

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at July 18, 2018 |
|--|------------------------------|
| Common Shares (par value \$0.20 per share) | 861,054,250 Shares |

Table of Contents

AMERICAN EXPRESS COMPANY
FORM 10-Q
INDEX

| Part I. <u>Financial Information</u> | Page No. |
|---|----------|
| Item 1. <u>Financial Statements Consolidated Statements of Income – Three Months Ended June 30, 2018 and 2017</u> | 1 |
| <u>Consolidated Statements of Income – Six Months Ended June 30, 2018 and 2017</u> | 2 |
| <u>Consolidated Statements of Comprehensive Income – Three and Six Months Ended June 30, 2018 and 2017</u> | 3 |
| <u>Consolidated Balance Sheets – June 30, 2018 and December 31, 2017</u> | 4 |
| <u>Consolidated Statements of Cash Flows – Six Months Ended June 30, 2018 and 2017</u> | 5 |
| <u>Notes to Consolidated Financial Statements</u> | 6 |
| Item 2. <u>Management’s Discussion and Analysis of</u> | 33 |

| | | |
|-----------------------------------|------------------------|-----|
| | <u>Financial</u> | |
| | <u>Condition and</u> | |
| | <u>Results of</u> | |
| | <u>Operations</u> | |
| | <u>Quantitative</u> | |
| | <u>and Qualitative</u> | |
| Item 3. | <u>Disclosures</u> | 62 |
| | <u>about Market</u> | |
| | <u>Risk</u> | |
| Item 4. | <u>Controls and</u> | 62 |
| | <u>Procedures</u> | |
| <u>Part II. Other Information</u> | | |
| Item 1. | <u>Legal</u> | 65 |
| | <u>Proceedings</u> | |
| Item 1A. | <u>Risk Factors</u> | 65 |
| | <u>Unregistered</u> | |
| Item 2. | <u>Sales of Equity</u> | 66 |
| | <u>Securities and</u> | |
| | <u>Use of Proceeds</u> | |
| Item 5. | <u>Other</u> | 67 |
| | <u>Information</u> | |
| Item 6. | <u>Exhibits</u> | 67 |
| | <u>Signatures</u> | 68 |
| | <u>Exhibit Index</u> | E-1 |

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| Three Months Ended June 30 (Millions, except per share amounts) | 2018 | 2017 |
|--|---------|---------|
| Revenues | | |
| Non-interest revenues | | |
| Discount revenue | \$6,194 | \$5,743 |
| Net card fees | 844 | 771 |
| Other fees and commissions | 786 | 746 |
| Other | 349 | 379 |
| Total non-interest revenues | 8,173 | 7,639 |
| Interest income | | |
| Interest on loans | 2,387 | 1,950 |
| Interest and dividends on investment securities | 27 | 23 |
| Deposits with banks and other | 126 | 81 |
| Total interest income | 2,540 | 2,054 |
| Interest expense | | |
| Deposits | 300 | 176 |
| Long-term debt and other | 411 | 345 |
| Total interest expense | 711 | 521 |
| Net interest income | 1,829 | 1,533 |
| Total revenues net of interest expense | 10,002 | 9,172 |
| Provisions for losses | | |
| Charge card | 245 | 163 |
| Card Member loans | 528 | 404 |
| Other | 33 | 16 |
| Total provisions for losses | 806 | 583 |
| Total revenues net of interest expense after provisions for losses | 9,196 | 8,589 |
| Expenses | | |
| Marketing and business development | 1,663 | 1,456 |
| Card Member rewards | 2,433 | 2,196 |
| Card Member services | 416 | 341 |
| Salaries and employee benefits | 1,280 | 1,293 |
| Other, net | 1,313 | 1,346 |
| Total expenses | 7,105 | 6,632 |
| Pretax income | 2,091 | 1,957 |
| Income tax provision | 468 | 613 |
| Net income | \$1,623 | \$1,344 |
| Earnings per Common Share (Note 15):(a) | | |
| Basic | \$1.85 | \$1.48 |
| Diluted | \$1.84 | \$1.47 |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Average common shares outstanding for earnings per common share:

| | | |
|--|--------|--------|
| Basic | 860 | 890 |
| Diluted | 862 | 893 |
| Cash dividends declared per common share | \$0.35 | \$0.32 |

Represents net income less (i) earnings allocated to participating share awards of \$12 million and \$11 million for (a) the three months ended June 30, 2018 and 2017, respectively, and (ii) dividends on preferred shares of \$20 million and \$19 million for the three months ended June 30, 2018 and 2017, respectively.

See Notes to Consolidated Financial Statements.

1

Table of Contents

AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| Six Months Ended June 30 (Millions, except per share amounts) | 2018 | 2017 |
|--|----------|----------|
| Revenues | | |
| Non-interest revenues | | |
| Discount revenue | \$12,083 | \$11,130 |
| Net card fees | 1,674 | 1,519 |
| Other fees and commissions | 1,567 | 1,457 |
| Other | 726 | 740 |
| Total non-interest revenues | 16,050 | 14,846 |
| Interest income | | |
| Interest on loans | 4,713 | 3,812 |
| Interest and dividends on investment securities | 48 | 46 |
| Deposits with banks and other | 241 | 141 |
| Total interest income | 5,002 | 3,999 |
| Interest expense | | |
| Deposits | 570 | 325 |
| Long-term debt and other | 762 | 639 |
| Total interest expense | 1,332 | 964 |
| Net interest income | 3,670 | 3,035 |
| Total revenues net of interest expense | 19,720 | 17,881 |
| Provisions for losses | | |
| Charge card | 487 | 376 |
| Card Member loans | 1,027 | 741 |
| Other | 67 | 39 |
| Total provisions for losses | 1,581 | 1,156 |
| Total revenues net of interest expense after provisions for losses | 18,139 | 16,725 |
| Expenses | | |
| Marketing and business development | 3,008 | 2,741 |
| Card Member rewards | 4,780 | 4,257 |
| Card Member services | 825 | 658 |
| Salaries and employee benefits | 2,606 | 2,557 |
| Other, net | 2,747 | 2,716 |
| Total expenses | 13,966 | 12,929 |
| Pretax income | 4,173 | 3,796 |
| Income tax provision | 916 | 1,201 |
| Net income | \$3,257 | \$2,595 |
| Earnings per Common Share (Note 15):(a) | | |
| Basic | \$3.71 | \$2.83 |
| Diluted | \$3.70 | \$2.82 |
| Average common shares outstanding for earnings per common share: | | |
| Basic | 859 | 895 |
| Diluted | 862 | 898 |
| Cash dividends declared per common share | \$0.70 | \$0.64 |

(a)

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Represents net income less (i) earnings allocated to participating share awards of \$25 million and \$21 million for the six months ended June 30, 2018 and 2017, respectively, and (ii) dividends on preferred shares of \$41 million and \$40 million for the six months ended June 30, 2018 and 2017, respectively.

See Notes to Consolidated Financial Statements.

2

Table of Contents

AMERICAN EXPRESS COMPANY
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

| (Millions) | Three Months | | Six Months | |
|--|--------------|----------|------------|----------|
| | Ended | | Ended | |
| | June 30, | June 30, | June 30, | June 30, |
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$1,623 | \$1,344 | \$3,257 | \$2,595 |
| Other comprehensive (loss) income: | | | | |
| Net unrealized securities (losses) gains, net of tax | (7) | | (18) | 6 |
| Foreign currency translation adjustments, net of tax | (96) | 33 | (66) | 349 |
| Net unrealized pension and other postretirement benefits, net of tax | 1 | 9 | 29 | 1 |
| Other comprehensive (loss) income | (102) | 42 | (55) | 356 |
| Comprehensive income | \$1,521 | \$1,386 | \$3,202 | \$2,951 |

See Notes to Consolidated Financial Statements.

Table of Contents

AMERICAN EXPRESS COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| (Millions, except share data) | June 30, 2018 | December 31, 2017 |
|--|------------------|-------------------------|
| Assets | | |
| Cash and cash equivalents | | |
| Cash and due from banks | \$3,423 | \$5,148 |
| Interest-bearing deposits in other banks (includes securities purchased under resale agreements: 2018, \$55; 2017, \$48) | 26,207 | 27,709 |
| Short-term investment securities | 113 | 70 |
| Total cash and cash equivalents | 29,743 | 32,927 |
| Accounts receivable | | |
| Card Member receivables (includes gross receivables available to settle obligations of a consolidated variable interest entity: 2018, \$7,945; 2017, \$8,919), less reserves: 2018, \$558; 2017, \$521 | 54,424 | 53,526 |
| Other receivables, less reserves: 2018, \$30; 2017, \$31 | 3,241 | 3,209 |
| Loans | | |
| Card Member loans (includes gross loans available to settle obligations of a consolidated variable interest entity: 2018, \$24,071; 2017, \$25,695), less reserves: 2018, \$1,840; 2017, \$1,706 | 73,579 | 71,693 |
| Other loans, less reserves: 2018, \$101; 2017, \$80 | 3,108 | 2,607 |
| Investment securities | 4,753 | 3,159 |
| Premises and equipment, less accumulated depreciation and amortization: 2018, \$5,917; 2017, \$5,455 | 4,251 | 4,329 |
| Other assets (includes restricted cash of consolidated variable interest entities: 2018, \$1,263; 2017, \$62) | 11,762 | 9,746 |
| Total assets | \$184,861 | \$181,196 |
| Liabilities and Shareholders' Equity | | |
| Liabilities | | |
| Customer deposits | \$67,391 | \$64,452 |
| Travelers Cheques and other prepaid products | 2,222 | 2,555 |
| Accounts payable | 13,800 | 14,657 |
| Short-term borrowings | 1,972 | 3,278 |
| Long-term debt (includes debt issued by consolidated variable interest entities: 2018, \$19,321; 2017, \$18,560) | 55,883 | 55,804 |
| Other liabilities | 22,701 | 22,189 |
| Total liabilities | \$163,969 | \$162,935 |
| Contingencies (Note 8) | | |
| Shareholders' Equity | | |
| Preferred shares, \$1.66 ^{2/3} par value, authorized 20 million shares; issued and outstanding 1,600 shares as of June 30, 2018 and December 31, 2017 | | |
| Common shares, \$0.20 par value, authorized 3.6 billion shares; issued and outstanding 861 million shares as of June 30, 2018 and 859 million shares as of December 31, 2017 | 173 | 172 |
| Additional paid-in capital | 12,306 | 12,210 |
| Retained earnings | 10,896 | 8,307 |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

| | | |
|---|-----------|-----------|
| Accumulated other comprehensive loss | | |
| Net unrealized debt securities losses, net of tax of: 2018, \$(4); 2017, \$1 | (18) | |
| Foreign currency translation adjustments, net of tax of: 2018, \$(378); 2017, \$(363) | (2,027) | (1,961) |
| Net unrealized pension and other postretirement benefits, net of tax of: 2018, \$(170); 2017, \$(179) | (438) | (467) |
| Total accumulated other comprehensive loss | (2,483) | (2,428) |
| Total shareholders' equity | 20,892 | 18,261 |
| Total liabilities and shareholders' equity | \$184,861 | \$181,196 |

See Notes to Consolidated Financial Statements.

Table of Contents

AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| Six Months Ended June 30 (Millions) | 2018 | 2017 |
|---|----------|----------|
| Cash Flows from Operating Activities | | |
| Net income | \$3,257 | \$2,595 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provisions for losses | 1,581 | 1,157 |
| Depreciation and amortization | 685 | 615 |
| Deferred taxes and other | (166) | 14 |
| Stock-based compensation | 154 | 152 |
| Changes in operating assets and liabilities, net of effects of acquisitions and dispositions: | | |
| Other receivables | (164) | 818 |
| Other assets | 257 | 186 |
| Accounts payable and other liabilities | (182) | (909) |
| Travelers Cheques and other prepaid products | (326) | (344) |
| Net cash provided by operating activities | 5,096 | 4,284 |
| Cash Flows from Investing Activities | | |
| Sales of investment securities | | 1 |
| Maturities and redemptions of investment securities | 1,203 | 1,502 |
| Purchases of investments | (3,029) | (1,768) |
| Net increase in Card Member receivables and loans ^(a) | (5,538) | (3,169) |
| Purchase of premises and equipment, net of sales: 2018, nil; 2017,\$1 | (536) | (538) |
| Acquisitions/dispositions, net of cash acquired | (481) | (174) |
| Net cash used in investing activities | (8,381) | (4,146) |
| Cash Flows from Financing Activities | | |
| Net increase in customer deposits | 2,957 | 4,666 |
| Net decrease in short-term borrowings | (1,307) | (2,124) |
| Proceeds from long-term borrowings | 10,561 | 17,124 |
| Payments of long-term borrowings | (10,242) | (12,349) |
| Issuance of American Express common shares | 49 | 44 |
| Repurchase of American Express common shares | (138) | (1,767) |
| Dividends paid | (645) | (620) |
| Net cash provided by financing activities | 1,235 | 4,974 |
| Effect of foreign currency exchange rates on cash and cash equivalents | 49 | 156 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (2,001) | 5,268 |
| Cash, cash equivalents and restricted cash at beginning of period | 33,264 | 25,494 |
| Cash, cash equivalents and restricted cash at end of period | \$31,263 | \$30,762 |

(a) Refer to Note 2 for additional information.

Supplementary cash flow information

| | Jun-18 | Dec-17 | Jun-17 | Dec-16 |
|---|----------|----------|----------|----------|
| Cash and cash equivalents per Consolidated Balance Sheets | \$29,743 | \$32,927 | \$30,442 | \$25,208 |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

| | | | | |
|--|----------|----------|----------|----------|
| Restricted cash included in Other assets per Consolidated Balance Sheets | 1,520 | 337 | 320 | 286 |
| Total cash, cash equivalents and restricted cash | \$31,263 | \$33,264 | \$30,762 | \$25,494 |

See Notes to Consolidated Financial Statements.

5

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The Company

American Express Company is a globally integrated payments company that provides customers with access to products, insights and experiences that enrich lives and build business success. Our principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world. Business travel-related services are offered through the non-consolidated joint venture, American Express Global Business Travel (the GBT JV). Our various products and services are sold globally to diverse customer groups, including consumers, small businesses, mid-sized companies and large corporations. These products and services are sold through various channels, including mobile and online applications, direct mail, in-house sales teams, third-party vendors and direct response advertising.

Effective for the second quarter of 2018, we realigned our reportable operating segments to reflect the organizational changes announced during the first quarter of 2018. Prior periods have been revised to conform to the new reportable segments, which are as follows:

Global Consumer Services Group (GCSG), which primarily issues a wide range of proprietary consumer cards § globally. GCSG also provides services to consumers, including travel services and non-card financing products, and manages certain international joint ventures and our partnership agreements in China.

Global Commercial Services (GCS), which primarily issues a wide range of proprietary corporate and small business § cards and provides payment and expense management services globally. In addition, GCS provides commercial financing products.

Global Merchant and Network Services (GMNS), which operates a global payments network that processes and settles card transactions, acquires merchants and provides multi-channel marketing programs and capabilities, § services and data analytics, leveraging our global integrated network. GMNS enters into partnership agreements with third-party card issuers and acquirers, licensing the American Express brand and extending the reach of the global network. GMNS also manages loyalty coalition businesses in certain countries around the world and our reloadable prepaid and gift card businesses.

Corporate functions and certain other businesses and operations are included in Corporate & Other.

The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the Annual Report). If not materially different, certain footnote disclosures included therein have been omitted from this Quarterly Report on Form 10-Q.

The interim consolidated financial information in this report has not been audited. In the opinion of management, all adjustments, which consist of normal recurring adjustments necessary for a fair statement of the interim period consolidated financial information, have been made. Results of operations reported for interim periods are not necessarily indicative of results for the entire year.

The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. These accounting estimates reflect the best judgment of management, but actual results could differ.

Discount Revenue

Discount revenue primarily represents the amount we earn on transactions occurring at merchants that have entered into a card acceptance agreement with us, or a Global Network Services (GNS) partner or other third-party merchant

acquirer, for facilitating transactions between the merchants and Card Members. The amount of fees charged, or merchant discount, varies with, among other factors, the industry in which the merchant conducts business, the merchant's overall transaction volume, the timing and method of payment to the merchant, the method of submission of transactions and, in certain instances, the geographic scope of the card acceptance agreement signed with us (e.g., local or global) and the transaction amount. The merchant discount is generally deducted from the payment to the merchant and recorded as discount revenue at the time the Card Member transaction occurs.

Table of ContentsAMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

In cases where the merchant acquirer is a third party (which is the case, for example, under our OptBlue program, or with certain of our GNS partners), we receive a network rate fee in our settlement with the merchant acquirer, which is individually negotiated between us and that merchant acquirer and is recorded as discount revenue at the time the Card Member transaction occurs. In our role as the operator of the American Express network, we also settle with merchants on behalf of our GNS card issuing partners, who in turn receive an issuer rate that is individually negotiated between that issuer and us and is recorded as expense in Marketing and business development (see below) or as contra-revenue in Other revenue. In contrast with networks such as those operated by Visa Inc. and Mastercard Incorporated, there are no collectively set interchange rates or network rates on the American Express network, and no fees are agreed or due between the GNS partners on the network.

Net Card Fees

Net card fees represent revenue earned from annual card membership fees, which vary based on the type of card and the number of cards for each account. These fees, net of acquisition costs and a reserve for projected refunds for Card Member cancellations, are deferred and recognized on a straight-line basis over the twelve-month card membership period as Net Card Fees in the Consolidated Statements of Income. The unamortized net card fee balance is reported in Other Liabilities on the Consolidated Balance Sheets.

Other Fees and Commissions

Other fees and commissions includes certain fees charged to Card Members, including delinquency fees and foreign currency conversion fees, which are primarily recognized in the period in which they are charged to the Card Member. Other fees and commissions also includes Membership Rewards program fees, which are deferred and recognized over the period covered by the fee, typically one year, the unamortized portion of which is included in Other Liabilities on the Consolidated Balance Sheets. In addition, Other fees and commissions includes loyalty coalition-related fees, travel commissions and fees and service fees earned from merchants, that are recognized when the service is performed, which is generally in the period the fee is charged. Refer to Note 13 for additional information.

Contra-revenue

Payments made through contractual arrangements with our merchants, GNS partners, and other customers are classified as expense where we receive goods, services or other benefits, for which the fair value is determinable and measurable. If these conditions are not met, the payment is classified as contra-revenue with the related revenue transaction (e.g., Discount revenue or Other revenue) and recorded when incurred.

Interest Income

Interest on Card Member loans is assessed using the average daily balance method. Unless the loan is classified as non-accrual, interest is recognized 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.

Interest and dividends on investment securities primarily relate to our performing fixed-income securities. Interest income is recognized as earned using the effective interest method, which adjusts the yield for security premiums and discounts, fees and other payments, so that a constant rate of return is recognized on the investment security's outstanding balance. Amounts are recognized until securities are in default or when it becomes likely that future interest payments will not be made as scheduled.

Interest on deposits with banks and other is recognized as earned, and primarily relates to the placement of cash, in excess of near-term funding requirements, in interest-bearing time deposits, overnight sweep accounts, and other interest-bearing demand and call accounts.

7

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Interest Expense

Interest expense includes interest incurred primarily to fund Card Member loans and receivables, general corporate purposes and liquidity needs, and is recognized as incurred. Interest expense is divided principally into two categories: (i) deposits, which primarily relates to interest expense on deposits taken from customers and institutions, and (ii) debt, which primarily relates to interest expense on our long-term debt and short-term borrowings, as well as the realized impact of derivatives used to hedge interest rate risk on our long-term debt.

Marketing and Business Development

As further described below under “Recently Adopted Accounting Standards,” effective January 1, 2018, in conjunction with the adoption of the new revenue recognition standard, the previously disclosed “Marketing and Promotion” line on the Consolidated Statements of Income was changed to “Marketing and Business Development” to reflect the inclusion of certain reclassified costs from Contra-discount revenue and Other expenses. Marketing and business development provides a more comprehensive view of costs related to building and growing our business, including the reclassified costs.

Marketing and business development expense includes costs incurred in the development and initial placement of advertising, which are expensed in the year in which the advertising first takes place. Also included in Marketing and business development expense are Card Member statement credits for qualifying charges on eligible card accounts, corporate incentive payments earned on achievement of preset targets, and certain payments to GNS card issuing partners. These costs are generally expensed as incurred.

Card Member Rewards

We issue charge and credit cards that allow Card Members to participate in various rewards programs (e.g., Membership Rewards, cobrand and cash back). Rewards expense is recognized in the period Card Members earn rewards, generally by spending on their enrolled card products. We record a Card Member rewards liability that represents the estimated cost of points earned that are expected to be redeemed. Card Member rewards liabilities are impacted over time by enrollment levels, attrition, the volume of points earned and redeemed, and the associated redemption costs. Changes in the Card Member rewards liabilities during the period are taken as a charge or release to the Card Member rewards line.

Effective January 1, 2018, in conjunction with the new revenue recognition standard, Card Member rewards also includes cash-back rewards, which were reclassified from contra discount revenue.

Classification of various items

Certain reclassifications of prior period amounts have been made to conform to the current period presentation, including the reclassification of certain business development expenses from Other expenses to Marketing and business development, that were not directly attributable to the adoption of the new revenue recognition guidance.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued new accounting guidance on leases. The guidance, effective January 1, 2019, with early adoption permitted, requires virtually all leases to be recognized on the Consolidated Balance Sheets. We will adopt the standard effective January 1, 2019. The new guidance currently requires a modified retrospective transition approach, which would cause us to record existing operating leases on the Consolidated Balance Sheets upon adoption and in the comparative period. In January 2018, the FASB released an exposure draft that, if issued in its current form, would provide us with the option to adopt the provisions of the new guidance prospectively, without adjusting the comparative periods presented. We are in the process of upgrading our lease administration software and changing business processes and internal controls in preparation for the adoption. Specifically, we are currently reviewing our lease portfolio and are evaluating and interpreting the requirements under the guidance, including the available accounting policy elections, in order to determine the impacts on our financial

position, results of operations, cash flows and regulatory risk-based capital, upon adoption.

8

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

In June 2016, the FASB issued new accounting guidance for recognition of credit losses on financial instruments, effective January 1, 2020, with early adoption permitted on January 1, 2019. 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. In addition, for available-for-sale debt securities, the new guidance replaces the other-than-temporary impairment model, and requires the recognition of an allowance for reductions in a security's fair value attributable to declines in credit quality, instead of a direct write-down of the security when a valuation decline is determined to be other-than-temporary. The guidance also requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. We do not intend to adopt the new standard early and are currently evaluating the impact the new guidance will have on our financial position, results of operations, cash flows and regulatory risk-based capital; however, it is expected that the CECL model will alter the assumptions used in estimating credit losses on Card Member loans and receivables, and may result in material increases to our credit reserves as the new guidance involves earlier recognition of expected losses for the life of the assets. We have established an enterprise-wide, cross-discipline governance structure to implement the new standard, and continue to identify and conclude on key interpretive issues along with evaluating our 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) (AOCI) to retained earnings. The optional guidance is effective January 1, 2019, with early adoption permitted. We are evaluating whether we will adopt the new guidance along with any impacts on our financial position, results of operations and cash flows, none of which are expected to be material.

Recently Adopted Accounting Standards

Effective January 1, 2018, we adopted new revenue recognition guidance issued by the FASB related to contracts with customers. The scope of the new guidance excludes financial instruments such as credit and charge card arrangements. We elected to adopt the standard using the full retrospective method, which we believe is most useful to our investors. Under the full retrospective method, we are applying the standard back to January 1, 2016. As shown below, the most significant impacts of adoption are changes to the classification of certain revenues and expenses, including certain credit and charge card related costs previously netted against discount revenue, such as Card Member cash-back reward costs and statement credits, corporate incentive payments, as well as payments to third-party GNS card issuing partners. Under the new revenue standard, these costs are not considered components of the transaction price of our card acceptance agreements with merchants and thus are not netted against discount revenue, but instead are recognized as expenses. Our payments to third-party GNS card issuing partners are presented net of related revenues earned from the partners.

The impact to the 2017 fiscal quarters and years ended December 31, 2017 and 2016 were as follows:

| | Increase (Decrease) | | | | Year Ended | |
|------------------|---------------------|---------------|-------|-------|------------|---------|
| | Three months ended | | | | December | |
| | December | June | March | | | |
| (Millions) | 31, | September 30, | 31, | 2017 | 2017 | 2016 |
| | 2017 | 30, 2017 | 2017 | 2017 | 2017 | 2016 |
| Revenues | | | | | | |
| Discount revenue | \$981 | \$ 930 | \$928 | \$868 | \$3,707 | \$3,699 |
| Other | (78) | (71) | (64) | (65) | (278) | (253) |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Expenses

| | | | | | | |
|------------------------------------|-------|--------|-------|-------|---------|---------|
| Marketing and business development | 617 | 591 | 593 | 549 | 2,350 | 2,420 |
| Card Member rewards | \$286 | \$ 268 | \$271 | \$254 | \$1,079 | \$1,026 |

In addition, the cumulative impact to our retained earnings on January 1, 2016 was an increase of \$55.2 million.

The adoption of the new guidance also resulted in changes to the recognition timing of certain revenues, the impact of which is not material to net income. Similarly, the adoption did not have a material impact on our Consolidated Balance Sheets or Statements of Cash Flows. We had no material contract assets, contract liabilities or deferred contract costs recorded on the Consolidated Balance Sheet as of June 30, 2018 and December 31, 2017. Contracts assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. In adopting the guidance, we implemented changes to our accounting policies, business processes, systems and internal controls to support the recognition, measurement and disclosure requirements under the new standard. Such changes were not material.

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 us as of January 1, 2018. The guidance makes targeted changes to 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. This applies to investments we make in non-public companies in the ordinary course of business, which historically were recognized under the cost method of accounting. These investments will be prospectively adjusted through earnings for observable price changes upon the identification of identical or similar transactions of the same company. The adoption of the guidance did not have a material impact on our financial position, results of operations and cash flows. We implemented changes to our accounting policies, business processes and internal controls in support of the new guidance. Such changes were not material.

In August 2017, the FASB issued new accounting guidance providing targeted improvements to the accounting for hedging activities, effective January 1, 2019, with early adoption permitted in any interim period or fiscal year before the effective date. The guidance introduces a number of amendments, several of which are optional, that are designed to simplify the application of hedge accounting, improve financial statement transparency and more closely align hedge accounting with an entity's risk management strategies. Effective January 1, 2018, we adopted the guidance, with no material impact on our financial position, results of operations and cash flows, along with associated changes to our accounting policies, business processes and internal controls in support of the new guidance. Such changes were not material.

2. Business Events

During the first quarter of 2018, we acquired from Citibank, N.A. its existing Hilton Worldwide Holdings Inc. cobrand credit card loan portfolio (the acquired Hilton portfolio). The acquired Hilton portfolio had an outstanding principal and interest balance of approximately \$1 billion at acquisition. None of the credit card loans acquired were considered purchased credit impaired at acquisition date. The cash outflows related to this acquisition are reported within the investing section of the Consolidated Statements of Cash Flows as a net increase in Card Member receivables and loans.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

3. Loans and Accounts Receivable

Our lending and charge payment card products result in the generation of Card Member loans and Card Member receivables, respectively.

Card Member loans by segment and Other loans as of June 30, 2018 and December 31, 2017 consisted of:

| (Millions) | 2018 | 2017 |
|---|----------|----------|
| Global Consumer Services Group ^(a) | \$63,560 | \$62,319 |
| Global Commercial Services | 11,859 | 11,080 |
| Card Member loans | 75,419 | 73,399 |
| Less: Reserve for losses | 1,840 | 1,706 |
| Card Member loans, net | \$73,579 | \$71,693 |
| Other loans, net ^(b) | \$3,108 | \$2,607 |

Includes approximately \$24.1 billion and \$25.7 billion of gross Card Member loans available to settle obligations (a) of a consolidated variable interest entity (VIE) as of June 30, 2018 and December 31, 2017, respectively. The balance as of June 30, 2018 also includes loans related to the acquired Hilton portfolio (refer to Note 2).

Other loans primarily represent consumer and commercial non-card financing products. Other loans are presented (b) net of reserves for losses of \$101 million and \$80 million as of June 30, 2018 and December 31, 2017, respectively.

Card Member accounts receivable by segment and Other receivables as of June 30, 2018 and December 31, 2017 consisted of:

| (Millions) | 2018 | 2017 |
|---|----------|----------|
| Global Consumer Services Group ^(a) | \$19,044 | \$20,946 |
| Global Commercial Services | 35,938 | 33,101 |
| Card Member receivables | 54,982 | 54,047 |
| Less: Reserve for losses | 558 | 521 |
| Card Member receivables, net | \$54,424 | \$53,526 |
| Other receivables, net ^(b) | \$3,241 | \$3,209 |

(a) Includes \$7.9 billion and \$8.9 billion of gross Card Member receivables available to settle obligations of a consolidated VIE as of June 30, 2018 and December 31, 2017, respectively.

Other receivables primarily represent amounts related to (i) GNS partners for items such as royalty and franchise fees, (ii) tax-related receivables, (iii) certain merchants for billed discount revenue, and (iv) loyalty coalition (b) partners for points issued, as well as program participation and servicing fees. Other receivables are presented net of reserves for losses of \$30 million and \$31 million as of June 30, 2018 and December 31, 2017, respectively.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Card Member Loans and Card Member Receivables Aging

Generally, a Card Member account is considered past due if payment is not received within 30 days after the billing statement date. The following table presents the aging of Card Member loans and receivables as of June 30, 2018 and December 31, 2017:

| 2018 (Millions) | Current | 30-59 | 60-89 | 90+ | Total |
|--|----------|---------------------|---------------------|---------------------|----------|
| | | Days Past Due | Days Past Due | Days Past Due | |
| Card Member Loans: | | | | | |
| Global Consumer Services Group | \$62,718 | \$230 | \$178 | \$434 | \$63,560 |
| Global Commercial Services | | | | | |
| Global Small Business Services | 11,675 | 39 | 28 | 69 | 11,811 |
| Global Corporate Payments ^(a) | (b) | (b) | (b) | | 48 |
| Card Member Receivables: | | | | | |
| Global Consumer Services Group | 18,814 | 71 | 45 | 114 | 19,044 |
| Global Commercial Services | | | | | |
| Global Small Business Services | \$16,432 | \$76 | \$45 | \$116 | \$16,669 |
| Global Corporate Payments ^(a) | (b) | (b) | (b) | \$149 | \$19,269 |

| 2017 (Millions) | Current | 30-59 | 60-89 | 90+ | Total |
|--|----------|---------------------|---------------------|---------------------|----------|
| | | Days Past Due | Days Past Due | Days Past Due | |
| Card Member Loans: | | | | | |
| Global Consumer Services Group | \$61,491 | \$238 | \$190 | \$400 | \$62,319 |
| Global Commercial Services | | | | | |
| Global Small Business Services | 10,892 | 43 | 31 | 59 | 11,025 |
| Global Corporate Payments ^(a) | (b) | (b) | (b) | | 55 |
| Card Member Receivables: | | | | | |
| Global Consumer Services Group | 20,696 | 82 | 54 | 114 | 20,946 |
| Global Commercial Services | | | | | |
| Global Small Business Services | \$15,868 | \$91 | \$54 | \$106 | \$16,119 |
| Global Corporate Payments ^(a) | (b) | (b) | (b) | \$148 | \$16,982 |

For Global Corporate Payments (GCP) Card Member loans and receivables in GCS, delinquency data is tracked based on days past billing status rather than days past due. A Card Member account is considered 90 days past billing if payment has not been received within 90 days of the Card Member's billing statement date. In addition, if we initiate collection procedures on an account prior to the account becoming 90 days past billing, the associated Card Member loan and receivable balance is classified as 90 days past billing. These amounts are shown above as 90+ Days Past Due for presentation purposes. See also (b).

Delinquency data for periods other than 90 days past billing is not available due to system constraints. Therefore, such data has not been utilized for risk management purposes. The balances that are current to 89 days past due can be derived as the difference between the Total and the 90+ Days Past Due balances.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Credit Quality Indicators for Card Member Loans and Receivables

The following tables present the key credit quality indicators as of or for the six months ended June 30:

| | 2018 | | | 2017 | | |
|---------------------------------|----------------------------|--------------------------------|------------|----------------------------|--------------------------------|------------|
| | Net Write-Off Rate | | | Net Write-Off Rate | | |
| | 30+ Days Past Due | | | 30+ Days Past Due | | |
| | Principal, as a % of Total | Interest & Fees ^(a) | % of Total | Principal, as a % of Total | Interest & Fees ^(a) | % of Total |
| Card Member Loans: | | | | | | |
| Global Consumer Services Group | 2.1 % | 2.5 % | 1.3 % | 1.8 % | 2.1 % | 1.2 % |
| Global Small Business Services | 1.7 % | 2.0 % | 1.2 % | 1.5 % | 1.8 % | 1.1 % |
| Card Member Receivables: | | | | | | |
| Global Consumer Services Group | 1.6 % | 1.8 % | 1.2 % | 1.6 % | 1.8 % | 1.2 % |
| Global Small Business Services | 1.9 % | 2.1 % | 1.4 % | 1.7 % | 1.9 % | 1.4 % |

| 2018 | | 2017 | |
|-----------------------------------|--|-----------------------------------|--|
| Net Loss Ratio | | Net Loss Ratio | |
| as a % of Charge Volume | | as a % of Charge Volume | |
| 90+ Days Past Billing Receivables | | 90+ Days Past Billing Receivables | |

Card Member Receivables:

| | | | | |
|---------------------------|--------|-------|--------|-------|
| Global Corporate Payments | 0.11 % | 0.8 % | 0.10 % | 0.8 % |
|---------------------------|--------|-------|--------|-------|

We present a net write-off rate based on principal losses only (i.e., excluding interest and/or fees) to be consistent (a) with industry convention. In addition, because we consider uncollectible interest and/or fees in estimating our reserves for credit losses, a net write-off rate including principal, interest and/or fees is also presented.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Impaired Card Member Loans and Receivables

Impaired Card Member loans and receivables are individual larger balance or homogeneous pools of smaller balance loans and receivables for which it is probable that we will be unable to collect all amounts due according to the original contractual terms of the Card Member agreement. In certain cases, these Card Member loans and receivables are included in one of our various Troubled Debt Restructuring (TDR) modification programs. Impaired Card Member loans and receivables outside the U.S. are not significant as of June 30, 2018 and December 31, 2017; therefore, such loans and receivables are not included in the following tables unless otherwise noted.

The following tables provide additional information with respect to our impaired Card Member loans and receivables as of June 30, 2018 and December 31, 2017:

As of June 30, 2018

| 2018 (Millions) | Over 90 days Past Due & Accruing Interest | Non-Accruals ^(b) | Accounts Classified as a TDR ^(c) | | Total Impaired Balance | Unpaid Principal Balance | Allowance for TDRs |
|---|--|-----------------------------|---|----------------------------------|------------------------------|--------------------------------|-----------------------|
| | | | In Program ^(d) | Out of Program ^(e) | | | |
| Card Member Loans: | | | | | | | |
| Global Consumer Services Group ^(f) | \$ 308 | \$ 184 | \$ 245 | \$ 118 | \$ 855 | \$ 774 | \$ 60 |
| Global Commercial Services | 44 | 36 | 48 | 25 | 153 | 141 | 10 |
| Card Member Receivables: | | | | | | | |
| Global Consumer Services Group | | | 23 | 10 | 33 | 32 | 2 |
| Global Commercial Services | | | 53 | 22 | 75 | 75 | 3 |
| Total | \$ 352 | \$ 220 | \$ 369 | \$ 175 | \$ 1,116 | \$ 1,022 | \$ 75 |

As of December 31, 2017

| 2017 (Millions) | Over 90 days Past Due & Accruing Interest | Non-Accruals ^(b) | Accounts Classified as a TDR ^(c) | | Total Impaired Balance | Unpaid Principal Balance | Allowance for TDRs |
|-----------------|--|-----------------------------|---|----------------------------------|------------------------------|--------------------------------|-----------------------|
| | | | In Program ^(d) | Out of Program ^(e) | | | |

Card Member Loans:

| | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|-------|
| Global Consumer Services Group ^(f) | \$ 289 | \$ 168 | \$ 178 | \$ 131 | \$ 766 | \$ 694 | \$ 49 |
| Global Commercial Services | 38 | 31 | 31 | 27 | 127 | 118 | 8 |

Card Member Receivables:

| | | | | | | | |
|--------------------------------|--------|--------|--------|--------|--------|--------|-------|
| Global Consumer Services Group | | | 15 | 9 | 24 | 24 | 1 |
| Global Commercial Services | | | 37 | 19 | 56 | 56 | 2 |
| Total | \$ 327 | \$ 199 | \$ 261 | \$ 186 | \$ 973 | \$ 892 | \$ 60 |

Our policy is generally to accrue interest through the date of write-off (typically 180 days past due). We establish (a) reserves for interest that we believe will not be collected. Amounts presented exclude Card Member loans classified as a TDR.

Non-accrual loans not in modification programs primarily include certain Card Member loans placed with outside (b) collection agencies for which we have ceased accruing interest. Amounts presented exclude Card Member loans classified as a TDR.

Accounts classified as a TDR include \$15 million and \$15 million that are over 90 days past due and accruing (c) interest and \$4 million and \$5 million that are non-accruals as of June 30, 2018 and December 31, 2017, respectively.

(d) In Program TDRs include Card Member accounts that are currently enrolled in a modification program.

Out of Program TDRs include \$132 million and \$141 million of Card Member accounts that have successfully (e) completed a modification program and \$43 million and \$45 million of Card Member accounts that were not in compliance with the terms of the modification programs as of June 30, 2018 and December 31, 2017, respectively.

GCSG includes balances outside the U.S. of \$65 million and \$56 million that are over 90 days and accruing interest (f) and \$64 million and \$55 million in unpaid principal as of June 30, 2018 and December 31, 2017, respectively.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

The following table provides information with respect to our average balances and interest income recognized from impaired Card Member loans and the average balances of impaired Card Member receivables:

| (Millions) | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2018 | |
|--------------------------------|--|-------|--|-------|
| | Interest Average Income Balance Recognized | | Interest Average Income Balance Recognized | |
| Card Member Loans: | | | | |
| Global Consumer Services Group | \$846 | \$ 26 | \$819 | \$ 52 |
| Global Commercial Services | 149 | 6 | 141 | 11 |
| Card Member Receivables: | | | | |
| Global Consumer Services Group | 31 | | 29 | |
| Global Commercial Services | 72 | | 67 | |
| Total | \$1,098 | \$ 32 | \$1,056 | \$ 63 |

| (Millions) | Three Months Ended June 30, 2017 | | Six Months Ended June 30, 2017 | |
|--------------------------------|--|-------|--|-------|
| | Interest Average Income Balance Recognized | | Interest Average Income Balance Recognized | |
| Card Member Loans: | | | | |
| Global Consumer Services Group | \$674 | \$ 20 | \$671 | \$ 40 |
| Global Commercial Services | 120 | 4 | 117 | 8 |
| Card Member Receivables: | | | | |
| Global Consumer Services Group | 18 | | 18 | |
| Global Commercial Services | 41 | | 40 | |
| Total | \$853 | \$ 24 | \$846 | \$ 48 |

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Card Member Loans and Receivables Modified as TDRs

The following table provides additional information with respect to Card Member loans and receivables modified as TDRs for the three and six months ended June 30, 2018 and 2017.

| | Three Months Ended June 30, 2018 | | | | Six Months Ended June 30, 2018 | | | |
|-------------------------------|--|--|---|-----|--|--|---|-----|
| | Number of Outstanding Accounts (in \$ in thousands) ^(a) | Average Interest Rate Reduction (% Points) | Average Payment Term Extension (# of Months) | | Number of Outstanding Accounts (in \$ in thousands) ^(a) | Average Interest Rate Reduction (% Points) | Average Payment Term Extension (# of Months) | |
| Troubled Debt Restructurings: | | | | | | | | |
| Card Member Loans | 12 | \$ 88 | 12 | (b) | 23 | \$ 169 | 12 | (b) |
| Card Member Receivables | 1 | 25 | (c) | 28 | 2 | 54 | (c) | 28 |
| Total | 13 | \$ 113 | | | 25 | \$ 223 | | |

| | Three Months Ended June 30, 2017 | | | | Six Months Ended June 30, 2017 | | | |
|-------------------------------|--|--|---|-----|--|--|---|-----|
| | Number of Outstanding Accounts (in \$ in thousands) ^(a) | Average Interest Rate Reduction (% Points) | Average Payment Term Extension (# of Months) | | Number of Outstanding Accounts (in \$ in thousands) ^(a) | Average Interest Rate Reduction (% Points) | Average Payment Term Extension (# of Months) | |
| Troubled Debt Restructurings: | | | | | | | | |
| Card Member Loans | 7 | \$ 46 | 10 | (b) | 15 | \$ 103 | 11 | (b) |
| Card Member Receivables | 1 | 18 | (c) | 32 | 3 | 46 | (c) | 26 |
| Total | 8 | \$ 64 | | | 18 | \$ 149 | | |

Represents the outstanding balance immediately prior to modification. The outstanding balance includes principal, (a) fees and accrued interest on Card Member loans and principal and fees on Card Member receivables. Modifications did not reduce the principal balance.

(b) For Card Member loans, there have been no payment term extensions.

(c) We do not offer interest rate reduction programs for Card Member receivables as the receivables are non-interest bearing.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

The following table provides information with respect to Card Member loans and receivables modified as TDRs that subsequently defaulted within 12 months of modification. A Card Member is considered in default of a modification program after one and up to two missed payments, depending on the terms of the modification program. For all Card Members that defaulted from a modification program, the probability of default is factored into the reserves for Card Member loans and receivables.

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2018 | |
|---|--|-------|--|-------|
| | Aggregated Outstanding Balances of Upon Accounts Default (in \$ in thousands) ^(a) | | Aggregated Outstanding Balances of Upon Accounts Default (in \$ in thousands) ^(a) | |
| Troubled Debt Restructurings That Subsequently Defaulted: | | | | |
| Card Member Loans | 2 | \$ 9 | 4 | \$ 18 |
| Card Member Receivables | 1 | 3 | 2 | 5 |
| Total | 3 | \$ 12 | 6 | \$ 23 |

| | Three Months Ended June 30, 2017 | | Six Months Ended June 30, 2017 | |
|---|--|-------|--|-------|
| | Aggregated Outstanding Balances of Upon Accounts Default (in \$ in thousands) ^(a) | | Aggregated Outstanding Balances of Upon Accounts Default (in \$ in thousands) ^(a) | |
| Troubled Debt Restructurings That Subsequently Defaulted: | | | | |
| Card Member Loans | 2 | \$ 10 | 4 | \$ 21 |
| Card Member Receivables | 1 | 2 | 2 | 3 |
| Total | 3 | \$ 12 | 6 | \$ 24 |

(a) The outstanding balances upon default include principal, fees and accrued interest on Card Member loans, and principal and fees on Card Member receivables.

4. Reserves for Losses

Reserves for losses relating to Card Member loans and receivables represent management's best estimate of the probable inherent losses in our outstanding portfolio of loans and receivables as of the balance sheet date. Management's evaluation process requires certain estimates and judgments.

Changes in Card Member Loans Reserve for Losses

The following table presents changes in the Card Member loans reserve for losses for the six months ended June 30:

| (Millions) | 2018 | 2017 |
|-------------------------------|---------|---------|
| Balance, January 1 | \$1,706 | \$1,223 |
| Provisions ^(a) | 1,027 | 741 |
| Net write-offs ^(b) | | |
| Principal | (747) | (557) |
| Interest and fees | (148) | (106) |
| Other ^(c) | 2 | 19 |
| Balance, June 30 | \$1,840 | \$1,320 |

(a) Provisions for principal, interest and fee reserve components.

Principal write-offs are presented less recoveries of \$217 million and \$205 million, and includes net (write-offs)

(b) recoveries from TDRs of \$(14) million and \$(21) million, for the six months ended June 30, 2018 and 2017, respectively. Recoveries of interest and fees were not significant.

(c) Includes foreign currency translation adjustments of \$(5) million and \$10 million and other adjustments of \$7 million and \$9 million for the six months ended June 30, 2018 and 2017, respectively.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Card Member Loans Evaluated Individually and Collectively for Impairment

The following table presents Card Member loans evaluated individually and collectively for impairment and related reserves as of June 30, 2018 and December 31, 2017:

| (Millions) | 2018 | 2017 |
|--|----------|----------|
| Card Member loans evaluated individually for impairment ^(a) | \$436 | \$367 |
| Related reserves ^(a) | \$70 | \$57 |
| Card Member loans evaluated collectively for impairment ^(b) | \$74,983 | \$73,032 |
| Related reserves ^(b) | \$1,770 | \$1,649 |

(a) Represents loans modified as a TDR and related reserves.

Represents current loans and loans less than 90 days past due, loans over 90 days past due and accruing interest, and non-accrual loans. The reserves include the quantitative results of analytical models that are specific to

(b) individual pools of loans, and reserves for internal and external qualitative risk factors that apply to loans that are collectively evaluated for impairment.

Changes in Card Member Receivables Reserve for Losses

The following table presents changes in the Card Member receivables reserve for losses for the six months ended June 30:

| (Millions) | 2018 | 2017 |
|-------------------------------|-------|-------|
| Balance, January 1 | \$521 | \$467 |
| Provisions ^(a) | 487 | 376 |
| Net write-offs ^(b) | (435) | (373) |
| Other ^(c) | (15) | 5 |
| Balance, June 30 | \$558 | \$475 |

(a) Provisions for principal and fee reserve components.

Principal and fee write-offs are presented less recoveries of \$174 million and \$181 million, and includes net (b) recoveries (write-offs) from TDRs of \$2 million and \$(7) million, for the six months ended June 30, 2018 and 2017, respectively.

(c) Includes foreign currency translation adjustments of \$(1) million and \$14 million and other adjustments of \$(14) million and \$(9) million for the six months ended June 30, 2018 and 2017, respectively.

Card Member Receivables Evaluated Individually and Collectively for Impairment

The following table presents Card Member receivables evaluated individually and collectively for impairment, and related reserves, as of June 30, 2018 and December 31, 2017:

| (Millions) | 2018 | 2017 |
|--|----------|----------|
| Card Member receivables evaluated individually for impairment ^(a) | \$108 | \$80 |
| Related reserves ^(a) | \$5 | \$3 |
| Card Member receivables evaluated collectively for impairment | \$54,874 | \$53,967 |
| Related reserves ^(b) | \$553 | \$518 |

(a) Represents receivables modified as a TDR and related reserves.

The reserves include the quantitative results of analytical models that are specific to individual pools of

(b) receivables, and reserves for internal and external qualitative risk factors that apply to receivables that are collectively evaluated for impairment.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

5. Investment Securities

Investment securities principally include available-for-sale debt securities carried at fair value on the Consolidated Balance Sheets, with unrealized gains and losses recorded in AOCI, net of income taxes. Realized gains and losses are recognized upon disposition of the securities using the specific identification method.

Investment securities also include equity securities carried at fair value on the Consolidated Balance Sheets. Effective January 1, 2018, the unrealized gains and losses on equity securities are recorded in the Consolidated Statements of Income; prior to January 1, 2018, the unrealized gains and losses on equity securities were recorded in AOCI, net of income taxes.

The following is a summary of investment securities as of June 30, 2018 and December 31, 2017:

| Description of Securities (Millions) | 2018 | | | 2017 | | | | |
|---|---------|------------------------|-------------------------|----------------------|---------|------------------------|-------------------------|----------------------|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Available-for-sale debt securities: | | | | | | | | |
| State and municipal obligations | \$1,170 | \$ 7 | \$ (3) | \$ 1,174 | \$1,369 | \$ 11 | \$ (3) | \$ 1,377 |
| U.S. Government agency obligations | 10 | | | 10 | 11 | | | 11 |
| U.S. Government treasury obligations | 2,919 | 2 | (28) | 2,893 | 1,051 | 3 | (9) | 1,045 |
| Corporate debt securities | 32 | | | 32 | 28 | | | 28 |
| Mortgage-backed securities ^(a) | 58 | 1 | (1) | 58 | 67 | 2 | | 69 |
| Foreign government bonds and obligations | 540 | | (1) | 539 | 581 | | | 581 |
| Equity securities ^(b) | 50 | 1 | (4) | 47 | 51 | | (3) | 48 |
| Total | \$4,779 | \$ 11 | \$ (37) | \$ 4,753 | \$3,158 | \$ 16 | \$ (15) | \$ 3,159 |

(a) Represents mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.

(b) Equity securities comprise investments in common stock and mutual funds.

The following table provides information about our available-for-sale debt securities with gross unrealized losses and the length of time that individual securities have been in an unrealized loss position as of June 30, 2018 and December 31, 2017:

| Description of Securities (Millions) | 2018 | | 2017 | |
|--------------------------------------|----------------------|-------------------------|----------------------|-------------------------|
| | Less than 12 months | 12 months or more | Less than 12 months | 12 months or more |
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| State and municipal obligations | \$130 | \$ (2) | \$22 | \$ (1) |
| U.S. Government treasury obligations | 1,462 | (20) | 173 | (8) |
| Equity securities ^(a) | | N/A | | N/A |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Total \$1,592 \$ (22) \$195 \$ (9) \$807 \$ (6) \$211 \$ (8)

(a) Effective January 1, 2018, the unrealized gains and losses on equity securities are recorded in the Consolidated Statements of Income and are no longer assessed for other-than-temporary impairment.

19

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

The following table summarizes the gross unrealized losses due to temporary impairments by ratio of fair value to amortized cost as of June 30, 2018 and December 31, 2017:

| Ratio of Fair Value to Amortized Cost (Dollars in millions) | Less than 12 months | | | 12 months or more | | | Total | | |
|---|-------------------------|-------------------------|-------------------------------|-------------------------|-------------------------|-------------------------------|-------------------------|-------------------------|-------------------------------|
| | Number of Securities | Estimated Fair Value | Gross Unrealized Losses | Number of Securities | Estimated Fair Value | Gross Unrealized Losses | Number of Securities | Estimated Fair Value | Gross Unrealized Losses |
| 2018: | | | | | | | | | |
| 90%–100% | 31 | \$ 1,592 | \$ (22) | 8 | \$ 195 | \$ (9) | 39 | \$ 1,787 | \$ (31) |
| Total as of June 30, 2018 | 31 | \$ 1,592 | \$ (22) | 8 | \$ 195 | \$ (9) | 39 | \$ 1,787 | \$ (31) |
| 2017: | | | | | | | | | |
| 90%–100% | 34 | \$ 807 | \$ (6) | 13 | \$ 211 | \$ (8) | 47 | \$ 1,018 | \$ (14) |
| Total as of December 31, 2017 | 34 | \$ 807 | \$ (6) | 13 | \$ 211 | \$ (8) | 47 | \$ 1,018 | \$ (14) |

The gross unrealized losses for available-for-sale debt securities are attributed to wider credit spreads for specific issuers, adverse changes in benchmark interest rates, or a combination thereof, all compared to those prevailing when the investment securities were purchased.

Overall, for the available-for-sale debt securities in gross unrealized loss positions, (i) we do not intend to sell the securities, (ii) it is more likely than not that we will not be required to sell the securities before recovery of the unrealized losses, and (iii) we expect that the contractual principal and interest will be received on the securities. As a result, we recognized no other-than-temporary impairment during the periods presented.

Contractual maturities for investment securities with stated maturities as of June 30, 2018 were as follows:

| (Millions) | Cost | Estimated Fair Value |
|---------------------------------------|---------|----------------------------|
| Due within 1 year | \$1,787 | \$ 1,787 |
| Due after 1 year but within 5 years | 1,625 | 1,603 |
| Due after 5 years but within 10 years | 212 | 208 |
| Due after 10 years | 1,104 | 1,108 |
| Total | \$4,728 | \$ 4,706 |

The expected payments on state and municipal obligations and mortgage-backed securities may not coincide with their contractual maturities because the issuers have the right to call or prepay certain obligations.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

6. Asset Securitizations

We periodically securitize Card Member loans and receivables arising from our card businesses through the transfer of those assets to securitization trusts, American Express Credit Account Master Trust (the Lending Trust) and American Express Issuance Trust II (the Charge Trust and together with the Lending Trust, the Trusts). The Trusts then issue debt securities collateralized by the transferred assets to third-party investors.

We perform the servicing and key decision making for the Trusts, and therefore have the power to direct the activities that most significantly impact the Trusts' economic performance, which are the collection of the underlying Card Member loans and receivables. In addition, we hold all of the variable interests in both Trusts, with the exception of the debt securities issued to third-party investors. As of June 30, 2018, our ownership of variable interests was \$7.7 billion and \$5.2 billion for the Lending Trust and the Charge Trust, respectively. These variable interests held by us provide us with the right to receive benefits and the obligation to absorb losses, which could be significant to both the Lending Trust and the Charge Trust. Based on these considerations, we are the primary beneficiary of the Trusts and therefore consolidate the Trusts.

The following table provides information on the restricted cash held by the Lending Trust and the Charge Trust as of June 30, 2018 and December 31, 2017, included in Other assets on the Consolidated Balance Sheets:

| (Millions) | 2018 | 2017 |
|---------------|---------|-------|
| Lending Trust | \$1,256 | \$ 55 |
| Charge Trust | 7 | 7 |
| Total | \$1,263 | \$ 62 |

These amounts relate to collections of Card Member loans and receivables to be used by the Trusts to fund future expenses and obligations, including interest on debt securities, credit losses and upcoming debt maturities.

Under the respective terms of the Lending Trust and the Charge Trust agreements, the occurrence of certain triggering events associated with the performance of the assets of each Trust could result in payment of trust expenses, establishment of reserve funds, or, in a worst-case scenario, early amortization of debt securities. During the six months ended June 30, 2018 and the year ended December 31, 2017, no such triggering events occurred.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

7. Customer Deposits

As of June 30, 2018 and December 31, 2017, customer deposits were categorized as interest bearing or non-interest bearing as follows:

| (Millions) | 2018 | 2017 |
|--|----------|----------|
| U.S.: | | |
| Interest bearing | \$66,636 | \$63,666 |
| Non-interest bearing (includes Card Member credit balances of: 2018, \$323 million; 2017, \$358 million) | 358 | 395 |
| Non-U.S.: | | |
| Interest bearing | 35 | 34 |
| Non-interest bearing (includes Card Member credit balances of: 2018, \$350 million; 2017, \$344 million) | 362 | 357 |
| Total customer deposits | \$67,391 | \$64,452 |

Customer deposits by deposit type as of June 30, 2018 and December 31, 2017 were as follows:

| (Millions) | 2018 | 2017 |
|---|----------|----------|
| U.S. retail deposits: | | |
| Savings accounts – Direct | \$35,336 | \$31,915 |
| Certificates of deposit: ^(a) | | |
| Direct | 374 | 290 |
| Third-party (brokered) | 16,308 | 16,684 |
| Sweep accounts – Third-party (brokered) | 14,618 | 14,777 |
| Other deposits: | | |
| U.S. non-interest bearing deposits | 35 | 37 |
| Non-U.S. deposits | 47 | 47 |
| Card Member credit balances U.S. and non-U.S. | 673 | 702 |
| Total customer deposits | \$67,391 | \$64,452 |

The weighted average remaining maturity and weighted average interest rate at issuance on the total portfolio of (a)U.S. retail certificates of deposit issued through direct and third-party programs were 45 months and 2.22 percent, respectively, as of June 30, 2018.

The scheduled maturities of certificates of deposit as of June 30, 2018 were as follows:

| (Millions) | U.S. | Non-U.S. | Total |
|---------------|----------|----------|----------|
| 2018 | \$4,282 | \$ 12 | \$4,294 |
| 2019 | 4,657 | 10 | 4,667 |
| 2020 | 3,755 | | 3,755 |
| 2021 | 1,654 | | 1,654 |
| 2022 | 2,212 | | 2,212 |
| After 5 years | 122 | | 122 |
| Total | \$16,682 | \$ 22 | \$16,704 |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

As of June 30, 2018 and December 31, 2017, certificates of deposit in denominations of \$250,000 or more, in the aggregate, were as follows:

| (Millions) | 2018 | 2017 |
|------------|-------|-------|
| U.S. | \$146 | \$114 |
| Non-U.S. | 12 | 11 |
| Total | \$158 | \$125 |

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

8. Contingencies

In the ordinary course of business, we and our subsidiaries are subject to various pending and potential legal actions, arbitration proceedings, claims, investigations, examinations, information gathering requests, subpoenas, inquiries and matters relating to compliance with laws and regulations (collectively, legal proceedings). We disclose our material legal proceedings under Part II, Item 1. “Legal Proceedings” in this Quarterly Report on Form 10-Q and Part I, Item 3. “Legal Proceedings” in the Annual Report.

In addition to the matters disclosed under “Legal Proceedings,” we are being challenged in a number of countries regarding our application of value-added taxes (VAT) to certain of our international transactions, which are in various stages of audit, or are being contested in legal actions (collectively, VAT matters). While we believe we have complied with all applicable tax laws, rules and regulations in the relevant jurisdictions, the tax authorities may determine that we owe additional VAT. In certain jurisdictions where we are contesting the assessments, we were required to pay the VAT assessments prior to contesting.

Our legal proceedings range from cases brought by a single plaintiff to class actions with millions of putative class members. These legal proceedings involve various lines of business and a variety of claims (including, but not limited to, common law tort, contract, application of tax laws, antitrust and consumer protection claims), some of which present novel factual allegations and/or unique legal theories. While some matters pending against us specify the damages claimed by the plaintiff or class, many seek an unspecified amount of damages or are at very early stages of the legal process. Even when the amount of damages claimed against us are stated, the claimed amount may be exaggerated and/or unsupported. As a result, some matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable us to estimate an amount of loss or a range of possible loss, while other matters have progressed sufficiently such that we are able to estimate an amount of loss or a range of possible loss.

We have accrued for certain of our outstanding legal proceedings. An accrual is recorded when it is both (a) probable that a loss has occurred and (b) the amount of loss can be reasonably estimated. There may be instances in which an exposure to loss exceeds the accrual. We evaluate, on a quarterly basis, developments in legal proceedings that could cause an increase or decrease in the amount of the accrual that has been previously recorded, or a revision to the disclosed estimated range of possible losses, as applicable.

For those disclosed material legal proceedings and VAT matters where a loss is reasonably possible in future periods, whether in excess of a recorded accrual for legal or tax contingencies, or where there is no such accrual, and for which we are able to estimate a range of possible loss, the current estimated range is zero to \$390 million in excess of any accruals related to those matters. This range represents management’s estimate based on currently available information and does not represent our maximum loss exposure; actual results may vary significantly. As such legal proceedings evolve, we may need to increase our range of possible loss or recorded accruals.

Based on our current knowledge, and taking into consideration our litigation-related liabilities, we believe we are not a party to, nor are any of our properties the subject of, any legal proceeding that would have a material adverse effect on our consolidated financial condition or liquidity. However, in light of the uncertainties involved in such matters, it is possible that the outcome of legal proceedings, including the possible resolution of merchant claims, could have a material impact on our results of operations.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

9. Derivatives and Hedging Activities

We use derivative financial instruments (derivatives) to manage exposures to various market risks. These instruments derive their value from an underlying variable or multiple variables, including interest rates, foreign exchange rates, and equity index or price, and are carried at fair value on the Consolidated Balance Sheets. These instruments enable end users to increase, reduce or alter exposure to various market risks and, for that reason, are an integral component of our market risk management. We do not transact in derivatives for trading purposes.

In relation to our credit risk, under the terms of the derivative agreements we have with our various counterparties, we are not required to either immediately settle any outstanding liability balances or post collateral upon the occurrence of a specified credit risk-related event. Based on our assessment of the credit risk of our derivative counterparties as of June 30, 2018 and December 31, 2017, no credit risk adjustment to the derivative portfolio was required.

The following table summarizes the total fair value, excluding interest accruals, of derivative assets and liabilities as of June 30, 2018 and December 31, 2017:

| (Millions) | Other Assets | | Other Liabilities | |
|---|--------------|------------|-------------------|------------|
| | Fair Value | Fair Value | Fair Value | Fair Value |
| | 2018 | 2017 | 2018 | 2017 |
| Derivatives designated as hedging instruments: | | | | |
| Fair value hedges - Interest rate contracts ^(a) | \$ | \$11 | \$131 | \$34 |
| Net investment hedges - Foreign exchange contracts | 331 | 117 | 28 | 89 |
| Total derivatives designated as hedging instruments | 331 | 128 | 159 | 123 |
| Derivatives not designated as hedging instruments: | | | | |
| Foreign exchange contracts, including certain embedded derivatives ^(b) | 179 | 82 | 120 | 95 |
| Total derivatives, gross | 510 | 210 | 279 | 218 |
| Less: Cash collateral netting ^{(c)(d)} | (21) | (6) | (127) | (45) |
| Derivative asset and derivative liability netting ^(e) | (109) | (80) | (109) | (80) |
| Total derivatives, net | \$380 | \$124 | \$43 | \$93 |

For centrally cleared derivatives, variation margin payments are legally characterized as settlement payments as opposed to collateral. Accordingly, the amounts disclosed for centrally cleared derivatives are based on gross assets and gross liabilities, net of variation margin. We also maintained several bilateral interest rate contracts that are shown gross of any collateral exchanged.

(b) Includes foreign currency derivatives embedded in certain operating agreements.

(c) Represents the offsetting of the fair value of bilateral interest rate contracts and certain foreign exchange contracts with the right to reclaim cash collateral or the obligation to return cash collateral.

We posted \$118 million and \$146 million as of June 30, 2018 and December 31, 2017, respectively, as initial margin on our centrally cleared interest rate swaps; such amounts are recorded within Other receivables on the Consolidated Balance Sheets and are not netted against the derivative balances.

(e) Represents the amount of netting of derivative assets and derivative liabilities executed with the same counterparty under an enforceable master netting arrangement.

A majority of our derivative assets and liabilities as of June 30, 2018 and December 31, 2017 are subject to master netting agreements with our derivative counterparties. We have no derivative amounts subject to enforceable master

netting arrangements that are not offset on the Consolidated Balance Sheets.

Fair Value Hedges

We are exposed to interest rate risk associated with our fixed-rate long-term debt obligations. At the time of issuance, certain fixed-rate debt obligations are designated in fair value hedging relationships, using interest rate swaps, to economically convert the fixed interest rate to a floating interest rate. We have \$23.7 billion and \$23.8 billion of fixed-rate debt obligations designated in fair value hedging relationships as of June 30, 2018 and December 31, 2017, respectively.

The following table represents the gains and losses associated with the fair value hedges of our fixed-rate long-term debt:

| (Millions) | Gains (losses) | | | |
|---|------------------------|----------|------------------------|----------|
| | Three Months | | Six Months | |
| | Ended | Ended | Ended | Ended |
| | June 30, | June 30, | June 30, | June 30, |
| | 2018 | 2017 | 2018 | 2017 |
| | Interest | Other | Interest | Other |
| | expense ^(a) | expenses | expense ^(a) | expenses |
| Fixed-rate long-term debt | \$58 | \$ (25) | \$268 | \$ 25 |
| Derivatives designated as hedging instruments | (67) | 6 | (258) | (69) |
| Total | \$(9) | \$(19) | \$10 | \$(44) |

We adopted new accounting guidance providing targeted improvements to the accounting for hedging activities (a) effective January 1, 2018. In compliance with the standard, amounts previously recorded in Other expenses have been prospectively recorded in Total interest expense. Refer to Note 1 for additional information.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

The carrying values of the hedged liabilities, recorded within Long-term debt on the Consolidated Balance Sheets, were \$23.2 billion and \$23.6 billion as of June 30, 2018 and December 31, 2017, respectively, including offsetting amounts of \$451 million and \$182 million for the respective periods, related to the cumulative amount of fair value hedging adjustments.

We recognized a net increase of \$13 million and a net reduction of \$37 million in interest expense on long-term debt for the three months ended June 30, 2018 and 2017, respectively, and net reductions of \$1 million and \$81 million for the six months ended June 30, 2018 and 2017, respectively, primarily related to the net settlements (interest accruals) on our interest rate derivatives designated as fair value hedges.

Net Investment Hedges

The gain or loss on net investment hedges, net of taxes, recorded in AOCI as part of the cumulative translation adjustment, was a gain of \$320 million and a loss of \$102 million for the three months ended June 30, 2018 and 2017, respectively, and a gain of \$158 million and a loss of \$331 million for the six months ended June 30, 2018 and 2017, respectively. Accumulated gains within AOCI of \$1 million for the six months ended June 30, 2018 were reclassified into Other expenses upon investment sales or liquidations.

Derivatives Not Designated as Hedges

The changes in the fair value of derivatives that are not designated as hedges are intended to offset the related foreign exchange gains or losses of the underlying foreign currency exposures. The changes in the fair value of the derivatives and the related underlying foreign currency exposures resulted in a net gain of \$55 million and a net loss of \$4 million for the three months ended June 30, 2018 and 2017, respectively, and a net gain of \$34 million and a net loss of \$21 million for the six months ended June 30, 2018 and 2017, respectively, and are recognized in Other expenses.

The changes in the fair value of an embedded derivative resulted in losses of \$4 million and \$3 million for the three months ended June 30, 2018 and 2017, respectively, and losses of \$6 million and \$2 million for the six months ended June 30, 2018 and 2017, respectively, and are recognized in Card Member services expense.

10. Fair Values

Financial Assets and Financial Liabilities Carried at Fair Value

The following table summarizes our financial assets and financial liabilities measured at fair value on a recurring basis, categorized by GAAP's fair value hierarchy, as of June 30, 2018 and December 31, 2017:

| (Millions) | 2018 | | | | 2017 | | | |
|---------------------------------------|-------|---------|---------|---------|-------|---------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | | | | |
| Investment securities: ^(a) | | | | | | | | |
| Equity securities | \$47 | \$1 | \$46 | \$ | \$48 | \$1 | \$47 | \$ |
| Debt securities | 4,706 | 2,893 | 1,813 | | 3,111 | 1,045 | 2,066 | |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

| | | | | | | | |
|----------------------------|-------|-------|-------|----|-------|-------|-------|
| Derivatives ^(a) | 510 | | 510 | | 210 | | 210 |
| Total Assets | 5,263 | 2,894 | 2,369 | | 3,369 | 1,046 | 2,323 |
| Liabilities: | | | | | | | |
| Derivatives ^(a) | 279 | | 279 | | 218 | | 218 |
| Total Liabilities | \$279 | \$ | \$279 | \$ | \$218 | \$ | \$218 |

^(a) Refer to Note 5 for the fair values of investment securities and to Note 9 for the fair values of derivative assets and liabilities, on a further disaggregated basis.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Financial Assets and Financial Liabilities Carried at Other Than Fair Value

The following table summarizes the estimated fair values of our financial assets and financial liabilities that are measured at amortized cost, and not required to be carried at fair value on a recurring basis, as of June 30, 2018 and December 31, 2017. The fair values of these financial instruments are estimates based upon the market conditions and perceived risks as of June 30, 2018 and December 31, 2017, and require management's judgment. These figures may not be indicative of future fair values, nor can our fair value be estimated by aggregating the amounts presented.

| | Carrying Value | Corresponding Fair Value Amount | | | |
|---|----------------|---------------------------------|---------|---------|---------|
| | | Total | Level 1 | Level 2 | Level 3 |
| 2018 (Billions) | | | | | |
| Financial Assets: | | | | | |
| Financial assets for which carrying values equal or approximate fair value | | | | | |
| Cash and cash equivalents ^(a) | \$ 30 | \$30 | \$ 29 | \$ 1 | \$ |
| Other financial assets ^(b) | 59 | 59 | | 59 | |
| Financial assets carried at other than fair value | | | | | |
| Loans, net ^(c) | 77 | 77 | | | 77 |
| Financial Liabilities: | | | | | |
| Financial liabilities for which carrying values equal or approximate fair value | | | | | |
| Financial liabilities carried at other than fair value | 77 | 77 | | 77 | |
| Certificates of deposit ^(d) | 17 | 16 | | 16 | |
| Long-term debt ^(c) | \$ 56 | \$57 | \$ | \$ 57 | \$ |
| 2017 (Billions) | | | | | |
| Financial Assets: | | | | | |
| Financial assets for which carrying values equal or approximate fair value | | | | | |
| Cash and cash equivalents ^(a) | \$ 33 | \$33 | \$ 32 | \$ 1 | \$ |
| Other financial assets ^(b) | 57 | 57 | | 57 | |
| Financial assets carried at other than fair value | | | | | |
| Loans, net ^(c) | 74 | 75 | | | 75 |
| Financial Liabilities: | | | | | |
| Financial liabilities for which carrying values equal or approximate fair value | | | | | |
| Financial liabilities carried at other than fair value | 76 | 76 | | 76 | |
| Certificates of deposit ^(d) | 17 | 17 | | 17 | |
| Long-term debt ^(c) | \$ 56 | \$57 | \$ | \$ 57 | \$ |

(a) Level 2 amounts reflect time deposits and short-term investments.

Includes Card Member receivables (including fair values of Card Member receivables of \$7.9 billion and \$8.9 billion held by a consolidated VIE as of June 30, 2018 and December 31, 2017, respectively), Other receivables, restricted cash and other miscellaneous assets.

(c)

Balances include amounts held by a consolidated VIE for which the fair values of Card Member loans were \$23.9 billion and \$25.6 billion as of June 30, 2018 and December 31, 2017, respectively, and the fair values of long-term debt were \$19.2 billion and \$18.6 billion as of June 30, 2018 and December 31, 2017, respectively.

(d) Presented as a component of customer deposits on the Consolidated Balance Sheets.

Nonrecurring Fair Value Measurements

We have certain assets that are subject to measurement at fair value on a nonrecurring basis. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable if they are determined to be impaired. During the six months ended June 30, 2018 and the year ended December 31, 2017, we did not have any material assets that were measured at fair value due to impairment. Equity investments previously held at cost that are adjusted through earnings for observable price changes are not material.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

11. Guarantees

As of June 30, 2018, the maximum potential undiscounted future payments and related liability resulting from guarantees and indemnifications provided by us in the ordinary course of business were \$1 billion and \$42 million, respectively, and related primarily to our real estate and business dispositions. As of December 31, 2017, the maximum potential undiscounted future payments and related liability were \$1 billion and \$52 million, respectively.

To date we have not experienced any significant losses related to guarantees or indemnifications. Our recognition of these instruments is at fair value. In addition, we establish reserves when a loss is probable and the amount can be reasonably estimated.

12. Changes In Accumulated Other Comprehensive Income

AOCI is comprised of items that have not been recognized in earnings but may be recognized in earnings in the future when certain events occur. Changes in each component for the three and six months ended June 30, 2018 and 2017 were as follows:

| | Net Unrealized Debt Securities | Foreign Currency Translation Adjustments | Net Unrealized Pension and Other Postretirement Benefit (Losses) Gains | Accumulated Other Comprehensive (Loss) Income |
|--|---|---|---|--|
| Three Months Ended June 30, 2018 (Millions), net of tax | | | | |
| Balances as of March 31, 2018 | \$ (11) | \$ (1,931) | \$ (439) | \$ (2,381) |
| Net unrealized losses | (7) | | | (7) |
| Net translation losses of investments in foreign operations | | (416) | | (416) |
| Net gains related to hedges of investments in foreign operations | | 320 | | 320 |
| Pension and other postretirement benefit | | | 1 | 1 |
| Net change in accumulated other comprehensive loss | (7) | (96) | 1 | (102) |
| Balances as of June 30, 2018 | \$ (18) | \$ (2,027) | \$ (438) | \$ (2,483) |

| | Net Unrealized Debt Securities | Foreign Currency Translation Adjustments | Net Unrealized Pension and Other Postretirement Benefit (Losses) Gains | Accumulated Other Comprehensive (Loss) Income |
|---|---|---|---|--|
| Six Months Ended June 30, 2018 (Millions), net of tax | | | | |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

| | | | | |
|--|----------|-------------|-----------|-------------|
| Balances as of December 31, 2017 | \$ | \$ (1,961) | \$ (467) | \$ (2,428) |
| Net unrealized losses | (20) | | | (20) |
| Net translation losses of investments in foreign operations | | (224) | | (224) |
| Net gains related to hedges of investments in foreign operations | | 158 | | 158 |
| Pension and other postretirement benefit | | | 29 | 29 |
| Other ^(a) | 2 | | | 2 |
| Net change in accumulated other comprehensive loss | (18) | (66) | 29 | (55) |
| Balances as of June 30, 2018 | \$ (18) | \$ (2,027) | \$ (438) | \$ (2,483) |

Represents unrealized gains pertaining to equity securities moved from AOCI to retained earnings as of January 1, (a)2018, due to the prospective adoption of the financial instruments guidance effective January 1, 2018 (refer to Note 1).

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

| | Net Unrealized Gains (Losses) on Investment Securities | Foreign Currency Translation Adjustments | Net Unrealized Pension and Other Postretirement Benefit (Losses) Gains | Accumulated Other Comprehensive (Loss) Income |
|---|--|---|---|--|
| Three Months Ended June 30, 2017 (Millions), net of tax Balances as of March 31, 2017 | \$ 13 | \$ (1,946) | \$ (537) | \$ (2,470) |
| Net translation gain of investments in foreign operations | | 135 | | 135 |
| Net losses related to hedges of investments in foreign operations | | (102) | | (102) |
| Pension and other postretirement benefit | | | 9 | 9 |
| Net change in accumulated other comprehensive loss | | 33 | 9 | 42 |
| Balances as of June 30, 2017 | \$ 13 | \$ (1,913) | \$ (528) | \$ (2,428) |

| | Net Unrealized Gains (Losses) on Investment Securities | Foreign Currency Translation Adjustments | Net Unrealized Pension and Other Postretirement Benefit (Losses) Gains | Accumulated Other Comprehensive (Loss) Income |
|--|--|---|---|--|
| Six Months Ended June 30, 2017 (Millions), net of tax Balances as of December 31, 2016 | \$ 7 | \$ (2,262) | \$ (529) | \$ (2,784) |
| Net unrealized gains | 6 | | | 6 |
| Net translation gain of investments in foreign operations ^(a) | | 680 | | 680 |
| Net losses related to hedges of investments in foreign operations | | (331) | | (331) |
| Pension and other postretirement benefit | | | 1 | 1 |
| Net change in accumulated other comprehensive loss | 6 | 349 | 1 | 356 |
| Balances as of June 30, 2017 | \$ 13 | \$ (1,913) | \$ (528) | \$ (2,428) |

(a) Includes \$289 million of tax benefits recognized in the six months ended June 30, 2017.

The following table shows the tax impact for the three and six months ended June 30 for the changes in each component of AOCI presented above:

| (Millions) | Tax (benefit) expense | | | |
|---|--|----|---|--------|
| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
| Investment securities | \$ (2) | \$ | \$ (5) | \$ 3 |
| Foreign currency translation adjustments ^(a) | (70) | 12 | (68) | (179) |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

| | | | | |
|---|------|--------|--------|---------|
| Net investment hedges | 107 | (67) | 53 | (207) |
| Pension and other postretirement benefits | 6 | 1 | 9 | (8) |
| Total tax impact | \$41 | \$(54) | \$(11) | \$(391) |

(a) Includes \$289 million of tax benefits recognized in the six months ended June 30, 2017.

The following table presents the effects of reclassifications out of AOCI and into the Consolidated Statements of Income:

| Description (Millions) | Income Statement Line Item | Gains (losses) recognized in earnings | |
|--|----------------------------|--|--|
| | | Three Months Ended June 30, 2017 Amount | Six Months Ended June 30, 2018 Amount |
| Foreign currency translation adjustments | | | |
| Reclassification of translation adjustments and related hedges | Other expenses | | 1 |
| Related income tax | Income tax provision | | (1) |
| Reclassification of foreign currency translation adjustments | | | |
| Total | | \$ | \$ |

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

13. Other Fees and Commissions, Other Revenues and Other Expenses

The following is a detail of Other fees and commissions:

| (Millions) | Three Months | | Six Months | |
|---|--------------|----------|------------|----------|
| | Ended | Ended | Ended | Ended |
| | June 30, | June 30, | June 30, | June 30, |
| | 2018 | 2017 | 2018 | 2017 |
| Fees charged to Card Members: | | | | |
| Delinquency fees | \$232 | \$218 | \$474 | \$432 |
| Foreign currency conversion fee revenue | 233 | 212 | 458 | 411 |
| Other customer fees: | | | | |
| Loyalty coalition-related fees | 107 | 114 | 218 | 216 |
| Travel commissions and fees | 112 | 92 | 211 | 182 |
| Service fees and other ^(a) | 102 | 110 | 206 | 216 |
| Total Other fees and commissions | \$786 | \$746 | \$1,567 | \$1,457 |

(a) Other includes Membership Rewards program fees that are not related to contracts with customers.

The following is a detail of Other revenues:

| (Millions) | Three Months | | Six Months | |
|--|--------------|----------|------------|----------|
| | Ended | Ended | Ended | Ended |
| | June 30, | June 30, | June 30, | June 30, |
| | 2018 | 2017 | 2018 | 2017 |
| Global Network Services partner revenues | \$66 | \$88 | \$145 | \$179 |
| Other ^(a) | 283 | 291 | 581 | 561 |
| Total Other revenues | \$349 | \$379 | \$726 | \$740 |

Other includes revenues arising from net revenue earned on cross-border Card Member spending, merchant-related fees, insurance premiums earned from Card Member travel and other insurance programs, prepaid card and (a) Travelers Cheque-related revenues, earnings from equity method investments (including the GBT JV), and other miscellaneous revenue and fees.

Revenue expected to be recognized in future periods related to contracts that have an original expected duration of one year or less and contracts with variable consideration (e.g. discount revenue) are not required to be disclosed.

Non-interest revenue expected to be recognized in future periods through remaining contracts with customers is not material.

The following is a detail of Other expenses:

| (Millions) | Three Months | | Six Months | |
|-------------------------|--------------|----------|------------|----------|
| | Ended | Ended | Ended | Ended |
| | June 30, | June 30, | June 30, | June 30, |
| | 2018 | 2017 | 2018 | 2017 |
| Occupancy and equipment | \$484 | \$484 | \$1,004 | \$958 |
| Professional services | 508 | 511 | 965 | 1,012 |

| | | | | |
|----------------------|---------|---------|---------|---------|
| Other ^(a) | 321 | 351 | 778 | 746 |
| Total Other expenses | \$1,313 | \$1,346 | \$2,747 | \$2,716 |

For the six months ended June 30, 2018, other expense includes the loss on a transaction involving the operations of our prepaid reloadable and gift card business and gains on the re-measurement of certain equity investments previously carried at cost. For all periods, other expense also includes general operating expenses, communication expenses, Card and merchant-related fraud losses, foreign currency-related gains and losses and insurance costs.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

14. Income Taxes

The effective tax rate was 22.4 percent and 31.3 percent for the three months ended June 30, 2018 and 2017, respectively, and 22.0 percent and 31.6 percent for the six months ended June 30, 2018 and 2017, respectively. The changes in tax rates for both periods primarily reflect the reduction in the U.S. federal statutory tax rate as a result of the Tax Act. The tax rates in the prior year also reflect the resolution of certain prior years' tax items.

In the fourth quarter of 2017, we recorded an estimated net discrete tax charge of \$2.6 billion related to the Tax Act that was accounted for as a provisional charge under Staff Accounting Bulletin No.118. There were no material changes to these estimates for the current period. We continue to analyze the impacts of the Tax Act; therefore, the 2017 charge continues to be provisional.

We are under continuous examination by the Internal Revenue Service (IRS) and tax authorities in other countries and states in which we have significant business operations. The tax years under examination and open for examination vary by jurisdiction. We are currently under examination with the IRS for tax years 2008 through 2014.

We believe it is reasonably possible that our unrecognized tax benefits could decrease within the next 12 months by as much as \$319 million, principally as a result of potential resolutions of prior years' tax items with various taxing authorities. The prior years' tax items include unrecognized tax benefits relating to the deductibility of certain expenses or losses and the attribution of taxable income to a particular jurisdiction or jurisdictions. Of the \$319 million of unrecognized tax benefits, approximately \$286 million relates to amounts that, if recognized, would impact the effective tax rate in a future period.

15. Earnings Per Common Share (EPS)

The computations of basic and diluted EPS were as follows:

| (Millions, except per share amounts) | Three Months | | Six Months | |
|---|---------------------------|---------|---------------------------|---------|
| | Ended June 30, 2018 | 2017 | Ended June 30, 2018 | 2017 |
| Numerator: | | | | |
| Basic and diluted: | | | | |
| Net income | \$1,623 | \$1,344 | \$3,257 | \$2,595 |
| Preferred dividends | (20) | (19) | (41) | (40) |
| Net income available to common shareholders | 1,603 | 1,325 | 3,216 | 2,555 |
| Earnings allocated to participating share awards ^(a) | (12) | (11) | (25) | (21) |
| Net income attributable to common shareholders | \$1,591 | \$1,314 | \$3,191 | \$2,534 |
| Denominator: ^(a) | | | | |
| Basic: Weighted-average common stock | 860 | 890 | 859 | 895 |
| Add: Weighted-average stock options ^(b) | 2 | 3 | 3 | 3 |
| Diluted | 862 | 893 | 862 | 898 |
| Basic EPS | \$1.85 | \$1.48 | \$3.71 | \$2.83 |
| Diluted EPS | \$1.84 | \$1.47 | \$3.70 | \$2.82 |

(a)

Our unvested restricted stock awards, which include the right to receive non-forfeitable dividends or dividend equivalents, are considered participating securities. Calculations of EPS under the two-class method exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator.

(b) The dilutive effect of unexercised stock options excludes from the computation of EPS 0.7 million and 1.2 million of options for the three months ended June 30, 2018 and 2017, respectively, and 0.7 million and 1.2 million of options for the six months ended June 30, 2018 and 2017, respectively, because inclusion of the options would have been anti-dilutive.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

16. Regulatory Matters and Capital Adequacy

We are supervised and regulated by the Board of Governors of the Federal Reserve System (the Federal Reserve) and are subject to the Federal Reserve's requirements for risk-based capital and leverage ratios. Our U.S. bank subsidiary, American Express National Bank (AENB), is the surviving entity that resulted from the conversion of American Express Centurion Bank, a Utah state-chartered industrial bank, into a national banking association, and the subsequent merger of American Express Bank, FSB, a federal savings bank, into the successor entity as of April 1, 2018. AENB is subject to supervision and regulation, including regulatory capital and leverage requirements, by the Office of the Comptroller of the Currency (OCC).

Under the risk-based capital guidelines of the Federal Reserve, we are required to maintain minimum ratios of Common Equity Tier 1 (CET1), Tier 1 and Total (Tier 1 plus Tier 2) capital to risk-weighted assets, as well as a minimum Tier 1 leverage ratio (Tier 1 capital to average adjusted on-balance sheet assets) and a supplementary leverage ratio (Tier 1 capital to both on-balance sheet and certain off-balance sheet exposures).

Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional, discretionary actions by regulators, that, if undertaken, could have a direct material effect on our operating activities.

As of June 30, 2018 and December 31, 2017, we met all capital requirements to which we were subject and maintained regulatory capital ratios in excess of those required to qualify as well capitalized.

The following table presents the regulatory capital ratios:

| (Millions, except percentages) | CET 1 capital | Tier 1 capital | Total capital | CET 1 capital ratio | Tier 1 capital ratio | Total capital ratio | Tier 1 leverage ratio | Supplementary leverage ratio |
|---|---------------|----------------|---------------|---------------------|----------------------|---------------------|-----------------------|------------------------------|
| June 30, 2018: ^(a) | | | | | | | | |
| American Express Company | \$15,237 | \$16,810 | \$19,290 | 10.1 % | 11.1 % | 12.8 % | 9.7 % | 8.3 % |
| American Express National Bank | \$11,494 | \$11,494 | \$13,433 | 12.7 % | 12.7 % | 14.9 % | 10.3 % | 8.5 % |
| December 31, 2017: ^(a) | | | | | | | | (b) |
| American Express Company | \$13,189 | \$14,721 | \$17,142 | 9.0 % | 10.1 % | 11.8 % | 8.6 % | % |
| American Express Centurion Bank | \$5,954 | \$5,954 | \$6,547 | 12.7 % | 12.7 % | 14.0 % | 10.2 % | % |
| American Express Bank, FSB | \$6,065 | \$6,065 | \$6,653 | 12.9 % | 12.9 % | 14.2 % | 11.7 % | % |
| Well capitalized ratios ^(c) | | | | 6.5 % | 8.0 % | 10.0 % | 5.0 % | N/A |
| Basel III Standards 2018 ^(d) | | | | 6.4 % | 7.9 % | 9.9 % | 4.0 % | 3.0 % |
| Minimum capital ratios ^(e) | | | | 4.5 % | 6.0 % | 8.0 % | 4.0 % | 3.0 % |

As a Basel III advanced approaches institution in parallel run, capital ratios are reported using Basel III capital (a) definitions, inclusive of transition provisions for the capital ratios as of December 31, 2017, and risk-weighted assets using the Basel III standardized approach.

(b) The minimum supplementary leverage ratio (SLR) requirement of 3 percent became effective January 1, 2018.

Represents requirements for banking subsidiaries to be considered “well capitalized” pursuant to regulations issued (c) under the Federal Deposit Insurance Corporation Improvement Act. There is no CET1 capital ratio, Tier 1 leverage ratio or SLR requirement for a bank holding company to be considered “well capitalized.”

Basel III minimum capital requirement and additional transitional capital conservation buffer as defined by the (d) Federal Reserve and OCC for calendar year 2018 for advanced approaches institutions. The additional capital conservation buffer does not apply to Tier 1 leverage ratio or SLR.

(e) As defined by the regulations issued by the Federal Reserve and OCC.

Table of Contents

AMERICAN EXPRESS COMPANY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

17. Reportable Operating Segments

We are a globally integrated payments company that is principally engaged in businesses comprising three reportable operating segments: GCSG, GCS and GMNS. Corporate functions and certain other businesses and operations are included in Corporate & Other. Effective January 1, 2018, we changed the methodology used to allocate certain corporate overhead costs and interest income and expense to the operating segments. Effective April 1, 2018, we made additional changes to the methodology used to allocate certain corporate overhead costs to the operating segments. Prior period amounts have been revised to conform to the current period presentation.

The following table presents certain selected financial information for our reportable operating segments and Corporate & Other:

| Three Months Ended June 30, 2018 (Millions, except where indicated) | GCSG | GCS | GMNS | Corporate & Other ^(a) | Consolidated |
|--|---------|---------|---------|--|--------------|
| Total non-interest revenues | \$3,678 | \$2,977 | \$1,513 | \$ 5 | \$ 8,173 |
| Revenue from contracts with customers ^(b) | 2,596 | 2,581 | 1,495 | 2 | 6,674 |
| Interest income | 1,994 | 393 | 7 | 146 | 2,540 |
| Interest expense | 370 | 204 | (68) | 205 | 711 |
| Total revenues net of interest expense | 5,302 | 3,166 | 1,588 | (54) | 10,002 |
| Net income (loss) | \$770 | \$564 | \$543 | \$ (254) | \$ 1,623 |
| Total assets (billions) | \$127 | \$53 | \$31 | \$ (26) | \$ 185 |

| Six Months Ended June 30, 2018 (Millions, except where indicated) | GCSG | GCS | GMNS | Corporate & Other ^(a) | Consolidated |
|--|---------|---------|---------|--|--------------|
| Total non-interest revenues | \$7,169 | \$5,815 | \$3,045 | \$ 21 | \$ 16,050 |
| Revenue from contracts with customers ^(b) | 5,034 | 5,034 | 2,986 | 7 | 13,061 |
| Interest income | 3,943 | 770 | 16 | 273 | 5,002 |
| Interest expense | 697 | 375 | (127) | 387 | 1,332 |
| Total revenues net of interest expense | 10,415 | 6,210 | 3,188 | (93) | 19,720 |
| Net income (loss) | \$1,596 | \$1,110 | \$1,059 | \$ (508) | \$ 3,257 |
| Total assets (billions) | \$127 | \$53 | \$31 | \$ (26) | \$ 185 |

| Three Months Ended June 30, 2017 (Millions, except where indicated) | GCSG | GCS | GMNS | Corporate & Other ^(a) | Consolidated |
|--|---------|---------|---------|--|--------------|
| Total non-interest revenues | \$3,345 | \$2,738 | \$1,518 | \$ 38 | \$ 7,639 |
| Revenue from contracts with customers ^(b) | 2,368 | 2,372 | 1,481 | 3 | 6,224 |
| Interest income | 1,616 | 334 | 9 | 95 | 2,054 |
| Interest expense | 247 | 145 | (47) | 176 | 521 |
| Total revenues net of interest expense | 4,714 | 2,927 | 1,574 | (43) | 9,172 |
| Net income (loss) | \$615 | \$477 | \$476 | \$ (224) | \$ 1,344 |
| Total assets (billions) | \$113 | \$47 | \$27 | \$ (20) | \$ 167 |

| Six Months Ended June 30, 2017 (Millions, except where indicated) | GCSG | GCS | GMNS | Corporate & Other ^(a) | Consolidated |
|--|---------|---------|---------|--|--------------|
| Total non-interest revenues | \$6,482 | \$5,342 | \$2,980 | \$ 42 | \$ 14,846 |
| Revenue from contracts with customers ^(b) | 4,564 | 4,614 | 2,888 | 6 | 12,072 |
| Interest income | 3,160 | 653 | 24 | 162 | 3,999 |
| Interest expense | 460 | 268 | (85) | 321 | 964 |
| Total revenues net of interest expense | 9,182 | 5,727 | 3,089 | (117) | 17,881 |
| Net income (loss) | \$1,288 | \$882 | \$909 | \$ (484) | \$ 2,595 |
| Total assets (billions) | \$113 | \$47 | \$27 | \$ (20) | \$ 167 |

(a) Corporate & Other includes adjustments and eliminations for intersegment activity.

(b) Includes discount revenue, certain other fees and commissions and other revenues from customers.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Introduction

When we use the terms "American Express," "we," "our" or "us," we mean American Express Company and its subsidiaries on a consolidated basis, unless we state or the context implies otherwise.

We provide our customers with access to products, insights and experiences that enrich lives and build business success. Our principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world. Our range of products and services includes:

- Charge card, credit card and other payment and financing products
- Merchant acquisition and processing, servicing and settlement, and point-of-sale marketing and information products and services for merchants
- Network services
- Other fee services, including fraud prevention services and the design and operation of customer loyalty programs
- Expense management products and services
- Travel-related services
- Stored-value/prepaid products

Our various products and services are sold globally to diverse customer groups, including consumers, large corporations, mid-sized companies and small businesses. These products and services are sold through various channels, including mobile and online applications, direct mail, in-house sales teams, third-party vendors and direct response advertising. Business travel-related services are offered through our non-consolidated joint venture, American Express Global Business Travel (the GBT JV).

We compete in the global payments industry with charge, credit and debit card networks, issuers and acquirers, paper-based transactions (e.g., cash and checks), bank transfer models (e.g., wire transfers and ACH), as well as evolving and growing alternative payment and financing providers. As the payments industry continues to evolve, we face increasing competition from non-traditional players that leverage new technologies and customer relationships to create payment or financing solutions.

The following types of revenue are generated from our various products and services:

• Discount revenue, our largest revenue source, represents fees generally charged to merchants for accepting our cards as payment for goods or services sold;

• Interest on loans, principally represents interest income earned on outstanding balances;

• Net card fees, represent revenue earned from annual card membership fees, which varies based on the type of card and the number of cards for each account;

• Other fees and commissions, represent Card Member delinquency fees, foreign currency conversion fees charged to Card Members, loyalty coalition-related fees, travel commissions and fees, service fees and fees related to our Membership Rewards program; and

• Other revenue, primarily represents revenues arising from contracts with partners of our Global Network Services (GNS) business (including commissions and signing fees less issuer rate payments), cross-border Card Member spending, ancillary merchant-related fees, insurance premiums earned from Card Members, prepaid card and Travelers Cheque-related revenues, and earnings from equity method investments (including the GBT JV).

Effective January 1, 2018, we adopted new revenue recognition guidance using the full retrospective method, which applies the new standard to each prior reporting period presented, starting January 1, 2016. The adoption changed the recognition timing and classification of certain revenues and expenses, including changes to the presentation of certain credit and charge card related costs that were previously netted against discount revenue. The adoption did not have a significant impact on our consolidated financial position, net income, equity or cash flows. Refer to Note 1 to the "Consolidated Financial Statements" for additional information. In addition, we reclassified certain business

development expenses, from other expenses to marketing and business development, which was not directly attributable to the adoption of the new revenue recognition guidance.

Table of Contents

Effective for the second quarter of 2018, we realigned our reportable segments to reflect the organizational changes announced during the first quarter of 2018. Prior periods have been revised to conform to the new reportable operating segments, which are: Global Consumer Services Group (GCSG), Global Commercial Services (GCS) and Global Merchant and Network Services (GMNS), with corporate functions and certain other businesses and operations included in Corporate & Other. Refer to Note 1 to the “Consolidated Financial Statements” for additional information. Forward-Looking Statements and Non-GAAP Measures

Certain of the statements in this Form 10-Q are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Refer to the “Cautionary Note Regarding Forward-Looking Statements” section. We prepare our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (GAAP). However, certain information included within this Form 10-Q constitutes non-GAAP financial measures. Our calculations of non-GAAP financial measures may differ from the calculations of similarly titled measures by other companies.

Bank Holding Company

American Express is a bank holding company under the Bank Holding Company Act of 1956, and The Board of Governors of the Federal Reserve System (the Federal Reserve) is our primary federal regulator. As such, we are subject to the Federal Reserve’s regulations, policies and minimum capital standards.

Business Environment

Our results for the second quarter reflect strong performance that continues the momentum from the beginning of the year, as we progress against our four strategic imperatives – strengthening our leadership position with premium consumers, extending our strong position in the commercial payments space, strengthening our global, integrated network and making American Express an essential part of our customers’ digital lives. The increases in net income and earnings per share versus the prior year reflected growth across our businesses as well as a lower tax provision due to the reduction in the U.S. corporate income tax rate resulting from the Tax Cuts and Jobs Act (the Tax Act). Our worldwide billed business increased 10 percent over the prior year. Our U.S. and international proprietary consumer card issuing businesses saw continued double digit billings growth. The increase in U.S. billings versus the prior year reflected growth from existing customers and strong growth in our Platinum portfolios. The increase in commercial billings reflected growth across all of our commercial customer segments. Global Network Services billed business declined due to the impact of the evolving regulatory environment in the European Union and Australia; excluding the billings from those geographies Global Network Services billed business grew year-over-year. Revenues net of interest expense grew 9 percent, reflecting higher Card Member spending, fee income and net interest income, partially offset by a decline in the average discount rate. We continue to be focused on driving discount revenue growth, not on managing the average discount rate, which has led us to selectively adjust discount rates in order to drive higher volume growth and overall economics. While our net interest yield continued to increase year-over-year, the increase has moderated over the last few quarters as we grow over some of our prior-year pricing initiatives and experience higher funding costs.

Card Member loans grew year-over-year, in line with the first quarter, as we continued to expand our lending relationships with existing customers and acquired new Card Members, including the acquisition from Citibank, N.A. of the portion of the Hilton cobrand portfolio that we did not previously own (the acquired Hilton portfolio). Provisions for losses increased as a result of higher Card Member loans and receivables and increases in net write-off rates. The increase in the lending net write-off rate was primarily due to the continued seasoning of recent loan vintages, and we expect this trend to continue.

Spending on customer engagement (the aggregate of rewards, Card Member services and marketing and business development expenses) increased year-over-year across all categories. Growth in rewards and Card Member services reflected the growth in billings and continued higher levels of usage across many of our premium travel services. Marketing and business development expense increased due to higher spending on growth initiatives, including the launch of our new global brand campaign, continued investments in our cobrand partnerships and higher corporate client incentives. We expect spending on growth initiatives to remain at higher levels than the first quarter of 2018 for

the balance of the year. Operating expense decreased modestly year-over-year, reflecting our continued focus on controlling operating costs.

Table of Contents

As previously announced, we suspended our share buyback program for the first half of 2018 in order to rebuild our capital, and as a result, we saw our capital ratios sequentially improve during the second quarter. We continued to return capital to shareholders through our dividend distributions, and during the quarter, we received notice that the Board of Governors of the Federal Reserve System (the Federal Reserve) did not object to our capital plan. We will therefore be resuming our share buyback program during the third quarter of the year.

While we continue to see some headwinds from a rising interest rate environment, regulation in countries around the world and intense competition, we remain focused on delivering differentiated value to our merchants, customers and business partners, while delivering appropriate returns to our shareholders.

See “Certain legislative, regulatory and other developments” in “Other Matters” for information on certain matters that could have a material adverse effect on our results of operations and financial condition.

Table of ContentsAmerican Express Company
Consolidated Results of Operations

Refer to the “Glossary of Selected Terminology” for the definitions of certain key terms and related information appearing within this section.

The discussions in both the Consolidated Results of Operations and Business Segment Results provide commentary on the variances for the three and six months ended June 30, 2018 compared to same periods in the prior year, as presented in the accompanying tables. Effective January 1, 2018, we changed the methodology used to allocate certain corporate overhead costs and interest income and expense to the operating segments. Effective April 1, 2018, we made additional changes to the methodology used to allocate certain corporate overhead costs to the operating segments. Prior period amounts have been revised to conform to the current period presentation.

Table 1: Summary of Financial Performance

| (Millions, except percentages and per share amounts) | Three Months Ended June 30, | | Change 2018 vs. 2017 | | Six Months Ended June 30, | | Change 2018 vs. 2017 | |
|--|-----------------------------|---------|----------------------|------|---------------------------|----------|----------------------|------|
| | 2018 | 2017 | 2017 | | 2018 | 2017 | 2017 | |
| Total revenues net of interest expense | \$10,002 | \$9,172 | \$830 | 9 % | \$19,720 | \$17,881 | \$1,839 | 10 % |
| Provisions for losses | 806 | 583 | 223 | 38 | 1,581 | 1,156 | 425 | 37 |
| Expenses | 7,105 | 6,632 | 473 | 7 | 13,966 | 12,929 | 1,037 | 8 |
| Pretax income | 2,091 | 1,957 | 134 | 7 | 4,173 | 3,796 | 377 | 10 |
| Income tax provision | 468 | 613 | (145) | (24) | 916 | 1,201 | (285) | (24) |
| Net income | 1,623 | 1,344 | 279 | 21 | 3,257 | 2,595 | 662 | 26 |
| Earnings per common share - diluted ^(a) | \$1.84 | \$1.47 | \$0.37 | 25 % | \$3.70 | \$2.82 | \$0.88 | 31 % |
| Return on average equity ^(b) | 16.7 % | 21.7 % | | | 16.7 % | 21.7 % | | |
| Effective tax rate | 22.4 % | 31.3 % | | | 22.0 % | 31.6 % | | |

Earnings per common share — diluted was reduced by the impact of (i) earnings allocated to participating share awards of \$12 million and \$11 million for the three months ended June 30, 2018 and 2017, respectively, and \$25 (a) million and \$21 million for the six months ended June 30, 2018 and 2017, respectively, and (ii) dividends on preferred shares of \$20 million and \$19 million for the three months ended June 30, 2018 and 2017, respectively, and \$41 million and \$40 million for the six months ended June 30, 2018 and 2017, respectively.

Return on average equity (ROE) is computed by dividing (i) one-year period net income (\$3.4 billion and \$4.5 (b) billion for June 30, 2018 and 2017, respectively) by (ii) one-year average total shareholders’ equity (\$20.4 billion and \$20.9 billion for June 30, 2018 and 2017, respectively).

Table 2: Total Revenue Net of Interest Expense Summary

| (Millions, except percentages) | Three Months Ended June 30, | | Change 2018 vs. 2017 | | Six Months Ended June 30, | | Change 2018 vs. 2017 | |
|--------------------------------|-----------------------------|---------|----------------------|-----|---------------------------|----------|----------------------|-----|
| | 2018 | 2017 | 2017 | | 2018 | 2017 | 2017 | |
| Discount revenue | \$6,194 | \$5,743 | \$451 | 8 % | \$12,083 | \$11,130 | \$953 | 9 % |
| Net card fees | 844 | 771 | 73 | 9 | 1,674 | 1,519 | 155 | 10 |
| Other fees and commissions | 786 | 746 | 40 | 5 | 1,567 | 1,457 | 110 | 8 |
| Other | 349 | 379 | (30) | (8) | 726 | 740 | (14) | (2) |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

| | | | | | | | | |
|--|-----------|----------|--------|-----|-----------|-----------|----------|------|
| Total non-interest revenues | 8,173 | 7,639 | 534 | 7 | 16,050 | 14,846 | 1,204 | 8 |
| Total interest income | 2,540 | 2,054 | 486 | 24 | 5,002 | 3,999 | 1,003 | 25 |
| Total interest expense | 711 | 521 | 190 | 36 | 1,332 | 964 | 368 | 38 |
| Net interest income | 1,829 | 1,533 | 296 | 19 | 3,670 | 3,035 | 635 | 21 |
| Total revenues net of interest expense | \$ 10,002 | \$ 9,172 | \$ 830 | 9 % | \$ 19,720 | \$ 17,881 | \$ 1,839 | 10 % |

Total Revenues Net of Interest Expense

Discount revenue increased for both the three and six month periods, primarily due to growth in billed business of 10 percent and 11 percent for the three and six month periods, respectively, partially offset by a decrease in the average discount rate. U.S. billed business increased 10 percent for both periods. Non-U.S. billed business increased 10 percent and 13 percent for the three and six month periods, respectively. See Tables 5, 6 and 7 for more details on billed business performance.

The decreases in the average discount rate for both the three and six month periods primarily reflected rate reductions from merchant negotiations, including those resulting from the recent regulatory changes affecting competitor pricing in certain international markets, changes in industry and geographic mix and the continued growth of the OptBlue program. We expect the average discount rate will continue to decline over time due to a greater shift of existing merchants into OptBlue, merchant negotiations and competition, volume related pricing discounts, certain pricing initiatives mainly driven by pricing regulation (including regulation of competitors' interchange rates) and other factors.

Table of Contents

Net card fees increased for both the three and six month periods, primarily driven by growth in the Platinum and Delta portfolios, as well as growth in certain key international countries.

Other fees and commissions increased for both the three and six month periods, primarily driven by growth in foreign exchange conversion revenue, in addition to an increase in travel commissions and fees in the three month period and a change in the late fee assessment date for certain U.S. charge cards in the six month period.

Other revenues decreased for both the three and six month periods. The decrease in both periods was primarily due to a reduction in revenues related to GNS partners and lower revenues related to our prepaid business, and additionally in the three month period by a decline in revenues related to the GBT JV.

Interest income increased for both the three and six month periods, primarily reflecting higher average Card Member loans and higher yields. The growth in average Card Member loans was primarily driven by expanding relationships with existing customers, as well as the inclusion of the acquired Hilton portfolio. The increase in yields was primarily driven by a greater percentage of loans at higher rate buckets and specific pricing actions.

Interest expense increased for both the three and six month periods, primarily driven by higher interest rates, higher average long-term debt and higher average deposits.

Table 3: Provisions for Losses Summary

| | Three Months Ended | | Change | | Six Months Ended | | Change | |
|--------------------------------|--------------------|---------------|---------------|-----|------------------|---------------|---------------|-----|
| | June 30, 2018 | June 30, 2017 | 2018 vs. 2017 | % | June 30, 2018 | June 30, 2017 | 2018 vs. 2017 | % |
| (Millions, except percentages) | 2018 | 2017 | 2017 | | 2018 | 2017 | 2017 | |
| Charge card | \$245 | \$163 | \$82 | 50% | \$487 | \$376 | \$111 | 30% |
| Card Member loans | 528 | 404 | 124 | 31 | 1,027 | 741 | 286 | 39 |
| Other | 33 | 16 | 17 | # | 67 | 39 | 28 | 72 |
| Total provisions for losses | \$806 | \$583 | \$223 | 38% | \$1,581 | \$1,156 | \$425 | 37% |

Denotes a variance greater than 100 percent

Provisions for Losses

Charge card provision for losses increased for both the three and six month periods, primarily driven by growth in receivables due to increased billed business and higher net losses, largely in the corporate and small business portfolios.

Card Member loans provision for losses increased for both the three and six month periods, primarily driven by continued strong loan growth and higher net write-offs as a result of the seasoning of recent loan vintages.

Other provision for losses increased for both the three and six month periods, primarily due to growth in the non-card lending portfolio.

Table 4: Expenses Summary

Six Months Ended

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

| | Three Months Ended | | Change | | June 30, | | Change | |
|---|--------------------|---------------|---------------|-----|---------------|---------------|---------------|-----|
| | June 30, 2018 | June 30, 2017 | 2018 vs. 2017 | % | June 30, 2018 | June 30, 2017 | 2018 vs. 2017 | % |
| (Millions, except percentages) | | | | | | | | |
| Marketing and business development ^(a) | \$1,663 | \$1,456 | \$207 | 14% | \$3,008 | \$2,741 | \$267 | 10% |
| Card Member rewards | 2,433 | 2,196 | 237 | 11 | 4,780 | 4,257 | 523 | 12 |
| Card Member services | 416 | 341 | 75 | 22 | 825 | 658 | 167 | 25 |
| Total marketing, business development, rewards and Card Member services | 4,512 | 3,993 | 519 | 13 | 8,613 | 7,656 | 957 | 13 |
| Salaries and employee benefits | 1,280 | 1,293 | (13) | (1) | 2,606 | 2,557 | 49 | 2 |
| Other, net ^(a) | 1,313 | 1,346 | (33) | (2) | 2,747 | 2,716 | 31 | 1 |
| Total expenses | \$7,105 | \$6,632 | \$473 | 7% | \$13,966 | \$12,929 | \$1,037 | 8% |

Effective January 1, 2018, includes reclassification of certain business development expenses from Other expenses (a) to Marketing and business development that are not directly attributable to the adoption of the new revenue recognition guidance. Prior periods have been conformed to the current period presentation.

Table of Contents

Expenses

Marketing and business development expense increased for both the three and six month periods, primarily due to higher spending on growth initiatives including the launch of our new global brand campaign, continued investments in partnerships, and increased corporate client incentives driven by higher volumes.

Card Member rewards expense increased for both the three and six month periods, primarily driven by increases in cobrand rewards expense of \$152 million and \$280 million and Membership Rewards and cash-back reward expenses of \$83 million and \$243 million, for the three and six month periods, respectively, all of which were primarily driven by higher spending volumes.

The Membership Rewards Ultimate Redemption Rate (URR) for current program participants increased to 96 percent (rounded up) at June 30, 2018 from 95 percent (rounded down) at June 30, 2017. The increase in the URR reflects continued higher engagement in our Membership Rewards program.

Card Member services expense increased for both the three and six month periods, primarily driven by higher usage of travel-related benefits, in addition to enhanced Platinum card benefits in the six month period.

Salaries and employee benefits expense was flat and increased for the three and six month periods, respectively, primarily driven by increases in incentive compensation, offset in the three month period by lower restructuring costs.

Other expenses decreased and was flat for the three and six month periods, respectively. The decrease in the three month period was primarily driven by foreign currency-related gains and a value-added tax (VAT) reserve release, partially offset by a benefit in the prior year from a change in the liability related to non-delivery of goods and services by merchants. The six month period also reflected a loss on a transaction involving the operations of our prepaid reloadable and gift card business.

Income Taxes

The effective tax rate decreased for both the three and six month periods, primarily reflecting the reduction in the U.S. federal statutory tax rate as a result of the Tax Act.

Table of Contents

Table 5: Selected Card-Related Statistical Information

| | As of or for the Three Months Ended | | Change 2018 vs. 2017 | As of or for the Six Months Ended | | Change 2018 vs. 2017 |
|--|---|---------|-------------------------------|--------------------------------------|---------|-------------------------------|
| | June 30, 2018 | 2017 | | June 30, 2018 | 2017 | |
| Card billed business: (billions) | | | | | | |
| U.S. | \$195.4 | \$177.6 | 10 % | \$377.9 | \$343.0 | 10 % |
| Outside the U.S. | 101.1 | 92.0 | 10 | 202.4 | 178.9 | 13 |
| Total | \$296.5 | \$269.6 | 10 | \$580.3 | \$521.9 | 11 |
| Proprietary | \$251.1 | \$223.8 | 12 | \$488.0 | \$432.7 | 13 |
| Global Network Services | 45.4 | 45.8 | (1) | 92.3 | 89.2 | 3 |
| Total | \$296.5 | \$269.6 | 10 | \$580.3 | \$521.9 | 11 |
| Cards-in-force: (millions) | | | | | | |
| U.S. | 51.9 | 48.9 | 6 | 51.9 | 48.9 | 6 |
| Outside the U.S. | 62.4 | 63.3 | (1) | 62.4 | 63.3 | (1) |
| Total | 114.3 | 112.2 | 2 | 114.3 | 112.2 | 2 |
| Proprietary | 67.4 | 63.0 | 7 | 67.4 | 63.0 | 7 |
| Global Network Services | 46.9 | 49.2 | (5) | 46.9 | 49.2 | (5) |
| Total | 114.3 | 112.2 | 2 | 114.3 | 112.2 | 2 |
| Basic cards-in-force: (millions) | | | | | | |
| U.S. | 40.9 | 38.6 | 6 | 40.9 | 38.6 | 6 |
| Outside the U.S. | 52.0 | 52.6 | (1) | 52.0 | 52.6 | (1) |
| Total | 92.9 | 91.2 | 2 | 92.9 | 91.2 | 2 |
| Average proprietary basic Card Member spending: (dollars) | | | | | | |
| U.S. | \$5,275 | \$5,128 | 3 | \$10,294 | \$9,989 | 3 |
| Outside the U.S. | \$3,909 | \$3,468 | 13 | \$7,781 | \$6,752 | 15 |
| Average | \$4,871 | \$4,633 | 5 | \$9,551 | \$9,022 | 6 |
| Card Member loans: (billions) | | | | | | |
| U.S. | \$66.3 | \$58.5 | 13 | \$66.3 | \$58.5 | 13 |
| Outside the U.S. | 9.1 | 7.5 | 21 | 9.1 | 7.5 | 21 |
| Total | \$75.4 | \$66.0 | 14 | \$75.4 | \$66.0 | 14 |
| Average discount rate ^(a) | 2.37 % | 2.42 % | | 2.37 % | 2.42 % | |
| Average fee per card (dollars) ^(b) | \$51 | \$49 | 4 % | \$51 | \$49 | 4 % |

Effective January 1, 2018, we began including billed business related to certain business-to-business products in (a) the calculation of the average discount rate to reflect our expanding business-to-business product offerings. Prior periods have been conformed to the current period presentation.

(b) Average fee per card is computed based on proprietary basic net card fees divided by average proprietary basic cards-in-force.

Table of Contents

Table 6: Billed Business Growth

| | Three Months Ended June 30, 2018 | | |
|--|--|------------|------------|
| | Percentage Increase (Decrease) | | |
| | Percentage Assuming No Changes in FX Rates ^(a) | | |
| | (Decrease) | (Increase) | (Decrease) |
| Worldwide ^(b) | | | |
| Billed business | 10 % | 9 | % |
| Proprietary billed business | 12 | 12 | |
| GNS billed business | (1) | (3 |) |
| Airline-related volume (8% of worldwide billed business) | 8 | 7 | |
| U.S. ^(b) | | | |
| Billed business | 10 | | |
| Proprietary consumer billed business | 10 | | |
| Proprietary commercial billed business | 10 | | |
| T&E-related volume (26% of U.S. billed business) | 8 | | |
| Non-T&E-related volume (74% of U.S. billed business) | 10 | | |
| Airline-related volume (7% of U.S. billed business) | 7 | | |
| Outside the U.S. ^(b) | | | |
| Billed business | 10 | 8 | |
| Japan, Asia Pacific & Australia billed business | 9 | 7 | |
| Latin America & Canada billed business | 5 | 11 | |
| Europe, the Middle East & Africa billed business | 14 | 9 | |
| Proprietary consumer billed business | 20 | 18 | |
| Proprietary commercial billed business | 19 % | 18 | % |

The foreign currency adjusted information assumes a constant exchange rate between the periods being compared for purposes of currency translation into U.S. dollars (i.e., assumes the foreign exchange rates used to determine results for the current period apply to the corresponding prior year period against which such results are being compared).

(b) Captions in the table above not designated as “proprietary” or “GNS” include both proprietary and GNS data.

Table of Contents

Table 7: Billed Business Growth

| | Six Months Ended June 30, 2018 | | |
|--|---|--------------------------------------|--------------------------------------|
| | Percentage Increase (Decrease) | | |
| | Assuming No Changes in FX Rates ^(a) | | |
| | Percentage Increase (Decrease) | Percentage Increase (Decrease) | Percentage Increase (Decrease) |
| Worldwide ^(b) | | | |
| Billed business | 11 % | 10 | % |
| Proprietary billed business | 13 | 12 | |
| GNS billed business | 3 | | |
| Airline-related volume (8% of worldwide billed business) | 9 | 6 | |
| U.S. ^(b) | | | |
| Billed business | 10 | | |
| Proprietary consumer billed business | 11 | | |
| Proprietary commercial billed business | 10 | | |
| T&E-related volume (26% of U.S. billed business) | 8 | | |
| Non-T&E-related volume (74% of U.S. billed business) | 11 | | |
| Airline-related volume (7% of U.S. billed business) | 7 | | |
| Outside the U.S. ^(b) | | | |
| Billed business | 13 | 9 | |
| Japan, Asia Pacific & Australia billed business | 13 | 8 | |
| Latin America & Canada billed business | 6 | 12 | |
| Europe, the Middle East & Africa billed business | 17 | 8 | |
| Proprietary consumer billed business | 23 | 17 | |
| Proprietary commercial billed business | 21 % | 16 | % |

The foreign currency adjusted information assumes a constant exchange rate between the periods being compared for purposes of currency translation into U.S. dollars (i.e., assumes the foreign exchange rates used to determine results for the current period apply to the corresponding prior year period against which such results are being compared).

(b) Captions in the table above not designated as “proprietary” or “GNS” include both proprietary and GNS data.

Table of Contents

Table 8: Selected Credit-Related Statistical Information

| | As of or for the | | Change | As of or for the | | Change | |
|---|------------------|----------|--------|------------------|---------|--------|---|
| | Three Months | | | Six Months | | | |
| | Ended | Ended | 2018 | Ended | 2018 | 2018 | |
| (Millions, except percentages and where indicated) | June 30, | June 30, | vs. | June 30, | 2017 | vs. | |
| | 2018 | 2017 | 2017 | 2018 | 2017 | 2017 | |
| Worldwide Card Member loans: | | | | | | | |
| Total loans (billions) | \$75.4 | \$66.0 | 14 | % \$75.4 | \$66.0 | 14 | % |
| Loss reserves: | | | | | | | |
| Beginning balance | \$1,786 | \$1,248 | 43 | \$1,706 | \$1,223 | 39 | |
| Provisions - principal, interest and fees | 528 | 404 | 31 | 1,027 | 741 | 39 | |
| Net write-offs — principal less recoveries | (389) | (285) | 36 | (747) | (557) | 34 | |
| Net write-offs — interest and fees less recoveries | (77) | (55) | 40 | (148) | (106) | 40 | |
| Other ^(a) | (8) | 8 | # | 2 | 19 | (89) | |
| Ending balance | \$1,840 | \$1,320 | 39 | \$1,840 | \$1,320 | 39 | |
| Ending reserves — principal | \$1,737 | \$1,247 | 39 | \$1,737 | \$1,247 | 39 | |
| Ending reserves — interest and fees | \$103 | \$73 | 41 | \$103 | \$73 | 41 | |
| % of loans | 2.4 | % 2.0 | % | 2.4 | % 2.0 | % | |
| % of past due | 188 | % 167 | % | 188 | % 167 | % | |
| Average loans (billions) | \$74.1 | \$65.1 | 14 | \$73.5 | \$64.6 | 14 | |
| Net write-off rate — principal only | 2.1 | % 1.8 | % | 2.0 | % 1.7 | % | |
| Net write-off rate — principal, interest and fees | 2.5 | 2.1 | | 2.4 | 2.1 | | |
| 30+ days past due as a % of total ^(b) | 1.3 | % 1.2 | % | 1.3 | % 1.2 | % | |
| Worldwide Card Member receivables: | | | | | | | |
| Total receivables (billions) | \$55.0 | \$49.4 | 11 | \$55.0 | \$49.4 | 11 | |
| Loss reserves: | | | | | | | |
| Beginning balance | \$565 | \$491 | 15 | \$521 | \$467 | 12 | |
| Provisions - principal and fees | 245 | 163 | 50 | 487 | 376 | 30 | |
| Net write-offs - principal and fees less recoveries | (236) | (179) | 32 | (435) | (373) | 17 | |
| Other ^(a) | (16) | | # | (15) | 5 | # | |
| Ending balance | \$558 | \$475 | 17 | % \$558 | \$475 | 17 | % |
| % of receivables | 1.0 | % 1.0 | % | 1.0 | % 1.0 | % | |
| Net write-off rate — principal only | 1.8 | 1.5 | | 1.7 | 1.6 | | |
| Net write-off rate — principal and fees | 2.1 | 1.7 | | 1.9 | 1.8 | | |
| 30+ days past due as a % of total ^(b) | 1.3 | 1.3 | | 1.3 | 1.3 | | |
| Net loss ratio as a % of charge volume — GCP | 0.12 | 0.10 | | 0.11 | 0.10 | | |
| 90+ days past billing as a % of total — GCP | 0.8 | % 0.8 | % | 0.8 | % 0.8 | % | |

Denotes a variance greater than 100 percent

(a) Other includes foreign currency translation adjustments.

We present a net write-off rate based on principal losses only (i.e., excluding interest and/or fees) to be consistent with industry convention. In addition, as our practice is to include uncollectible interest and/or fees as part of our (b) total provision for losses, a net write-off rate including principal, interest and/or fees is also presented. The net write-off rates and 30+ days past due as a percentage of total for Card Member receivables relate to GCSG and Global Small Business Services (GSBS) Card Member receivables.

(c) Global Corporate Payments (GCP) reflects global, large and middle market corporate accounts. For GCP Card Member receivables, delinquency data is tracked based on days past billing status rather than days past due. A Card Member account is considered 90 days past billing if payment has not been received within 90 days of the Card Member's billing statement date. In addition, if we initiate collection procedures on an account prior to the account

becoming 90 days past billing, the associated Card Member receivable balance is classified as 90 days past billing. These amounts are shown above as 90+ Days Past Due for presentation purposes. GCP delinquency data for periods other than 90 days past billing is not available due to system constraints.

Table of Contents

Table 9: Net Interest Yield on Average Card Member Loans

| (Millions, except percentages and where indicated) | Three Months | | Six Months | |
|--|--------------|---------|------------|---------|
| | Ended | | Ended | |
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net interest income | \$1,829 | \$1,533 | \$3,670 | \$3,035 |
| Exclude: | | | | |
| Interest expense not attributable to our Card Member loan portfolio ^(a) | 359 | 295 | 661 | 542 |
| Interest income not attributable to our Card Member loan portfolio ^(b) | (236) | (156) | (449) | (287) |
| Adjusted net interest income ^(c) | \$1,952 | \$1,672 | \$3,882 | \$3,290 |
| Average Card Member loans (billions) | \$74.1 | \$65.1 | \$73.5 | \$64.6 |
| Net interest income divided by average Card Member loans ^(c) | 9.9 % | 9.4 % | 10.0 % | 9.4 % |
| Net interest yield on average Card Member loans ^(c) | 10.6 % | 10.3 % | 10.6 % | 10.3 % |

(a) Primarily represents interest expense attributable to maintaining our corporate liquidity pool and funding Card Member receivables.

(b) Primarily represents interest income attributable to Other loans, interest-bearing deposits and the fixed income investment portfolios.

Adjusted net interest income and net interest yield on average Card Member loans are non-GAAP measures. Refer to “Glossary of Selected Terminology” for the definitions of these terms. We believe adjusted net interest income is useful to investors because it represents the interest expense and interest income attributable to our Card Member loan portfolio and is a component of net interest yield on average Card Member loans, which provides a measure of (c) profitability of our Card Member loan portfolio. Net interest yield on average Card Member loans reflects adjusted net interest income divided by average Card Member loans, computed on an annualized basis. Net interest income divided by average Card Member loans, computed on an annualized basis, a GAAP measure, includes elements of total interest income and total interest expense that are not attributable to the Card Member loan portfolio, and thus is not representative of net interest yield on average Card Member loans.

Table of Contents

Business Segment Results

Global Consumer Services Group

Table 10: GCSG Selected Income Statement Data

| (Millions, except percentages) | Three Months Ended | | Change 2018 vs. 2017 | | Six Months Ended | | Change 2018 vs. 2017 | |
|--|--------------------|---------------|----------------------|------|------------------|---------------|----------------------|------|
| | June 30, 2018 | June 30, 2017 | | | June 30, 2018 | June 30, 2017 | | |
| Revenues | | | | | | | | |
| Non-interest revenues | \$3,678 | \$3,345 | \$333 | 10 % | \$7,169 | \$6,482 | 687 | 11 % |
| Interest income | 1,994 | 1,616 | 378 | 23 | 3,943 | 3,160 | 783 | 25 |
| Interest expense | 370 | 247 | 123 | 50 | 697 | 460 | 237 | 52 |
| Net interest income | 1,624 | 1,369 | 255 | 19 | 3,246 | 2,700 | 546 | 20 |
| Total revenues net of interest expense | 5,302 | 4,714 | 588 | 12 | 10,415 | 9,182 | 1,233 | 13 |
| Provisions for losses | 565 | 428 | 137 | 32 | 1,095 | 787 | 308 | 39 |
| Total revenues net of interest expense after provisions for losses | 4,737 | 4,286 | 451 | 11 | 9,320 | 8,395 | 925 | 11 |
| Expenses | | | | | | | | |
| Marketing, business development, rewards and Card Member services | 2,695 | 2,322 | 373 | 16 | 5,141 | 4,403 | 738 | 17 |
| Salaries and employee benefits and other operating expenses | 1,081 | 1,066 | 15 | 1 | 2,170 | 2,120 | 50 | 2 |
| Total expenses | 3,776 | 3,388 | 388 | 11 | 7,311 | 6,523 | 788 | 12 |
| Pretax segment income | 961 | 898 | 63 | 7 | 2,009 | 1,872 | 137 | 7 |
| Income tax provision | 191 | 283 | (92) | (33) | 413 | 584 | (171) | (29) |
| Segment income | \$770 | \$615 | \$155 | 25 % | \$1,596 | \$1,288 | 308 | 24 % |
| Effective tax rate | 19.9 % | 31.5 % | | | 20.6 % | 31.2 % | | |

GCSG primarily issues a wide range of proprietary consumer cards globally. GCSG also provides services to consumers, including travel services and non-card financing products, and manages certain international joint ventures and our partnership agreements in China.

Non-interest revenues increased for both the three and six month periods, primarily driven by discount revenue, which increased \$225 million, or 10 percent, and \$470 million, or 11 percent, for the three and six month periods, respectively, reflecting increases in billed business of 13 percent and 14 percent, respectively, partially offset by declines in the average discount rate. U.S. billed business increased 10 percent and 11 percent for the three and six month periods, respectively. Non-U.S. billed business increased 20 percent and 22 percent for the three and six month periods, respectively. The increases in billed business reflected higher cards-in-force and higher average spend per card.

Net card fees increased in both periods, driven primarily by growth in the Platinum and Delta portfolios, as well as growth across certain key international countries. Other fees and commissions increased for both the three and six month periods, primarily driven by growth in foreign exchange conversion revenue, in addition to an increase in travel

commissions in the three month period and a change in the late fee assessment date for certain charge cards in the six month period.

Net interest income increased for both the three and six month periods, primarily driven by growth in average Card Member loans and higher yields, partially offset by higher interest expense, primarily driven by higher cost of funds. The growth in average Card Member loans was primarily driven by expanding relationships with existing customers, as well as the inclusion of the acquired Hilton portfolio. The increase in yields was primarily driven by a greater percentage of loans at higher rate buckets and specific pricing actions.

Provisions for losses increased for both the three and six month periods, primarily driven by Card Member loan provisions due to strong lending growth and higher write-offs as a result of the continued seasoning of recent loan vintages.

Table of Contents

Marketing, business development, rewards and Card Member services expenses increased for both the three and six month periods across all expense categories. Card Member rewards expense increased \$176 million and \$391 million for the three and six month periods, respectively, driven by increased spending volumes. The increase in marketing and business development expenses was primarily due to higher spending on growth initiatives and higher cobrand partner payments as a result of recent cobrand agreements. The increase in Card Member services expenses was primarily driven in both periods by higher usage of travel-related benefits and, in the six month period, by the enhanced Platinum card benefits.

Salaries and employee benefits and other operating expenses increased for both the three and six month periods, primarily driven by increases in payroll costs, partially offset, in the six month period, by gains on the re-measurement of certain equity investments previously carried at cost.

The effective tax rate was lower for both the three and six month periods, primarily reflecting the reduction in the U.S. federal statutory tax rate as a result of the Tax Act.

Table of Contents

Table 11: GCSG Selected Statistical Information

| | As of or for the Three Months Ended June 30, | | Change 2018 vs. 2017 | As of or for the Six Months Ended June 30, | | Change 2018 vs. 2017 | | |
|--|---|---------|-------------------------------|---|---------|-------------------------------|-----|---|
| | 2018 | 2017 | | 2018 | 2017 | | | |
| (Millions, except percentages and where indicated) | | | | | | | | |
| Proprietary card billed business: (billions) | | | | | | | | |
| U.S. | \$93.6 | \$84.8 | 10 | % | \$179.6 | \$162.2 | 11 | % |
| Outside the U.S. | 34.6 | 28.8 | 20 | | 67.9 | 55.5 | 22 | |
| Total | \$128.2 | \$113.6 | 13 | | \$247.5 | \$217.7 | 14 | |
| Proprietary cards-in-force: | | | | | | | | |
| U.S. | 36.7 | 33.8 | 9 | | 36.7 | 33.8 | 9 | |
| Outside the U.S. | 16.5 | 15.5 | 6 | | 16.5 | 15.5 | 6 | |
| Total | 53.2 | 49.3 | 8 | | 53.2 | 49.3 | 8 | |
| Proprietary basic cards-in-force: | | | | | | | | |
| U.S. | 26.2 | 24.2 | 8 | | 26.2 | 24.2 | 8 | |
| Outside the U.S. | 11.4 | 10.7 | 7 | | 11.4 | 10.7 | 7 | |
| Total | 37.6 | 34.9 | 8 | | 37.6 | 34.9 | 8 | |
| Average proprietary basic Card Member spending: (dollars) | | | | | | | | |
| U.S. | \$3,594 | \$3,538 | 2 | | \$6,969 | \$6,837 | 2 | |
| Outside the U.S. | \$3,057 | \$2,726 | 12 | | \$6,060 | \$5,269 | 15 | |
| Average | \$3,431 | \$3,289 | 4 | | \$6,693 | \$6,355 | 5 | |
| Total segment assets (billions) ^(a) | \$126.8 | \$112.7 | 13 | | \$126.8 | \$112.7 | 13 | |
| Card Member loans: | | | | | | | | |
| Total loans (billions) | | | | | | | | |
| U.S. | \$54.7 | \$48.3 | 13 | | \$54.7 | \$48.3 | 13 | |
| Outside the U.S. | 8.8 | 7.3 | 21 | | 8.8 | 7.3 | 21 | |
| Total | \$63.5 | \$55.6 | 14 | | \$63.5 | \$55.6 | 14 | |
| Average loans (billions) | | | | | | | | |
| U.S. | \$53.7 | \$47.7 | 13 | | \$53.4 | \$47.6 | 12 | |
| Outside the U.S. | 8.8 | 7.1 | 24 | | 8.8 | 7.0 | 26 | |
| Total | \$62.5 | \$54.8 | 14 | % | \$62.2 | \$54.6 | 14 | % |
| Lending Credit Metrics: | | | | | | | | |
| U.S. | | | | | | | | |
| Net write-off rate - principal only ^(b) | 2.2 | % | 1.8 | % | 2.1 | % | 1.7 | % |
| Net write-off rate - principal, interest and fees ^(b) | 2.6 | % | 2.1 | % | 2.5 | % | 2.0 | % |
| 30+ days past due loans as a % of total | 1.3 | % | 1.1 | % | 1.3 | % | 1.1 | % |
| Outside the U.S. | | | | | | | | |
| Net write-off rate - principal only ^(b) | 2.1 | % | 2.0 | % | 2.1 | % | 2.0 | % |
| Net write-off rate - principal, interest and fees ^(b) | 2.6 | % | 2.5 | % | 2.6 | % | 2.5 | % |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

| | | | | | | | | |
|--|-----|---|-----|---|-----|---|-----|---|
| 30+ days past due loans as a % of total | 1.5 | % | 1.7 | % | 1.5 | % | 1.7 | % |
| Total | | | | | | | | |
| Net write-off rate – principal only ^(b) | 2.2 | % | 1.8 | % | 2.1 | % | 1.8 | % |
| Net write-off rate – principal, interest and fees ^(b) | 2.6 | % | 2.1 | % | 2.5 | % | 2.1 | % |
| 30+ days past due loans as a % of total | 1.3 | % | 1.2 | % | 1.3 | % | 1.2 | % |

Table of Contents

| | As of or for the Three Months Ended June 30, | | Change | | As of or for the Six Months Ended June 30, | | Change | |
|--|--|--------|--------|-----|--|--------|--------|-----|
| (Millions, except percentages and where indicated) | 2018 | 2017 | 2018 | vs. | 2018 | 2017 | 2018 | vs. |
| | | | 2017 | | | | 2017 | |
| Card Member receivables: (billions) | | | | | | | | |
| U.S. | \$12.0 | \$11.3 | 6 | % | \$12.0 | \$11.3 | 6 | % |
| Outside the U.S. | 7.0 | 6.0 | 17 | | 7.0 | 6.0 | 17 | |
| Total receivables | \$19.0 | \$17.3 | 10 | % | \$19.0 | \$17.3 | 10 | % |
| Charge Credit Metrics: | | | | | | | | |
| U.S. | | | | | | | | |
| Net write-off rate – principal only ^(b) | 1.4 % | 1.2 % | | | 1.4 % | 1.4 % | | |
| Net write-off rate – principal and fees ^(b) | 1.5 % | 1.4 % | | | 1.5 % | 1.5 % | | |
| 30+ days past due as a % of total | 1.1 % | 1.1 % | | | 1.1 % | 1.1 % | | |
| Outside the U.S. | | | | | | | | |
| Net write-off rate – principal only ^(b) | 2.1 % | 1.9 % | | | 2.1 % | 2.0 % | | |
| Net write-off rate – principal and fees ^(b) | 2.3 % | 2.0 % | | | 2.2 % | 2.2 % | | |
| 30+ days past due as a % of total | 1.4 % | 1.4 % | | | 1.4 % | 1.4 % | | |
| Total | | | | | | | | |
| Net write-off rate – principal only ^(b) | 1.7 % | 1.5 % | | | 1.6 % | 1.6 % | | |
| Net write-off rate – principal and fees ^(b) | 1.8 % | 1.6 % | | | 1.8 % | 1.8 % | | |
| 30+ days past due as a % of total | 1.2 % | 1.2 % | | | 1.2 % | 1.2 % | | |

(a) Includes changes in certain corporate allocations that are not directly attributable to our new segment structure.

(b) Refer to Table 8 footnote (b).

Table of Contents

Table 12: GCSG Net Interest Yield on Average Card Member Loans

| (Millions, except percentages and where indicated) | Three Months | | Six Months | |
|--|---------------------------|---------|---------------------------|---------|
| | Ended June 30, 2018 | 2017 | Ended June 30, 2018 | 2017 |
| U.S. | | | | |
| Net interest income | \$1,410 | \$1,182 | \$2,813 | \$2,331 |
| Exclude: | | | | |
| Interest expense not attributable to our Card Member loan portfolio ^(a) | 53 | 41 | 90 | 75 |
| Interest income not attributable to our Card Member loan portfolio ^(b) | (42) | (23) | (81) | (41) |
| Adjusted net interest income ^(c) | \$1,421 | \$1,200 | \$2,822 | \$2,365 |
| Average Card Member loans (billions) | \$53.7 | \$47.7 | \$53.4 | \$47.6 |
| Net interest income divided by average Card Member loans ^(c) | 10.5 % | 9.9 % | 10.5 % | 9.8 % |
| Net interest yield on average Card Member loans ^(c) | 10.6 % | 10.1 % | 10.7 % | 10.0 % |
| Outside the U.S. | | | | |
| Net interest income | \$215 | \$187 | \$433 | \$370 |
| Exclude: | | | | |
| Interest expense not attributable to our Card Member loan portfolio ^(a) | 16 | 12 | 34 | 21 |
| Interest income not attributable to our Card Member loan portfolio ^(b) | (2) | (2) | (5) | (5) |
| Adjusted net interest income ^(c) | \$229 | \$197 | \$462 | \$386 |
| Average Card Member loans (billions) | \$8.8 | \$7.1 | \$8.7 | \$7.0 |
| Net interest income divided by average Card Member loans ^(c) | 9.8 % | 10.5 % | 10.0 % | 10.6 % |
| Net interest yield on average Card Member loans ^(c) | 10.5 % | 11.2 % | 10.7 % | 11.1 % |
| Total | | | | |
| Net interest income | \$1,624 | \$1,369 | \$3,246 | \$2,700 |
| Exclude: | | | | |
| Interest expense not attributable to our Card Member loan portfolio ^(a) | 70 | 53 | 124 | 96 |
| Interest income not attributable to our Card Member loan portfolio ^(b) | (45) | (25) | (86) | (45) |
| Adjusted net interest income ^(c) | \$1,649 | \$1,397 | \$3,284 | \$2,751 |
| Average Card Member loans (billions) | \$62.5 | \$54.8 | \$62.1 | \$54.6 |
| Net interest income divided by average Card Member loans ^(c) | 10.4 % | 10.0 % | 10.5 % | 9.9 % |
| Net interest yield on average Card Member loans ^(c) | 10.6 % | 10.2 % | 10.7 % | 10.2 % |
| (a) Refer to Table 9 footnote (a). | | | | |
| (b) Refer to Table 9 footnote (b). | | | | |
| (c) Refer to Table 9 footnote (c). | | | | |

Table of Contents

Global Commercial Services

Table 13: GCS Selected Income Statement Data

| | Three Months | | | Six Months | | | | |
|--|--------------|---------|----------------------------|------------|----------|---------|-------|------------------|
| | Ended | | Change 2018 vs. 2017 | Ended | | Change | | |
| (Millions, except percentages) | June 30, | 2017 | | 2017 | June 30, | 2017 | 2017 | 2018 vs. 2017 |
| Revenues | | | | | | | | |
| Non-interest revenues | \$2,977 | \$2,738 | \$239 | 9 % | \$5,815 | \$5,342 | \$473 | 9 % |
| Interest income | 393 | 334 | 59 | 18 | 770 | 653 | 117 | 18 |
| Interest expense | 204 | 145 | 59 | 41 | 375 | 268 | 107 | 40 |
| Net interest income | 189 | 189 | | | 395 | 385 | 10 | 3 |
| Total revenues net of interest expense | 3,166 | 2,927 | 239 | 8 | 6,210 | 5,727 | 483 | 8 |
| Provisions for losses | 235 | 152 | 83 | 55 | 475 | 361 | 114 | 32 |
| Total revenues net of interest expense after provisions for losses | 2,931 | 2,775 | 156 | 6 | 5,735 | 5,366 | 369 | 7 |
| Expenses ^(a) | | | | | | | | |
| Marketing, business development, rewards and Card Member services | 1,482 | 1,347 | 135 | 10 | 2,856 | 2,637 | 219 | 8 |
| Salaries and employee benefits and other operating expenses | 734 | 692 | 42 | 6 | 1,456 | 1,383 | 73 | 5 |
| Total expenses | 2,216 | 2,039 | 177 | 9 | 4,312 | 4,020 | 292 | 7 |
| Pretax segment income | 715 | 736 | (21) | (3) | 1,423 | 1,346 | 77 | 6 |
| Income tax provision | 151 | 259 | (108) | (42) | 313 | 464 | (151) | (33) |
| Segment income | \$564 | \$477 | \$87 | 18 % | \$1,110 | \$882 | \$228 | 26 % |
| Effective tax rate | 21.1 % | 35.2 % | | | 22.0 % | 34.5 % | | |

(a) Includes changes in certain corporate allocations that are not directly attributable to our new segment structure.

GCS primarily issues a wide range of proprietary corporate and small business cards and provides payment and expense management services globally. In addition, GCS provides commercial financing products.

Non-interest revenues increased for both the three and six month periods, primarily driven by higher discount revenue due to increases in billed business, partially offset by declines in the average discount rate. The increase in non-interest revenues in both periods was also driven by higher net card fees and higher other fees and commissions, primarily due to growth in the U.S. small business Platinum portfolio and higher delinquency fees, respectively.

Net interest income was flat and increased for the three and six month periods, respectively, primarily driven by an increase in average Card Member loans and higher yields, offset, in part for the six month period, by higher interest expense, reflecting an increase in the cost of funds.

Provisions for losses increased for both the three and six month periods, primarily due to growth in both Card Member receivables and loans, higher charge net losses across both corporate and small business portfolios and higher lending net write-off rates in the small business portfolio.

Marketing, business development, rewards and Card Member services expenses increased for both the three and six month periods, primarily driven by increases in Card Member rewards expenses and marketing and business development expenses, both of which were due to higher spending volumes, as well as an increase in spending on growth initiatives.

Salaries and employee benefits and other operating expenses increased for both the three and six month periods, primarily driven by increases in incentive compensation and higher technology and other servicing-related costs, partially offset by prior period hedge ineffectiveness now included in interest expense.

The effective tax rate was lower for both the three and six months, primarily reflecting the reduction in the U.S. federal statutory tax rate as a result of the Tax Act.

Table of Contents

Table 14: GCS Selected Statistical Information

| | As of or for the Three Months Ended | | Change vs. 2017 | As of or for the Six Months Ended | | Change vs. 2017 | |
|--|---|---------|-----------------------|--------------------------------------|----------|-----------------------|---|
| | June 30, 2018 | 2017 | | June 30, 2018 | 2017 | | |
| (Millions, except percentages and where indicated) | | | | | | | |
| Proprietary card billed business (billions) | \$122.0 | \$109.0 | 12 | % \$237.7 | \$211.9 | 12 | % |
| Proprietary cards-in-force | 14.3 | 13.8 | 4 | 14.3 | 13.8 | 4 | |
| Average Card Member spending (dollars) | \$8,592 | \$7,920 | 8 | \$16,828 | \$15,455 | 9 | |
| Total segment assets (billions) ^(a) | \$52.9 | \$47.3 | 12 | \$52.9 | \$47.3 | 12 | |
| Card Member loans (billions) | \$11.9 | \$10.4 | 14 | \$11.9 | \$10.4 | 14 | |
| Card Member receivables (billions) | \$36.0 | \$32.1 | 12 | \$36.0 | \$32.1 | 12 | |
| GSBS Card Member loans: ^(b) | | | | | | | |
| Total loans (billions) | \$11.8 | \$10.3 | 15 | \$11.8 | \$10.3 | 15 | |
| Average loans (billions) | \$11.6 | \$10.1 | 15 | \$11.4 | \$9.8 | 16 | |
| Net write-off rate - principal only ^(c) | 1.8 | % 1.5 | % | 1.7 | % 1.5 | % | % |
| Net write-off rate - principal, interest and fees ^(c) | 2.1 | % 1.8 | % | 2.0 | % 1.8 | % | % |
| 30+ days past due as a % of total | 1.2 | % 1.1 | % | 1.2 | % 1.1 | % | % |
| Calculation of Net Interest Yield on Average Card Member loans: | | | | | | | |
| Net interest income | \$189 | \$189 | | \$395 | \$385 | | |
| Exclude: | | | | | | | |
| Interest expense not attributable to our Card Member loan portfolio ^(d) | 152 | 114 | | 278 | 210 | | |
| Interest income not attributable to our Card Member loan portfolio ^(e) | (38) | (28) | | (75) | (56) | | |
| Adjusted net interest income ^(f) | \$303 | \$275 | | \$598 | \$539 | | |
| Average Card Member loans (billions) | \$11.7 | \$10.2 | | \$11.4 | \$10.0 | | |
| Net interest income divided by average Card Member loans ^(f) | 6.5 | % 7.4 | % | 6.9 | % 7.7 | % | % |
| Net interest yield on average Card Member loans ^(f) | 10.4 | % 10.8 | % | 10.6 | % 10.9 | % | % |
| GCP Card Member receivables: | | | | | | | |
| Total receivables (billions) | \$19.3 | \$16.9 | 14 | \$19.3 | \$16.9 | 14 | |
| 90+ days past billing as a % of total ^(g) | 0.8 | % 0.8 | % | 0.8 | % 0.8 | % | % |
| Net loss ratio (as a % of charge volume) | 0.12 | % 0.10 | % | 0.11 | % 0.10 | % | % |
| GSBS Card Member receivables: | | | | | | | |
| Total receivables (billions) | \$16.7 | \$15.2 | 10 | % \$16.7 | \$15.2 | 10 | % |
| Net write-off rate - principal only ^(c) | 2.1 | % 1.6 | % | 1.9 | % 1.7 | % | % |
| Net write-off rate - principal and fees ^(c) | 2.3 | % 1.8 | % | 2.1 | % 1.9 | % | % |
| 30+ days past due as a % of total | 1.4 | % 1.4 | % | 1.4 | % 1.4 | % | % |

(a) Includes changes in certain corporate allocations that are not directly attributable to our new segment structure.

Effective July 1, 2017, GSBS loans and associated metrics reflect worldwide small business services loans. Prior to (b) July 1, 2017, due to certain system limitations, small business services loans outside the U.S. and associated credit metrics are reflected within GCSG, and were not significant to either GCSG or GCS.

(c) Refer to Table 8 footnote (b).

(d) Refer to Table 9 footnote (a).

(e) Refer to Table 9 footnote (b).

(f) Refer to Table 9 footnote (c).

(g) Refer to Table 8 footnote (c).

Table of Contents

Global Merchant and Network Services

Table 15: GMNS Selected Income Statement and Other Data

| (Millions, except percentages and where indicated) | Three Months Ended | | Change | | Six Months Ended | | Change | |
|--|--------------------|---------|---------------|------|------------------|---------|---------------|------|
| | June 30, 2018 | 2017 | 2018 vs. 2017 | % | June 30, 2018 | 2017 | 2018 vs. 2017 | % |
| Revenues | | | | | | | | |
| Non-interest revenues | \$1,513 | \$1,518 | \$(5) | % | \$3,045 | \$2,980 | \$65 | 2 % |
| Interest income | 7 | 9 | (2) | (22) | 16 | 24 | (8) | (33) |
| Interest expense | (68) | (47) | (21) | 45 | (127) | (85) | (42) | 49 |
| Net interest income | 75 | 56 | 19 | 34 | 143 | 109 | 34 | 31 |
| Total revenues net of interest expense | 1,588 | 1,574 | 14 | 1 | 3,188 | 3,089 | 99 | 3 |
| Provisions for losses | 6 | 1 | 5 | # | 11 | 3 | 8 | # |
| Total revenues net of interest expense after provisions for losses | 1,582 | 1,573 | 9 | 1 | 3,177 | 3,086 | 91 | 3 |
| Expenses | | | | | | | | |
| Marketing, business development, rewards and Card Member services | 312 | 314 | (2) | (1) | 579 | 603 | (24) | (4) |
| Salaries and employee benefits and other operating expenses | 526 | 515 | 11 | 2 | 1,146 | 1,065 | 81 | 8 |
| Total expenses | 838 | 829 | 9 | 1 | 1,725 | 1,668 | 57 | 3 |
| Pretax segment income | 744 | 744 | | | 1,452 | 1,418 | 34 | 2 |
| Income tax provision | 201 | 268 | (67) | (25) | 393 | 509 | (116) | (23) |
| Segment income | \$543 | \$476 | \$67 | 14 | \$1,059 | \$909 | \$150 | 17 |
| Effective tax rate | 27.0 % | 36.0 % | | | 27.1 % | 35.9 % | | |
| Total segment assets (billions) ^(a) | \$31.3 | \$26.8 | | 17 % | \$31.3 | \$26.8 | | 17 % |

Denotes a variance greater than 100 percent

(a) Includes changes in certain corporate allocations that are not directly attributable to our new segment structure.

GNMS operates a global payments network that processes and settles card transactions, acquires merchants and provides multi-channel marketing programs and capabilities, services and data analytics, leveraging our global integrated network. GMNS enters into partnership agreements with third-party card issuers and acquirers, licensing the American Express brand and extending the reach of the global network. GMNS also manages loyalty coalition businesses in certain countries around the world and our reloadable prepaid and gift card businesses.

Non-interest revenues were flat and increased for the three and six month periods, respectively, primarily driven by billed business growth, which was offset by a decline in the average discount rate in both periods and, in the three month period, by lower revenues from network partners.

Net interest income increased for both the three and six month periods, reflecting a higher interest expense credit relating to internal transfer pricing, which results in a net benefit for GMNS due to its merchant payables.

Marketing, business development, rewards and Card Member services expenses decreased for both the three and six month periods, reflecting lower levels of network partnership payments in certain countries.

Salaries and employee benefits and other operating expenses increased for both the three and six month periods, primarily driven by a prior year benefit from a change in the liability related to non-delivery of goods and services by merchants.

The effective tax rate decreased for both the three and six month periods, primarily reflecting the reduction in the U.S. federal statutory tax rate as a result of the Tax Act.

Table of Contents

Corporate & Other

Corporate functions and certain other businesses are included in Corporate & Other.

Corporate & Other net expense was \$254 million for the three months ended June 30, 2018, compared to \$224 million in the same period a year ago and \$508 million for the six month period compared to \$484 million in the same period a year ago. The increase in net expense for the six month period was driven in part by a loss on a transaction involving the operations of our prepaid reloadable and gift card business.

CONSOLIDATED CAPITAL RESOURCES AND LIQUIDITY

Our balance sheet management objectives are to maintain:

▲ solid and flexible equity capital profile;

- A broad, deep and diverse set of funding sources to finance our assets and meet operating requirements; and

Liquidity programs that enable us to continuously meet expected future financing obligations and business requirements for at least a twelve-month period, even in the event we are unable to continue to raise new funds under our traditional funding programs during a substantial weakening in economic conditions.

Basel III

The following table presents our regulatory risk-based capital ratios and leverage ratios as of June 30, 2018. Effective April 1, 2018, our bank subsidiaries, American Express Centurion Bank and American Express Bank, FSB, were merged to become American Express National Bank (AENB). Refer to Note 16 to the “Consolidated Financial Statements” for additional information.

Table 16: Regulatory Risk-Based Capital and Leverage Ratios

| | Basel III Standards 2018 ^(a) | Ratios as of June 30, 2018 |
|---|---|--|
| Risk-Based Capital | | |
| Common Equity Tier 1 | 6.4 | % |
| American Express Company | | 10.1 % |
| American Express National Bank | | 12.7 |
| Tier 1 | 7.9 | |
| American Express Company | | 11.1 |
| American Express National Bank | | 12.7 |
| Total | 9.9 | |
| American Express Company | | 12.8 |
| American Express National Bank | | 14.9 |
| Tier 1 Leverage | 4.0 | |
| American Express Company | | 9.7 |
| American Express National Bank | | 10.3 |
| Supplementary Leverage Ratio^(b) | 3.0 | % |

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

| | |
|--------------------------------|-------|
| American Express Company | 8.3 |
| American Express National Bank | 8.5 % |

- (a) Basel III minimum capital requirement and additional transitional capital conservation buffer as defined by the Federal Reserve for calendar year 2018 for advanced approaches institutions.
- (b) We became subject to the minimum supplementary leverage ratio (SLR) requirement of 3 percent effective January 1, 2018.

Table of Contents

Table 17: Regulatory Risk-Based Capital Components and Risk Weighted Assets

| | June |
|---|-------------|
| American Express Company (\$ in Billions) | 30, 2018 |
| Risk-Based Capital | |
| Common Equity Tier 1 | \$ 15.2 |
| Tier 1 Capital | 16.8 |
| Tier 2 Capital ^(a) | 2.5 |
| Total Capital | 19.3 |
| Risk-Weighted Assets | 150.9 |
| Average Total Assets to calculate the Tier 1 Leverage Ratio | 172.5 |
| Total Leverage Exposure to calculate supplementary leverage ratio | \$202.4 |

(a) Tier 2 capital is the sum of the allowance for loan and receivable losses (limited to 1.25 percent of risk-weighted assets) and \$600 million of subordinated notes adjusted for capital held by insurance subsidiaries.

We seek to maintain capital levels and ratios in excess of the minimum regulatory requirements and finance such capital in a cost efficient manner; failure to maintain minimum capital levels could affect our status as a financial holding company and cause regulatory agencies to take actions that could limit our business operations.

Our primary source of equity capital has been the generation of net income. Capital generated through net income and other sources, such as the exercise of stock options by employees, is used to maintain a strong balance sheet, support asset growth and engage in acquisitions, with excess available for distribution to shareholders through dividends and share repurchases. We currently expect that the portion of generated capital we allocate to support asset growth will be greater going forward than it has been historically due to projected asset growth.

We maintain certain flexibility to shift capital across our businesses as appropriate. For example, we may infuse additional capital into subsidiaries to maintain capital at targeted levels in consideration of debt ratings and regulatory requirements. These infused amounts can affect the capital profile and liquidity levels at the American Express parent company level.

The following are definitions for our regulatory risk-based capital ratios and leverage ratio, which are calculated as per standard regulatory guidance:

Risk-Weighted Assets — Assets are weighted for risk according to a formula used by the Federal Reserve to conform to capital adequacy guidelines. On- and off-balance sheet items are weighted for risk, with off-balance sheet items converted to balance sheet equivalents, using risk conversion factors, before being allocated a risk-adjusted weight. Off-balance sheet exposures comprise a minimal part of the total risk-weighted assets.

Common Equity Tier 1 Risk-Based Capital Ratio — Calculated as Common Equity Tier 1 capital (CET1), divided by risk-weighted assets. CET1 is the sum of common shareholders' equity, adjusted for ineligible goodwill and intangible assets, certain deferred tax assets, as well as certain other comprehensive income items as follows: net unrealized gains/losses on securities and derivatives, and net unrealized pension and other postretirement benefit/losses, all net of tax.

Tier 1 Risk-Based Capital Ratio — Calculated as Tier 1 capital divided by risk-weighted assets. Tier 1 capital is the sum of CET1, our perpetual preferred stock and third-party non-controlling interests in consolidated subsidiaries adjusted for capital held by insurance subsidiaries and deferred tax assets from net operating losses not deducted from CET1. The minimum requirement for the Tier 1 risk-based capital ratio is 1.5 percent higher than the minimum for the CET1

risk-based capital ratio. We have \$1.6 billion of preferred shares outstanding to help address a portion of the Tier 1 capital requirements in excess of common equity requirements.

Total Risk-Based Capital Ratio — Calculated as the sum of Tier 1 capital and Tier 2 capital, divided by risk-weighted assets. Tier 2 capital is the sum of the allowance for loan and receivable losses (limited to 1.25 percent of risk-weighted assets), a portion of the unrealized gains on equity securities and \$600 million of subordinated notes, adjusted for capital held by insurance subsidiaries.

Tier 1 Leverage Ratio — Calculated by dividing Tier 1 capital by our average total consolidated assets for the most recent quarter.

Table of Contents

Supplementary Leverage Ratio — Calculated by dividing Tier 1 capital by total leverage exposure under Basel III. Leverage exposure, which reflects average total consolidated assets with adjustments for Tier 1 capital deductions, average off-balance sheet derivatives exposures, securities purchased under agreements to resell and credit equivalents of undrawn commitments that are both conditionally and unconditionally cancellable.

Share Repurchases and Dividends

We return capital to common shareholders through dividends and share repurchases. The share repurchases reduce common shares outstanding and more than offset the issuance of new shares as part of employee compensation plans.

We decided to suspend our share buyback program for the first half of 2018 in order to rebuild our capital levels and ratios.

During the three and six months ended June 30, 2018, we returned \$0.3 billion and \$0.6 billion, respectively, to our shareholders in the form of common stock dividends. These dividends represent approximately 18 percent of total capital generated during both the three and six-month periods.

In addition, during the three months ended June 30, 2018, we had \$750 million of non-cumulative perpetual preferred shares (the Series B Preferred Shares) and \$850 million of non-cumulative perpetual preferred shares (the Series C Preferred Shares) outstanding. Dividends declared and paid on Series B Preferred Shares during the second quarter of 2018 were \$20 million.

On June 28, 2018, we were informed that the Federal Reserve did not object to our capital plan to return capital to shareholders through share repurchases of up to \$3.4 billion during the period beginning with the third quarter of 2018 through and including the second quarter of 2019, as well as an increase in our quarterly dividend to \$0.39 per share, from \$0.35 per share, beginning with the third quarter 2018 dividend declaration, subject to approval by our Board of Directors. The timing and amount of common shares purchased under our authorized capital plan will depend on various factors, including our business plans, financial performance and market conditions. To facilitate repurchases, we may, from time to time, make purchases pursuant to one or more trading plans under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, which allows us to repurchase common shares during periods when we might otherwise be prevented from doing so under applicable law or because of self-imposed trading blackout periods.

Funding Strategy

Our principal funding objective is to maintain broad and well-diversified funding sources to allow us to meet our maturing obligations, cost-effectively finance current and future asset growth in our global businesses as well as to maintain a strong liquidity profile.

We meet our funding needs through a variety of sources, including direct and third-party distributed deposits and debt instruments, such as senior unsecured debentures, asset securitizations, borrowings through secured borrowing facilities and a long-term committed bank borrowing facility. While we diversify our funding sources by maintaining scale and relevance in unsecured debentures, asset securitizations and deposits, we currently expect that the Personal Savings High Yield Savings Account direct retail deposit program will become a larger proportion over time.

Summary of Consolidated Debt

We had the following consolidated debt and customer deposits outstanding as of June 30, 2018 and December 31, 2017:

Table 18: Summary of Consolidated Debt and Customer Deposits

(Billions)

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

| | June 30, 2018 | December 31, 2017 |
|----------------------------------|---------------------|----------------------|
| Short-term borrowings | \$2.0 | \$ 3.3 |
| Long-term debt | 55.9 | 55.8 |
| Total debt | 57.9 | 59.1 |
| Customer deposits | 67.4 | 64.5 |
| Total debt and customer deposits | \$125.3 | \$ 123.6 |

Table of Contents

We may redeem from time to time certain debt securities within 31 days prior to the original contractual maturity dates in accordance with the optional redemption provisions of those debt securities.

During the three months ended June 30, 2018, we issued (i) \$1.5 billion of asset-backed securities from the American Express Credit Account Master Trust (the Lending Trust) consisting of \$900 million of three year Class A Certificates at a fixed rate of 2.99 percent and \$600 million of five year Class A Certificates at a floating rate of 1-month LIBOR plus 34 basis points, and (ii) \$2.0 billion of senior unsecured notes from American Express Company consisting of \$1.2 billion of three year notes at a fixed rate of 3.375 percent and \$800 million of three year notes at a floating rate of 3-month LIBOR plus 52.5 basis points.

On July 23, 2018, we issued \$1.7 billion of asset-backed securities from the Lending Trust consisting of \$1.2 billion of three year Class A Certificates at a fixed rate of 3.06 percent and \$525 million of five year Class A Certificates at a floating rate of 1-month LIBOR plus 36 basis points.

Our equity capital and funding strategies are designed, among other things, to maintain appropriate and stable unsecured debt ratings from the major credit rating agencies: Moody's Investor Services (Moody's), Standard & Poor's (S&P), Fitch Ratings (Fitch) and Dominion Bond Rating Services (DBRS). Such ratings help support our access to cost-effective unsecured funding as part of our overall funding strategy. Our asset securitization activities are rated separately.

Table 19: Unsecured Debt Ratings

| Credit Agency | American Express Entity | Short-Term Ratings | Long-Term Ratings | Outlook |
|---------------|---|--------------------|-------------------|---------|
| DBRS | All rated entities | R-1 (middle) | A (high) | Stable |
| Fitch | All rated entities | F1 | A | Stable |
| Moody's | TRS and rated operating subsidiaries ^(a) | Prime 1 | A2 | Stable |
| Moody's | American Express Company | Prime 2 | A3 | Stable |
| S&P | TRS ^(a) | N/A | A- | Stable |
| S&P | Other rated operating subsidiaries | A-2 | A- | Stable |
| S&P | American Express Company | A-2 | BBB+ | Stable |

(a) American Express Travel Related Services Company, Inc.

Downgrades in the ratings of our unsecured debt or asset securitization program securities could result in higher funding costs, as well as higher fees related to borrowings under our unused lines of credit. Declines in credit ratings could also reduce our borrowing capacity in the unsecured debt and asset securitization capital markets. We believe our funding mix, including the proportion of U.S. retail deposits insured by the Federal Deposit Insurance Corporation, should reduce the impact that credit rating downgrades would have on our funding capacity and costs.

Liquidity Management

We incur liquidity risk that arises in the course of offering our products and services. Our liquidity objective is to maintain access to a diverse set of on- and off-balance sheet liquidity sources. We seek to maintain liquidity sources in amounts sufficient to meet our expected future financial obligations and business requirements for liquidity for a period of at least twelve months in the event we are unable to raise new funds under our regular funding programs during a substantial weakening in economic conditions. Our liquidity risk policy sets out our objectives and approach to managing liquidity risk.

The liquidity risks that we are exposed to could arise from a wide variety of scenarios. Our liquidity management strategy thus includes a number of elements, including, but not limited to:

• Maintaining diversified funding sources (refer to the "Funding Strategy" section for more details);

- Maintaining unencumbered liquid assets and off-balance sheet liquidity sources;
- Projecting cash inflows and outflows under a variety of economic and market scenarios;
- Establishing clear objectives for liquidity risk management, including compliance with regulatory requirements; and
- Incorporating liquidity risk management as appropriate into our capital adequacy framework.

The amount and type of liquidity resources we maintain can vary over time, based upon the results of stress scenarios required under the Dodd-Frank Wall Street Reform and Consumer Protection Act and other various regulatory liquidity requirements, such as the Liquidity Coverage Ratio, as well as additional stress scenarios required under our liquidity risk policy.

Table of Contents

The investment income we receive on liquidity resources, such as cash, is less than the interest expense on the sources of funding for these balances. The net interest costs to maintain these resources have been substantial. The level of future net interest costs depends on the amount of liquidity resources we maintain and the difference between our cost of funding these amounts and their investment yields.

Securitized Borrowing Capacity

As of June 30, 2018, we maintained our committed, revolving, secured borrowing facility, with a maturity date of July 15, 2020, which gives us the right to sell up to \$3.0 billion face amount of eligible AAA notes from the American Express Issuance Trust II (the Charge Trust). We also maintained our committed, revolving, secured borrowing facility, with a maturity date of September 15, 2020, which gives us the right to sell up to \$2.0 billion face amount of eligible AAA certificates from the Lending Trust. Both facilities are used in the ordinary course of business to fund seasonal working capital needs, as well as to further enhance our contingent funding resources. As of June 30, 2018, \$2.0 billion was drawn on the Charge Trust facility, and no amounts were drawn on the Lending Trust facility.

Federal Reserve Discount Window

As an insured depository institution, AENB may borrow from the Federal Reserve Bank of San Francisco, subject to the amount of qualifying collateral that they may pledge. The Federal Reserve has indicated that both credit and charge card receivables are a form of qualifying collateral for secured borrowings made through the discount window. Whether specific assets will be considered qualifying collateral and the amount that may be borrowed against the collateral, remain at the discretion of the Federal Reserve.

We had approximately \$73.5 billion as of June 30, 2018 in U.S. credit card loans and charge card receivables that could be sold over time through our securitization trusts or pledged in return for secured borrowings to provide further liquidity, subject in each case to applicable market conditions and eligibility criteria.

Committed Bank Credit Facility

In addition to the secured borrowing facilities described earlier in this section, we maintained a committed syndicated bank credit facility as of June 30, 2018 of \$3.5 billion, which expires on October 16, 2020. As of June 30, 2018, no amounts were drawn on this facility.

Unused Credit Outstanding

As of June 30, 2018, we had approximately \$293 billion of unused credit outstanding as part of established lending product agreements. Total unused credit does not represent potential future cash requirements, as a significant portion of this unused credit will likely not be drawn. Our charge card products generally have no pre-set limit, and therefore are not reflected in unused credit available to Card Members.

Cash Flows

The following table summarizes our cash flow activity for the six months ended June 30:

Table 20: Cash Flows

| (Billions) | 2018 | 2017 |
|--|-------|-------|
| Total cash provided by (used in): | | |
| Operating activities | \$5.1 | \$4.3 |
| Investing activities | (8.4) | (4.1) |
| Financing activities | 1.2 | 5.0 |
| Effect of foreign currency exchange rates on cash and cash equivalents | 0.1 | 0.1 |

Net (decrease) increase in cash, cash equivalents and restricted cash \$(2.0) \$5.3

Table of Contents

Cash Flows from Operating Activities

Our cash flows from operating activities primarily include net income adjusted for (i) non-cash items included in net income and (ii) changes in the balances of operating assets and liabilities, which can vary significantly in the normal course of business due to the amount and timing of payments.

The increase in net cash provided by operating activities was driven by net income adjusted for non-cash items, including changes in provisions for losses, depreciation and amortization, deferred taxes and stock-based compensation, and changes in operating assets and liabilities, primarily accounts payable and other liabilities as a result of normal business operations.

Cash Flows from Investing Activities

Our cash flows from investing activities primarily include changes in Card Member loans and receivables, as well as changes in our available-for-sale investment securities portfolio.

The increase in net cash used in investing activities was driven by higher growth in Card Member loans due in part to the acquired Hilton portfolio and a larger net increase in the investment securities portfolio.

Cash Flows from Financing Activities

Our cash flows from financing activities primarily include changes in long-term debt, short-term borrowings and customer deposits as well as our regular common share dividend and share repurchase programs.

The decrease in net cash provided by financing activities was primarily driven by a net decrease in long-term debt and lower increase in customer deposits, partially offset by a decrease in share repurchases.

Table of Contents

OTHER MATTERS

Certain Legislative, Regulatory and Other Developments

We are subject to comprehensive government regulation and supervision in jurisdictions around the world, and the costs of compliance are substantial. In recent years, the financial services industry has been subject to rigorous scrutiny, high regulatory expectations, and a stringent and unpredictable regulatory enforcement environment. Please see the “Supervision and Regulation” and “Risk Factors” sections of the Annual Report on Form 10-K for the year ended December 31, 2017 (the 2017 Form 10-K) for further information.

Payments Regulation

Legislators and regulators in various countries in which we operate have focused on the operation of card networks, including through antitrust actions, legislation and regulations to change certain practices or pricing of card issuers, merchant acquirers and payment networks, and, in some cases, to establish broad and ongoing regulatory oversight regimes for payment systems.

The European Union, Australia and other jurisdictions have focused on the fees merchants pay to accept cards, including the way bankcard network members collectively set the “interchange” (that is, the fee paid by the bankcard merchant acquirer to the card issuer in “four party” networks like Visa and MasterCard), as well as the rules, contract terms and practices governing merchant card acceptance. Even where we are not directly regulated, regulation of bankcard fees can significantly negatively impact the discount revenue derived from our business, including as a result of downward pressure on our discount rate from decreases in competitor pricing in connection with caps on interchange fees. In some cases, such regulation extends to certain aspects of our business. For more information on the European Union and Australian payments regulation, as well as the potential impacts on our results of operations and business, please see the “Supervision and Regulation” and “Risk Factors” sections of the 2017 Form 10-K.

Broad regulatory oversight over payment systems can also include, in some cases, requirements for international card networks to localize aspects of their operations, such as processing infrastructure, which could increase our costs and diminish the value of our closed loop. The development and enforcement of payment system regulatory regimes generally continue to grow and may adversely affect our ability to compete effectively and maintain and extend our global network.

Surcharging

In certain countries, such as certain Member States in the European Union and Australia, merchants are permitted by law to surcharge card purchases. While surcharging continues to be actively considered in certain jurisdictions, the benefits to customers have not been apparent in countries that have allowed it, and in some cases regulators are addressing concerns about excessive surcharging by merchants. For example, the Reserve Bank of Australia amended its rules to limit surcharging in Australia to the actual cost of card acceptance paid to the merchant acquirer.

Surcharging, particularly where it disproportionately impacts American Express Card Members, which is known as differential surcharging, as well as other steering practices that are permitted by regulation in some countries, could have a material adverse effect on us if it becomes widespread. As revisions to the Payment Services Directive in the European Union are transposed into national law by each Member State, there may be increased instances of differential surcharging of our cards, customer and merchant confusion as to which transactions may be surcharged and Card Member dissatisfaction. In addition, the laws of a number of states in the United States that prohibit surcharging are being challenged in litigation brought by merchant groups.

For more information on the potential impacts of surcharging and other actions that could impair the Card Member experience, please see the “Risk Factors” section of the 2017 Form 10-K.

Table of Contents

Consumer Financial Products Regulation

In the United States, our marketing, sale and servicing of consumer financial products and our compliance with certain federal consumer financial laws are supervised and examined by the Consumer Financial Protection Bureau (CFPB), which has broad rulemaking and enforcement authority over providers of credit, savings and payment services and products and authority to prevent “unfair, deceptive or abusive” acts or practices. In addition, a number of U.S. states have significant consumer credit protection, disclosure and other laws (in certain cases more stringent than U.S. federal laws). U.S. federal law also regulates abusive debt collection practices, which along with bankruptcy and debtor relief laws, can affect our ability to collect amounts owed to us or subject us to regulatory scrutiny.

Internal and regulatory reviews to assess compliance with such laws and regulations have resulted in, and are likely to continue to result in, changes to our practices, products and procedures, substantial restitution to our Card Members and increased costs related to regulatory oversight, supervision and examination. Such reviews may also result in additional regulatory actions, including civil money penalties. These types of reviews will be a continuing focus for the CFPB and regulators more broadly, as well as for the Company itself.

For more information on consumer financial products regulation, as well as the potential impacts on our results of operations and business, please see the “Supervision and Regulation” and “Risk Factors” sections of the 2017 Form 10-K.

Antitrust Litigation

The U.S. Department of Justice and certain states’ attorneys general brought an action against us in 2010 alleging that the provisions in our card acceptance agreements with merchants that prohibit merchants from engaging in various actions to discriminate against our card products violate the U.S. antitrust laws. On June 25, 2018, the Supreme Court found in favor of American Express in that case. We continue to vigorously defend similar antitrust claims initiated by merchants in court and arbitration proceedings. See Part II, Item 1. “Legal Proceedings” below and the “Legal Proceedings” section in our 2017 Form 10-K for descriptions of the cases. It is possible that actions impairing the Card Member experience, or the resolution of one or any combination of these merchant claims for damages, could have a material adverse effect on our business. For more information on the potential impacts of an adverse decision in the merchant litigations on our business, please see the “Risk Factors” section of the 2017 Form 10-K.

Privacy, Data Protection, Information and Cyber Security

Regulatory and legislative activity in the areas of privacy, data protection and information and cyber security continues to increase worldwide. We have established and continue to maintain policies that provide a framework for compliance with applicable laws, meet evolving customer expectations and support and enable business innovation and growth. Global financial institutions like us have experienced a significant increase in information and cyber security risk in recent years and will likely continue to be the target of increasingly sophisticated cyber attacks, including computer viruses, malicious or destructive code, ransomware, social engineering attacks (including phishing and impersonation), hacking, denial-of-service attacks and other attacks and similar disruptions from the unauthorized use of or access to computer systems. For more information on privacy, data protection and information and cyber security regulation and the potential impacts of a major information or cyber security incident on our results of operations and business, please see the “Supervision and Regulation” and “Risk Factors” sections of the 2017 Form 10-K.

Table of Contents

Recently Issued Accounting Standards

Refer to the Recently Issued Accounting Standards section of Note 1 to the “Consolidated Financial Statements.”

Glossary of Selected Terminology

Adjusted net interest income — A non-GAAP measure that represents net interest income attributable to our Card Member loans (which includes, on a GAAP basis, interest that is deemed uncollectible), excluding the impact of interest expense and interest income not attributable to our Card Member loans. We believe adjusted net interest income is useful to investors because it represents the interest expense and interest income attributable to our Card Member loan portfolio and it is a component of net interest yield on average Card Member loans.

Asset securitizations — Asset securitization involves the transfer and sale of loans or receivables to a special-purpose entity created for the securitization activity, typically a trust. The trust, in turn, issues securities, commonly referred to as asset-backed securities that are secured by the transferred loans and receivables. The trust uses the proceeds from the sale of such securities to pay the purchase price for the underlying loans or receivables. The loans and receivables of our Lending Trust and Charge Trust (collectively, the Trusts) securitized are reported as assets and the securities issued by the Trusts are reported as liabilities on our “Consolidated Balance Sheets.”

Average discount rate — This calculation is generally designed to reflect the average pricing at all merchants accepting American Express cards and represents the percentage of proprietary and GNS billed business retained by us from merchants we acquire, or from merchants acquired by third parties on our behalf, net of amounts retained by such third parties.

Billed business — Represents transaction volumes (including cash advances) on cards and other payment products issued by American Express (proprietary card billed business) and cards issued under network partnership agreements with banks and other institutions, including joint ventures (GNS card billed business). In-store spending activity within GNS retail cobrand portfolios, from which we earn no revenue, is not included in billed business. Billed business is reported in the United States or outside the United States based on the location of the issuer.

Capital ratios — Represents the minimum standards established by the regulatory agencies as a measure to determine whether the regulated entity has sufficient capital to absorb on- and off-balance sheet losses beyond current loss accrual estimates. Refer to the Capital Strategy section under “Consolidated Capital Resources and Liquidity” for further related definitions under Basel III.

Cards-in-force — Represents the number of cards that are issued and outstanding by American Express (proprietary cards-in-force) and cards issued and outstanding under network partnership agreements with banks and other institutions, including joint ventures (GNS cards-in-force), except for GNS retail cobrand cards that have no out of store spend activity during the prior 12 months. Basic cards-in-force excludes supplemental cards issued on consumer accounts.

Card Member — The individual holder of an issued American Express-branded charge, credit and certain prepaid cards.

Card Member loans — Represents the outstanding amount due from Card Members for charges made on their American Express credit cards, as well as any interest charges and card-related fees. Card Member loans also include revolving balances on certain American Express charge card products.

Card Member receivables — Represents the outstanding amount due from Card Members for charges made on their American Express charge cards, as well as any card-related fees, other than revolving balances on certain American Express charge cards with Pay Over Time features. Such revolving balances are included within Card Member loans.

Charge cards — Represents cards that generally carry no pre-set spending limits and are primarily designed as a method of payment and not as a means of financing purchases. Charge Card Members generally must pay the full amount billed each month. No finance charges are assessed on charge cards. Each charge card transaction is authorized based on its likely economics reflecting a Card Member’s most recent credit information and spend patterns. Some charge card accounts have additional Pay Over Time feature(s) that allow revolving of certain charges.

Cobrand cards — Cards issued under cobrand agreements with selected commercial firms. Pursuant to the cobrand agreements, we make payments to our cobrand partners, which can be significant, based primarily on the amount of Card Member spending and corresponding rewards earned on such spending and, under certain arrangements, on the number of accounts acquired and retained. In some cases, the partner is liable for providing rewards to the Card Member under the cobrand partner's own loyalty program.

Table of Contents

Credit cards — Represents cards that have a range of revolving payment terms, grace periods, and rate and fee structures.

Discount revenue — Represents revenue earned from fees generally charged to merchants who have entered into a card acceptance agreement. The discount fee generally is deducted from our payment for Card Member purchases.

Interest expense — Includes interest incurred primarily to fund Card Member loans and receivables, general corporate purposes and liquidity needs, and is recognized as incurred. Interest expense is divided principally into two categories: (i) deposits, which primarily relates to interest expense on deposits taken from customers and institutions, and (ii) debt, which primarily relates to interest expense on our long-term financing and short-term borrowings, (e.g., commercial paper, federal funds purchased, bank overdrafts and other short-term borrowings), as well as the realized impact of derivatives hedging interest rate risk on our long-term debt.

Interest income — Includes (i) interest on loans, (ii) interest and dividends on investment securities and (iii) interest income on deposits with banks and other.

Interest on loans — Assessed using the average daily balance method for Card Member loans. Unless the loan is classified as non-accrual, interest is recognized 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.

Interest and dividends on investment securities — Primarily relates to our performing fixed-income securities. Interest income is recognized as earned using the effective interest method, which adjusts the yield for security premiums and discounts, fees and other payments, so a constant rate of return is recognized on the outstanding balance of the related investment security throughout its term. Amounts are recognized until securities are in default or when it is likely that future interest payments will not be made as scheduled.

Interest income on deposits with banks and other — Recognized as earned, and primarily relates to the placement of cash in excess of near-term funding requirements in interest-bearing time deposits, overnight sweep accounts, and other interest-bearing demand and call accounts.

Liquidity Coverage Ratio — Represents the minimum standards established by regulatory agencies as a measure to determine whether the regulated entity has sufficient liquidity to meet liquidity needs in periods of financial and economic stress.

Merchant acquisition — Represents our process of entering into agreements with merchants to accept American Express-branded cards.

Net card fees — Represents the card membership fees earned during the period. These fees are recognized as revenue over the covered card membership period (typically one year), net of the provision for projected refunds for Card Membership cancellation and deferred acquisition costs.

Net interest yield on average Card Member loans — A non-GAAP measure that is computed by dividing adjusted net interest income by average Card Member loans, computed on an annualized basis. Reserves and net write-offs related to uncollectible interest are recorded through provisions for losses, and are thus not included in the net interest yield calculation. We believe net interest yield on average Card Member loans is useful to investors because it provides a measure of profitability of our Card Member loan portfolio.

Net loss ratio — Represents the ratio of GCP charge card write-offs, consisting of principal (resulting from authorized transactions) and fee components, less recoveries, on Card Member receivables expressed as a percentage of gross amounts billed to corporate Card Members.

Net write-off rate — principal only — Represents the amount of proprietary consumer or small business Card Member loans or receivables written off, consisting of principal (resulting from authorized transactions), less recoveries, as a percentage of the average loan or receivables balance during the period.

Net write-off rate — principal, interest and fees — Includes, in the calculation of the net write-off rate, amounts for interest and fees in addition to principal for Card Member loans and fees in addition to principal for Card Member receivables.

Operating expenses — Represents salaries and employee benefits, professional services, occupancy and equipment, and other expenses.

Return on average equity — Calculated by dividing one-year period net income by one-year average total shareholders' equity.

61

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk to earnings or asset and liability values resulting from movements in market prices. Our market risk exposures include (i) interest rate risk due to changes in the relationship between the interest rates on our assets (such as loans, receivables and investment securities) and the interest rates on our liabilities (such as debt and deposits); and (ii) foreign exchange risk related to transactions, funding, investments and earnings in currencies other than the U.S. dollar. There were no material changes in these market risks since December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Cautionary Note Regarding Forward-looking Statements

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are subject to risks and uncertainties. The forward-looking statements, which address our expected business and financial performance, among other matters, contain words such as “believe,” “expect,” “estimate,” “anticipate,” “intend,” “plan,” “aim,” “will,” “may,” “should,” “could,” “would,” “likely,” and similar expressions. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update or revise any forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements, include, but are not limited to, the following:

- our ability to grow in the future, which will depend in part on the following: revenues growing consistently with current expectations, which could be impacted by, among other things, the factors identified in the subsequent bullet;
- credit performance remaining consistent with current expectations; the impact of any future contingencies, including, but not limited to, litigation-related settlements, judgments or expenses, the imposition of fines or civil money penalties, an increase in Card Member reimbursements, restructurings, impairments and changes in reserves; the ability to control operating expense growth; the amount we spend on customer engagement and our ability to drive growth from such investments; changes in interest rates beyond current expectations (including the impact of hedge ineffectiveness and deposit rate increases); a greater impact from certain cobrand agreements than expected, which could be affected by volumes and customer engagement; the impact of regulation and litigation, which could affect the profitability of our business activities, limit our ability to pursue business opportunities, require changes to business practices or alter our relationships with partners, merchants and Card Members; our tax rate remaining in line with current expectations, which could be impacted by, among other things, changes to the fourth quarter 2017 provisional tax charge due to changes in interpretations and assumptions we have made as well as actions we may take as a result of the Tax Act, our geographic mix of income, further changes in tax laws and regulation, unfavorable tax audits and other unanticipated tax items; and the impact of accounting changes;

Table of Contents

our ability to grow revenues net of interest expense, which could be impacted by, among other things, weakening economic conditions in the United States or internationally, a decline in consumer confidence impacting the willingness and ability of Card Members to sustain and grow spending, continued growth of Card Member loans, a greater decline of the average discount rate than expected, the strengthening of the U.S. dollar, more cautious spending by corporate Card Members, the willingness of Card Members to pay higher card fees, lower spending on new cards acquired than estimated; and our ability to address competitive pressures and implement our strategies and business initiatives, including within the premium consumer segment, commercial payments, the global network and digital environment;

changes in the substantial and increasing worldwide competition in the payments industry, including competitive pressure that may impact the prices we charge merchants that accept American Express cards, competition for cobrand relationships, competition from new and non-traditional competitors and the success of marketing, promotion or rewards programs;

a decline of the average discount rate by a greater amount than anticipated, including as a result of changes in the mix of spending by location and industry, merchant negotiations (including merchant incentives, concessions and volume-related pricing discounts), competition, pricing regulation (including regulation of competitors' interchange rates in the European Union and elsewhere), a greater shift of existing merchants into the OptBlue program and other factors;

our delinquency and write-off rates and growth of provisions for losses being higher or lower than current expectations, which will depend in part on changes in the level of loan and receivable balances and delinquencies, mix of balances, loans and receivables related to new Card Members and other borrowers performing as expected, credit performance of new and enhanced lending products, unemployment rates, the volume of bankruptcies, collections capabilities and recoveries of previously written-off loans and receivables;

our ability to continue to grow loans, which may be affected by increasing competition, brand perceptions and reputation, our ability to manage risk, the behavior of Card Members and their actual spending and borrowing patterns, and our ability to issue new and enhanced card products, offer attractive non-card lending products, capture a greater share of existing Card Members' spending and borrowings, reduce Card Member attrition and attract new customers;

our net interest yield on average Card Member loans not remaining consistent with current expectations, which will be influenced by, among other things, changes in consumer behavior that affect loan balances, such as paydown rates, Card Member acquisition strategy, product mix, cost of funds and credit actions, including line size and other adjustments to credit availability, changes in the level of loans at promotional rates and other pricing changes, and changes in deposit rates, which could be impacted by, among other things, changes in benchmark interest rates, competitive pressure and regulatory constraints;

rewards expense and cost of Card Member services growing inconsistently from expectations, which will depend in part on Card Member behavior as it relates to their spending patterns, including the level of spend in bonus categories, and the redemption of rewards and offers, as well as the degree of interest of Card Members in the value proposition we offer; increasing competition, which could result in greater rewards offerings; our ability to enhance card products and services to make them attractive to Card Members; and the amount we spend on the promotion of enhanced services and rewards categories and the success of such promotion;

the actual amount to be spent on marketing and business development, which will be based in part on management's assessment of competitive opportunities; overall business performance and changes in macroeconomic conditions; the actual amount of advertising and Card Member acquisition costs; our ability to continue to shift Card Member acquisition to digital channels; contractual obligations with business partners and other fixed costs and prior commitments; management's ability to identify attractive investment opportunities and make such investments, which could be impacted by business, regulatory or legal complexities; and our ability to realize efficiencies, optimize investment spending and control expenses to fund such spending;

our ability to control operating expense growth, which could be impacted by the need to increase significant categories of operating expenses, such as consulting or professional fees, including as a result of increased litigation,

compliance or regulatory-related costs, or fraud costs; continuing to implement and achieve benefits from reengineering plans, which could be impacted by factors such as an inability to mitigate the operational and other risks posed by potential staff reductions and underestimating hiring and other employee needs; higher than expected employee levels; an inability to innovate efficient channels of customer interactions, such as chat supported by artificial intelligence, or customer acquisition; the impact of changes in foreign currency exchange rates on costs; the payment of civil money penalties, disgorgement, restitution, non-income tax assessments and litigation-related settlements; impairments of goodwill or other assets; management's decision to increase or decrease spending in such areas as technology, business and product development and sales forces; greater -than -expected inflation; and the level of M&A activity and related expenses;

Table of Contents

our ability to satisfy our commitments to certain of our cobrand partners as part of the ongoing operations of the business, which will be impacted in part by competition, brand perceptions and reputation, and our ability to develop and market value propositions that appeal to current cobrand Card Members and new customers and offer attractive services and rewards programs, which will depend in part on ongoing investments, new product innovation and development, Card Member acquisition efforts and enrollment processes, including through digital channels, and infrastructure to support new products, services and benefits;

changes affecting our plans regarding the return of capital to shareholders through dividends and share repurchases, which will depend on factors such as our capital levels and regulatory capital ratios; changes in the stress testing and capital planning process and the continued non-objection by our primary regulators to our capital plans; the amount of capital required to support asset growth; the amount we spend on acquisitions of companies; our results of operations and financial condition; and the economic environment and market conditions in any given period; implementation of legislation and additional guidance or context from the Internal Revenue Service, the U.S. Treasury Department, state and foreign taxing authorities, the Financial Accounting Standards Board or others regarding the Tax Act, and any future changes or amendments to that legislation;

a failure in or breach of our operational or security systems, processes or infrastructure, or those of third parties, including as a result of cyber attacks, which could compromise the confidentiality, integrity, privacy and/or security of data, disrupt our operations, reduce the use and acceptance of American Express cards and lead to regulatory scrutiny, litigation, remediation and response costs, and reputational harm;

our deposit rates increasing faster or slower than current expectations and changes affecting our ability to grow Personal Savings deposits due to market demand, changes in benchmark interest rates, competition or regulatory restrictions on our ability to obtain deposit funding or offer competitive interest rates, which could affect our net interest yield and ability to fund our businesses;

changes in global economic and business conditions, consumer and business spending generally, the availability and cost of capital, unemployment rates, geopolitical conditions, trade policies, foreign currency rates and interest rates, all of which may significantly affect demand for and spending on American Express cards, delinquency rates, loan and receivable balances and other aspects of our business and results of operations;

changes in capital and credit market conditions, which may significantly affect our ability to meet our liquidity needs, expectations regarding capital and liquidity ratios, access to capital and cost of capital, including changes in interest rates; changes in market conditions affecting the valuation of our assets; or any reduction in our credit ratings or those of our subsidiaries, which could materially increase the cost and other terms of our funding or restrict our access to the capital markets;

legal and regulatory developments, which could require us to make fundamental changes to many of our business practices, including our ability to continue certain GNS and other partnerships; exert further pressure on the average discount rate and GNS volumes; result in increased costs related to regulatory oversight, litigation-related settlements, judgments or expenses, restitution to Card Members or the imposition of fines or civil money penalties; materially affect our capital or liquidity requirements, results of operations or ability to pay dividends or repurchase stock; or result in harm to the American Express brand;

our funding plan being implemented in a manner inconsistent with current expectations, which will depend on various factors such as future business growth, the impact of global economic, political and other events on market capacity, demand for securities we offer, regulatory changes, ability to securitize and sell receivables and the performance of receivables previously sold in securitization transactions;

changes in the financial condition and creditworthiness of our business partners, such as bankruptcies, restructurings or consolidations, including merchants that represent a significant portion of our business, such as the airline industry, or our partners in GNS or financial institutions that we rely on for routine funding and liquidity, which could materially affect our financial condition or results of operations; and

factors beyond our control such as fire, power loss, disruptions in telecommunications, severe weather conditions, natural disasters, health pandemics or terrorism, any of which could significantly affect demand for and spending on American Express cards, delinquency rates, loan and receivable balances and other aspects of our business and

results of operations or disrupt our global network systems and ability to process transactions. A further description of these uncertainties and other risks can be found in the 2017 Form 10-K and our other reports filed with the Securities and Exchange Commission.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, we are subject to various pending and potential legal actions, arbitration proceedings, claims, investigations, examinations, information gathering requests, subpoenas, inquiries and matters relating to compliance with laws and regulations (collectively, legal proceedings).

We do not believe we are a party to, nor are any of our properties the subject of, any legal proceeding that would have a material adverse effect on our consolidated financial condition or liquidity. However, in light of the uncertainties involved in such matters, including the fact that some pending legal proceedings are at preliminary stages or seek an indeterminate amount of damages, it is possible that the outcome of legal proceedings, including the possible resolution of merchant claims, could have a material impact on our results of operations. In addition, it is possible that significantly increased merchant steering or other actions impairing the Card Member experience could have a material adverse effect on our business. Certain legal proceedings involving us or our subsidiaries are described in this section and others, for which there have been no subsequent material developments since the filing of our 2017 Form 10-K, are described in such report. For additional information, see Note 8 to our “Consolidated Financial Statements.”

In 2010, the Department of Justice, along with Attorneys General from Arizona, Connecticut, Hawaii (Hawaii has since withdrawn its claim), Idaho, Illinois, Iowa, Maryland, Michigan, Missouri, Montana, Nebraska, New Hampshire, Ohio, Rhode Island, Tennessee, Texas, Utah and Vermont filed a complaint in the U.S. District Court for the Eastern District of New York against us alleging a violation of Section 1 of the Sherman Antitrust Act. The complaint included allegations that provisions in our merchant agreements prohibiting merchants from steering a customer to use another network’s card or another type of general-purpose card (“anti-steering” and “non-discrimination” contractual provisions) violate the antitrust laws. The complaint sought a judgment permanently enjoining us from enforcing our non-discrimination contractual provisions. The complaint did not seek monetary damages.

Following a non-jury trial, the trial court found that the challenged provisions were anticompetitive and on April 30, 2015, the court issued a final judgment entering a permanent injunction. Following our appeal of this judgment, on September 26, 2016, the Court of Appeals for the Second Circuit reversed the trial court decision and judgment in favor of American Express was entered on January 25, 2017. Eleven of the 17 states that are party to the case filed a petition with the Supreme Court seeking a review of the Second Circuit’s decision. The Supreme Court granted certiorari and oral argument was held on February 26, 2018 in the case, now captioned Ohio v. American Express Co. On June 25, 2018, the Supreme Court affirmed the judgment of the Second Circuit in favor of American Express.

In addition, individual merchant cases and a putative class action, which were consolidated in 2011 and collectively captioned In re: American Express Anti-Steering Rules Antitrust Litigation (II), are pending in the Eastern District of New York against us alleging that our anti-steering provisions in merchant card acceptance agreements violate U.S. antitrust laws. The individual merchant cases seek damages in unspecified amounts and injunctive relief. Following the Supreme Court decision in Ohio v. American Express Co. in favor of American Express, the Court in the Eastern District of New York granted plaintiffs in the individual merchant cases leave to amend their complaint and trial has been scheduled in the individual merchant cases for April 29, 2019.

ITEM 1A. RISK FACTORS

For a discussion of our risk factors, see Part I, Item 1A. “Risk Factors” of the 2017 Form 10-K. There are no material changes from the risk factors set forth in the 2017 Form 10-K. However, the risks and uncertainties that we face are not limited to those set forth in the 2017 Form 10-K. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business and the trading price of our securities.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) ISSUER PURCHASES OF SECURITIES

The table below sets forth the information with respect to purchases of our common stock made by or on behalf of us during the three months ended June 30, 2018.

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(c) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------------|---|---------------------------------------|---|---|
| April 1-30, 2018 | | | | |
| Repurchase program ^(a) | | | | 85,002,419 |
| Employee transactions ^(b) | | | | N/A |
| May 1-31, 2018 | | | | |
| Repurchase program ^(a) | | | | 85,002,419 |
| Employee transactions ^(b) | 30,623 | \$ 99.61 | | N/A |
| June 1-30, 2018 | | | | |
| Repurchase program ^(a) | | | | 85,002,419 |
| Employee transactions ^(b) | | | | N/A |
| Total | | | | |
| Repurchase program ^(a) | | | | 85,002,419 |
| Employee transactions ^(b) | 30,623 | \$ 99.61 | | N/A |

On September 26, 2016, the Board of Directors authorized the repurchase of up to 150 million shares of common stock from time to time, subject to market conditions and the Federal Reserve's non-objection to our capital plans. ^(a)This authorization replaced the prior repurchase authorization and does not have an expiration date. See "MD&A – Consolidated Capital Resources and Liquidity" for additional information regarding share repurchases.

Includes: (i) shares surrendered by holders of employee stock options who exercised options (granted under our incentive compensation plans) in satisfaction of the exercise price and/or tax withholding obligation of such holders and (ii) restricted shares withheld (under the terms of grants under our incentive compensation plans) to ^(b)offset tax withholding obligations that occur upon vesting and release of restricted shares. Our incentive compensation plans provide that the value of the shares delivered or attested to, or withheld, be based on the price of our common stock on the date the relevant transaction occurs.

Share purchases under publicly announced programs are made pursuant to open market purchases or privately ^(c)negotiated transactions (including employee benefit plans) as market conditions warrant and at prices we deem appropriate.

Table of Contents

ITEM 5. OTHER INFORMATION

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the Exchange Act, an issuer is required to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with individuals or entities designated pursuant to certain Executive Orders. Disclosure is generally required even where the activities, transactions or dealings were conducted outside the United States by non-U.S. affiliates in compliance with applicable law, and whether or not the activities are sanctionable under U.S. law.

American Express Global Business Travel (GBT) and certain entities that may be considered affiliates of GBT have informed us that during the quarter ended June 30, 2018, approximately 45 visas were obtained from Iranian embassies and consulates around the world in connection with certain travel arrangements on behalf of clients, and reservations were booked at one hotel that may be owned, directly or indirectly, or may otherwise be affiliated with, the Government of Iran. GBT had negligible gross revenues and net profits attributable to these transactions and intends to continue to engage in these activities on a limited basis so long as such activities are permitted under U.S. law.

ITEM 6. EXHIBITS

The list of exhibits required to be filed as exhibits to this report are listed on page E-1 hereof, under “Exhibit Index” which is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN EXPRESS
COMPANY
(Registrant)

Date: July 24, 2018 By /s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and
Chief Financial Officer

Date: July 24, 2018 By /s/ Richard Petrino
Richard Petrino
Executive Vice President and
Corporate Controller
(Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

The following exhibits are filed as part of this Quarterly Report:

| Exhibit | Description |
|---------|---|
| 10.1 | <u>American Express Senior Executive Severance Plan, as amended and restated effective May 1, 2018.</u> |
| 12 | <u>Computation in Support of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.</u> |
| 31.1 | <u>Certification of Stephen J. Squeri pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.</u> |
| 31.2 | <u>Certification of Jeffrey C. Campbell pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.</u> |
| 32.1 | <u>Certification of Stephen J. Squeri pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.2 | <u>Certification of Jeffrey C. Campbell pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |