifestyle services division recognizes revenues and expenses in Pounds Sterling, which are translated into US Dollars for reporting purposes at the average month-end exchange rates during the year. Monetary assets and liabilities are translated into US Dollars based upon exchange rates prevailing at the end of the year; non-

1. Summary of Significant Accounting Policies (Continued)

monetary assets and liabilities are translated at the historic exchange rate at the date of transaction. The resulting translation adjustments, along with any related tax effects are included in accumulated other comprehensive income, a component of shareholders' equity.

The clearing house division recognizes revenues and expenses in US Dollars, with transactions denominated in other foreign currencies translated into US Dollars at the average month-end exchange rates during the year. Monetary assets and liabilities are translated into US Dollars based upon 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 transaction. The resulting exchange gains and losses are borne by a related group entity.

Amounts Based on Estimates and Assumptions
Accounting estimates are an integral part of the financial statements. These estimates are based, in part, on management's assumptions concerning future events. Among the more significant assumptions are those that relate to provisions, where necessary, within accounts receivable, other liabilities, stock-based compensation expense, fair value measurement and income taxes. These accounting estimates reflect the best judgment of management, but actual results could differ.

Total Revenues Net of Interest Expense

Travel Commissions and Fees
The Company earns travel commissions and fees from travel suppliers (for example, airlines, hotel and car rental companies) on tickets issued, sales and other services based on contractual agreements. Commissions and fees from travel suppliers are recognized at the time a reservation is made, net of anticipated cancellations, or over the term of the contract.

Intercompany Service Fees
Intercompany service fees, comprising income from services provided to other American Express Group companies, are recognized in the period in which the service is provided.

Other Revenue
Other revenue includes intercompany rental income and other miscellaneous revenue, with fees being recognized in the period in which they are earned.

Interest Income
Interest income is recognized as earned and consists of interest on balances with affiliates generated as a result of the clearing house function which the Company provides to other American Express Group companies (refer to Note 9 for additional information) and bank interest on interest-bearing cash.

Interest Expense
Interest expense relates primarily to interest paid on balances with affiliates generated as a result of the clearing house function which the Company provides to other American Express Group companies and is recognized as incurred (refer to Note 9 for additional information).

Expenses

Other Expenses, net
Other expenses, net includes travel and entertainment expenses, services and supplies, and other operating expenses.

Balance Sheet

Cash and Cash equivalents
Cash and cash equivalents include cash and amounts due from banks, interest-bearing bank balances and other highly liquid investments with original maturities of 90 days or less.

1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable
Accounts receivable relate to travel and regular trade receivables due to the Company in the normal course of business, together with third party receivables in respect of clearing house activities performed on behalf of other American Express group companies.

Reserves for Losses
Reserves for losses relating to receivables represent management's best estimate of the probable inherent losses in the Company's outstanding portfolio. Management's evaluation of the process requires certain estimates and judgements.

Reserves for losses are primarily based on historical loss patterns and an evaluation of accounts receivable past due within the portfolio. Management also considers external environmental factors and reserve coverage metrics such as a percentage of past due amounts and net write off coverage.

Premises and Equipment
Premises and equipment are carried at cost less accumulated depreciation. Costs incurred during construction are capitalized and are depreciated once an asset is placed in service. Depreciation is generally computed using the straight-line method over the estimated useful lives of assets, which range from 3 to 8 years for equipment.

Due From/To Affiliates
The Company reports its amounts due from / to affiliates on a net by counterparty basis in line with the settlement arrangements in place.

Following a change to group funding arrangements, short term balances with affiliate entities are now being cash settled on a monthly basis. Any surplus cash within the affiliate entities is being loaned to other group entities through longer term structured loans.

Accounts Payable
Accounts payable relate to travel and regular vendor payables due from the Company in the normal course of business, together with third party payables in respect of clearing house activities performed on behalf of other American Express group companies.

Short Term Borrowings
Short term borrowings, defined as borrowings with a maturity date of less than one year, represents overdrafts with banks.

1. Summary of Significant Accounting Policies (Continued)

Other Significant Accounting Policies
The following table identifies the Company's other significant accounting policies, the Note and page where the Note can be found.

Significant Accounting Policy	Note Number	Note Title	Page
Fair Value Measurements	Note 3	Fair Values	13
Derivatives Financial Instruments and Hedging Activities	Note 4	Derivatives and Hedging Activities	16
Income Taxes	Note 5	Income Taxes	18
Stock Based Compensation	Note 6	Stock Plans	20
Retirement Plans	Note 7	Retirement Plans	22
Transactions with Affiliates	Note 9	Transactions with American Express and its Subsidiaries	22
Contingencies and Commitments	Note 13	Contingencies and Commitments	25

Recently Issued Accounting Standards

In June 2016, the FASB issued new accounting guidance for the recognition of credit losses on financial instruments, effective January 1, 2021 for non-public business entities, with early adoption permitted on January 1, 2020. The Company will early adopt the standard effective January 1, 2020. The guidance introduces a new credit reserving model known as the Current Expected Credit Loss (CECL) model, which is based on expected losses, and differs significantly from the incurred loss approach used today. The CECL model requires measurement of expected credit losses not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information and will likely result in earlier recognition of expected losses for the life of the assets. The Company continues to evaluate the impact the new guidance will have on its financial position, results of operations, and cash flows, but the impact is not expected to be significant. An enterprise-wide, cross-discipline governance structure has been established to implement the new standard, which continues to identify and conclude on key interpretive issues along with evaluating the existing credit loss forecasting models and processes in relation to the new guidance to determine what modifications may be required.

In February 2018, as a result of the enactment of the Tax Cuts and Jobs Act (the Tax Act), the FASB issued new accounting guidance on the reclassification of certain tax effects from accumulated other comprehensive income (loss) to retained earnings. The optional reclassification is effective January 1, 2019. The Company is evaluating whether it will adopt the new guidance along with any impacts on the Company's financial position, results of operations and cash flows, none of which are expected to be material.

In February 2016, the FASB issued new accounting guidance on leases. The accounting standard, effective January 1, 2020 for non-public business entities with early adoption permitted, requires virtually all leases to be recognized on the balance sheet. The adoption of this standard will have no impact on the Company as it holds no leases.

There are no other applicable recently issued accounting standards that the Company is aware of.

1. Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Standards

Effective January 1, 2018, the Company adopted new revenue recognition guidance issued by the FASB related to contracts with customers. The Company elected to adopt the standard using the full retrospective method, applying the standard back to January 1, 2017. The adoption of the new guidance has resulted in a change to the recognition timing of lodging and car rental commissions, which were previously recognized on a cash basis at the time commission was paid by the supplier. Under the new revenue standard, commission will be recognized at the time of reservation, net of anticipated cancellations.

The impact to the Income Statement for the years ended December 31, 2017 and 2016 was a decrease in travel commission and fees of $0.8m and $0.5m, and an increase in income tax benefit of $0.6m and $0.2m respectively. In addition, the cumulative impact to retained earnings on January 1, 2016 was an increase of $2.0m.

The impact to the Balance Sheet at 1st January 2017 was an increase in accounts receivable of $2.7m, and an increase in deferred tax liability of $1.0m. The impact to the Balance Sheet at 31st December 2017 was a decrease in accounts receivable of $0.8m, and a decrease in deferred tax liability of $0.6m.

There was no net impact to overall cash flow for the year ended December 31, 2017, however individual line items in the Statement of Cash Flows were impacted as follows: decrease in 'net income' of $0.2m (2016: decrease of $0.3m), an increase in 'adjustments to reconcile net loss to net cash provided by operating activities: deferred taxes, net' of $0.6m (2016: increase of $0.2m), and a decrease in 'changes in operating assets and liabilities: accounts receivable and accrued interest' of $0.8m (2016: decrease of $0.5m).

In January 2016, the FASB issued new accounting guidance on the recognition and measurement of financial assets and financial liabilities, which was effective and adopted by the Company as of January 1, 2018. The guidance makes targeted changes to US GAAP; specifically to the classification and measurement of equity securities, and to certain disclosure requirements associated with the fair value of financial assets and liabilities. The adoption of the guidance did not have a material impact on the Company's financial position, results of operations or cash flows.

2. Business Events

In April 2017, the Company sold the remaining assets associated with its wholesale currency service operations. This, along with the decision in late 2015 to withdraw from all UK retail foreign exchange airport locations means that the Company now has no externally focused foreign exchange service operations.

In October 2018, the Company implemented a new group funding arrangement, under which monthly balances arising from the provision of clearing and settlement services to other group companies, are being cash settled on a monthly basis. This creates cash surpluses within affiliate entities which are loaned to other group companies through long-term interest-bearing loans.

3. Fair Values

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in the absence of a principal, most advantageous market for the specific asset or liability.

US GAAP provides for a three-level hierarchy of inputs to valuation techniques used to measure fair value, defined as follows:
• Level 1 – Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity can access.

3. Fair Values (Continued)

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability, including:
– Quoted prices for similar assets or liabilities in active markets
– Quoted prices for identical or similar assets or liabilities in markets that are not active
– Inputs other than quoted prices that are observable for the asset or liability
– Inputs that are derived principally from or corroborated by observable market data by correlation or other means
• Level 3 – inputs that are unobservable and reflect the Company's own estimates about the estimates 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). The Company did not measure any financial instruments presented on the Balance Sheet at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2018 and 2017.

The Company monitors the market conditions and evaluates the fair value hierarchy levels at least quarterly. For the years ended December 31, 2018 and 2017, there were no Level 3 transfers.

Financial Assets and Financial Liabilities Carried at Fair Value
The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis, categorized by US GAAP's fair value hierarchy as Level 2 (as described in the preceding paragraphs), as of December 31:

	2018	2017
(US$ Thousands)	**Level 2**	Level 2
Assets:	**31,321**	28,680
Derivatives		
Liabilities:		
Derivatives	**30,171**	28,267

Valuation Techniques Used in the Fair Value Measurement of Financial Assets and Financial Liabilities Carried at Fair Value

For the financial assets and liabilities measured at fair value on a recurring basis (categorized in the valuation hierarchy table above) the Company applies the following valuation techniques:

Derivative Financial Instruments
The fair value of the Company's derivative financial instruments is estimated internally by using third-party pricing models where the inputs to those models are readily observable from actively quoted markets. The pricing models used are consistently applied and reflect the contractual terms of the derivatives as described below. 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 is determined based on a discounted cash flow method using the following significant inputs: the contractual terms of the forward contracts such as the notional amount, maturity dates and contract rate, as well as relevant foreign currency forward curves, and discount rates consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Credit valuation adjustments are necessary when the market parameters, such as a benchmark curve, used to value derivatives 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. Refer to Note 4 for additional fair value information.

3. Fair Values (Continued)

Financial Assets and Financial Liabilities Carried at Other Than Fair Value

The following table discloses the estimated fair values for the Company's financial assets and financial liabilities that are not required to be carried at fair value on a recurring basis as of December 31:

	2018		2017	
(US$ Thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Financial Assets for which carrying values equal or approximate fair value (excluding assets carried at fair value on balance sheet)	**2,613,549**	**2,613,549**	4,103,658	4,103,658
Financial Liabilities:				
Financial liabilities for which carrying values equal or approximate fair value (excluding assets carried at fair value on balance sheet)	**2,422,002**	**2,422,002**	3,915,657	3,915,657

The fair values of these financial instruments are estimates based upon the market conditions and perceived risks as at December 31, 2018 and require management judgement. The figures may not be indicative of their future fair values. The fair value of the Company cannot be reliably estimated by aggregating the amounts presented.

Valuation Techniques Used in the Fair Value Measurement of Financial Assets and Financial Liabilities Carried at Other Than Fair Value

For the financial assets and liabilities that are not required to be measured at fair value on a recurring basis (categorized in the valuation hierarchy table above) the Company applies the following valuation techniques to measure fair value:

Financial Assets for Which Carrying Values Equal or Approximate Fair Value

Financial assets for which carrying values equal or approximate fair value include cash and cash equivalents, accounts receivable, loans to affiliates, due from affiliates and certain other assets for which the carrying values approximate fair value because they are short-term in duration, have no defined maturity or have a market-based interest rate.

Financial Liabilities for Which Carrying Values Equal or Approximate Fair Value

Financial liabilities for which carrying values equal or approximate fair value include accounts payable, short term borrowings, due to affiliates, long term affiliate debt and certain other liabilities for which the carrying values approximate fair value because they are short-term in duration, have no defined maturity or have a market-based interest rate.

Nonrecurring Fair Value Measurements

The Company did not have any material assets that were measured at fair value for impairment on a nonrecurring basis during the years ended December 31, 2018 and 2017.

4. Derivatives and Hedging Activities

Derivatives Not Designated as Hedges
The Company has derivative financial instruments (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 a designated currency at an agreed upon rate for settlement on a specified date.

The changes in the fair value of the derivatives that are not designated as hedges are intended to offset the related foreign exchange gains or losses on 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, hence there is no impact on pre-tax earnings in the Statement of Income for the years ended December 31, 2018 and 2017.

Derivative Financial Instruments
The Company uses derivative financial instruments (derivatives) to manage exposure to various risks. Derivatives derive their value from an underlying variable or multiple variables, including, foreign exchange rates and are carried at fair value on the Balance Sheet. These instruments enable end users to increase, reduce or alter exposure to various market risks and, for that reason, are an integral component of the Company's market risk management. The Company does not transact in derivatives for trading purposes.

Market risk is the risk to earnings or asset and liability values resulting from movements in market prices. The Company's market risk exposures include foreign exchange risk related to earnings, funding, transactions and investments in currencies other than the U.S. dollar. The Company centrally monitors market risks using market risk limits and escalation triggers as defined in its Asset/Liability Management Policy. The Company's market exposures are in large part by-products of the delivery of its products and services.

The Company's market exposures are in large part bi-products of the delivery of its products and services, including the provision of travel and lifestyle services, and the provision of treasury foreign exchange clearing and settlements function for American Express internationally. The Company's foreign exchange risk is managed primarily by entering into agreements to buy and sell currencies on a spot basis or by hedging this market exposure to the extent it is economically justified through various means, including the use of derivatives such as foreign exchange forward contracts and cross currency swap contracts.

Derivatives may give rise to counterparty credit risk, which is the risk that a derivative counterparty will default on, or otherwise be unable to perform pursuant to, an uncollateralized derivative exposure. The Company manages this risk by considering the current exposure, which is the replacement cost of contracts on the measurement date, as well as estimating the maximum potential value of the contracts over the next 12 months, considering such factors as the volatility of the underlying or reference index. To mitigate derivative credit risk, counterparties are required to be pre-approved and rated as investment grade. Counterparty risk exposures are centrally monitored by the Company.

Additionally, in order to mitigate the bilateral counterparty credit risk associated with derivatives, the Company has in certain instances entered into master netting agreements with its derivative counterparties, which provide a right of offset for certain exposures between the parties. A significant proportion of the Company's derivative assets and liabilities as of December 31, 2018 and 2017 are subject to such master netting agreements with its derivative counterparties, and there are no instances in which management makes an accounting policy election to not net assets and liabilities subject to an enforceable master netting agreement on the Company's Balance Sheet.

To further mitigate bilateral counterparty credit risk, the Company exercises its rights under executed credit support agreements with the respective derivative counterparties for select foreign exchange contracts. These agreements require that, in the event the fair value change in the net derivatives position between the two parties exceeds certain dollar thresholds, the party in the net liability position posts collateral to its counterparty.

4. Derivatives and Hedging Activities (Continued)

As of December 31, 2018 and 2017, the counterparty credit risk associated with the Company's derivative financial instruments is not significant. In relation to the Company's credit risk, under the terms of the derivative agreements it has with its various counterparties, the Company is not required to either immediately settle any outstanding liability balances, or post collateral upon the occurrence of a specified credit risk-related event. The Company has no individually significant derivative counterparties and therefore, no significant risk exposure to any single derivative counterparty. Based on the assessment of credit risk of the Company's derivative counterparties as of December 31, 2018 and 2017, no credit risk adjustment to the derivative portfolio was required.

The Company's derivative financial instruments are carried at fair value on the Balance Sheet. The accounting for changes in fair value depends on the instruments' intended use and the resulting hedge designation, if any, as discussed below. Refer to Note 3 for a description of the Company's methodology for determining the fair value of its derivative financial instruments.

The following table summarizes the total fair value, excluding interest accruals, of derivative assets and liabilities as of December 31:

	Other Assets Fair Value		**Other Liabilities Fair Value**	
(US$ Thousands)	**2018**	2017	**2018**	2017
Derivatives not designated as hedging instruments				
Foreign exchange contracts	**31,481**	28,680	**30,171**	31,197
Total derivatives, gross	**31,481**	28,680	**30,171**	31,197
Less: Cash collateral netting	**(160)**	-	-	(2,930)
Total derivatives net	**31,321**	28,680	**30,171**	28,267

5. Income Taxes

The Tax Act, enacted by the U.S. government on December 22, 2017, made broad and complex changes to the U.S. tax code which required time to interpret. The SEC issued Staff Accounting Bulletin No. 118 (SAB 118) in December 2017, to provide guidance on accounting for the effects of the Tax Act. SAB 118 provides for a measurement period of up to one year from the Tax Act enactment date for companies to complete their assessment of and accounting for those effects of the Tax Act required under ASC 740, Implementation Guidance on Accounting for Uncertainty in Income Taxes, to be reported in the period of enactment. Under SAB 118, a company must first reflect the income tax effects of the Tax Act for which the accounting is complete in the period of the date of enactment. To the extent the accounting for other income tax effects is incomplete, but a reasonable estimate can be determined, companies must record a provisional estimate to be included in their financial statements. For any income tax effect for which a reasonable estimate cannot be determined, an entity must continue to apply ASC 740 based on the provisions of the tax laws in effect immediately prior to the Tax Act being enacted until such time as a reasonable estimate can be determined.

In 2017, the Company recorded a net discrete tax benefit of $4.7 million related to the Tax Act that was accounted for as a provisional estimate under SAB 118. The Company has completed its assessment of and accounting for the Tax Act, which has resulted in no change to the original provisional estimate.

The Company is a U.S. Limited Liability Company (LLC) with a branch in the UK. As such, the results of operations of the Company are included in the consolidated U.S. federal income tax return of American Express. The Company also files a separate corporate tax return in the UK. Under an agreement with American Express, taxes are recognized on a separate company basis. If income tax benefits for all future tax deductions, foreign tax credits and net operating losses cannot be recognized on a separate company basis, such benefits are then recognized based upon a share, derived by formula, of those deductions and credits that are recognizable on an American Express consolidated reporting basis.

The components of income tax expense included in the Statement of Income for the years ended December 31 were as follows:

(US$ Thousands)	**2018**	2017
Current income tax expense (benefit):		
U.S. federal	**(485)**	(3,728)
U.S. state	**264**	793
Non-U.S.	**(643)**	3,466
Total current income tax expense	**(864)**	531
Deferred income tax expense (benefit)		
U.S. federal	**314**	(276)
U.S. state	**(81)**	(203)
Non-U.S.	**-**	(1,903)
Total deferred income tax expense (benefit)	**233**	(2,382)
Total income tax expense (benefit)	**(631)**	(1,851)

5. Income Taxes (Continued)

A reconciliation of the US federal statutory tax rate to the Company's actual income tax rates for 2018 and 2017 was as follows:

	2018	2017
Combined tax at US statutory federal income tax rate	**21.0%**	35.0%
Increase (decrease) in taxes resulting from:		
State and local taxes	**1.3%**	8.4%
Non-deductible expenses & others	**3.4%**	(2.5%)
Prior year adjustment	**(30.3%)**	(0.0%)
Reduction in US income tax rate	**0.0%**	(67.3%)
Actual tax rates	**(4.6%)**	(26.4%)

The Company records a deferred income tax (benefit) or expense when there are differences between assets and liabilities measured for financial reporting and for income tax return purposes. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. A valuation allowance is established when management determines that it is more likely than not that all or some portion of the benefit of the deferred tax assets will not be realized.

The significant components of deferred tax assets and liabilities at December 31 are reflected in the following table:

(US$ Thousands)	2018	2017
Deferred tax assets:		
Reserves not yet deducted for tax purposes	**336**	35
Foreign currency translation adjustments	**1,624**	1,033
Others	**-**	29
Gross deferred tax assets	**1,960**	1,097
Deferred tax liabilities:		
Employee compensation & benefits	**10,087**	9,849
Others	**265**	-
Gross deferred tax liabilities	**10,352**	9,849
Net deferred tax liabilities	**8,392**	8,752

The Company has a net deferred tax liability of $0.02 million at December 31, 2018 for its UK operations (2017: $0.02 million). The recognition of the UK deferred tax liability or asset is offset by a deferred tax asset or liability in the U.S.

As a member of the consolidated U.S. federal income tax return of American Express, the Company is subject to the income tax laws of the United States and its states and municipalities. These tax laws are complex, and the manner in which they apply to the taxpayer's facts is sometimes open to interpretation. Given these inherent complexities, the Company must make judgments in assessing the likelihood that a tax position will be sustained upon examination by the taxing authorities based on the technical merits of the tax position. A tax position is recognized only when, based on management's judgment regarding the application of income tax laws, it is more likely than not

5. Income Taxes (Continued)

that the tax position will be sustained upon examination. The amount of benefit recognized for financial reporting purposes is based on management's best judgment of the largest amount of benefit that is more likely than not to be realized on ultimate settlement with the taxing authorities given the facts, circumstances and information available at the reporting date. The Company adjusts the level of unrecognized tax benefits when there is new information available to assess the likelihood of the outcome.

The Company does not have any unrecognized tax benefits as of December 31, 2018 and 2017. Interest and penalties on income taxes, if any, are reported in the income tax provision.

American Express is subject to examination by the Internal Revenue Service (IRS) and tax authorities in other countries and states in which American Express has significant business operations. The tax years under examination and open for examination vary by jurisdiction. The tax years under examination and open for examination vary by jurisdiction. In 2018, the Company settled its U.S. federal income tax audits for tax years 2008-2014, and the statute of limitations for these years remain open through 2019. Tax years from 2015 onwards are open for examination by the IRS. The tax years open for examination in the UK are 2016 through 2017.

The Company's income tax payable to American Express was $nil and $11 million at December 31, 2018 and 2017, respectively.

Net income taxes paid (received) by the Company were $9 million for the year ended December 31, 2018 and $4 million for the year ended December 31, 2017.

The following table shows the tax impact for the years ended December 31 for the change in accumulated other comprehensive income:

(US$ Thousands)	**2018**	2017
Comprehensive income components:		
Foreign currency translation loss, gross	**(2,477)**	(2,716)
Net income tax benefit	**591**	1,028
Foreign currency translation loss, net	**1,886**	(1,688)

6. Stock Plans

The following is a description of the American Express Stock Option and Awards Programs, sponsored by American Express, in which the Company's employees participate:

Equity-settled share-based payments

Under the American Express 2016 Incentive Compensation Plan and previously under the 2007 Incentive Compensation Plan, awards may be granted to employees and other key individuals who perform services for the Company and its participating subsidiaries. These awards may be in the form of stock options, restricted stock awards or units (RSAs) or other incentives, and similar awards designed to meet the requirements of non-U.S. jurisdictions.

6. Stock Plans (Continued)

A summary of the stock option and RSA activity as of December 31, 2018 and changes during the year are presented below:

	Stock Options		RSAs/RSUs	
	Shares	Weighted Average Grant Price	Shares	Weighted Average Grant Price
Outstanding as of December 31, 2017	-	-	29,029	US $71.30
Granted	-	-	6,931	97.98
Transferred in / transferred out [(a)]	-	-	(193)	-
Exercised/vested during year	-	-	(10,742)	78.65
Forfeited	-	-	(2,537)	94.35
Expired	-	-	-	-
Outstanding as of December 31, 2018	-	-	22,488	$73.35
Options vested and expected to vest as of December 31, 2018	-	-	-	-
Options exercisable as of December 31, 2018	-	-	-	-

(a) Represents awards to employees who transferred in or out of the Company to other American Express subsidiaries.

The Company recognizes the cost of employee stock awards granted in exchange for employee services based on the grant-date fair value of the award, net of expected forfeitures. Those costs are recognized rateably over the vesting period.

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

The cost of these awards is expensed by the Company over the vesting period of the award and a resulting liability payable to American Express is established.

No options were granted in 2018 and 2017.

Restricted stock awards and units
RSAs/RSUs are valued based on the stock price on the date of grant and contain either a) service conditions or b) both service and performance conditions. RSAs/RSUs containing only service conditions generally vest 25 percent per year beginning with the first anniversary of the grant date. RSAs/RSUs containing both service and performance conditions generally vest on the third anniversary of the grant date, and the number of shares earned depends on the achievement of predetermined Company metrics. All RSA/RSU holders receive non-forfeitable dividends or dividend equivalents. The cost of these awards is expensed by the Company over the vesting period of the award and a resulting liability payable to American Express is established. The total fair value of shares vested during 2018 and 2017 was $1.1 million and $0.7 million, respectively (based upon American Express' stock price at the vesting date).

The weighted average grant date fair value of RSAs granted in 2018 and 2017 is $97.98 and $78.34 respectively.

6. Stock Plans (Continued)

Stock Compensation Expense

The components of the Company's stock-based compensation expense (net of forfeitures) for the years ended December 31 are as follows:

(US$ Thousands)	**2018**	2017
Restricted stock awards[(a)]	**979**	760
Stock options	-	-
Total stock-based compensation expense[(b)]	**979**	760

(a) As of December 31, 2018, the total unrecognized compensation cost related to unvested RSAs/RSUs of $0.3m will be recognized rateably over the weighted-average remaining vesting period of 2.1 years.

(b) The total income tax benefit recognized in the Consolidated Statements of Income for stock-based compensation expense was $0.2 million and $0.3 million in 2018 and 2017, respectively.

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

7. Retirement Plans

The Company's employees participate in defined contribution and defined benefit retirement plans sponsored by American Express. Expenses related to the defined contribution plan are allocated by American Express to participating subsidiaries and recognized as an expense in the Company Statement of Income. The total expense for all defined contribution plans was $3.3m and $2.5m in 2018 and 2017, respectively.

Expenses related to the defined benefit plan are allocated by American Express to participating subsidiaries. The Company records expense based on actuarially determined amounts in accordance with US GAAP governing retirement benefits. When contributions are made to the pension plans or payments are made to recipients of the plan, those transactions are recorded by the Company with an offsetting charge to the related asset account. The total expense for the defined benefit pension plan was $0.3m and $0.8m in 2018 and 2017 respectively.

8. Significant Credit Concentrations

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Company's total credit exposure. The Company's customers operate in diverse industries, economic sectors and geographic regions.

The following table details the Company's maximum credit exposure by category at December 31:

(US$ Thousands)	**2018**	2017
On-balance sheet:		
Due from affiliates[(a)]	**2,493,219**	3,881,822
Financial institutions[(b)]	**105,263**	113,060
Government and agencies[(c)]	-	-
All other[(c)]	**46,230**	137,452
Total on-balance sheet	**2,644,712**	4,132,334

(a) Primarily due from affiliates and loans to affiliates but also employee loans and advances.
(b) Financial institutions primarily include debt obligations of banks.
(c) All other primarily includes accounts receivable from other corporate institutions.

At December 31, 2018 and 2017, the Company's most significant concentration of credit risk was with affiliates.

9. Transactions with American Express and its Subsidiaries

In addition to the transactions described elsewhere in the financial statements and the notes thereto, the Company has various transactions with American Express and its subsidiaries. The amounts resulting from these transactions included in the accompanying Financial Statements for the year ended December 31 are as follows:

(US$ Thousands)	**2018**	2017
Balance Sheet		
Loans to affiliates	**1,166,975**	765,000
Due from affiliates	**1,299,890**	3,099,694
Due to affiliates	**631,246**	2,586,880
Long term affiliate debt	**160,792**	-
Derivative assets	**26,354**	17,128
Derivative liabilities	**14,158**	20,324

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

(US$ Thousands)	**2018**	2017
Loans to affiliates:		
American Express Credit Corporation [(a)]	**517,100**	765,000
American Express Carte France, SA [(b)]	**300,992**	-
American Express Services Europe Limited [(b)]	**158,137**	-
Cavendish Holdings Inc [(b)]	**104,260**	-
American Express de España SAU [(b)]	**57,166**	-
American Express Europe SA [(b)]	**21,235**	-
American Express Bank LLC [(b)]	**8,085**	-
Total	**1,166,975**	765,000

(a) Represents unsecured loans payable on demand 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 payable at monthly intervals

(b) Represents unsecured loans payable on demand 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 paid annually in October on the third to last business day of the month until the principal is repaid.

Due from/to affiliates for the years ended December 31 comprise the following:

(US$ Thousands)	**2018**	2017
Intercompany receivables [(a)]	**1,299,890**	3,099,694
Intercompany payables [(a)]	**631,246**	2,586,880

(a) Represents intercompany positions arising from the provision of clearing and settlement services to other group companies. On 1st October 2018, the Company implemented a new group funding arrangement under which due to and due from affiliate balances are cash settled in the following month, with any resulting cash surplus in the affiliate entities being loaned to other group companies through long-term interest-bearing loans.

9. Transactions with American Express and its Subsidiaries (Continued)

Long term affiliate debt for the years ended December 31 comprises the following:

(US$ Thousands)	**2018**	2017
Long term affiliate debt:		
American Express Payment Services Limited [(a)]	**160,792**	-
Total	**160,792**	-

(a) Interest is computed on a floating rate on actual daily principal outstanding during the preceding monthly period on a 360-day basis and is paid annually in October on the third to last business day of the month until the principal is repaid.

The amounts resulting from transactions with affiliates included in the Statement of Income for the years ended December 31 are as follows:

(US$ Thousands)	**2018**	2017
Intercompany service fees	**44,024**	41,519
Interest on loans to affiliates	**22,735**	18,372
Interest on loans from affiliates	**13,198**	17,038
Intercompany service fee expense	**5,571**	4,511
Occupancy expense	**3,930**	5,570
Other revenue	**-**	1,994

10. Accounts Receivable

Accounts receivable as of December 31, 2018 and 2017 consisted of:

(US$ Thousands)	**2018**	2017
Clearing House receivables	**42,251**	132,977
Travel receivables	**4,984**	5,135
Less: Reserve for losses	**(1,005)**	(660)
Accounts receivable, net	**46,230**	137,452

All of the above amounts are due within one year. The current portion of trade and other receivables is carried at cost less reserves which approximates fair value due to the short-term nature thereof.

Clearing House receivables are due within 30 days and relate to a number of independent third parties for whom there is no recent history of default.

In general, receivables are 100% reserved for after 180 days past due and are written off when 360 days past due.

11. Accounts Payable

Accounts payable as of December 31, 2018 and 2017 consisted of:

(US$ Thousands)	**2018**	2017
Clearing House payables	**1,005,247**	1,044,233
Travel payables	**3,730**	4,570
Vendor payables	**3,764**	3,606
Other payables	**95**	12
Total	**1,012,836**	1,052,421

All of the above amounts are due within one year. The current portion of trade and other payables are carried at cost which approximates fair value due to the short-term nature thereof.

Clearing House payables are non-interest bearing and are generally settled within 30 days.

Travel payables are non-interest bearing and are generally settled within 30 days of the date of travel.

Vendor payables are non-interest bearing and are normally settled within 60 days of the submission of an invoice.

12. Guarantees

As of December 31, 2018, the maximum potential undiscounted future payments and related liability resulting from guarantees provided by the Company in the ordinary course of business was $0.4m and related to the assignment of a real estate lease. As of December 31, 2017, the maximum potential undiscounted future payments and related liability was $1.1m.

To date, the Company has not experienced any significant losses related to guarantees or indemnifications. The Company's recognition of these instruments is at fair value. In addition, the Company establishes reserves when a loss is probable and the amount can be reasonably estimated.

13. Contingencies and Commitments

Legal contingencies
In the course of its business, the Company is subject to governmental examinations, information gathering requests, subpoenas, inquiries and investigations. The Company believes that it is not a party to, nor are any of its properties the subject of, any legal proceeding that would have a material adverse effect on the Company's financial condition or liquidity.

Other contingencies
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 December 31, 2018, amounted to $6.45m (2017: $18.87m).