AMERICAN EXPRESS CO
Form 10-K
February 16, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 1-7657
American Express Company
(Exact name of registrant as specified in its charter)

New York	13-4922250
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Vesey Street New York, New York	10285
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 640-2000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares (par value $0.20 per Share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of

this chapter) during the preceding 12 months (or for a shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company

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 Act). Yes No

As of June 30, 2017, the aggregate market value of the registrant's voting shares held by non-affiliates of the registrant was approximately $74.3 billion based on the closing sale price as reported on the New York Stock Exchange.

As of February 6, 2018, there were 860,278,838 common shares of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Portions of Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Shareholders to be held on May 7, 2018.

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This Annual Report on Form 10-K, including the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. You can identify forward-looking statements by words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “aim,” “will,” “may,” “should,” “could,” “would,” “likely,” “estimate,” “predict,” “potential,” “continue” or other similar expressions. We discuss certain factors that affect our business and operations and that may cause our actual results to differ materially from these forward-looking statements under “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements.” You 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 publicly or revise any forward-looking statements.

This report includes trademarks, such as American Express®, which are protected under applicable intellectual property laws and are the property of American Express Company or its subsidiaries. This report also contains trademarks, service marks, copyrights and trade names of other companies, which are the property of their respective owners. Solely for convenience, our trademarks and trade names referred to in this report may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and trade names.
Refer to the “MD&A   Glossary of Selected Terminology” for the definitions of certain key terms used in this report.

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PART I

ITEM 1. BUSINESS

INTRODUCTION

Overview

American Express Company, together with its consolidated subsidiaries, is a global services 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 card products and travel-related services offered to consumers and businesses around the world.

We were founded in 1850 as a joint stock association and were incorporated in 1965 as a New York corporation. American Express Company and its principal operating subsidiary, American Express Travel Related Services Company, Inc. (TRS), are bank holding companies under the Bank Holding Company Act of 1956, as amended (the BHC Act), subject to supervision and examination by the Board of Governors of the Federal Reserve System (the Federal Reserve).

Our headquarters are located in lower Manhattan, New York, New York. We also have offices in other locations throughout the world.

During 2017, we principally engaged in businesses comprising four reportable operating segments: U.S. Consumer Services, International Consumer and Network Services, Global Commercial Services and Global Merchant Services. Corporate functions and certain other businesses are included in Corporate & Other. You can find information regarding our reportable operating segments, geographic operations and classes of similar services in Note 25 to our "Consolidated Financial Statements."

Products and Services

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, small businesses, mid-sized companies and large corporations. These products and services are sold through various channels, including online applications, direct mail, in-house 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).

Our general-purpose card network, card-issuing and merchant-acquiring and processing businesses are global in scope. We are a world leader in providing charge and credit cards to consumers, small businesses, mid-sized companies and large corporations. These cards include cards issued by American Express as well as cards issued by third-party banks and other institutions that are accepted by merchants on the American Express network. American Express® cards permit Card Members to charge purchases of goods and services in most countries around the world at the millions of merchants that accept cards bearing our logo.

Our business as a whole has not experienced significant seasonal fluctuations, although card billed business tends to be moderately higher in the fourth quarter than in other quarters. As a result, the amount of Card Member loans and receivables outstanding tend to be moderately higher during that quarter. The average discount rate also tends to be slightly lower during the fourth quarter due to a higher level of retail-related billed business volumes.

The American Express Brand

Our brand and its attributes—trust, security and service—are key assets. We invest heavily in managing, marketing, promoting and protecting our brand, including through the delivery of our products and services in a manner consistent with our brand promise. Our brand has consistently been rated one of the most valuable brands in the world. We also place significant importance on trademarks, service marks and patents, and seek to secure our intellectual property rights around the world.

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Our Integrated Network and Spend-Centric Model

Wherever we manage both the card-issuing activities of the business and the acquiring relationship with merchants, there is a "closed loop" in that we have direct access to information at both ends of the card transaction, which distinguishes our integrated network from the bankcard networks. We maintain direct relationships with both our Card Members (as a card issuer) and merchants (as an acquirer), and we handle all key aspects of those relationships. Through contractual relationships, we also obtain data from third-party card issuers, merchant acquirers and processors with whom we do business. Our integrated network allows us to analyze information on Card Member spending and build algorithms and other analytical tools that we use to underwrite risk, reduce fraud and provide targeted marketing and other information services for merchants and special offers and services to Card Members through a variety of channels, all while respecting Card Member preferences and protecting Card Member and merchant data in compliance with applicable policies and legal requirements.

Our "spend-centric" business model focuses on generating revenues primarily by driving spending on our cards and secondarily by finance charges and fees. Spending on our cards, which is higher on average on a per-card basis versus our competitors, offers superior value to merchants in the form of loyal customers and larger transactions. Because of the revenues generated from having high-spending Card Members, we are able to invest in attractive rewards and other benefits for Card Members, as well as targeted marketing and other programs and investments for merchants. This creates incentives for Card Members to spend more on their cards and positively differentiates American Express cards.

We believe our integrated network and spend-centric model give us the ability to provide differentiated value to Card Members, merchants and our card-issuing partners.*

BUSINESS OPERATIONS

Global Consumer Services

We offer a wide range of charge cards and revolving credit cards to consumers in the United States and internationally through our U.S. Consumer Services (USCS) and International Consumer & Network Services (ICNS) segments. In addition to our proprietary cards, we partner with banks and other organizations to issue American Express-branded products. Moreover, we offer several services that complement our core business, including consumer travel services and deposit and non-card financing products such as installment lending.

Our global proprietary card business offers a broad set of card products, rewards and services to acquire and retain high-spending, engaged and creditworthy Card Members. Core elements of our strategy are:

- Designing innovative products and features that appeal to our target customer base and meet their spending and borrowing needs
- Using incentives to drive spending on our various card products and engender loyal Card Members, including our Membership Rewards® program, cash-back reward features and participation in loyalty programs sponsored by our cobrand and other partners
- Providing exceptional customer care, digital and mobile services and an array of benefits and experiences across card products to address travel and other needs and increase Card Member engagement
- Developing a wide range of partner relationships, including with other corporations and institutions that sponsor certain of our cards under cobrand arrangements

Our charge cards are designed primarily as a method of payment with Card Members generally paying the full amount billed each month. Charges are approved based on a variety of factors, including a Card Member's current spending patterns, payment history, credit record and financial resources. Some charge card accounts have features that allow Card Members to revolve certain charges. Revolving credit card products provide Card Members with the flexibility to pay their bill in full each month or carry a monthly balance on their cards to finance the purchase of goods or services. Some revolving credit cards in the United States have the Plan It℠ feature, which eligible Card Members can use to set up a monthly payment for certain purchases over a fixed period of time.

[*] The use of the term “partner” or “partnering” does not mean or imply a formal legal partnership, and is not meant in any way to alter the terms of American Express’ relationship with third-party issuers and merchant acquirers.

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Our Global Network Services (GNS) business, which is included in our ICNS segment, establishes and maintains relationships with banks and other institutions around the world that issue cards and, in certain countries, acquire local merchants onto the American Express network. In assessing whether we should pursue a proprietary or GNS strategy in a given country, or some combination thereof, we consider a wide range of country-specific factors, including the regulatory environment, the stability and attractiveness of financial returns, the size of the potential Card Member base, the strength of available marketing and credit data, the size of cobrand opportunities and how we can best create strong merchant value. Our GNS arrangements are categorized as follows:

- Independent Operator Arrangements, in which partners can be licensed to issue local currency cards in their countries and serve as the merchant acquirer and processor for local merchants

- Network Card License Arrangements, in which partners can be licensed to issue American Express-branded cards primarily in countries where we have a proprietary card-issuing and/or merchant acquiring business

- Joint Venture Arrangements, in which we join with a third party to establish a separate business to sign new merchants and issue American Express-branded cards

The GNS business has established card-issuing and/or merchant-acquiring arrangements with banks and other institutions in approximately 130 countries and territories.

Global Commercial Services

In our Global Commercial Services (GCS) segment, we offer a wide range of card and payment programs, expense management tools, consulting services, business financing and cross-border payments solutions to small businesses, mid-size companies and large corporations around the world.

We have a suite of business-to-business payment solutions to help companies manage their spending and realize other potential benefits, including cost savings, process control and efficiency, and improved cash flow management. We offer local currency corporate cards and other expense management products in approximately 95 countries and territories, and have global U.S. dollar and euro corporate cards available in approximately 110 countries and territories. We also provide products and services, including charge cards, revolving credit cards and non-card payment and financing solutions, to small and mid-sized businesses in the United States and internationally.

We also engage in advocacy efforts on behalf of small businesses and seek to increase awareness of the importance of small businesses in our communities, including by continuing to lead Small Business Saturday®.

Global Merchant Services

Our Global Merchant Services (GMS) business builds and maintains relationships with merchants, merchant acquirers, aggregators and processors, and processes card transactions and settles with merchants that choose to accept our cards for purchases. We sign merchants to accept our cards and provide fraud-prevention tools, marketing solutions, digital assets and other programs and services to merchants leveraging the capabilities provided by our integrated network.

Through our direct and inbound channels, we contract with merchants, agree on the discount rate (a fee charged to the merchant for accepting our cards) and handle servicing. We also work with third parties to acquire small- and medium-sized merchants. For example, through our OptBlue® merchant-acquiring program, third-party processors contract directly with small merchants for card acceptance and determine merchant pricing. The OptBlue program provides an alternative for eligible small merchants who may prefer to deal with one acquirer for all their card acceptance needs. OptBlue processors provide relevant merchant data back to us so we can maintain our closed loop of transaction data.

We continue to grow merchant acceptance of American Express cards around the world. We estimate that, as of the end of 2017, our merchant network in the United States could accommodate nearly 95 percent of general-purpose card spending. Our international spend coverage is more limited, although we continue to focus on expanding our merchant network in locations outside the United States. We estimate that our international merchant network as a whole could accommodate more than 80 percent of general-purpose card spending. These percentages are based on comparing spending on all networks' general-purpose credit and charge cards at merchants that accept American Express cards with total general-purpose credit and charge card spending at all merchants, and are not percentages of locations accepting American Express cards.

GMS also builds loyalty coalition programs, such as the Payback® program in Germany, India, Italy, Mexico and Poland. Our loyalty coalition programs enable consumers to earn rewards points and use them to save on purchases from a variety of participating merchants through multi-category rewards platforms. Merchants generally fund the consumer offers and are responsible to us for the cost of loyalty points; we earn revenue from operating the loyalty platform and by providing marketing support.

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Corporate & Other
Corporate & Other consists of corporate functions and certain other businesses, including our prepaid services business that offers stored value/prepaid products, such as American Express Serve®, Bluebird®, the American Express® Gift Card and Travelers Cheques. In August 2017, we announced that a third party, InComm, will assume program management and issuer processing responsibilities for our prepaid reloadable and gift card products in the United States, subject to final agreement. We also expect that InComm will acquire the Serve technology platform and other assets related to the American Express prepaid reloadable and gift card products business.
Our support functions, including servicing, credit, insurance and technology, are organized by process rather than business unit, which we believe serves to streamline costs, reduce duplication of work, better integrate skills and expertise and improve customer service.
COMPETITION
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 Automated Clearing House, or 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.
As a card issuer, we compete with financial institutions that issue general-purpose charge and revolving credit cards and debit cards. We also encounter competition from businesses that issue their own private label cards, operate their own mobile wallets or extend credit to their customers. We face increasing competition for cobrand relationships, as both card issuer and network competitors have targeted key business partners with attractive value propositions.
Our global card network competes in the global payments industry with other card networks, including, among others, Visa, MasterCard, Discover (primarily in the United States), Diners Club International (which is owned by Discover Financial Services), and JCB and China UnionPay (primarily in Asia). We are the fourth largest general-purpose card network on a global basis based on purchase volume, behind China UnionPay, Visa and MasterCard. In addition to such networks, a range of companies globally, including merchant acquirers and processors, as well as regional payment networks (such as the National Payments Corporation of India), carry out some activities similar to those performed by our GMS and GNS businesses.
The principal competitive factors that affect the card-issuing, network and merchant service businesses include:

- The features, value and quality of the products and services, including customer care, rewards programs, partnerships, benefits and digital and mobile services, and the costs associated with providing such features and services
- The number, spending characteristics and credit performance of customers
- The quantity, diversity and quality of the establishments where the cards can be used
- The attractiveness of the value proposition to card issuers, merchant acquirers, cardholders and merchants (including the relative cost of using or accepting the products and services, and capabilities such as fraud prevention and data analytics)
- The number and quality of other payment cards and other forms of payment available to customers
- The success of marketing and promotional campaigns
- Reputation and brand recognition

- The speed of innovation and investment in systems, technologies, and product and service offerings
- The nature and quality of expense management tools, electronic payment methods and data capture and reporting capabilities, particularly for business customers
- The security of cardholder and merchant information

Another aspect of competition is the dynamic and rapid growth of alternative payment mechanisms, systems and products, which include aggregators (e.g., PayPal, Square and Amazon), marketplace lenders, wireless payment technologies (including using mobile telephone networks to carry out transactions), web- and mobile-based payment platforms (e.g., Alipay, PayPal and Venmo), electronic wallet providers (including handset manufacturers, telecommunication providers, retailers, banks and technology companies), prepaid systems, digital currencies, gift cards, blockchain and similar distributed ledger technologies, and systems linked to payment cards or that provide payment solutions. Partnerships have been formed by various competitors to integrate more financial services into their product offerings and competitors are attempting to replicate our closed-loop functionality, such as the merchant-processing platform ChaseNet. New payments competitors continue to emerge in response to evolving technologies, consumer habits and merchant needs.

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In addition to the discussion in this section, see “Our operating results may suffer because of substantial and increasingly intense competition worldwide in the payments industry” in “Risk Factors” for further discussion of the potential impact of competition on our business, and “Our business is subject to comprehensive government regulation and supervision, which could adversely affect our results of operations and financial condition” and “Ongoing legal proceedings regarding provisions in our merchant contracts could have a material adverse effect on our business, result in additional litigation and/or arbitrations, subject us to substantial monetary damages and damage to our reputation and brand” in “Risk Factors” for a discussion of the potential impact on our ability to compete effectively due to government regulations or if ongoing legal proceedings limit our ability to prevent merchants from engaging in various actions to discriminate against our card products.

SUPERVISION AND REGULATION

Overview

As a participant in the financial services industry, we are subject to substantial regulation in the United States and in other jurisdictions, 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 regulatory enforcement environment. In addition, 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. See “Risk Factors—Legal, Regulatory and Compliance Risks” for a discussion of the potential impact legislative and regulatory changes may have on our results of operations and financial condition.

Banking Regulation

Federal and state banking laws, regulations and policies extensively regulate the Company, TRS and our two U.S. bank subsidiaries, American Express Centurion Bank (Centurion Bank) and American Express Bank, FSB (American Express Bank). Both the Company and TRS are subject to comprehensive consolidated supervision, regulation and examination by the Federal Reserve under the BHC Act. Centurion Bank, a Utah-chartered industrial bank, is regulated, supervised and examined by the Utah Department of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC). American Express Bank, a federal savings bank, is regulated, supervised and examined by the Office of the Comptroller of the Currency (OCC). The Company and its subsidiaries are also subject to the rulemaking, enforcement and examination authority of the Consumer Financial Protection Bureau (CFPB). Banking regulators have broad examination and enforcement power, including the power to impose substantial fines, limit dividends and other capital distributions, restrict operations and acquisitions and require divestitures. Many aspects of our business also are subject to rigorous regulation by other U.S. federal and state regulatory agencies and by non-U.S. government agencies and regulatory bodies.

On August 31, 2017, applications were made to the OCC for approval to convert Centurion Bank into a national bank and subsequently to merge American Express Bank into the successor national bank. The applications were conditionally approved on December 4, 2017. Subject to satisfaction of certain additional legal and regulatory requirements, we expect the conversion and merger to be completed in the first half of 2018. After completion, the former Centurion Bank and American Express Bank will be combined into a single national bank, to be known as American Express National Bank, subject to the regulation, supervision and examination of the OCC.

Activities

The BHC Act generally limits bank holding companies to activities that are considered to be banking activities and certain closely related activities. Each of the Company and TRS is a bank holding company and each has elected to become a financial holding company, which is authorized to engage in a broader range of financial and related activities. In order to remain eligible for financial holding company status, we must meet certain eligibility requirements. Those requirements include that the Company and each of its subsidiary U.S. depository institutions must be “well capitalized” and “well managed,” and each of its subsidiary U.S. depository institutions must have received at least a “satisfactory” rating on its most recent assessment under the Community Reinvestment Act of 1977 (the CRA).

The Company and TRS engage in various activities permissible only for financial holding companies, including, in particular, providing travel agency services, acting as a finder and engaging in certain insurance underwriting and agency services. If the Company fails to meet eligibility requirements for financial holding company status, it is likely to be barred from engaging in new types of financial activities or making certain types of acquisitions or investments in reliance on its status as a financial holding company, and ultimately could be required to either discontinue the broader range of activities permitted to financial holding companies or divest its subsidiary U.S. depository institutions. In addition, the Company and its subsidiaries are prohibited by law from engaging in practices that the relevant regulatory authority deems unsafe or unsound (which such authorities generally interpret broadly).

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Acquisitions and Investments

Applicable federal and state laws place limitations on the ability of persons to invest in or acquire control of us without providing notice to or obtaining the approval of one or more of our regulators. In addition, we are subject to banking laws and regulations that limit our investments and acquisitions and, in some cases, subject them to the prior review and approval of our regulators, including the Federal Reserve, the OCC and the FDIC. The banking agencies have broad discretion in evaluating proposed acquisitions and investments that are subject to their prior review or approval.

Stress Testing and Capital Planning

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and the Federal Reserve's implementing regulations impose heightened prudential requirements on bank holding companies with at least $50 billion in total consolidated assets, such as the Company, that are more stringent than those applicable to smaller bank holding companies. Under the Federal Reserve's regulations, the Company is subject to annual supervisory and semiannual company-run stress testing requirements that are designed to evaluate whether a bank holding company has sufficient capital on a total consolidated basis to absorb losses and support operations under adverse economic conditions. Centurion Bank and American Express Bank are also subject to annual stress testing requirements. We publish the stress test results for the Company, Centurion Bank and American Express Bank on our Investor Relations website.

The results of the Company's annual stress test are incorporated into our annual capital plan, which must cover a "planning horizon" of at least nine quarters and which we are required to submit to the Federal Reserve for review under its Comprehensive Capital Analysis and Review (CCAR) process. As part of CCAR, the Federal Reserve evaluates whether the Company has sufficient capital to continue operations under various scenarios of economic and financial market stress (developed by both the Company and the Federal Reserve), including after taking into account planned capital distributions, such as dividend payments and common stock repurchases. Sufficient capital for these purposes is likely to require us to maintain capital ratios appreciably above applicable minimum requirements and buffers. The scenarios are designed to stress our risks and vulnerabilities and assess our pro-forma capital position and ratios under hypothetical stress environments.

We are required to submit our capital plans and stress testing results to the Federal Reserve on or before April 5 of each year. The Federal Reserve is expected to publish the decisions for all the bank holding companies participating in CCAR in 2018, including the reasons for any objection to capital plans, by June 30, 2018. In addition, the Federal Reserve will publish separately the results of its supervisory stress test under both the supervisory severely adverse and adverse scenarios. The information to be released will include, among other things, the Federal Reserve's projection of company-specific information, including post-stress capital ratio information over the planning horizon.

We may be required to revise and resubmit our capital plan as required by the Federal Reserve following certain events, such as a significant acquisition. In addition to other limitations, our ability to make any capital distributions (including dividends and share repurchases) is contingent on the Federal Reserve's non-objection to our capital plan.

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Dividends and Other Capital Distributions

The Company and TRS, as well as Centurion Bank, American Express Bank and the Company's insurance subsidiaries, are limited in their ability to pay dividends by statutes, regulations and supervisory policy.

Dividend payments by the Company to shareholders are subject to the oversight of the Federal Reserve. See "Stress Testing and Capital Planning." Even if the Federal Reserve has not objected to a distribution, the Company may still not make a distribution without Federal Reserve approval if, among other things, the Company would not meet a minimum regulatory capital ratio after giving effect to the capital distribution, changes in facts would require resubmission of our capital plan or the Company's earnings are materially underperforming its projections in the capital plan.

In general, federal and applicable state banking laws prohibit, without first obtaining regulatory approval, insured depository institutions, such as Centurion Bank and American Express Bank, from making dividend distributions to, in our case, TRS, if such distributions are not paid out of available recent earnings or would cause the institution to fail to meet capital adequacy standards. In addition to specific limitations on the dividends the Company's bank subsidiaries can pay to TRS, federal banking regulators have authority to prohibit or limit the payment of a dividend if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the institution.

Capital, Leverage and Liquidity Regulation

Capital Rules

The Company, Centurion Bank and American Express Bank are required to comply with the applicable capital adequacy rules established by federal banking regulators. These rules are intended to ensure that bank holding companies and depository institutions (collectively, banking organizations) have adequate capital given the level of assets and off-balance sheet obligations. The federal banking regulators' current capital rules, which, subject to phase-in provisions, generally became applicable to the Company, Centurion Bank and American Express Bank in 2014 (the Capital Rules), largely implement the Basel Committee on Banking Supervision's (the Basel Committee) framework for strengthening international capital regulation, known as Basel III. The minimum capital and buffer requirements under the Capital Rules will be fully phased in by January 1, 2019. For additional information regarding our capital ratios, see "Consolidated Capital Resources and Liquidity" under "MD&A."

Under the Capital Rules, banking organizations are required to maintain minimum ratios for Common Equity Tier 1 (CET1), Tier 1 and Total capital to risk-weighted assets. In addition, all banking organizations remain subject to a minimum leverage ratio of Tier 1 capital to average total consolidated assets (as defined for regulatory purposes). The Company, as an advanced approaches institution, became subject to a supplementary leverage ratio (SLR) on January 1, 2018.

Since 2014, we have reported our capital adequacy ratios on a parallel basis to federal banking regulators using both risk-weighted assets calculated under the Basel III standardized approach, as adjusted for certain items, and the requirements for an advanced approaches institution. During this parallel period, federal banking regulators assess our compliance with the advanced approaches requirements. The parallel period will continue until we receive regulatory notification to exit parallel reporting, at which point we will begin publicly reporting regulatory risk-based capital ratios calculated under both the advanced approaches and the standardized approach under the Capital Rules, and will be required to use the lower of these ratios in order to determine whether we are in compliance with minimum capital and buffer requirements for the Company, Centurion Bank and American Express Bank. Depending on how the advanced approaches are ultimately implemented for our asset types, our capital ratios calculated under the advanced approaches may be lower than under the standardized approach. The standardized approach is currently the applicable measurement used in CCAR.

The Company, Centurion Bank and American Express Bank must each maintain CET1, Tier 1 capital (that is, CET1 plus additional Tier 1 capital) and Total capital (that is, Tier 1 capital plus Tier 2 capital) ratios of at least 4.5 percent, 6.0 percent and 8.0 percent, respectively. The Capital Rules also implement a 2.5 percent capital conservation buffer composed entirely of CET1, on top of these minimum risk-weighted asset ratios. As a result, the minimum ratios are effectively 7.0 percent, 8.5 percent and 10.5 percent for the CET1, Tier 1 capital and Total capital ratios, respectively, on a fully phased-in basis. Implementation of the capital conservation buffer began on January 1, 2016 at the 0.625 percent level and increases in equal increments at the beginning of each year (i.e., 1.875 percent as of January 1, 2018) until it is fully implemented on January 1, 2019. The required minimum capital ratios for the Company may be further increased by a countercyclical capital buffer composed entirely of CET1 up to 2.5 percent, which may be assessed when federal banking regulators determine that such a buffer is necessary to protect the banking system from disorderly downturns associated with excessively expansionary periods. In December 2017, the Federal Reserve affirmed the countercyclical capital buffer of zero percent. Assuming full phase in of the capital conservation buffer and the maximum countercyclical capital buffer were in place, the Company’s effective minimum CET1, Tier 1 capital and Total capital ratios could be 9.5 percent, 11.0 percent and 13.0 percent, respectively.

Banking institutions whose ratio of CET1, Tier 1 Capital or Total capital to risk-weighted assets is above the minimum but below the capital conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on discretionary distributions such as dividends, repurchases and redemptions of capital securities, and executive compensation based on the amount of the shortfall.

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In December 2017, the Basel Committee published standards that, among other things, revise the standardized approach for credit risk (including by recalibrating risk weights and introducing additional capital requirements for certain “unconditionally cancellable commitments” such as unused credit card lines of credit) and provide a new standardized calculation for operational risk capital requirements. If adopted in the United States as issued by the Basel Committee, the new standards could result in higher capital requirements for us.

Leverage Requirements

We are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization’s Tier 1 capital to its average total consolidated assets (as defined for regulatory purposes). All banking organizations are required to maintain a leverage ratio of at least 4.0 percent.

The Capital Rules also establish an SLR requirement for advanced approaches banking organizations such as the Company. The SLR is the ratio of Tier 1 capital to an expanded concept of leverage exposure that includes both on-balance sheet and certain off-balance sheet exposures. The Capital Rules require a minimum SLR of 3.0 percent beginning January 1, 2018. The SLR will be factored into our 2018 CCAR submission and evaluation of our capital plan by the Federal Reserve.

Liquidity Regulation

The Federal Reserve’s enhanced prudential standards rule includes heightened liquidity and overall risk management requirements. The rule requires the maintenance of a liquidity buffer, consisting of highly liquid assets, that is sufficient to meet projected net outflows for 30 days over a range of liquidity stress scenarios.

In addition, the Company, Centurion Bank and American Express Bank are subject to a liquidity coverage ratio (LCR) requirement, which is provided for in the Basel III liquidity framework and is designed to ensure that a banking entity maintains an adequate level of unencumbered high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30-day time horizon under an acute liquidity stress scenario specified by supervisors. The LCR measures the ratio of a firm’s high-quality liquid assets to its projected net outflows. The Company, Centurion Bank and American Express Bank are required to calculate the LCR each business day and maintain a minimum ratio of 100 percent. Beginning with the second quarter of 2018, we will be required to disclose certain LCR calculation data and other information on a quarterly basis.

A second standard provided for in the Basel III liquidity framework, referred to as the net stable funding ratio (NSFR), requires a minimum amount of longer-term funding based on the assets and activities of banking entities. The LCR and NSFR requirements may cause banking entities generally to increase their holdings of cash, U.S. Treasury securities and other sovereign debt as a proportion of total assets and/or increase the proportion of longer-term debt. Federal banking regulators issued a proposed rule in May 2016 that would implement the NSFR for advanced approaches banking organizations, such as the Company. A final rule has not yet been issued and timing for implementation of the NSFR requirements is uncertain. The NSFR would also apply to Centurion Bank and American Express Bank. If implemented as proposed, the rule would require that “available stable funding” be no less than “required stable funding” for the Company, Centurion Bank, and American Express Bank, as each such measure is calculated under the rule.

Prompt Corrective Action

The Federal Deposit Insurance Act (FDIA) requires, among other things, that federal banking regulators take prompt corrective action in respect of FDIC-insured depository institutions (such as Centurion Bank and American Express Bank) that do not meet minimum capital requirements. The FDIA establishes five capital categories for FDIC-insured banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The FDIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the capital category in which an institution is classified. In order to be considered “well capitalized,” Centurion Bank and American Express Bank must maintain CET1, Tier 1 capital, Total capital and Tier 1 leverage ratios of 6.5 percent, 8.0 percent, 10.0 percent and 5.0 percent, respectively.

Under the FDIA, each of Centurion Bank and American Express Bank could be prohibited from accepting brokered deposits (i.e., deposits raised through third-party brokerage networks) or offering interest rates on any deposits significantly higher than the prevailing rate in its normal market area or nationally (depending upon where the deposits are solicited), unless (1) it is well capitalized or (2) it is adequately capitalized and receives a waiver from the FDIC. A significant amount of our outstanding U.S. retail deposits are considered brokered deposits for bank regulatory purposes. If a federal regulator determines that we are in an unsafe or unsound condition or that we are engaging in unsafe or unsound banking practices, the regulator may reclassify our capital category or otherwise place restrictions on our ability to accept or solicit brokered deposits.

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Resolution Planning

The Company is required to prepare and provide to regulators a plan for its rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material distress or failure. This resolution planning requirement may, as a practical matter, present additional constraints on our structure, operations and business strategy, and on transactions and business arrangements between our bank and non-bank subsidiaries, because we must consider the impact of these matters on our ability to prepare and submit a resolution plan that demonstrates that we may be resolved under the Bankruptcy Code in a rapid and orderly manner. If the Federal Reserve and the FDIC determine that the Company's plan is not credible and we fail to cure the deficiencies, we may be subject to more stringent capital, leverage or liquidity requirements; or restrictions on our growth, activities or operations; or may ultimately be required to divest certain assets or operations to facilitate an orderly resolution. Separately, American Express Bank is required to prepare and provide a separate resolution plan to the FDIC that would enable the FDIC, as receiver, to effectively resolve American Express Bank under the FDIA in the event of failure.

Orderly Liquidation Authority

The Company could become subject to the Orderly Liquidation Authority (OLA), a resolution regime under which the Treasury Secretary may appoint the FDIC as receiver to liquidate a systemically important financial company, if the Company is in danger of default and is determined to present a systemic risk to U.S. financial stability. As under the FDIC resolution model, under the OLA, the FDIC has broad power as receiver. Substantial differences exist, however, between the OLA and the FDIC resolution model for depository institutions, including the right of the FDIC under the OLA to disregard the strict priority of creditor claims in limited circumstances, the use of an administrative claims procedure to determine creditor claims (as opposed to the judicial procedure used in bankruptcy proceedings), and the right of the FDIC to transfer claims to a "bridge" entity. The OLA is separate from the Company's resolution plan discussed in "Resolution Planning."

The FDIC has developed a strategy under OLA, referred to as the "single point of entry" or "SPOE" strategy, under which the FDIC would resolve a failed financial holding company by transferring its assets (including shares of its operating subsidiaries) and, potentially, very limited liabilities to a "bridge" holding company; utilize the resources of the failed financial holding company to recapitalize the operating subsidiaries; and satisfy the claims of unsecured creditors of the failed financial holding company and other claimants in the receivership by delivering securities of one or more new financial companies that would emerge from the bridge holding company. Under this strategy, management of the failed financial holding company would be replaced and its shareholders and creditors would bear the losses resulting from the failure.

FDIC Powers upon Insolvency of Insured Depository Institutions

If the FDIC is appointed the conservator or receiver of Centurion Bank or American Express Bank, the FDIC has the power: (1) to transfer any of the depository institution's assets and liabilities to a new obligor without the approval of the depository institution's creditors; (2) to enforce the terms of the depository institution's contracts pursuant to their terms; or (3) to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmation or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution. In addition, the claims of holders of U.S. deposit liabilities and certain claims for administrative expenses of the FDIC against an insured depository institution would be afforded priority over other general unsecured claims against the institution, including claims of debt holders of the institution and depositors in non-U.S. offices, in the liquidation or other resolution of the institution by a receiver. As a result, whether or not the FDIC ever sought to repudiate any debt obligations of Centurion Bank or American Express Bank, the debt holders and depositors in non-U.S. offices would be treated differently from, and could receive substantially less, if anything, than the depositors in U.S. offices of the depository institution.

Other Banking Regulations

Source of Strength

The Company is required to act as a source of financial and managerial strength to its subsidiary banks and may be required to commit capital and financial resources to support Centurion Bank and/or American Express Bank. Such support may be required at times when, absent this requirement, the Company otherwise might determine not to provide it. Capital loans by the Company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of the Company’s bankruptcy, any commitment by the Company to a federal banking regulator to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Cross-Guarantee Liability

Under the “cross-guarantee” provision of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, each of Centurion Bank and American Express Bank may be liable to the FDIC with respect to any loss incurred or reasonably anticipated to be incurred by the FDIC in connection with the default of, or FDIC assistance to, the other. In that case, the liability to the FDIC generally has priority in right of payment to any obligation of the depository institution to its holding company or other affiliates.

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Transactions Between Centurion Bank or American Express Bank and Their Respective Affiliates
Certain transactions (including loans and credit extensions from Centurion Bank and American Express Bank) between Centurion Bank and American Express Bank, on the one hand, and their affiliates (including the Company, TRS and their non-bank subsidiaries), on the other hand, are subject to quantitative and qualitative limitations, collateral requirements, and other restrictions imposed by statute and regulation. Transactions subject to these restrictions are generally required to be made on an arm's-length basis.
FDIC Deposit Insurance and Insurance Assessments
Centurion Bank and American Express Bank accept deposits that are insured by the FDIC up to the applicable limits. Under the FDIA, the FDIC may terminate the insurance of an institution's deposits upon a finding that the institution has engaged in unsafe or unsound practices; is in an unsafe or unsound condition to continue operations; or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not know of any practice, condition or violation that might lead to termination of deposit insurance at either of our insured depository institution subsidiaries. The FDIC's deposit insurance fund is funded by assessments on insured depository institutions, which are subject to adjustment by the FDIC.
Community Reinvestment Act
Centurion Bank and American Express Bank are subject to the CRA, which imposes affirmative, ongoing obligations on depository institutions to meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution.
Other Enhanced Prudential Standards
The Federal Reserve has not yet finalized prudential requirements, mandated by Dodd-Frank, regarding early remediation requirements for large bank holding companies experiencing financial distress and single counterparty credit limits (similar to bank-level lending limits but, as proposed, applicable to bank holding companies and controlled subsidiaries on a combined basis) for large bank holding companies.
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 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, 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 are likely to be a continuing focus for the CFPB and regulators more broadly, as well as for the company itself. For example, in August 2017, we announced that certain of our subsidiaries signed a consent order with the CFPB to resolve issues related to a previously-disclosed internal review of our card product offerings in Puerto Rico, the U.S. Virgin Islands and other U.S. Territories.
As an issuer of stored value/prepaid products, we are regulated in the United States under the "money transmitter" or "sale of check" laws in effect in most states. We are also required by the laws of many states to comply with unclaimed and abandoned property laws, under which we must pay to states the face amount of any Travelers Cheque or prepaid card that is uncashed or unredeemed after a period of time depending on the type of product.
In countries outside the United States, we have seen an increase in regulatory focus in relation to a number of key areas impacting our card-issuing businesses, particularly consumer protection (such as the European Union (EU), the United Kingdom and Canada) and responsible lending (such as Australia, Mexico, New Zealand and Singapore). Regulators in a number of countries are shifting their focus from just ensuring compliance with local rules and

regulations toward paying greater attention to the product design and operation with a focus on customers and outcomes. Regulators' expectations of firms in relation to their compliance, risk and control frameworks continue to increase and regulators are placing significant emphasis on a firm's systems and controls relating to the identification and resolution of issues.

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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 EU, 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. In some cases, such regulation extends to certain aspects of our business. 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. Antitrust actions and government regulation relating to merchant pricing or terms of merchant rules and contracts can also adversely impact consumers and merchants. Among other things, lower interchange and/or merchant discount revenue can lead card issuers to look to reduce costs by scaling back or eliminating rewards, services or benefits to cardholders, merchants and other customers, or to look for other sources of revenue, including from consumers through higher annual card fees or interest charges.

In various countries, such as certain Member States in the EU and Australia, merchants are permitted by law to surcharge card purchases. In addition, the laws of a number of states in the United States that prohibit surcharging have been overturned in litigation brought by merchant groups. Surcharging is an adverse customer experience and could have a material adverse effect on us if it becomes widespread, particularly where it only or disproportionately impacts American Express Card Members, which is known as differential surcharging, In addition, other steering practices that are permitted by regulation in some countries could also have a material adverse effect on us if they become widespread and disproportionately impact American Express Card Members.

In Canada, regulators have prompted the major international card networks to make voluntary commitments on pricing, specifically interchange fee levels; as American Express does not operate with interchange fees, in the case of American Express, our commitment extends to maintaining current pricing practices whereby issuer rates received by GNS partners are agreed to bilaterally with each partner, rather than multilaterally, and merchant pricing is simple, transparent and value-based with the same rate for the acquiring of credit and charge card transactions for a particular merchant regardless of the type of card that is presented. Regulators may seek to change the commitments in Canada in the future.

In some countries governments have established regulatory regimes that require international card networks to be locally licensed and/or to localize aspects of their operations. For example, card network operators in India must obtain authorization from the Reserve Bank of India, which has broad power under the Payment and Settlement Systems Act 2007 to regulate the membership and operations of card networks. In Hong Kong, the local monetary authority has implemented a new regulatory framework under which card payment systems, including American Express, have been designated for supervision. In Russia, card network operators must be authorized by the central bank, and regulation requires networks to place security deposits with the central bank, process all local transactions using government-owned infrastructure and ensure that local transaction data remains within the country.

Governments in some countries also provide resources or protection to select domestic payment card networks. For example, China adopted new regulation that will permit foreign card networks to operate domestically in the country for the first time, subject to licensing, capital and other requirements. The development and enforcement of these and other similar laws, regulations and policies in international markets may adversely affect our ability to compete effectively in such countries and maintain and extend our global network.

European Union Payments Legislation

In 2015, the EU adopted legislation in two parts, covering a wide range of topics across the payments industry. The first part was an EU-wide regulation on interchange fees (the Interchange Fee Regulation); the second consisted of the Revised Payment Services Directive (the PSD2).

Among other things, the Interchange Fee Regulation caps interchange fees on consumer card transactions in the EU, generally at 20 basis points for debit and prepaid cards and 30 basis points for credit and charge cards, with the possibility of lower caps in some instances. The Interchange Fee Regulation excludes commercial card transactions from the scope of the caps. Although the discount rates we agree to with merchants are not capped, the interchange caps have exerted, and will likely continue to exert, downward pressure on merchant fees across the industry, including our discount rates.

The Interchange Fee Regulation provides that “three party” networks (such as American Express) should be subject to the interchange fee caps when they license third-party providers to issue cards and/or acquire merchants. In a ruling issued on February 7, 2018, the EU Court of Justice confirmed the validity of the application of the fee cap provisions as well as other provisions in circumstances where three party networks issue cards with a cobrand partner or through an agent, although the ruling gives only limited guidance as to when or how the provisions might apply in such circumstances.

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The Interchange Fee Regulation also prohibits, with some exceptions, “anti-steering” and honor-all-cards rules across all card networks, including non-discrimination and honor-all-cards provisions in our card acceptance agreements. The absence of these provisions in our card acceptance agreements in the EU creates significant risk of customer confusion and Card Member dissatisfaction, which would result in harm to the American Express brand.

The PSD2 makes revisions to the original Payment Services Directive (PSD) adopted in 2007 and prescribes common rules across the EU for licensing and supervision of payment service providers, including card issuers and merchant acquirers, and for their conduct of business with customers. Member States had until January 13, 2018 to transpose the PSD2 into national law.

Under the PSD, Member States could choose to permit or prohibit surcharging and under the Consumer Rights Directive, merchants were prohibited from surcharging consumer purchases more than the merchants’ cost of acceptance of a given means of payment. The PSD2 includes an outright ban on surcharging for those transactions falling in scope of the Interchange Fee Regulation, with an option for individual Member States to prohibit surcharging altogether. Some Member States, such as France and Italy, have chosen to exercise the option, meaning that surcharging is banned altogether. In other Member States, such as Germany and Denmark, cards not subject to the Interchange Fee Regulation (e.g., cards issued by “three party” networks like American Express and commercial cards) can still be surcharged up to the cost of acceptance. The UK has chosen to ban surcharging altogether on consumer cards but allows surcharging on commercial cards, up to the cost of acceptance. The revised surcharging rules may increase instances of differential surcharging of our cards, customer and merchant confusion as to which transactions may be surcharged and lead to Card Member dissatisfaction.

The PSD2 also requires all networks, including “three party” networks that operate with licensing arrangements, such as our GNS business, to establish objective, proportionate and non-discriminatory criteria under which a financial institution may access the network, for example, as a licensed issuer or acquirer. The combined impact of the Interchange Fee Regulation and the PSD2 imposes a regulatory burden on our GNS business that renders it no longer viable. As a result, we have shifted our focus to our proprietary card issuing business in the EU and will not issue new GNS licenses there. In addition, we have terminated the licenses with our existing GNS partners in the EU and are in the process of winding down those operations.

Australia Payments Regulation

Under regulations adopted by the Reserve Bank of Australia in 2016, the interchange fee paid on Visa and MasterCard credit transactions as well as the payments we make to GNS partners must not exceed a weighted-average benchmark of 0.50 percent across all transactions, with a maximum interchange fee cap of 0.80 percent for each individual credit card transaction. The inclusion of our GNS business under interchange regulation has undermined our ability to attract and retain GNS partners in Australia. While the discount rates we agree to with merchants are not capped, the interchange caps have exerted, and will likely continue to exert, downward pressure on merchant fees across the industry, including our discount rates.

The regulations also changed the rules on merchant surcharging to limit surcharging to the actual cost of card acceptance paid to the merchant acquirer, as recorded on the merchant statement issued by the merchant acquirer.

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 privacy, data protection and information and cyber security laws, meet evolving customer privacy expectations and support and enable business innovation and growth.

Our regulators are increasingly focused on ensuring that our privacy, data protection and information and cyber security-related policies and practices are adequate to inform customers of our data collection, use, sharing and/or security practices, to provide them with choices, if required, about how we use and share their information, and to appropriately safeguard their personal information and account access.

In the United States, certain of our businesses are subject to the privacy, disclosure and safeguarding provisions of the Gramm-Leach-Bliley Act (GLBA) and its implementing regulations and guidance. Among other things, the GLBA imposes certain limitations on our ability to share consumers' nonpublic personal information with nonaffiliated third parties and requires us to develop, implement and maintain a written comprehensive information security program containing safeguards that are appropriate to the size and complexity of our business, the nature and scope of our activities and the sensitivity of customer information that we process. Various states also have adopted laws, rules and regulations pertaining to privacy and/or information and cyber security that may be more stringent and/or expansive than federal requirements. Certain of these requirements may apply to the personal information of our employees and contractors as well as to our customers. Various U.S. federal banking regulators, U.S. states and territories have also enacted data security breach notification requirements that are applicable to us.

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We are also subject to certain privacy, data protection and information and cyber security laws in other countries in which we operate (including countries in the EU, Australia, Canada, Japan, Hong Kong, Mexico and Singapore), some of which are more stringent and/or expansive than those in the United States. We have also seen some countries institute laws requiring in-country data processing and/or in-country storage of the personal data of its citizens. Compliance with such laws could result in higher technology, administrative and other costs for us and could limit our ability to optimize the use of our closed-loop data. Data breach notification laws or regulatory activities to encourage breach notification are also becoming more prevalent in jurisdictions outside the U.S. in which we operate.

In Europe, the European Directive 95/46/EC (the Data Protection Directive), providing for the protection of individuals with regard to the processing of personal data and on the free movement of such data, will be replaced by the EU General Data Protection Regulation (EU GDPR) as of May 2018. The EU GDPR includes, among other things, a requirement for prompt notice of data breaches, in certain circumstances, to data subjects and supervisory authorities, applying uniformly across sectors and the EU, with significant fines for non-compliance. The EU GDPR also requires companies processing personal data of individuals residing in the EU, regardless of the location of the company, to comply with EU privacy and data protection rules. We generally rely on our binding corporate rules as the primary method for lawfully transferring data from our European affiliates to our affiliates in the United States and elsewhere globally.

In addition, the European Directive 2002/58/EC (the e-Privacy Directive) will continue to set out requirements for the processing of personal data and the protection of privacy in the electronic communications sector until the approval of forthcoming e-Privacy Regulation. The ePrivacy Directive places restrictions on, among other things, the sending of unsolicited marketing communications, as well as on the collection and use of data about internet users.

In 2015, the European Central Bank and the European Banking Authority enacted secondary legislation focused on security breaches, strong customer authentication and information security-related policies. Likewise, the Commission adopted a network information security directive, to be implemented into national laws by the Member States. PSD2 also contains regulatory requirements on strong customer authentication, open access to customer data and measures to prevent security incidents.

Anti-Money Laundering, Sanctions and Anti-Corruption Compliance

We are subject to significant supervision and regulation, and an increasingly stringent enforcement environment, with respect to compliance with anti-money laundering (AML), sanctions and anti-corruption laws and regulations in the United States and in other jurisdictions in which we operate. Failure to maintain and implement adequate programs and policies and procedures for AML, sanctions and anti-corruption compliance could have serious financial, legal and reputational consequences.

Anti-Money Laundering

American Express is subject to a significant number of AML laws and regulations as a result of being a financial company headquartered in the United States, as well as having a global presence. In the United States, the majority of AML requirements are derived from the Currency and Foreign Transactions Reporting Act and the accompanying regulations issued by the U.S. Department of the Treasury (collectively referred to as the Bank Secrecy Act), as amended by the USA PATRIOT Act of 2001 (the Patriot Act). In Europe, AML requirements are largely the result of countries transposing the 4th EU Anti-Money Laundering Directive (and preceding EU Anti-Money Laundering Directives) into local laws and regulations. Numerous other countries, such as Argentina, Australia, Canada, India, Mexico, New Zealand and Russia, have also enacted or proposed new or enhanced AML legislation and regulations applicable to American Express.

Among other things, these laws and regulations require us to establish AML programs that meet certain standards, including, in some instances, expanded reporting, particularly in the area of suspicious transactions, and enhanced information gathering and recordkeeping requirements. Any errors, failures or delays in complying with federal, state or foreign AML and counter-terrorist financing laws could result in significant criminal and civil lawsuits, penalties and forfeiture of significant assets or other enforcement actions.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. The United States prohibits U.S. persons from engaging with individuals and entities identified as "Specially Designated Nationals," such as terrorists and narcotics traffickers. These prohibitions are administered by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and are typically known as the OFAC rules. The OFAC rules prohibit U.S. persons from engaging in financial transactions with or relating to the prohibited individual, entity or country, require the blocking of assets in which the individual, entity or country has an interest, and prohibit transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons) to such individual, entity or country. Blocked assets (e.g., property or bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. We maintain a global sanctions program designed to ensure compliance with OFAC requirements. Failure to comply with such requirements could subject us to serious legal and reputational consequences, including criminal penalties.

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Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the Securities Exchange Act of 1934, as amended (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 year ended December 31, 2017 approximately 300 visas were obtained from Iranian embassies and consulates around the world in connection with certain travel arrangements on behalf of clients. 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.

Anti-Corruption

We are subject to complex international and U.S. anti-corruption laws and regulations, including the U.S. Foreign Corrupt Practices Act (the FCPA), the UK Bribery Act and other laws that prohibit the making or offering of improper payments. The FCPA makes it illegal to corruptly offer or provide anything of value to foreign government officials, political parties or political party officials for the purpose of obtaining or retaining business or an improper advantage. The FCPA also requires us to strictly comply with certain accounting and internal controls standards. In recent years, enforcement of the FCPA has become more intense. The UK Bribery Act also prohibits commercial bribery, and the receipt of a bribe, and makes it a corporate offense to fail to prevent bribery by an associated person, in addition to prohibiting improper payments to foreign government officials. Failure of the Company, our subsidiaries, employees, contractors or agents to comply with the FCPA, the UK Bribery Act and other laws can expose us and/or individual employees to investigation, prosecution and to potentially severe criminal and civil penalties.

Compensation Practices

Our compensation practices are subject to oversight by the Federal Reserve. The federal banking regulators' guidance on sound incentive compensation practices sets forth three key principles for incentive compensation arrangements that are designed to help ensure that incentive compensation plans do not encourage imprudent risk-taking and are consistent with the safety and soundness of banking organizations. The three principles provide that a banking organization's incentive compensation arrangements should (1) provide incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risks, (2) be compatible with effective internal controls and risk management, and (3) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Any deficiencies in our compensation practices that are identified by the Federal Reserve or other banking regulators in connection with its review of our compensation practices may be incorporated into our supervisory ratings, which can affect our ability to make acquisitions or perform other actions. Enforcement actions may be taken against us if our incentive compensation arrangements or related risk-management control or governance processes are determined to pose a risk to our safety and soundness and we have not taken prompt and effective measures to correct the deficiencies.

In May 2016, the federal banking regulators, the SEC, the Federal Housing Finance Agency and the National Credit Union Administration re-proposed a rule, originally proposed in 2011, on incentive-based compensation practices. The re-proposed rule would apply deferral, downward adjustment and forfeiture, and clawback requirements to incentive-based compensation arrangements granted to senior executive officers and significant risk-takers of covered institutions, with specific requirements varying based on the asset size of the covered institution and the category of employee. If these or other regulations are adopted in a form similar to what has been proposed, they will impose limitations on the manner in which we may structure compensation for our employees, which could adversely affect our ability to hire, retain and motivate key employees.

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EXECUTIVE OFFICERS OF THE COMPANY

Set forth below, in alphabetical order, is a list of all our executive officers as of February 16, 2018, including each executive officer's principal occupation and employment during the past five years and reflecting recent organizational changes. None of our executive officers has any family relationship with any other executive officer, and none of our executive officers became an officer pursuant to any arrangement or understanding with any other person. Each executive officer has been elected to serve until the next annual election of officers or until his or her successor is elected and qualified. Each officer's age is indicated by the number in parentheses next to his or her name.

DOUGLAS E. BUCKMINSTER – Group President, Global Consumer Services

Mr. Buckminster (57) has been Group President, Global Consumer Services since February 2018 and was President, Global Consumer Services since October 2015. Prior thereto, he had been President, Global Network and International Card Services since February 2012.

JEFFREY C. CAMPBELL – Executive Vice President and Chief Financial Officer

Mr. Campbell (57) has been Executive Vice President, Finance since July 2013 and Chief Financial Officer since August 2013. Mr. Campbell joined American Express from McKesson Corporation, a health care services company, where he served as Executive Vice President and Chief Financial Officer from April 2004 until June 2013.

L. KEVIN COX – Chief Human Resources Officer

Mr. Cox (54) has been Chief Human Resources Officer since April 2005.

PAUL D. FABARA – President, Global Services Group

Mr. Fabara (52) has been President, Global Services Group since February 2018. Prior thereto, he had been President, Global Risk & Compliance and Chief Risk Officer since February 2016 and President, Global Banking Group since February 2013. He also served as President, Global Network Business from September 2014 to October 2015. Prior thereto, he had been Executive Vice President, Global Credit Administration since January 2011.

MARC D. GORDON – Executive Vice President and Chief Information Officer

Mr. Gordon (57) has been Executive Vice President and Chief Information Officer since September 2012. Mr. Gordon joined American Express from Bank of America, where he served as Enterprise Chief Information Officer from December 2011 until April 2012.

MICHAEL J. O'NEILL – Executive Vice President, Corporate Affairs and Communications

Mr. O'Neill (64) has been Executive Vice President, Corporate Affairs and Communications since September 2014. Prior thereto, he had been Senior Vice President, Corporate Affairs and Communications since March 1991.

DENISE PICKETT – President, Global Risk, Banking & Compliance and Chief Risk Officer

Ms. Pickett (52) has been President, Global Risk, Banking & Compliance and Chief Risk Officer since February 2018. Prior thereto, she had been President, U.S. Consumer Services since October 2015. She also served as President, American Express OPEN from February 2014 to October 2015 and Executive Vice President and Chief Executive Officer, U.S. Loyalty from January 2013 to February 2014.

ELIZABETH RUTLEDGE – Chief Marketing Officer

Ms. Rutledge (56) has been Chief Marketing Officer since February 2018 and Executive Vice President, Global Advertising & Media since February 2016. She also served as Executive Vice President, Card Products & Benefits from May 2013 to February 2016. Prior thereto, she had been Executive Vice President, Global Network Marketing & Information from September 2011 to until May 2013.

LAUREEN E. SEEGER – Executive Vice President and General Counsel

Ms. Seeger (56) has been Executive Vice President and General Counsel since July 2014. Ms. Seeger joined American Express from McKesson Corporation, where she served as Executive Vice President, General Counsel and Chief Compliance Officer from March 2006 until June 2014.

STEPHEN J. SQUERI – Chairman and Chief Executive Officer

Mr. Squeri (58) has been Chairman and Chief Executive Officer since February 2018. Prior thereto, he had been Vice Chairman since July 2015. Prior thereto, he had been Group President, Global Corporate Services since November 2011.

ANRÉ WILLIAMS – Group President, Global Merchant and Network Services

Mr. Williams (52) has been Group President, Global Merchant and Network Services since February 2018. Prior thereto, he had been President of Global Merchant Services and Loyalty since October 2015 and President, Global Merchant Services since November 2011.

EMPLOYEES

We had approximately 55,000 employees on December 31, 2017.

ADDITIONAL INFORMATION

We maintain an Investor Relations website on the internet at http://ir.americanexpress.com. We make available free of charge, on or through this website, our annual, quarterly and current reports and any amendments to those reports as soon as reasonably practicable following the time they are electronically filed with or furnished to the Securities and Exchange Commission (SEC). To access these materials, click on the “SEC Filings” link under the caption “Financial Information” on our Investor Relations homepage.

You can also access our Investor Relations website through our main website at www.americanexpress.com by clicking on the “Investor Relations” link, which is located at the bottom of our homepage. Information contained on our Investor Relations website, our main website and other websites referred to in this report is not incorporated by reference into this report or any other report filed with or furnished to the SEC. We have included such website addresses only as inactive textual references and do not intend them to be active links.

You can find certain statistical disclosures required of bank holding companies starting on page A-1, which are incorporated herein by reference.

ITEM 1A. RISK FACTORS

This section highlights specific risks that could affect us and our businesses. You should carefully consider each of the following risks and all of the other information set forth in this Annual Report on Form 10-K. Based on the information currently known to us, we believe the following information identifies the most significant risk factors affecting us. However, the risks and uncertainties we face are not limited to those described below. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.

If any of the following risks and uncertainties develop into actual events or if the circumstances described in the risks and uncertainties occur or continue to occur, these events or circumstances could have a material adverse effect on our business, financial condition or results of operations. These events could also have a negative effect on the trading price of our securities.

Strategic, Business and Competitive Risks

Difficult conditions in the business and economic environment, as well as political conditions in the United States and elsewhere, may materially adversely affect our business and results of operations.

Our results of operations are materially affected by economic, market, political and social conditions in the United States and abroad. We offer a broad array of products and services to consumers, small businesses and commercial clients and thus are very dependent upon the level of consumer and business activity and the demand for payment and financing products. Slow economic growth or deterioration in economic conditions could change customer behaviors, including spending on our cards and the ability and willingness of Card Members to borrow and pay amounts owed to us. Political conditions in certain regions or countries could also negatively affect consumer and business spending, including in other parts of the world.

Factors such as consumer spending and confidence, unemployment rates, business investment, government spending, interest rates, taxes (including the broad and complex changes made by the Tax Cuts and Jobs Act to the U.S. tax code), fuel and other energy costs, the volatility and strength of the capital markets, inflation and deflation all affect the economic environment and, ultimately, our profitability. Such factors may also cause our earnings, billings, loan balances, credit metrics and margins to fluctuate and diverge from expectations of analysts and investors, who may have differing assumptions regarding their impact on our business, adversely affecting, and/or increasing the volatility of, the trading price of our common shares.

Travel and entertainment expenditures, which comprised approximately 25 percent of our U.S. billed business during 2017, for example, are sensitive to business and personal discretionary spending levels and tend to decline during general economic downturns. Likewise, spending by small businesses and corporate clients, which comprised approximately 40 percent of our worldwide billed business during 2017, depends in part on the economic environment and a favorable climate for continued business investment and new business formation. Increases in delinquencies and write-off rates as a result of increases in bankruptcies, unemployment rates, changes in customer behaviors or otherwise could also have a negative impact on our results of operations. The consequences of negative circumstances impacting us or the environment generally can be sudden and severe.

Our operating results may suffer because of substantial and increasingly intense competition worldwide in the payments industry.

The payments industry is highly competitive, and we compete 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, non-traditional payment and financing providers.

We believe Visa and MasterCard are larger than we are in most countries. As a result, card issuers and acquirers on the Visa and MasterCard networks may be able to benefit from the dominant position, scale, resources, marketing and pricing of those networks. Our business may also be increasingly negatively affected if we are unable to increase merchant acceptance and our cards are not accepted at merchants that accept cards on the Visa and MasterCard networks.

Some of our competitors have developed, or may develop, for example, as a result of the recent reduction in the U.S. corporate tax rate, substantially greater financial and other resources than we have and may offer richer value propositions or a wider range of programs and services than we offer or may use more effective advertising, marketing or cross-selling strategies to acquire and retain more customers, capture a greater share of spending and borrowings, establish and develop more attractive cobrand card and other partner programs and maintain greater merchant acceptance than we have. We may not be able to compete effectively against these threats or respond or adapt to changes in consumer spending habits as effectively as our competitors. We expect expenses such as Card Member rewards and Card Member services expenses to continue to increase as we improve our value propositions for Card Members, including in response to increased competition.

Spending on our cards could continue to be impacted by increasing consumer usage of charge, credit and debit cards issued on other networks, as well as adoption of alternative payment systems. To the extent other payment mechanisms, systems and products continue to successfully expand, our discount revenues and our ability to access transaction data through our integrated network could be negatively impacted. The competitive value of our closed-loop data may also be diminished as traditional and non-traditional competitors use other, new data sources and technologies to derive similar insights. If we are not able to differentiate ourselves from our competitors, develop compelling value propositions for our customers and/or effectively grow in areas such as mobile and online payments and emerging technologies, we may not be able to compete effectively.

To the extent we expand into new business areas and new geographic regions, we may face competitors with more experience and more established relationships with relevant customers, regulators and industry participants, which could adversely affect our ability to compete. We may face additional compliance and regulatory risk to the extent that we expand into new business areas, and we may need to dedicate more expense, time and resources to comply with regulatory requirements than our competitors, particularly those that are not regulated financial institutions. In addition, companies that control access to consumer and merchant payment method choices through digital wallets, commerce-related experiences, mobile applications or other technologies, or at the point of sale could choose not to accept, suppress use of, or degrade the experience of using our products or could restrict our access to our customers and transaction data. Such companies could also require payments from us to participate in such digital wallets, experiences or applications, impacting our profitability on transactions. Laws and business practices that favor local competitors, require card transactions to be routed over domestic networks or prohibit or limit foreign ownership of certain businesses could slow our growth in international regions. Further, expanding our service offerings, adding customer acquisition channels and forming new partnerships could have higher costs than our current arrangements,

and could adversely impact our average discount rate or dilute our brand.
Many of our competitors are subject to different, and in some cases, less stringent, legislative and regulatory regimes. More restrictive laws and regulations that do not apply to all of our competitors can put us at a competitive disadvantage, including prohibiting us from engaging in certain transactions, regulating our contract terms and practices governing merchant card acceptance or adversely affecting our cost structure. See "Ongoing legal proceedings regarding provisions in our merchant contracts could have a material adverse effect on our business, result in additional litigation and/or arbitrations, subject us to substantial monetary damages and damage our reputation and brand" for a discussion of the potential impact on our ability to compete effectively if ongoing legal proceedings limit our ability to prevent merchants from engaging in various actions to discriminate against our card products.

We face substantial and increasingly intense competition for partner relationships, which could result in a loss or renegotiation of these arrangements that could have a material adverse impact on our business and results of operations.

In the ordinary course of our business we enter into different types of contractual arrangements with business partners in a variety of industries. For example, we have partnered with Delta Air Lines, as well as many others globally, to offer cobranded cards for consumers and small businesses, and through our Membership Rewards program we have partnered with businesses in many industries, including the airline industry, to offer benefits to Card Member participants. Competition for relationships with key business partners is very intense and there can be no assurance we will be able to grow or maintain these partner relationships or that they will remain as profitable. Establishing and retaining attractive cobrand card partnerships is particularly competitive among card issuers and networks as these partnerships typically appeal to high-spending loyal customers. Our entire cobrand portfolio accounted for approximately 16 percent of our worldwide billed business for the year ended December 31, 2017. Card Member loans related to our cobrand portfolio accounted for approximately 36 percent of our worldwide Card Member loans as of December 31, 2017. Delta cobrand accounts, our largest cobrand portfolio, accounted for approximately 8 percent of our worldwide billed business for the year ended December 31, 2017 and approximately 21 percent of worldwide Card Member loans as of December 31, 2017. Our relationships with, and revenues related to, Delta extend beyond cobrand accounts and include merchant acceptance of American Express cards, participation in our Membership Rewards program and travel-related benefits and services.

Cobrand arrangements are entered into for a fixed period, generally ranging from five to eight years, and will terminate in accordance with their terms, including at the end of the fixed period unless extended or renewed at the option of the parties, or upon early termination as a result of an event of default or otherwise. We face the risk that we could lose partner relationships, even after we have invested significant resources in the relationships. The volume of billed business could decline and Card Member attrition could increase, in each case, significantly as a result of the termination of one or more cobrand partnership relationships. In addition, some of our cobrand arrangements provide that, upon expiration or termination, the cobrand partner may purchase or designate a third party to purchase the loans generated with respect to its program, which could result in a significant decline in our Card Member loans outstanding. For example, our U.S. cobrand relationship with Costco ended in 2016, and we sold the outstanding Card Member loans associated with the Costco portfolio.

We also face the risk that existing relationships will be renegotiated with less favorable terms for us as competition for such relationships continues to increase. 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. The amount we pay to our cobrand partners has increased, particularly in the United States, and may continue to increase as arrangements are renegotiated due to increasingly intense competition for cobrand partners among card issuers and networks. We may also choose to not continue certain cobrand relationships.

The loss of exclusivity arrangements with business partners or the loss of business partners altogether (whether by non-renewal at the end of the contract period, such as the end of our relationship with Costco in the United States in 2016, or as the result of a merger or otherwise, such as the withdrawal of American Airlines in 2014 from our Airport Club Access program for Centurion® and Platinum Card® Members) or the renegotiation of existing partnerships with terms that are significantly worse for us could have a material adverse impact on our business and results of operations. In addition, any publicity associated with the loss of any of our key business partners could harm our reputation, making it more difficult to attract and retain Card Members and merchants, and could weaken our negotiating position with our remaining and prospective business partners.

We face continued intense competitive pressure that may impact the prices we charge merchants that accept our cards for payment for goods and services.

Unlike our competitors in the payments industry that rely on revolving credit balances to drive profits, our business model is focused on Card Member spending. Discount revenue, which represents fees generally charged to merchants when Card Members use their cards to purchase goods and services on our network, is primarily driven by billed business volumes and is our largest single revenue source. In recent years, we experienced some reduction in our global weighted average merchant discount rate and have been under increasing pressure, including as a result of regulatory-mandated reductions to competitors' pricing, to reduce merchant discount rates and undertake other repricing initiatives. We also face pressure from competitors that have other sources of income or lower costs that can make their pricing more attractive to key business partners and merchants. Merchants are also able to negotiate incentives and pricing concessions from us as a condition to accepting our cards or being cobrand partners. As merchants consolidate and become even larger, we may have to increase the amount of incentives and/or concessions we provide to certain merchants, which could materially and adversely affect our results of operations. Competitive and regulatory pressures on pricing could make it difficult to offset the costs of these incentives. We also expect further erosion of our average merchant discount rate as we seek to increase merchant acceptance. We may not be successful in significantly expanding merchant acceptance or offsetting rate erosion with volumes at new merchants. In addition, the regulatory environment and differentiated payment models and technologies from non-traditional players in the alternative payments space could pose challenges to our traditional payment model and adversely impact our average merchant discount rate. Some merchants continue to invest in their own payment solutions, such as proprietary-branded mobile wallets, using both traditional and new technology platforms. If merchants are able to drive broad consumer adoption and usage, it could adversely impact our average merchant discount rate and billed business volumes.

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A continuing priority of ours is to drive greater and differentiated value to our merchants which, if not successful, could negatively impact our discount revenue and financial results. If the average merchant discount rate declines more than expected, we will need to find ways to offset the financial impact by increasing billed business volumes, increasing other sources of revenue, such as fee-based revenue or interest income, or both. We may not succeed in maintaining merchant discount rates or offsetting the impact of declining merchant discount rates, particularly in the current regulatory environment, which could materially and adversely affect our revenues and profitability, and therefore our ability to invest in innovation and in value-added services for merchants and Card Members.

Surcharging or steering by merchants could materially adversely affect our business and results of operations.

In certain countries, such as Australia and certain Member States in the EU, merchants are expressly permitted by law to surcharge certain card purchases. In addition, the laws of a number of states in the United States that prohibit surcharging have been overturned in litigation brought by merchant groups. In jurisdictions allowing surcharging, we have seen merchant surcharging on American Express cards in certain merchant categories, and in some cases, either the surcharge is greater than that applied to Visa and MasterCard cards or Visa and MasterCard cards are not surcharged at all, practices that are known as differential surcharging, even though there are many cards issued on competing networks that have an equal or greater cost of acceptance for the merchant.

We also encounter merchants that accept our cards, but tell their customers that they prefer to accept another type of payment or otherwise seek to suppress use of our cards. Our Card Members value the ability to use their cards where and when they want to, and we, therefore, take steps to meet our Card Members' expectations and to protect the American Express brand by prohibiting this form of discrimination, subject to local legal requirements.

If surcharging, steering or other forms of discrimination become widespread, American Express cards and credit and charge cards generally could become less desirable to consumers, which could result in a decrease in cards-in-force and transaction volumes. The impact could vary depending on such factors as the manner in which a surcharge is levied, how Card Members are steered to other card products or payment forms at the point of sale and whether and to what extent these actions are applied to other payment cards, including whether it varies depending on the type of card, network, acquirer or issuer. Discrimination against American Express cards could have a material adverse effect on our business, financial condition and results of operations, particularly to the extent it disproportionately impacts our Card Members.

If we are not able to invest successfully in, and compete at the leading edge of, technological developments across all our businesses, our revenue and profitability could be negatively affected.

Our industry is subject to rapid and significant technological changes. In order to compete in our industry, we need to continue to invest across all areas of our business, including in transaction processing, data management and analytics, customer interactions and communications, alternative payment mechanisms, authentication technologies and risk management and compliance systems. Incorporating new technologies into our products and services may require substantial expenditures and take considerable time, and ultimately may not be successful. We expect that new technologies in the payments industry will continue to emerge, and these new technologies may be superior to, or render obsolete, the technologies we currently use in our products and services.

The process of developing new products and services, enhancing existing products and services and adapting to technological changes and evolving industry standards is complex, costly and uncertain, and any failure by us to anticipate customers' changing needs and emerging technological trends accurately could significantly impede our ability to compete effectively. Consumer and merchant adoption is a key competitive factor and our competitors may develop products, platforms or technologies that become more widely adopted than ours. In addition, we may underestimate the time and expense we must invest in new products and services before they generate material revenues, if at all.

Our ability to develop, acquire or access competitive technologies or business processes on acceptable terms may also be limited by intellectual property rights that third parties, including competitors and potential competitors, may assert. In addition, our ability to adopt new technologies may be inhibited by a need for industry-wide standards, a changing legislative and regulatory environment, the need for internal product and engineering expertise, resistance to change from Card Members or merchants, or the complexity of our systems.

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We may not be successful in our efforts to promote card usage through marketing and promotion, merchant acceptance and Card Member rewards and services, or to effectively control the costs of such investments, both of which may impact our profitability.

Revenue growth is dependent on increasing consumer and business spending on our cards and growing loan balances. We have been investing in a number of growth initiatives over the past several years, including to attract new Card Members, reduce Card Member attrition and capture a greater share of customers' total spending and borrowings. There can be no assurance that our investments to acquire Card Members, provide differentiated features and services and increase usage of our cards will be effective. For example, we may not be successful in developing and issuing new and enhanced cards or customers may not accept or be willing to pay for our new products and services, which would negatively impact our results of operations. In addition, if we develop new products or offers that attract customers looking for short-term incentives rather than incentivize long-term loyalty, Card Member attrition and costs could increase. Increasing spending on our cards also depends on our continued expansion of merchant acceptance of our cards. If the rate of merchant acceptance growth slows or reverses itself, our business could suffer.

Another way we invest in customer value is through our Membership Rewards program, as well as other Card Member benefits. Any significant change in, or failure by management to reasonably estimate, actual redemptions of Membership Rewards points and associated redemption costs could adversely affect our profitability. In addition, many credit card issuers have instituted rewards and cobrand programs and may introduce programs and services that are similar to or more attractive than ours. Our inability to continue to differentiate our products and services generally could materially adversely affect us.

We may not be able to cost-effectively manage and expand Card Member benefits, including containing the growth of marketing, promotion, rewards and Card Member services expenses in the future. If such expenses continue to increase beyond our expectations, we will need to find ways to offset the financial impact by increasing payments volume, increasing other areas of revenues such as fee-based revenues, or both. We may not succeed in doing so, particularly in the current competitive and regulatory environment.

Our brand and reputation are key assets of our Company, and our business may be affected by how we are perceived in the marketplace.

Our brand and its attributes are key assets, and we believe our continued success depends on our ability to preserve, grow and leverage the value of our brand. Our ability to attract and retain consumer and small business Card Members and corporate clients is highly dependent upon the external perceptions of our level of service, trustworthiness, business practices, management, workplace culture, merchant acceptance, financial condition, our response to unexpected events and other subjective qualities. Negative perceptions or publicity regarding these matters—even if related to seemingly isolated incidents and whether or not factually correct—could erode trust and confidence and damage our reputation among existing and potential Card Members and corporate clients, which could make it difficult for us to attract new Card Members and customers and maintain existing ones. Negative public opinion could result from actual or alleged conduct in any number of activities or circumstances, including card practices, regulatory compliance and the use and protection of customer information, and from actions taken by regulators or others in response to such conduct. Social media channels can also cause rapid, widespread reputational harm to our brand.

Our brand and reputation may also be harmed by actions taken by third parties that are outside our control. For example, any shortcoming of or controversy related to a third-party vendor, merchant acquirer or GNS partner may be attributed by Card Members and merchants to us, thus damaging our reputation and brand value. The lack of acceptance or suppression of card usage by merchants can also negatively impact perceptions of our brand and our products, lower overall transaction volume and increase the attractiveness of other payment products or systems. Adverse developments with respect to our industry may also, by association, negatively impact our reputation, or result in greater regulatory or legislative scrutiny or litigation against us. Furthermore, as a corporation with headquarters and operations located in the United States, a negative perception of the United States arising from its political or other positions could harm the perception of our company and our brand. Although we monitor developments for areas of potential risk to our reputation and brand, negative perceptions or publicity could materially and adversely affect our revenues and profitability.

A significant operating disruption, a major information or cyber security incident or an increase in fraudulent activity could lead to reputational damage to our brand and significant legal, regulatory and financial exposure, and could reduce the use and acceptance of our charge and credit cards.

We and other third parties process, transmit, store and provide access to account information in connection with our charge and credit cards, and prepaid and other products, and in the normal course of our business, we collect, analyze and retain significant volumes of certain types of personally identifiable and other information pertaining to our customers and employees.

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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 cyberattacks, 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 example, we and other U.S. financial services providers have been the targets of distributed denial-of-service attacks from sophisticated third parties.

Our networks and systems are subject to constant attempts to identify and exploit potential vulnerabilities in our operating environment with intent to disrupt our business operations and capture, destroy or manipulate various types of information relating to corporate trade secrets, customer information, including Card Member, travel and loyalty program account information, employee information and other sensitive business information, including acquisition activity, financial results and intellectual property. There are a number of motivations for cyber threat actors, including criminal activities such as fraud, identity theft and ransom, corporate or nation-state espionage, political agendas, public embarrassment with the intent to cause financial or reputational harm, intent to disrupt information technology systems, and to expose and exploit potential security and privacy vulnerabilities in corporate systems and websites.

As outsourcing, specialization of functions, third-party digital services and technology innovation within the payments industry increase (including with respect to mobile technologies, tokenization, big data and cloud storage solutions), more third parties are involved in processing card transactions and there is a risk the confidentiality, integrity, privacy and/or security of data held by, or accessible to, third parties, including merchants that accept our cards, payment processors and our business partners, may be compromised, which could lead to unauthorized transactions on our cards and costs associated with responding to such an incident. In addition, high profile data breaches such as the one announced in 2017 by Equifax, one of the three major credit reporting agencies in the United States, could change consumer behaviors, impact our ability to access data to make product offers and credit decisions and result in legislation and additional regulatory requirements.

We develop and maintain systems and processes aimed at detecting and preventing information and cyber security incidents and fraudulent activity, which require significant investment, maintenance and ongoing monitoring and updating as technologies and regulatory requirements change and as efforts to overcome security measures become more sophisticated. Despite our efforts, the possibility of information and cyber security incidents, malicious social engineering, fraudulent or other malicious activities and human error or malfeasance cannot be eliminated entirely. Risks associated with each of these remain, including the unauthorized disclosure, release, gathering, monitoring, misuse, modification, loss or destruction of confidential, proprietary or other information (including account data information) or negative impact to online accounts and systems. These risks will likely evolve as new technology is deployed. For example, with the increased use of EMV technology, we may see a decrease in traditional fraud risk, but sophisticated fraudsters may develop new ways to commit fraud and we may see an increase in online fraud and impersonation and identity takeover attempts.

Our information technology systems, including our transaction authorization, clearing and settlement systems, and data centers may experience service disruptions or degradation because of technology malfunction, sudden increases in customer transaction volume, natural disasters, accidents, power outages, internet outages, telecommunications failures, fraud, denial-of-service and other cyberattacks, terrorism, computer viruses, physical or electronic break-ins, or similar events. Service disruptions could prevent access to our online services and account information, compromise Company or customer data, and impede transaction processing and financial reporting. Inadequate infrastructure in lesser-developed countries could also result in service disruptions, which could impact our ability to do business in those countries.

If our information technology systems experience a significant disruption or breach, or if actual or perceived fraud levels or other illegal activities involving our cards, customer online accounts or systems were to rise due to an information or cyber security incident at a business partner, merchant or other market participant, employee error, malfeasance or otherwise, it could lead to the loss of data or data integrity, regulatory investigations and intervention (such as mandatory card reissuance), increased litigation (including class action litigation), remediation and response costs, greater concerns of customers and/or business partners relating to the privacy and security of their data, and reputational and financial damage to our brand, which could reduce the use and acceptance of our cards, and have a material adverse impact on our business.

If such disruptions or breaches are not detected quickly, their effect could be compounded. Information or cyber security incidents and other actual or perceived failures to maintain confidentiality, integrity, privacy and/or security, including leaked business data, may also disrupt our operations, undermine our competitive advantage through the disclosure of sensitive company information, divert management attention and resources, and negatively impact the assessment of us and our subsidiaries by banking regulators and rating agencies.

Successful cyberattacks or data breaches at other large financial institutions, large retailers or other market participants, whether or not we are impacted, could lead to a general loss of customer confidence that could negatively affect us, including harming the market perception of the effectiveness of our security measures or harming the reputation of the financial system in general, which could result in reduced use of our products and services. Although we have insurance for losses related to cyber risks and attacks and information and cyber security and privacy liability, it may not be sufficient to offset the impact of a material loss event.

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We have agreements with business partners in a variety of industries, including the airline industry, that represent a significant portion of our business. We are exposed to risks associated with these industries, including bankruptcies, liquidations, restructurings, consolidations and alliances of our partners, and the possible obligation to make payments to our partners.

We may be obligated to make or accelerate payments to certain business partners such as cobrand partners upon the occurrence of certain triggering events such as a shortfall in certain performance and revenue levels. If we are not able to effectively manage these triggering events, we could unexpectedly have to make payments to these partners, which could have a negative effect on our financial condition and results of operations.

We are also exposed to risk from bankruptcies, liquidations, insolvencies, financial distress, restructurings, consolidations and other similar events that may occur in any industry representing a significant portion of our billed business, which could negatively impact particular card products and services (and billed business generally) and our financial condition and results of operations. For example, we could be materially impacted if we were obligated to or elected to reimburse Card Members for products and services purchased from merchants that have ceased operations or stopped accepting our cards.

We are exposed to credit risk in the airline industry, which accounted for approximately 8 percent of our worldwide billed business for the year ended December 31, 2017, to the extent we protect Card Members against non-delivery of goods and services, such as where we have remitted payment to an airline for a Card Member purchase of tickets that have not yet been used or "flown." If we are unable to collect the amount from the airline, we may bear the loss for the amount credited to the Card Member.

For additional information relating to the general risks related to the airline industry, see "Risk Management—Institutional Credit Risk—Exposure to the Airline Industry" under "MD&A."

We may not be successful in realizing the benefits associated with our acquisitions, strategic alliances, joint ventures and investment activity, and our business and reputation could be negatively impacted.

We have acquired a number of businesses and have made a number of strategic investments, and continue to evaluate potential transactions. These transactions could be material to our financial condition and results of operations. There is no assurance that we will be able to successfully identify and secure future acquisition candidates on terms and conditions that are acceptable to us or complete proposed acquisitions and investments, which could impair our growth. The process of integrating an acquired company, business or technology could create unforeseen operating difficulties and expenditures, result in unanticipated liabilities and harm our business generally. It may take us longer than expected to fully realize the anticipated benefits of these transactions, and those benefits may ultimately be smaller than anticipated or may not be realized at all, which could adversely affect our business and operating results, including as a result of write-downs of goodwill and other intangible assets.

We may also face risks with other types of strategic transactions, such as the sale to InComm of the operations relating to our prepaid reloadable and gift card business in the United States, which is still subject to final agreement on the program management and issuer processing arrangements. If that transaction is consummated, we could experience disruption in our ability to service our prepaid customers if InComm's services are interrupted, suspended or terminated for any reason, which could result in additional costs, regulatory risks and harm to our business and reputation.

Joint ventures, including our GBT JV, and minority investments inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational and/or compliance risks associated with the joint venture or minority investment. In addition, we may be dependent on joint venture partners, controlling shareholders or management who may have business interests, strategies or goals that are inconsistent with ours. Business decisions or other actions or omissions of the joint venture partner, controlling shareholders or management may adversely affect the value of our investment, result in litigation or regulatory action against us and otherwise damage our reputation and brand.

We rely on third-party providers for acquiring customers, technology, platforms and other services integral to the operations of our businesses. These third parties may act in ways that could harm our business.

We rely on third-party service providers, merchants, customer acquisition channels, processors, aggregators, GNS partners and other third parties for services that are integral to our operations and are subject to the risk that activities of such third parties may adversely affect our business. For example, we rely on third parties for the timely transmission of accurate information across our global network, card acquisition and provision of services to our customers. If a service provider or other third party ceases to provide the data quality or communications capacity we expect or services upon which we rely, as a result of natural disaster, operational disruptions or errors, terrorism, information or cyber security incidents, or any other reason, the failure could interrupt or compromise the quality of our services to customers or impact our ability to grow our business. There is also a risk the confidentiality, integrity, privacy and/or security of data held by, or accessible to, third parties or communicated over third-party networks or platforms could become compromised, which could significantly harm our business even if the attack or breach does not impact our systems. We are also exposed to the risk that a disruption or other event at a service provider to one of our service providers or partners could impede their ability to provide to us services or data on which we rely to operate our business. Service providers or other third parties could also cease providing data to us if we are unable to negotiate for data use rights or use our data for purposes that do not benefit us, which could diminish the competitive value of our closed loop.

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The management of multiple third-party vendors increases our operational complexity and decreases our control. A failure to exercise adequate oversight over third-party service providers, including compliance with service level agreements or regulatory or legal requirements, could result in regulatory actions, fines, sanctions or economic and reputational harm to us. In addition, we may not be able to effectively monitor or mitigate operational risks relating to our vendors' service providers.

Our business is subject to the effects of geopolitical events, weather, natural disasters and other conditions.

Geopolitical events, terrorist attacks, natural disasters, severe weather conditions, floods, health pandemics, information or cyber security incidents (including intrusion into or degradation of systems or technology by cyberattackers) and other catastrophic events can have a negative effect on our business. Because of our proximity to the World Trade Center, our headquarters were damaged as a result of the terrorist attacks of September 11, 2001. In 2017, hurricanes impacted spending and credit performance in the areas affected. Similar events or other disasters or catastrophic events in the future, and events impacting other sectors of the economy, including the telecommunications and energy sectors, could have a negative effect on our businesses and infrastructure, including our technology and systems. Card Members in California, New York, Florida, Texas and Georgia account for a significant portion of U.S. Consumer billed business and Card Members loans, and our results of operations could be impacted by events or conditions that disproportionately or specifically affect one or more of those states.

Because we derive a portion of our revenues from travel-related spending, our business is sensitive to safety concerns related to travel and tourism, limitations on travel and mobility, and health-related risks. In addition, disruptions in air travel and other forms of travel can result in the payment of claims under travel interruption insurance policies we offer and, if such disruptions to travel are prolonged, they can materially adversely affect overall travel-related spending.

If the conditions described above (or similar ones) result in widespread or lengthy disruptions to travel, they could have a material adverse effect on our results of operations. Card Member spending may also be negatively impacted in areas affected by natural disasters or other catastrophic events. The impact of such events on the overall economy may also adversely affect our financial condition or results of operations.

The exit of the United Kingdom from the European Union could adversely impact our business, results of operations and financial condition.

Our business in the United Kingdom and elsewhere may be negatively impacted by the uncertainty regarding the exit of the United Kingdom from the European Union (commonly referred to as Brexit), including from a deterioration of consumer and business activity in the United Kingdom and other countries and general uncertainty in the overall business environment in which we operate. We may experience increased volatility in the value of the pound sterling and the euro, further strengthening the U.S. dollar, which could continue to adversely impact our results of operations from our international activities. The exit itself could also have a negative impact on the United Kingdom and other European economies, which could adversely affect spending on our cards and the ability and willingness of Card Members to pay amounts owed to us. As of December 31, 2017, the EMEA region constituted approximately 11 percent of our worldwide billed business. It is unclear at this stage the financial, trade and legal implications of Brexit, although we expect to make changes to the structure of our business operations in Europe as a result.

Our success is dependent, in part, upon our executive officers and other key personnel, and the loss of key personnel could materially adversely affect our business.

Our success depends, in part, on our executive officers and other key personnel. Our senior management team has significant industry experience and would be difficult to replace. We rely upon our key personnel not only for business success, but also to lead with integrity. To the extent our leaders behave in a manner that does not comport with our company's values, the consequences to our brand and reputation could be severe and could negatively affect our financial condition and results of operations.

The market for qualified individuals is highly competitive, and we may not be able to attract and retain qualified personnel or candidates to replace or succeed members of our senior management team or other key personnel. Changes in immigration and work permit laws and regulations or the administration or enforcement of such laws or regulations can also impair our ability to attract and retain qualified personnel, or to employ such personnel in the location(s) of our choice. As further described in "Supervision and Regulation—Compensation Practices," our compensation practices are subject to review and oversight by the Federal Reserve and the compensation practices of our U.S. bank subsidiaries are subject to review and oversight by the FDIC and the OCC. This regulatory review and oversight could further affect our ability to attract and retain our executive officers and other key personnel. The loss of key personnel could materially adversely affect our business.

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Legal, Regulatory and Compliance Risks

Ongoing legal proceedings regarding provisions in our merchant contracts could have a material adverse effect on our business, result in additional litigation and/or arbitrations, subject us to substantial monetary damages and damage our reputation and brand.

The U.S. Department of Justice (DOJ) and certain states' attorneys general brought an action against us alleging that the provisions in our card acceptance agreements with merchants that prohibit merchants from discriminating against our card products violate the U.S. antitrust laws. Following a non-jury trial in the case, the trial court found that the challenged provisions were anticompetitive and issued a final judgment entering a permanent injunction. Following our appeal of this judgment, the Court of Appeals for the Second Circuit reversed the trial court decision and directed the trial court to enter a judgment for American Express. 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. On October 16, 2017, the Supreme Court granted certiorari and oral argument is scheduled for February 26, 2018. We are also a defendant in a number of actions and arbitration proceedings, including proposed class actions, filed by merchants that challenge the non-discrimination and honor-all-cards provisions in our card acceptance agreements and seek damages. A description of these legal proceedings is contained in "Legal Proceedings."

An adverse outcome in these proceedings against us could have a material adverse effect on our business and results of operations, require us to change our merchant agreements in a way that could expose our cards to increased merchant steering and other forms of discrimination that could impair the Card Member experience, result in additional litigation and/or arbitrations, impose substantial monetary damages and damage our reputation and brand. Even if we were not required to change our merchant agreements, changes in Visa's and MasterCard's policies or practices as a result of legal proceedings, lawsuit settlements or regulatory actions pending against them could result in changes to our business practices and materially and adversely impact our profitability.

Our business is subject to comprehensive government regulation and supervision, which could adversely affect our results of operations and financial condition.

We are subject to comprehensive government regulation and supervision in jurisdictions around the world, which significantly affects our business, and has the potential to restrict the scope of our existing businesses, increase our costs of doing business, limit our ability to pursue certain business opportunities, require changes to business practices, affect our relationships with partners, merchants and Card Members, or make our products and services more expensive for customers. Regulatory oversight and supervision of our businesses are generally designed to protect consumers and enhance financial stability and are not designed to protect our security holders.

New laws or regulations, enhanced supervision efforts or changes in the enforcement of existing laws or regulations applicable to our businesses could impact the profitability of our business activities, limit our ability to pursue business opportunities or adopt new technologies, require us to change certain of our business practices or alter our relationships with partners, merchants and Card Members, or affect retention of our key personnel. Such changes also may require us to invest significant management attention and resources to make any necessary changes and could adversely affect our results of operations and financial condition. Legislators and regulators around the world are aware of each other's approaches to the regulation of the payments industry. Consequently, a development in one country, state or region may influence regulatory approaches in another. To the extent that different regulatory systems impose overlapping or inconsistent requirements on the conduct of our business, we face complexity and additional costs in our compliance efforts.

If we fail to satisfy regulatory requirements or maintain our financial holding company status, our financial condition and results of operations could be adversely affected, and we may be restricted in our ability to take certain capital actions (such as declaring dividends or repurchasing outstanding shares) or engage in certain activities or acquisitions. Additionally, our banking regulators have wide discretion in the examination and the enforcement of applicable banking statutes and regulations and may restrict our ability to engage in certain activities or acquisitions or require us to maintain more capital.

In recent years, legislators and regulators have focused on the operation of card networks, including interchange fees paid to card issuers in payment networks such as Visa and MasterCard and the fees merchants are charged to accept cards. 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, regulations extend to certain aspects of our business, such as GNS and cobrand arrangements or terms of card acceptance for merchants, including terms relating to non-discrimination and honor-all-cards. For example, regulations in the EU and Australia have undermined our GNS business in those jurisdictions and have resulted in the moderation of GNS billed business growth. In addition, there is uncertainty as to when or how interchange fee cap provisions and other provisions might apply when we work with cobrand partners and agents in the EU following a ruling from the EU Court of Justice, and there can be no assurance we will be able to maintain such relationships in their current form.

We are subject to certain provisions of the Bank Secrecy Act, as amended by the Patriot Act, with regard to maintaining effective AML programs. Similar AML requirements apply under the laws of most jurisdictions where we operate. Increased regulatory focus in this area could result in additional obligations or restrictions with respect to the types of products and services we may offer to consumers, the countries in which our cards may be used, and the types of customers and merchants who can obtain or accept our cards. Activity such as money laundering or terrorist financing involving our cards could result in enforcement action, and our reputation may suffer due to our customers' association with certain countries, persons or entities or the existence of any such transactions.

U.S. federal law 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. Our ability to recover debt we had previously written-off may be limited, which could have a negative impact on our results of operations.

Various regulatory agencies and legislatures are also considering regulations and legislation covering identity theft, account management guidelines, credit bureau reporting, disclosure rules, security and marketing that would impact us directly, in part due to increased scrutiny of our underwriting and account management standards. These new requirements may restrict our ability to issue charge and credit cards or partner with other financial institutions, which could adversely affect our revenue growth.

See "Supervision and Regulation" for more information about certain laws and regulations to which we are subject and their impact on us.

Litigation and regulatory actions could subject us to significant fines, penalties, judgments and/or requirements resulting in significantly increased expenses, damage to our reputation and/or a material adverse effect on our business.

Businesses in the financial services and payments industries have historically been subject to significant legal actions, including class action lawsuits. Many of these actions have included claims for substantial compensatory or punitive damages. While we have historically relied on our arbitration clause in agreements with customers to limit our exposure to class action litigation, there can be no assurance that we will continue to be successful in enforcing our arbitration clause in the future. The continued focus of merchants on issues relating to the acceptance of various forms of payment may lead to additional litigation and other legal actions. Given the inherent uncertainties involved in litigation, and the very large or indeterminate damages sought in some matters asserted against us, there is significant uncertainty as to the ultimate liability we may incur from litigation matters.

We have been subject to regulatory actions by the CFPB and other regulators and may continue to be subject to such actions, including governmental inquiries, investigations and enforcement proceedings, in the event of noncompliance or alleged noncompliance with laws or regulations. Regulatory action could subject us to significant fines, penalties or other requirements resulting in Card Member reimbursements, increased expenses, limitations or conditions on our business activities, and damage to our reputation and our brand, which could adversely affect our results of operations and financial condition. We expect that regulators will continue taking formal enforcement actions against financial institutions in addition to addressing supervisory concerns through non-public supervisory actions or findings, which could involve restrictions on our activities, among other limitations that could adversely affect our business.

We are subject to capital adequacy and liquidity rules, and if we fail to meet these rules, our business would be adversely affected.

Failure to meet current or future capital or liquidity requirements, including those imposed by the Capital Rules, the LCR, the NSFR or by regulators in implementing other portions of the Basel III framework and the enhanced supervision requirements of Dodd-Frank, could compromise our competitive position and could result in restrictions imposed by the Federal Reserve, including limiting our ability to pay dividends, repurchase our capital stock, invest in our business, expand our business or engage in acquisitions.

Some elements of the capital and liquidity regimes are not yet final and certain developments could significantly impact the requirements applicable to financial institutions. For example, the Basel Committee finalized revisions to the standardized approach for credit risk and operational risk capital requirements. If these revisions are adopted in the United States, we could be required to hold significantly more capital. As a result, the ultimate impact on our long-term capital and liquidity planning and our results of operations is not certain, although an increase in our capital

and liquid asset levels could lower our return on equity. As part of our required stress testing, both internally and by the Federal Reserve, we must continue to comply with applicable capital standards as calculated under the standardized approach in the adverse and severely adverse economic scenarios published by the Federal Reserve each year. To satisfy these requirements, it may be necessary for us to hold additional capital in excess of that required by the Capital Rules.
Compliance with capital adequacy and liquidity rules, including the Capital Rules and the LCR, requires a material investment of resources. An inability to meet regulatory expectations regarding our compliance with applicable capital adequacy and liquidity rules may also negatively impact the assessment of the Company and our U.S. bank subsidiaries by federal banking regulators.

We continue to progress through the parallel run phase of Basel III advanced approaches implementation. Depending on how the advanced approaches are ultimately implemented for our asset types, our capital ratios calculated under the advanced approaches may be lower than under the standardized approach. In such a case, we may need to hold significantly more regulatory capital in order to maintain a given capital ratio.

For more information on capital adequacy requirements, see “Capital, Leverage and Liquidity Regulation” under “Supervision and Regulation.”

We are subject to restrictions that limit our ability to pay dividends and repurchase our capital stock. Our subsidiaries are also subject to restrictions that limit their ability to pay dividends to us, which may adversely affect our liquidity.

We are limited in our ability to pay dividends and repurchase capital stock by our regulators, who have broad authority to prohibit any action that would be considered an unsafe or unsound banking practice. For example, we are subject to a requirement to submit capital plans that include, among other things, projected dividend payments and repurchases of capital stock to the Federal Reserve for review. As part of the capital planning and stress testing process, our proposed capital actions are assessed against our ability to satisfy applicable capital requirements in the event of a stressed market environment. If the Federal Reserve objects to our capital plan or if we fail to satisfy applicable capital requirements, our ability to undertake capital actions may be restricted.

In addition, the Capital Rules include a capital conservation buffer and a countercyclical capital buffer, which is currently set at zero but which could be increased by the Federal Reserve in the future. These buffers can be satisfied only with CET1 capital. If our risk-based capital ratios were to fall below the applicable buffer levels, we would be subject to certain restrictions on dividends, stock repurchases and other capital distributions, as well as discretionary bonus payments to executive officers.

A failure to increase dividends along with our competitors, or any reduction of, or elimination of, our common stock dividend or share repurchase program would likely adversely affect the market price of our common stock and market perceptions of American Express.

Our ability to declare or pay dividends on, or to purchase, redeem or otherwise acquire, shares of our common stock will be prohibited, subject to certain exceptions, in the event that we do not declare and pay in full dividends for the last preceding dividend period of our Series B and Series C preferred stock.

American Express Company relies on dividends from its subsidiaries for liquidity, and federal and state laws limit the amount of dividends that our subsidiaries may pay to the parent company. In particular, our U.S. bank subsidiaries are subject to various statutory and regulatory limitations on their declaration and payment of dividends. These limitations may hinder our ability to access funds we may need to make payments on our obligations, make dividend payments on outstanding American Express Company capital stock or otherwise achieve strategic objectives.

For more information on bank holding company and depository institution dividend restrictions, see “Dividends and Other Capital Distributions” under “Supervision and Regulation,” as well as “Consolidated Capital Resources and Liquidity—Share Repurchases and Dividends” under “MD&A” and Note 23 to our “Consolidated Financial Statements.”

Regulation in the areas of privacy, data protection, account access and information and cyber security could increase our costs and affect or limit our business opportunities and how we collect and/or use personal information.

As privacy, data protection and information and cyber security laws, including data localization, authentication and account access laws, are interpreted and applied, compliance costs may increase, particularly in the context of ensuring that adequate data protection, data transfer and account access mechanisms are in place. In recent years, there has been increasing regulatory enforcement and litigation activity in the areas of privacy, data protection and information security in the United States and in various countries in which we operate.

In addition, state and federal legislators and/or regulators in the United States and other countries in which we operate are increasingly adopting or revising privacy, data protection, account access and information and cyber security laws that potentially could have significant impact on our current and planned privacy, data protection, account access and information and cyber security-related practices, our collection, use, sharing, retention and safeguarding of consumer and/or employee information, and some of our current or planned business activities. New legislation or regulation could increase our costs of compliance and business operations and could reduce revenues from certain business initiatives. Moreover, the application of existing or new laws to existing technology and practices can be uncertain and

may lead to additional compliance risk and cost.
Compliance with current or future privacy, data protection, account access and information and cyber security laws relating to consumer and/or employee data could result in higher compliance and technology costs and could restrict our ability to fully maximize our closed-loop capability or provide certain products and services, which could materially and adversely affect our profitability. Our failure to comply with privacy, data protection, account access and information and cyber security laws could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions, ongoing regulatory monitoring, customer attrition, decreases in the use or acceptance of our cards and damage to our reputation and our brand.

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We may not be able to effectively manage the operational and compliance risks to which we are exposed.
We consider operational risk to be the risk of not achieving business objectives due to inadequate or failed processes or information systems, poor data quality, human error or the external environment (e.g., natural disasters). Operational risk includes, among others, the risk that employee error or intentional misconduct could result in a material financial misstatement, a failure to monitor a third party's compliance with a service level agreement or regulatory or legal requirements, or a failure to adequately monitor and control access to, or use of, data in our systems we grant to third-party service providers. As processes or organizations are changed, or new products and services are introduced, we may not fully appreciate or identify new operational risks that may arise from such changes. Compliance risk arises from the failure to adhere to applicable laws, rules, regulations and internal policies and procedures. Operational and compliance risks can expose us to reputational and legal risks as well as fines, civil money penalties or payment of damages and can lead to diminished business opportunities and diminished ability to expand key operations.
If we are not able to protect our intellectual property, or successfully defend against any infringement or misappropriation assertions brought against us, our revenue and profitability could be negatively affected.
We rely on a variety of measures to protect our intellectual property and control access to, and distribution of, our proprietary information. These measures may not prevent infringement of our intellectual property rights or misappropriation of our proprietary information and a resulting loss of competitive advantage. In addition, competitors or other third parties may allege that our systems, processes or technologies infringe on their intellectual property rights. Given the complex, rapidly changing and competitive technological and business environments in which we operate, and the potential risks and uncertainties of intellectual property-related litigation, a future assertion of an infringement or misappropriation claim against us could cause us to lose significant revenues, incur significant defense, license, royalty or technology development expenses, and/or pay significant monetary damages.
Tax legislative initiatives or assessments by governmental authorities could adversely affect our results of operations and financial condition.
We are subject to income and other taxes in the United States and in various foreign jurisdictions. The laws and regulations related to tax matters are extremely complex and subject to varying interpretations. Although management believes our positions are reasonable, we are subject to audit by the Internal Revenue Service in the United States and by tax authorities in all the jurisdictions in which we conduct business operations. We are being challenged in a number of countries regarding our application of value-added taxes (VAT) to certain transactions. While we believe we comply with all applicable VAT and other tax laws, rules and regulations in the relevant jurisdictions, the tax authorities may determine that we owe additional taxes or apply existing laws and regulations more broadly, which could result in a significant increase in liabilities for taxes and interest in excess of accrued liabilities.
New tax legislative initiatives may be proposed from time to time, which may impact our effective tax rate and could adversely affect our tax positions or tax liabilities. For example, the impacts of the Tax Cuts and Jobs Act in the United States resulted in a $2.6 billion charge in the fourth quarter of 2017, representing our current estimate of taxes primarily on the deemed repatriation of certain overseas earnings and the remeasurement of U.S. deferred tax assets and liabilities. In addition, unilateral or multi-jurisdictional actions by various tax authorities, including an increase in tax audit activity, could have an adverse impact on our tax liabilities.
Changes in accounting principles or standards could adversely affect our reported financial results in a particular period, even if there are no underlying changes in the economics of the business.
We are subject to changes in and interpretations of financial accounting matters that govern the measurement of our performance, which could change the way we account for certain of our transactions even if we do not change the way in which we transact. A change in accounting guidance can have a significant effect on our reported results, may retroactively affect previously reported results and could cause fluctuations in our reported results. For more information on recently issued accounting standards, see Note 1 to our "Consolidated Financial Statements."

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Credit, Liquidity and Market Risks

Our risk management policies and procedures may not be effective.

Our risk management framework seeks to identify and mitigate risk and appropriately balance risk and return. We have established policies and procedures intended to identify, monitor and manage the types of risk to which we are subject, including credit risk, market risk, asset liability risk, liquidity risk, operational risk, compliance risk, model risk, strategic and business risk and reputational risk. See “Risk Management” under “MD&A” for a discussion of the policies and procedures we use to identify, monitor and manage the risks we assume in conducting our businesses. Although we have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future, these policies and procedures, as well as our risk management techniques, such as our hedging strategies, may not be fully effective. There may also be risks that exist, or develop in the future, that we have not appropriately anticipated, identified or mitigated. As regulations and markets in which we operate continue to evolve, our risk management framework may not always keep sufficient pace with those changes. If our risk management framework does not effectively identify or mitigate our risks, we could suffer unexpected losses and could be materially adversely affected.

Management of our risks in some cases depends upon the use of analytical and/or forecasting models. Although we have a governance framework for model development and independent model validation, the modeling methodology could be erroneous or the models could be misused. If our decisions are based on incorrect or misused model outputs and reports, we may face adverse consequences, such as financial loss, poor business and strategic decision-making, or damage to our reputation. In addition, some decisions our regulators make, including those related to our capital distribution plans, may be adversely impacted if they perceive the quality of our models to be insufficient.

We may not be able to effectively manage individual or institutional credit risk, or credit trends that can affect spending on card products and the ability of customers and partners to pay us, which could have a material adverse effect on our results of operations and financial condition.

We are exposed to both individual credit risk, principally from consumer and small business Card Member receivables and loans, and institutional credit risk from merchants, GNS partners, GCS clients, loyalty coalition partners and treasury and investment counterparties. Third parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Country, regional and political risks can contribute to credit risk. Our ability to assess creditworthiness may be impaired if the criteria or models we use to manage our credit risk become less predictive of future losses, which could cause our losses to rise and have a negative impact on our results of operations. Rising delinquencies and rising rates of bankruptcy are often precursors of future write-offs and may require us to increase our reserve for loan losses. We are continuing to experience relatively low delinquency and write-off rates, but expect that these rates will increase over time. Higher write-off rates and the resulting increase in our reserve for loan losses adversely affect our profitability and the performance of our securitizations, and may increase our cost of funds.

Although we make estimates to provide for credit losses in our outstanding portfolio of loans and receivables, these estimates may not be accurate. In addition, the information we use in managing our credit risk may be inaccurate or incomplete. Although we regularly review our credit exposure to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to foresee or detect, such as fraud. In addition, our ability to manage credit risk may be adversely affected by legal or regulatory changes (such as bankruptcy laws and minimum payment regulations). Increased credit risk, whether resulting from underestimating the credit losses inherent in our portfolio of loans and receivables, deteriorating economic conditions (particularly in the United States where approximately 74 percent of our revenues are generated), increases in the level of loan balances, changes in our mix of business or otherwise, could require us to increase our provisions for losses and could have a material adverse effect on our results of operations and financial condition.

Interest rate increases could materially adversely affect our earnings.

If the rate of interest we pay on our borrowings increases more than the rate of interest we earn on our loans, our net interest yield, and consequently our net income, could fall. Our interest expense was approximately $2.1 billion for the year ended December 31, 2017. A hypothetical 100 basis point increase in market interest rates would have resulted in a decrease to our annual net interest income of approximately $167 million as of December 31, 2017. We expect the rates we pay on our deposits will increase as benchmark interest rates increase. In addition, interest rate changes may affect customer behavior, such as impacting the loan balances Card Members carry on their credit cards or their ability to make payments as higher interest rates lead to higher payment requirements, further impacting our results of operations.

For a further discussion of our interest rate risk, see "Risk Management Market Risk Management Process" under "MD&A."

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Adverse financial market conditions may significantly affect our ability to meet liquidity needs, access to capital and cost of capital.

We need liquidity to pay merchants, operating and other expenses, interest on debt and dividends on capital stock and to repay maturing liabilities. The principal sources of our liquidity are payments from Card Members, cash flows from our investment portfolio, cash and cash equivalents, proceeds from the issuance of unsecured medium- and long-term notes and asset securitizations and direct and third-party sourced deposits, securitized borrowings through our secured financing facilities, a committed bank borrowing facility and the Federal Reserve discount window.

Our ability to obtain financing in the debt capital markets for unsecured term debt and asset securitizations is dependent on market conditions. Disruptions, uncertainty or volatility across the financial markets, as well as adverse developments affecting our competitors and the financial industry generally, could negatively impact market liquidity and limit our access to funding required to operate our business. Such market conditions may also limit our ability to replace, in a timely manner, maturing liabilities, satisfy regulatory capital requirements and access the funding necessary to grow our business. In some circumstances, we may incur an unattractive cost to raise capital, which could decrease profitability and significantly reduce financial flexibility.

For a further discussion of our liquidity and funding needs, see “Consolidated Capital Resources and Liquidity Funding Programs and Activities” under “MD&A.”

Any reduction in our and our subsidiaries’ credit ratings could increase the cost of our funding from, and restrict our access to, the capital markets and have a material adverse effect on our results of operations and financial condition.

Rating agencies regularly evaluate us and our subsidiaries, and their ratings of our and our subsidiaries’ long-term and short-term debt and deposits are based on a number of factors, including financial strength as well as factors not within our control, including conditions affecting the financial services industry generally, and the wider state of the economy. Our and our subsidiaries’ ratings could be downgraded at any time and without any notice by any of the rating agencies, which could, among other things, adversely limit our access to the capital markets and adversely affect the cost and other terms upon which we and our subsidiaries are able to obtain funding.

Adverse currency fluctuations and foreign exchange controls could decrease earnings we receive from our international operations and impact our capital.

During 2017, approximately 26 percent of our total revenues net of interest expense were generated from activities outside the United States. We are exposed to foreign exchange risk from our international operations, and accordingly the revenue we generate outside the United States is subject to unpredictable fluctuations if the values of other currencies change relative to the U.S. dollar, which could have a material adverse effect on our results of operations.

Foreign exchange regulations or capital controls might restrict or prohibit the conversion of other currencies into U.S. dollars or our ability to transfer them. Political and economic conditions in other countries could also impact the availability of foreign exchange for the payment by the local card issuer of obligations arising out of local Card Members’ spending outside such country and for the payment of card bills by Card Members who are billed in a currency other than their local currency. Substantial and sudden devaluation of local Card Members’ currency can also affect their ability to make payments to the local issuer of the card in connection with spending outside the local country. The occurrence of any of these circumstances could further impact our results of operations.

Continuing concerns regarding the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Eurozone countries may cause the value of the euro to fluctuate more widely than in the past and could lead to the reintroduction of individual currencies in one or more Eurozone countries, or, in more extreme circumstances, the possible dissolution of the euro currency entirely. If there is a significant devaluation of the euro and we are unable to hedge our foreign exchange exposure to the euro, the value of our euro-denominated assets and liabilities would be correspondingly reduced when translated into U.S. dollars for inclusion in our financial statements. Similarly, the reintroduction of certain individual country currencies or the complete dissolution of the euro could adversely affect the value of our euro-denominated assets and liabilities. The reintroduction of individual country currencies would require us to reconfigure our billing and other systems to reflect individual country currencies in place of the euro. Implementing such changes could be costly and failures in the currency reconfiguration could cause disruptions in our normal business operations. In addition, foreign currency derivative instruments to hedge our market exposure to re-introduced currencies may not be immediately available or may not be available on terms that are acceptable to us.

The potential developments regarding Europe and the euro, or market perceptions concerning these and related issues, could continue to have an adverse impact on consumer and business behavior in Europe and globally, which could have a material adverse effect on our business, financial condition and results of operations.

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An inability to accept or maintain deposits due to market demand or regulatory constraints could materially adversely affect our liquidity position and our ability to fund our business.

Our U.S. bank subsidiaries accept deposits from individuals through third-party brokerage networks as well as directly from consumers through American Express Personal Savings, and use the proceeds as a source of funding. As of December 31, 2017, we had approximately $63.7 billion in total U.S. retail deposits, of which a significant amount had been raised through third-party brokerage networks. We face strong competition with regard to deposits, and pricing and product changes may adversely affect our ability to attract and retain cost-effective deposit balances. If we are required to offer higher interest rates to attract or maintain deposits, our funding costs will be adversely impacted.

Our ability to obtain deposit funding and offer competitive interest rates on deposits is also dependent on capital levels of our U.S. bank subsidiaries. The FDIA’s brokered deposit provisions and related FDIC rules in certain circumstances prohibit banks from accepting or renewing brokered deposits and apply other restrictions, such as a cap on interest rates that can be paid. See “Prompt Corrective Action” under “Supervision and Regulation” for additional information. While Centurion Bank and American Express Bank were considered “well capitalized” as of December 31, 2017 and had no restrictions regarding acceptance of brokered deposits or setting of interest rates, there can be no assurance they will continue to meet this definition. The Capital Rules require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Additionally, our regulators can adjust the requirements to be “well capitalized” at any time and have authority to place limitations on our deposit businesses, including the interest rates we pay on deposits. An inability to attract or maintain deposits in the future could materially adversely affect our liquidity position and our ability to fund our business.

The value of our assets or liabilities may be adversely impacted by economic, political or market conditions.

Market risk includes the loss in value of portfolios and financial instruments due to adverse changes in market variables, which could negatively impact our financial condition. We held approximately $3.2 billion of investment securities as of December 31, 2017. In the event that actual default rates of these investment securities were to significantly change from historical patterns due to challenges in the economy or otherwise, it could have a material adverse impact on the value of our investment portfolio, potentially resulting in impairment charges. Defaults or economic disruptions, even in countries or territories in which we do not have material investment exposure, conduct business or have operations, could adversely affect us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our principal executive offices are in a 2.2 million square foot building located in lower Manhattan on land leased from the Battery Park City Authority for a term expiring in 2069. We have an approximately 49 percent ownership interest in the building and an affiliate of Brookfield Financial Properties owns the remaining approximately 51 percent interest in the building. We also lease space in the building from Brookfield’s affiliate.

Other owned or leased principal locations include American Express offices in Sunrise, Florida, Phoenix, Arizona, Salt Lake City, Utah, Mexico City, Mexico, Sydney, Australia, Singapore, Gurgaon, India, Manila, Philippines, and Brighton, England; the American Express data centers in Phoenix, Arizona and Greensboro, North Carolina; the headquarters for American Express Services Europe Limited in London, England; and the Amex Bank of Canada and Amex Canada Inc. headquarters in Toronto, Ontario, Canada.

Generally, we lease the premises we occupy in other locations. We believe the facilities we own or occupy suit our needs and are well maintained.

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ITEM 3. 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 and seek an indeterminate amount of damages, it is possible that the outcome of legal proceedings 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 as a result of the DOJ or merchant cases described later in this section could have a material adverse effect on our business. Certain legal proceedings involving us or our subsidiaries are described below. For additional information, see Note 13 to our “Consolidated Financial Statements.”

Antitrust Matters

In 2010, the DOJ, 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. On October 16, 2017, the Supreme Court granted certiorari and oral argument is scheduled for February 26, 2018 in the case, now captioned Ohio v. American Express Co.

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.

In July 2004, we were named as a defendant in another putative class action filed in the Southern District of New York and subsequently transferred to the Eastern District of New York, captioned The Marcus Corporation v. American Express Co., et al., in which the plaintiffs allege an unlawful antitrust tying arrangement between certain of our charge cards and credit cards in violation of various state and federal laws. The plaintiffs in this action seek injunctive relief and an unspecified amount of damages.

In re: American Express Anti-Steering Rules Antitrust Litigation (II) and The Marcus Corporation v. American Express Co., et al., including a trial previously scheduled in the individual merchant cases, are stayed pending resolution of the appeal in Ohio v. American Express Co. Further proceedings are anticipated.

Individual merchants have also initiated arbitration proceedings raising similar claims concerning the anti-steering provisions in our card acceptance agreements and seeking damages. We are vigorously defending against those claims, which are similarly stayed.

On March 8, 2016, plaintiffs B&R Supermarket, Inc. d/b/a Milam’s Market and Grove Liquors LLC, on behalf of themselves and others, filed a suit, captioned B&R Supermarket, Inc. d/b/a Milam’s Market, et al. v. Visa Inc., et al., for violations of the Sherman Antitrust Act, the Clayton Antitrust Act, California’s Cartwright Act and unjust enrichment in the United States District Court for the Northern District of California, against American Express Company, other credit and charge card networks, other issuing banks and EMVCo, LLC. Plaintiffs allege that the defendants, through EMVCo, conspired to shift liability for fraudulent, faulty and otherwise rejected consumer credit card transactions from themselves to merchants after the implementation of EMV chip payment terminals. Plaintiffs seek damages and injunctive relief. An amended complaint was filed on July 15, 2016. On September 30, 2016, the court denied our motion to dismiss as to claims brought by merchants who do not accept American Express cards, and on May 4, 2017, the California court transferred the case to the United States District Court for the Eastern District of New York.

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Corporate Matters

On July 30, 2015, plaintiff Plumbers and Steamfitters Local 137 Pension Fund, on behalf of themselves and other purchasers of American Express stock, filed a suit, captioned Plumbers and Steamfitters Local 137 Pension Fund v. American Express Co., Kenneth I. Chenault and Jeffrey C. Campbell, in the United States District Court for the Southern District of New York for violation of federal securities law, alleging that the Company deliberately issued false and misleading statements to, and omitted important information from, the public relating to the financial importance of the Costco cobrand relationship to the Company, including, but not limited to, the decision to accelerate negotiations to renew the cobrand agreement. The plaintiff sought damages and injunctive relief. On October 2, 2017, the Court granted defendants' motion to dismiss the plaintiff's amended complaint. The plaintiff has appealed the court's decision.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Our common stock trades principally on The New York Stock Exchange under the trading symbol AXP. As of December 31, 2017, we had 22,262 common shareholders of record. You can find price and dividend information concerning our common stock in Note 27 to our "Consolidated Financial Statements." For information on dividend restrictions, see "Dividends and Other Capital Distributions" under "Supervision and Regulation" and Note 23 to our "Consolidated Financial Statements." You can find information on securities authorized for issuance under our equity compensation plans under the caption "Executive Compensation — Equity Compensation Plans" to be contained in our definitive 2018 proxy statement for our Annual Meeting of Shareholders, which is scheduled to be held on May 7, 2018. The information to be found under such caption is incorporated herein by reference. Our definitive 2018 proxy statement for our Annual Meeting of Shareholders is expected to be filed with the Securities and Exchange Commission (SEC) in March 2018 (and, in any event, not later than 120 days after the close of our most recently completed fiscal year).

Stock Performance Graph

The information contained in this Stock Performance Graph section shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act.

The following graph compares the cumulative total shareholder return on our common shares with the total return on the S&P 500 Index and the S&P Financial Index for the last five years. It shows the growth of a $100 investment on December 31, 2012, including the reinvestment of all dividends.

Year-end Data	2012	2013	2014	2015	2016	2017
American Express	$100.00	$159.84	$165.70	$125.57	$136.34	$185.70
S&P 500 Index	$100.00	$132.37	$150.48	$152.55	$170.78	$208.05
S&P Financial Index	$100.00	$135.59	$156.17	$153.72	$188.69	$230.47

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(b) Not applicable.

(c) Issuer Purchases of Securities

The table below sets forth the information with respect to purchases of our common stock made by us or on our behalf during the quarter ended December 31, 2017.

	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
October 1-31, 2017				
Repurchase program[a]	4,040,661	$ 91.78	4,040,661	94,655,567
Employee transactions[b]			N/A	N/A
November 1-30, 2017				
Repurchase program[a]	3,932,622	$ 94.78	3,932,622	90,722,945
Employee transactions[b]	4,907	$ 95.22	N/A	N/A
December 1-31, 2017				
Repurchase program[a]	5,720,526	$ 98.79	5,720,526	85,002,419
Employee transactions[b]			N/A	N/A
Total				
Repurchase program[a]	13,693,809	$ 95.57	13,693,809	85,002,419
Employee transactions[b]	4,907	$ 95.22	N/A	N/A

(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. This authorization replaced the prior repurchase authorization and does not have an expiration date.

(b) 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 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.

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

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ITEM 6. SELECTED FINANCIAL DATA

	2017	2016	2015	2014	2013
Operating Results ($ in Millions)					
Total revenues net of interest expense	$33,471	$32,119	$32,818	$34,188	$32,870
Provisions for losses[(a)]	2,759	2,026	1,988	2,044	1,832
Expenses[(b)]	23,298	21,997	22,892	23,153	23,150
Pretax income	7,414	8,096	7,938	8,991	7,888
Income tax provision	4,678	2,688	2,775	3,106	2,529
Net income	$2,736	$5,408	$5,163	$5,885	$5,359
Return on average equity[(c)]	13.1 %	26.0 %	24.0 %	29.1 %	27.8 %
Return on average assets[(c)]	1.6 %	3.4 %	3.3 %	3.8 %	3.5 %
Balance Sheet ($ in Millions)					
Cash and cash equivalents	$32,927	$25,208	$22,762	$22,288	$19,486
Card Member loans and receivables HFS			14,992		
Accounts receivable, net	56,689	50,073	46,695	47,000	47,185
Loans, net	74,300	65,461	58,799	70,104	66,585
Investment securities	3,159	3,157	3,759	4,431	5,016
Total assets	181,159	158,893	161,184	159,103	153,375
Customer deposits	64,452	53,042	54,997	44,171	41,763
Travelers Cheques outstanding and other prepaid products	2,593	2,812	3,247	3,673	4,240
Short-term borrowings	3,278	5,581	4,812	3,480	5,021
Long-term debt	55,804	46,990	48,061	57,955	55,330
Shareholders’ equity	$18,227	$20,501	$20,673	$20,673	$19,496
Average shareholders' equity to average total assets ratio	12.4 %	13.1 %	13.5 %	13.1 %	12.6 %
Common Share Statistics					
Earnings per share:					
Net income attributable to common shareholders:[(d)]					
Basic	$2.98	$5.67	$5.07	$5.58	$4.91
Diluted	2.97	5.65	5.05	5.56	4.88
Cash dividends declared per common share	1.34	1.22	1.13	1.01	0.89
Dividend payout ratio[(e)]	45.0 %	21.5 %	22.3 %	18.1 %	18.1 %
Book value per common share	19.38	20.93	19.71	20.21	18.32
Market price per share:					
High	100.53	75.74	93.94	96.24	90.79
Low	74.74	50.27	67.57	78.41	58.31
Close	$99.31	$74.08	$69.55	$93.04	$90.73
Average common shares outstanding (millions):					
Basic	883	933	999	1,045	1,082
Diluted	886	935	1,003	1,051	1,089
Shares outstanding at period end (millions)	859	904	969	1,023	1,064
Other Statistics					
Number of employees at period end (thousands):					
United States	20	21	21	22	26
Outside the United States	35	35	34	32	37
Total	55	56	55	54	63

This Annual Report on Form 10-K, including the “Management’s Discussion and Analysis of Financial Condition and

Number of shareholders of record	22,262	23,572	24,704	25,767	22,238

(a) Beginning December 1, 2015 through to the sale completion dates, did not reflect provisions for Card Member loans and receivables related to our cobrand partnerships with JetBlue Airways Corporation (JetBlue) and Costco Wholesale Corporation (Costco) in the United States (the HFS portfolios).

(b) Beginning December 1, 2015 through to the sale completion dates, included the valuation allowance adjustment associated with the HFS portfolios.

(c) Return on average equity and return on average assets are calculated by dividing one-year period of net income by one-year average of total shareholders' equity or total assets, respectively.

(d) Represents net income, less earnings allocated to participating share awards and dividends on preferred shares.

(e) Calculated on year's dividends declared per common share as a percentage of the year's net income available per common share.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

EXECUTIVE OVERVIEW

BUSINESS INTRODUCTION

We are a global services company with four reportable operating segments: U.S. Consumer Services (USCS), International Consumer and Network Services (ICNS), Global Commercial Services (GCS) and Global Merchant Services (GMS). Corporate functions and certain other businesses and operations are included in Corporate & Other.
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. The fees charged, or merchant discount, which is generally expressed as a percentage of the charge amount, varies with, among other factors, the industry in which the merchant does business, the charge amount and the merchant's overall charge volume, the method of submission of charges, the timing and method of payment to the merchant and, in certain instances, the geographic scope for the related card acceptance agreement (e.g., domestic or global). In some instances, an additional flat transaction fee is assessed as part of the merchant discount, and additional fees may be charged such as a variable fee for "non-swiped" card transactions or for transactions using cards issued outside the United States at merchants located in the United States;
- 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, represents revenues arising from contracts with partners of our Global Network Services (GNS) business (including commissions and signing fees), cross-border Card Member spending, insurance premiums, ancillary merchant-related fees, prepaid card and Travelers Cheque-related revenue, revenues related to the American Express Global Business Travel Joint Venture (the GBT JV) transition services agreement and earnings from equity method investments (including the GBT JV).

TAX CUTS AND JOBS ACT

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act makes broad and complex changes to the U.S. federal corporate income tax rules that, beginning in 2018, will significantly decrease our income tax expense and reduce our effective tax rate to the low 20s, before discrete items. Most notably, effective January 1, 2018, the Tax Act reduces the U.S. federal statutory corporate income tax rate from 35 percent to 21 percent, introduces a territorial tax system in which future dividends paid from earnings outside the United States to a U.S. corporation are not subject to U.S. federal taxation and imposes new U.S. federal corporate income taxes on certain foreign operations.

While the Tax Act will positively impact our earnings in future periods, two provisions of the Tax Act drove a 2017 charge of $2.6 billion, which impacted our earnings in the fourth quarter. In particular, the Tax Act imposes a one-time deemed repatriation tax on previously undistributed earnings of certain non-U.S. subsidiaries. In addition, the reduction of the federal statutory tax rate from 35 percent to 21 percent required us to remeasure our U.S. federal deferred tax assets and liabilities. The 2017 charge for these provisions reflects our best estimate based on information currently available and our current interpretation of the Tax Act. Refer to Note 21 to the "Consolidated Financial Statements" for additional information.

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FINANCIAL HIGHLIGHTS

For 2017, we reported net income of $2.7 billion and diluted earnings per share of $2.97. This compared to $5.4 billion of net income and $5.65 diluted earnings per share for 2016, and $5.2 billion of net income and $5.05 diluted earnings per share for 2015.

2017 results included:

- A $2.6 billion tax charge related to the Tax Act.

2016 results included:

- A $1.1 billion ($677 million after tax) gain on the sale of Card Member loans and receivables related to our cobrand partnership with Costco in the second quarter;
- $410 million ($266 million after tax) of net restructuring charges; and
- A $127 million ($79 million after tax) gain on the sale of Card Member loans and receivables related to our cobrand partnership with JetBlue in the first quarter.

2015 results included:

- A $419 million ($335 million after tax) charge related to the Prepaid Services business, which was driven primarily by the impairment of goodwill and technology, and certain restructuring costs.

NON-GAAP MEASURES

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 report constitutes non-GAAP financial measures. Our calculations of non-GAAP financial measures may differ from the calculations of similarly titled measures by other companies.

BUSINESS ENVIRONMENT

Our results for 2017 reflect a strong finish to our two-year game plan as we successfully executed against our key priorities of accelerating revenue growth, optimizing our investments and resetting our cost base. Billings and revenue performance were strong across our business segments and accelerated during the fourth quarter. We continued to invest in new products and benefits, new card acquisitions and expanding our merchant network, and we returned a significant amount of capital to shareholders through share repurchases and dividends. In addition, our results reflect a tax charge related to the Tax Act.

Our worldwide billed business increased 5 percent over the prior year, reflecting growth across our diverse customer segments and geographies. U.S. proprietary consumer billings growth increased sequentially during the year and international proprietary consumer billings growth rates remained strong. We also saw strong performance from middle market and small business customers, while large and global commercial customers grew at a more modest pace. Global Network Services billed business grew at a slower rate over the year than our proprietary business as a result of the impact of the evolving regulatory environment in Europe and Australia.

Revenues net of interest expense grew year-over-year primarily due to growth in billed business, net interest income and net card fees, partially offset by an expected decline in the average discount rate. Our net interest yield increased year-over-year primarily related to a shift in mix over time towards non-cobrand lending products that generally attract more revolving loan balances, a lower percentage of total loans at introductory interest rates, specific pricing actions and a benefit from increases in benchmark interest rates. During the fourth quarter, we saw net interest yield begin to stabilize sequentially.

Card Member loan and receivables growth was strong year-over-year, as we continue to expand our relationships with existing customers and acquired new Card Members. We continue to see opportunities to increase our share of our customers' borrowings. As expected, provisions for losses increased as a result of higher Card Member loans and receivables and increases in lending delinquencies and net write-off rates. The increases in the delinquencies and net write-off rates were primarily due to the seasoning of recent loan vintages and a shift in mix over time towards non-cobrand lending products, which have higher write-off rates but also drive higher net interest yields. We expect these trends to continue, resulting in continued increases in lending write-off rates, delinquencies and provisions for losses.

Spending on Card Member engagement (the aggregate of rewards, Card Member services and marketing and promotion expenses) increased year-over-year and primarily reflected the recent enhancements to rewards on our U.S. Platinum products, continued strong growth in our Delta cobrand portfolio and higher levels of engagement in many of our premium services. Marketing and promotion expense decreased due to elevated spending on growth initiatives during the prior year and as we realized efficiencies in our marketing spend. Operating expense increased year-over-year, driven by the prior year gains on the sales of certain cobrand portfolios, which were recognized as a reduction in other expenses. Excluding these gains, operating expense decreased year-over-year reflecting the benefits from our cost reduction initiatives during the past two years.

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In the fourth quarter of 2017, we recognized a tax charge of $2.6 billion related to the Tax Act, which drove a decline in net income versus 2016. This charge represents our current estimate of taxes on deemed repatriations of certain overseas earnings and the remeasurement of U.S. net deferred tax assets. Our effective tax rate for 2017 was up substantially from 33 percent in 2016. Excluding the impacts of the Tax Act, our effective tax rate for the year would have decreased compared to 2016, primarily due to the realization of certain foreign tax credits in the current year and a continuing shift in the geographic mix of earnings. We continue to analyze and interpret the Tax Act, and its impact on our earnings; however, for 2018, we currently estimate our tax rate will be approximately 22 percent, before discrete tax items. The upfront charge triggered by the Tax Act reduced our capital ratios and, as a result, while we will be continuing our quarterly dividends at the current level, we suspended our share buyback program for the first half of 2018 in order to rebuild our capital.

Our strong performance in 2017 reflects benefits from the investments we have made in a variety of growth opportunities over the last several years. Although we continue to see some headwinds from regulation in markets 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. With Stephen J. Squeri as our new Chairman and Chief Executive Officer, effective February 1, 2018 as previously announced, we will be focused on strengthening our leadership position with premium consumers, extending our strong position in the commercial payments space, making American Express an essential part of our customers' digital lives and strengthening our global, integrated network to provide unique value.

See "Supervision and Regulation" in "Business" for information on legislative and regulatory changes that could have a material adverse effect on our results of operations and financial condition and "Legal, Regulatory and Compliance Risk" in "Risk Factors" for information on the potential impacts of an adverse decision in the Department of Justice case and related merchant litigations on our business.

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CONSOLIDATED RESULTS OF OPERATIONS

Effective December 1, 2015, we transferred the Card Member loans and receivables related to our HFS portfolios to Card Member loans and receivables HFS on the Consolidated Balance Sheets. On March 18, 2016 and June 17, 2016, we completed the sales of the JetBlue and Costco cobrand card portfolios, respectively. For the periods from December 1, 2015, through the sale completion dates, the primary impacts beyond the HFS classification on the Consolidated Balance Sheets were to provisions for losses and credit metrics, which did not reflect amounts related to these HFS loans and receivables, as credit costs were reported in Other expenses through a valuation allowance adjustment. Other, non-credit related metrics (i.e., billed business, cards-in-force, net interest yield) reflected amounts related to the HFS portfolios through the sale completion dates. Additionally, for periods after the sale completion dates, activities associated with these cobrand partnerships and the HFS portfolios were no longer included in our Consolidated Results of Operations. Specifically, these impacts included: Discount revenue from Costco in the United States for spend on all American Express cards and from other merchants for spend on the Costco cobrand card; Other fees and commissions and Interest income from Costco cobrand Card Members; and Card Member rewards expense related to the Costco cobrand card, resulting in a lack of comparability between the periods presented.
The relationship of the U.S. dollar to various foreign currencies over the periods of comparison has had an impact on our results of operations. Where meaningful in describing our performance, foreign currency-adjusted amounts, which exclude the impact of changes in the foreign exchange (FX) rates, have been provided.

TABLE 1: SUMMARY OF FINANCIAL PERFORMANCE

Years Ended December 31, (Millions, except percentages and per share amounts)	2017	2016	2015	Change 2017 vs. 2016		Change 2016 vs. 2015	
Total revenues net of interest expense	$33,471	$32,119	$32,818	$1,352	4 %	$(699)	(2)%
Provisions for losses	2,759	2,026	1,988	733	36	38	2
Expenses	23,298	21,997	22,892	1,301	6	(895)	(4)
Pretax income	7,414	8,096	7,938	(682)	(8)	158	2
Income tax provision	4,678	2,688	2,775	1,990	74	(87)	(3)
Net income	2,736	5,408	5,163	(2,672)	(49)	245	5
Earnings per common share — diluted[(a)]	$2.97	$5.65	$5.05	$(2.68)	(47)%	$0.60	12%
Return on average equity[(b)]	13.1 %	26.0 %	24.0 %				
Effective tax rate (ETR)	63.1 %	33.2 %	35.0 %				
Impact of Tax Act charge on ETR	34.7 %						
ETR, excluding the Tax Act charge[(c)]	28.4 %						

(a) Earnings per common share — diluted was reduced by the impact of (i) earnings allocated to participating share awards and other items of $21 million, $43 million and $38 million for the years ended December 31, 2017, 2016 and 2015, respectively, and (ii) dividends on preferred shares of $81 million, $80 million and $62 million for the years ended December 31, 2017, 2016 and 2015.

(b) Return on average equity (ROE) is computed by dividing (i) one-year period net income ($2.7 billion, $5.4 billion and $5.2 billion for 2017, 2016 and 2015, respectively) by (ii) one-year average total shareholders' equity ($20.8 billion, $20.8 billion and $21.5 billion for 2017, 2016 and 2015, respectively).

(c) The effective tax rate for 2017 excluding the $2.6 billion charge related to the Tax Act is a non-GAAP measure. Management believes the effective tax rate excluding the impacts of the Tax Act is useful in evaluating the company's tax rate in comparison with the prior-year periods. Refer to Note 21 of the "Consolidated Financial Statements" for additional information.

TABLE 2: TOTAL REVENUES NET OF INTEREST EXPENSE SUMMARY

Years Ended December 31, (Millions, except percentages)	2017	2016	2015	Change 2017 vs. 2016		Change 2016 vs. 2015	
Discount revenue	$19,186	$18,680	$19,297	$506	3 %	$(617)	(3)%
Net card fees	3,090	2,886	2,700	204	7	186	7
Other fees and commissions	3,022	2,753	2,866	269	10	(113)	(4)
Other	1,732	2,029	2,033	(297)	(15)	(4)	
Total non-interest revenues	27,030	26,348	26,896	682	3	(548)	(2)
Total interest income	8,553	7,475	7,545	1,078	14	(70)	(1)
Total interest expense	2,112	1,704	1,623	408	24	81	5
Net interest income	6,441	5,771	5,922	670	12	(151)	(3)
Total revenues net of interest expense	$33,471	$32,119	$32,818	$1,352	4 %	$(699)	(2)%

TOTAL REVENUES NET OF INTEREST EXPENSE

Discount revenue increased in 2017 compared to 2016, primarily due to growth in billed business, and decreased in 2016 compared to 2015 primarily due to lower Costco-related revenues. Both periods of comparison also reflected decreases in the average discount rate and increases in contra-discount revenues. The increase in contra-discount revenue in 2017 compared to 2016 was primarily due to higher corporate client incentives and cobrand partner payments, both driven by higher volumes; the increase in 2016 compared to 2015 was primarily due to an increase in cash rebate rewards.

Overall, billed business increased in 2017 compared to 2016. U.S. billed business increased 1 percent and non-U.S. billed business increased 12 percent. See Tables 5 and 6 for more details on billed business performance.

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The average discount rate was 2.43 percent, 2.45 percent and 2.46 percent for 2017, 2016 and 2015, respectively. The decrease in the average discount rate in 2017 compared to 2016 primarily reflected rate pressure from merchant negotiations, including those resulting from the recent regulatory changes affecting competitor pricing in certain international markets, the continued growth of the OptBlue program, and changes in industry and geographic mix. 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.

Net card fees increased in both periods. The increase in 2017 was primarily driven by growth in the Platinum and Delta portfolios and growth in key international markets. The increase in 2016 was primarily driven by growth in the Platinum, Gold and Delta portfolios.

Other fees and commissions increased in 2017 compared to 2016, and decreased in 2016 compared to 2015. The increase in 2017 was primarily driven by an increase in delinquency fees due to a change in the late fee assessment date for certain U.S. charge cards and an increase in foreign exchange conversion revenue. The decrease in 2016 was primarily due to lower Costco-related fees, partially offset by an increase in delinquency and loyalty coalition-related fees.

Other revenues decreased in 2017 compared to 2016, and were relatively flat in 2016 compared to 2015. The decrease in 2017 was primarily driven by prior-year revenues related to the Loyalty Edge business, which was sold in the fourth quarter of 2016, and a contractual payment from a GNS partner also in the prior year. 2016 included the previously-mentioned contractual payment from a GNS partner and higher revenues from our Prepaid Services business compared to 2015, offset by lower revenues related to Costco, Loyalty Edge and the GBT JV transition services agreement.

Interest income increased in 2017 compared to 2016 and decreased in 2016 compared to 2015. The increase in 2017 primarily reflected higher average Card Member loans and higher yields. The growth in average Card Member loans was primarily driven by a mix shift over time towards non-cobrand lending products, where Card Members tend to revolve more of their loan balances. The increase in yields was primarily driven by a greater percentage of loans at higher rate buckets, specific pricing actions, and increases in benchmark interest rates. The decrease in 2016 was primarily driven by lower Costco cobrand loans and the associated interest income, partially offset by modestly higher yields and an increase in average Card Member loans across other lending products.

Interest expense increased in both periods. The increase in 2017 was primarily driven by higher interest rates and higher average long-term debt. The increase in 2016 was primarily driven by higher average customer deposit balances, partially offset by lower average long-term debt.

TABLE 3: PROVISIONS FOR LOSSES SUMMARY

Years Ended December 31, (Millions, except percentages)	2017	2016	2015	Change 2017 vs. 2016		Change 2016 vs. 2015	
Charge card	$795	$696	$737	$99	14%	$(41)	(6)%
Card Member loans	1,868	1,235	1,190	633	51	45	4
Other	96	95	61	1	1	34	56
Total provisions for losses[(a)]	$2,759	$2,026	$1,988	$733	36%	$38	2 %

(a) Beginning December 1, 2015 through to the sale completion dates, did not reflect the HFS portfolios.

PROVISIONS FOR LOSSES

Charge card provision for losses increased in 2017 compared to 2016 and decreased in 2016 compared to 2015. The increase in 2017 was primarily driven by growth in receivables due to charge volume and higher net write-offs. The decrease in 2016 was driven by lower net write-offs and improved delinquencies.
Card Member loans provision for losses increased in both periods. The increases were primarily driven by strong loan growth, as well as increases in net write-off rates and delinquencies, primarily due to the seasoning of recent loan vintages and a shift in mix over time towards non-cobrand lending products, which tend to have higher write-off rates. The increase in 2016 was partially offset by the impact of the HFS portfolios, as 2016 did not reflect the associated credit costs, as previously mentioned.

Other provision for losses was relatively flat in 2017 compared to 2016 and increased in 2016 compared to 2015. 2017 compared to 2016 reflected growth in the non-card lending portfolio, which was offset by improving credit performance in the commercial financing portfolio. The increase in 2016 was primarily driven by growth in the commercial financing portfolio, which resulted in higher net write-offs.

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TABLE 4: EXPENSES SUMMARY

Years Ended December 31,				Change		Change	
				2017 vs.			
(Millions, except percentages)	2017	2016	2015	2016		2016 vs. 2015	
Marketing and promotion	$3,217	$3,650	$3,109	$(433)	(12)%	$541	17 %
Card Member rewards	7,608	6,793	6,996	815	12	(203)	(3)
Card Member services and other	1,439	1,133	1,018	306	27	115	11
Total marketing, promotion, rewards and Card Member services and other	12,264	11,576	11,123	688	6	453	4
Salaries and employee benefits	5,258	5,259	4,976	(1)		283	6
Other, net[(a)]	5,776	5,162	6,793	614	12	(1,631)	(24)
Total expenses	$23,298	$21,997	$22,892	$1,301	6 %	$(895)	(4)%

(a) Beginning December 1, 2015 through to the sale completion dates, included the valuation allowance adjustment associated with the HFS portfolios.

EXPENSES

Marketing and promotion expense decreased in 2017 compared to 2016 and increased in 2016 compared to 2015. The variances for both periods were primarily driven by higher levels of spending on growth initiatives in 2016 compared to the preceding and subsequent years.

Card Member rewards expense increased in 2017 compared to 2016 and decreased in 2016 compared to 2015. The increase in 2017 was primarily driven by increases in Membership Rewards expense of $750 million and cobrand rewards expense of $65 million. The increase in Membership Rewards expense was primarily driven by enhancements to U.S. Consumer and Small Business Platinum rewards and higher spending volumes. The increase in cobrand rewards expense reflected growth in spending volumes across certain cobrand card products, which more than offset the absence of Costco-related expense in 2017. The decrease in 2016 was primarily driven by lower cobrand rewards expense of $518 million, primarily reflecting lower Costco-related expense and a shift in volumes to cash rebate cards for which the rewards costs are classified as contra-discount revenue, partially offset by increased spending volumes across other cobrand card products. The lower cobrand rewards expense in 2016 was partially offset by higher Membership Rewards expense of $315 million, primarily driven by an increase in new points earned as a result of higher spending volumes, enhancements to U.S. Consumer and Small Business Platinum rewards and less of a decline in the weighted average cost (WAC) per point.

The Membership Rewards Ultimate Redemption Rate (URR) for current program participants was 95 percent (rounded down) at December 31, 2017, 2016 and 2015.

Card Member services and other expense increased for both periods of comparison, primarily driven by higher usage of travel-related benefits in both periods, and additionally in 2017 by the enhanced Platinum card benefits.

Salaries and employee benefits expense was flat for 2017 compared to 2016 and increased in 2016 compared to 2015. Salaries and employee benefits expenses for 2017 reflected higher performance-related employee compensation offset by lower restructuring charges compared to the prior year. The increase in 2016 was primarily driven by higher restructuring charges compared to 2015.

Other expense increased in 2017 compared to 2016 and decreased in 2016 compared to 2015. The increase in 2017 was primarily driven by the prior-year gains on the sales of the HFS portfolios, which were recognized as an expense reduction, partially offset by lower technology-related costs in 2017 and Loyalty Edge-related costs in the prior year. The decrease in 2016 was primarily driven by the previously-mentioned gains on the sales of the HFS portfolios, as well as goodwill and technology impairment charges in 2015.

INCOME TAXES

The effective tax rate for 2017 was 63.1 percent and reflects a substantial charge of $2.6 billion related to the income tax effects of the Tax Act, which are required to be recorded in the period of enactment. The $2.6 billion charge represents our current estimate of taxes primarily on the deemed repatriation of certain overseas earnings and the remeasurement of U.S. federal net deferred tax assets to the lower federal tax rate. Our accounting for the impacts of the Tax Act is provisional and amounts may be revised in future periods as described in the SEC Staff Accounting Bulletin No. 118, which was issued on December 22, 2017 to provide guidance on the accounting for the effects of the Tax Act. Refer to Note 21 to the “Consolidated Financial Statements” for additional information.

Excluding the impacts of the Tax Act, the effective tax rate for 2017 would have been 28.4 percent compared to 33.2 percent in 2016 and 35.0 percent in 2015. See Table 1 for a reconciliation of the effective tax rate for 2017 on a GAAP basis. The tax rate for 2017 includes discrete tax benefits of $156 million related to the realization of certain foreign tax credits. The tax rates for 2017, 2016, and 2015 include benefits of $76 million, $60 million and $33 million respectively, related to the resolution of certain prior years’ items. The tax rate for 2015 also includes an expense of $75 million related to the impact of the nondeductible portion of a goodwill impairment charge. In addition, the decrease in tax rates in each period reflects the level of pretax income in relation to recurring permanent tax benefits and the geographic mix of business.

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TABLE 5: SELECTED CARD-RELATED STATISTICAL INFORMATION

Years Ended December 31,	2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
Card billed business: (billions)					
United States	$708.3	$700.4	$721.8	1 %	(3)%
Outside the United States	376.9	337.1	317.9	12	6
Worldwide	$1,085.2	$1,037.5	$1,039.7	5	
Proprietary	$900.6	$863.8	$875.3	4 %	(1)%
Global Network Services	184.6	173.7	164.4	6	6
Worldwide	$1,085.2	$1,037.5	$1,039.7	5	
Total cards-in-force: (millions)					
United States	50.0	47.5	57.6	5	(18)
Outside the United States	62.8	62.4	60.2	1	4
Worldwide	112.8	109.9	117.8	3	(7)
Proprietary	64.6	61.3	70.4	5	(13)
Global Network Services	48.2	48.6	47.4	(1)	3
Worldwide	112.8	109.9	117.8	3	(7)
Basic cards-in-force: (millions)					
United States	39.4	37.4	44.8	5	(17)
Outside the United States	52.2	51.7	49.5	1	4
Worldwide	91.6	89.1	94.3	3	(6)
Average basic Card Member spending: (dollars)[(a)]					
United States	$20,317	$18,808	$18,066	8	4
Outside the United States	$14,277	$13,073	$12,971	9	1
Worldwide Average	$18,519	$17,216	$16,743	8	3
Card Member loans: (billions)					
United States	$64.5	$58.3	$51.5	11	13
Outside the United States	8.9	7.0	7.1	27	(1)
Worldwide	$73.4	$65.3	$58.6	12	11
Average discount rate	2.43 %	2.45 %	2.46 %		
Average fee per card (dollars)[(a)]	$49	$44	$39	11 %	13 %

(a) Average basic Card Member spending and average fee per card are computed from proprietary card activities only. Average fee per card is computed based on net card fees divided by average worldwide proprietary cards-in-force.

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TABLE 6: BILLED BUSINESS GROWTH

	2017 Percentage Increase (Decrease)	Percentage Increase (Decrease) Assuming No Changes in FX Rates [a]	2016 Percentage Increase (Decrease)	Percentage Increase (Decrease) Assuming No Changes in FX Rates [a]
Worldwide[b]				
Total billed business	5 %	4 %	%	1 %
Proprietary billed business	4	4	(1)	(1)
GNS billed business[c]	6	5	6	10
Airline-related volume (8% of worldwide billed business for both 2017 and 2016)	3	3	(4)	(3)
United States[b]				
Billed business	1		(3)	
Proprietary consumer card billed business[d]	(2)		(7)	
Proprietary small business and corporate services billed business[e]	6		2	
T&E-related volume (25% of U.S. billed business for both 2017 and 2016)			(3)	
Non-T&E-related volume (75% of U.S. billed business for both 2017 and 2016)	1		(3)	
Airline-related volume (7% of U.S. billed business for both 2017 and 2016)			(7)	
Outside the United States[b]				
Billed business	12	11	6	10
Japan, Asia Pacific & Australia (JAPA) billed business	13	12	14	14
Latin America & Canada (LACC) billed business	10	9	(6)	6
Europe, the Middle East & Africa (EMEA) billed business	12	10	2	8

Proprietary consumer card billed business[(c)]	13	13	4	8
Proprietary small business and corporate services billed business[(e)]	14 %	12 %	3 %	7 %

(a) 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 year 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.
(c) Included in the ICNS segment.
(d) Included in the USCS segment.
(e) Included in the GCS segment.

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TABLE 7: SELECTED CREDIT-RELATED STATISTICAL INFORMATION

As of or for the Years Ended December 31, (Millions, except percentages and where indicated)	2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
Worldwide Card Member loans [(a)]					
Total loans (billions)	$73.4	$65.3	$58.6	12 %	11 %
Loss reserves:					
Beginning balance	1,223	1,028	1,201	19	(14)
Provisions [(b)]	1,868	1,235	1,190	51	4
Net write-offs — principal only [(c)]	(1,181)	(930)	(967)	27	(4)
Net write-offs — interest and fees [(c)]	(227)	(175)	(162)	30	8
Transfer of reserves on HFS loan portfolios			(224)		#
Other [(d)]	23	65	(10)	(65)	#
Ending balance	$1,706	$1,223	$1,028	39	19
Ending reserves — principal	$1,622	$1,160	$975	40	19
Ending reserves — interest and fees	$84	$63	$53	33	19
% of loans	2.3 %	1.9 %	1.8 %		
% of past due	177 %	161 %	164 %		
Average loans (billions)[(a)]	$66.7	$59.9	$67.9	11 %	(12)%
Net write-off rate — principal only [(e)]	1.8 %	1.6 %	1.4 %		
Net write-off rate — principal, interest and fees [(e)]	2.1 %	1.8 %	1.7 %		
30+ days past due as a % of total [(e)]	1.3 %	1.2 %	1.1 %		
Worldwide Card Member receivables[(a)]					
Total receivables (billions)	$54.0	$47.3	$44.1	14 %	7 %
Loss reserves:					
Beginning balance	467	462	465	1	(1)
Provisions [(b)]	795	696	737	14	(6)
Net write-offs [(c)]	(736)	(674)	(713)	9	(5)
Other [(f)]	(5)	(17)	(27)	(71)	(37)
Ending balance	$521	$467	$462	12 %	1 %
% of receivables	1.0 %	1.0 %	1.0 %		
Net write-off rate — principal only [(e)]	1.6 %	1.5 %	1.8 %		
Net write-off rate — principal and fees [(e)]	1.7 %	1.8 %	2.0 %		
30+ days past due as a % of total [(e)]	1.4 %	1.4 %	1.5 %		
Net loss ratio as a % of charge volume — GCP	0.10 %	0.09 %	0.09 %		
90+ days past billing as a % of total — GCP	0.9 %	0.9 %	0.9 %		

# Denotes a variance greater than 100 percent

(a) Beginning December 1, 2015 through to the sale completion dates, did not reflect the HFS portfolios.

(b) Reflects provisions for principal, interest and/or fees on Card Member loans and receivables. Refer to Table 3 footnote (a).

(c) Write-offs, less recoveries.

(d) 2016 included reserves associated with Card Member loans reclassified from HFS to held for investment. Refer to Changes in Card Member loans reserve for losses under Note 4 to the “Consolidated Financial Statements” for additional information.

(e)

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, because we consider uncollectible interest and/or fees in our reserves for credit 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 USCS, ICNS and Global Small Business Services (GSBS) Card Member receivables. The twelve months ended December 31, 2015 reflect the impact of a change in the timing of charge-offs for Card Member loans and receivables in certain modification programs from 180 days past due to 120 days past due.

(f) 2015 included the impact of the transfer of the HFS receivables portfolio, which was not significant.

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TABLE 8: NET INTEREST YIELD ON AVERAGE CARD MEMBER LOANS

Years Ended December 31, (Millions, except percentages and where indicated)	2017	2016	2015
Net interest income	$6,441	$5,771	$5,922
Exclude:			
Interest expense not attributable to our Card Member loan portfolio [a]	1,170	984	952
Interest income not attributable to our Card Member loan portfolio [b]	(636)	(403)	(357)
Adjusted net interest income [c]	$6,975	$6,352	$6,517
Average Card Member loans including HFS loan portfolios (billions)[d]	$66.7	$65.8	$69.0
Net interest income divided by average Card Member loans	9.7 %	8.8 %	8.6 %
Net interest yield on average Card Member loans [c]	10.5 %	9.6 %	9.4 %

(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 our Travelers Cheque and other stored-value investment portfolio.

(c) 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 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.

(d) Beginning December 1, 2015 through to the sale completion dates, for the purposes of the calculation of net interest yield on average Card Member loans, average Card Member loans included the HFS loan portfolios.

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BUSINESS SEGMENT RESULTS

We consider a combination of factors when evaluating the composition of our reportable operating segments, including the results reviewed by the chief operating decision maker, economic characteristics, products and services offered, classes of customers, product distribution channels, geographic considerations (primarily United States versus outside the United States) and regulatory considerations.
Effective for the first quarter of 2016, we realigned our segment presentation to reflect the organizational changes announced during the fourth quarter of 2015. Prior periods have been restated to conform to the new reportable operating segments. Refer to Note 25 to the “Consolidated Financial Statements” for additional discussion of products and services that comprise each segment.
Results of the business segments generally treat each segment as a stand-alone business. The management reporting process that derives these results allocates revenue and expense using various methodologies as described below.

TOTAL REVENUES NET OF INTEREST EXPENSE

We allocate discount revenue and certain other revenues among segments using a transfer pricing methodology. Within the USCS, ICNS and GCS segments, discount revenue generally reflects the issuer component of the overall discount revenue generated by each segment’s Card Members; within the GMS segment, discount revenue generally reflects the network and acquirer component of the overall discount revenue.
Net card fees and other fees and commissions are directly attributable to the segment in which they are reported.
Interest and fees on loans and certain investment income is directly attributable to the segment in which it is reported.
Interest expense represents an allocated funding cost based on a combination of segment funding requirements and internal funding rates.

PROVISIONS FOR LOSSES

The provisions for losses are directly attributable to the segment in which they are reported.

EXPENSES

Marketing and promotion expense is included in each segment based on the actual expenses incurred. Global brand advertising is primarily reflected in Corporate & Other and may be allocated to the segments based on the actual expense incurred. Rewards and Card Member services expense is included in each segment based on the actual expenses incurred within the segment.
Salaries and employee benefits and other operating expense reflects expenses such as professional services, occupancy and equipment and communications incurred directly within each segment. In addition, expenses related to support services, such as technology costs, are allocated to each segment primarily based on support service activities directly attributable to the segment. Other overhead expenses, such as staff group support functions, are allocated from Corporate & Other to the other segments based on a mix of each segment’s direct consumption of services and relative level of pretax income.

INCOME TAXES

An income tax provision (benefit) is allocated to each business segment based on the effective tax rates applicable to the various businesses that comprise the segment. The previously-mentioned $2.6 billion charge related to the Tax Act has been allocated in full to Corporate & Other.

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U.S. CONSUMER SERVICES

TABLE 9: USCS SELECTED INCOME STATEMENT DATA

Years Ended December 31, (Millions, except percentages)	2017	2016	2015	Change 2017 vs. 2016		Change 2016 vs. 2015	
Revenues							
Non-interest revenues	$7,923	$7,874	$8,479	$49	1 %	$(605)	(7)%
Interest income	5,755	5,082	5,198	673	13	(116)	(2)
Interest expense	742	536	488	206	38	48	10
Net interest income	5,013	4,546	4,710	467	10	(164)	(3)
Total revenues net of interest expense	12,936	12,420	13,189	516	4	(769)	(6)
Provisions for losses	1,630	1,065	1,064	565	53	1	
Total revenues net of interest expense after provisions for losses	11,306	11,355	12,125	(49)		(770)	(6)
Expenses							
Marketing, promotion, rewards, Card Member services and other	5,695	5,416	5,382	279	5	34	1
Salaries and employee benefits and other operating expenses	2,808	2,058	3,066	750	36	(1,008)	(33)
Total expenses	8,503	7,474	8,448	1,029	14	(974)	(12)
Pretax segment income	2,803	3,881	3,677	(1,078)	(28)	204	6
Income tax provision	912	1,368	1,322	(456)	(33)	46	3
Segment income	$1,891	$2,513	$2,355	$(622)	(25)%	$158	7 %
Effective tax rate	32.5 %	35.2 %	36.0 %				

USCS issues a wide range of proprietary consumer cards and provides services to consumers in the United States, including travel services.

TOTAL REVENUES NET OF INTEREST EXPENSE

Non-interest revenues was relatively flat in 2017 compared to 2016, primarily driven by a decrease in discount revenue, offset by increases in net card fees and other fees and commissions. Discount revenue decreased $133 million, reflecting a decrease in billed business of 2 percent due to Costco-related volumes included in the prior year. Net card fees and other fees and commissions increased driven by growth in the Platinum and Delta portfolios and higher delinquency fees, respectively.

Net interest income increased in 2017 compared to 2016, primarily driven by growth in average Card Member loans and higher yields, partially offset by higher interest expense, primarily driven by marginally higher cost of funds. The growth in average Card Member loans was primarily driven by a mix shift over time towards non-cobrand lending products, where Card Members tend to revolve more of their loan balances. The increase in yields was primarily driven by a greater percentage of loans at higher rate buckets, specific pricing actions, and increases in benchmark interest rates.

Total revenues net of interest expense decreased in 2016 compared to 2015, primarily driven by lower discount revenue, reflecting a decrease in billed business of 7 percent primarily driven by lower Costco-related volumes and increases in contra-discount revenues, such as cash rebate rewards. The decrease also reflected lower net interest income, primarily driven by lower Costco cobrand loans and higher interest expense, partially offset by modestly higher average rates and an increase in average Card Member loans across other lending products.

PROVISIONS FOR LOSSES

Provisions for losses increased in 2017 compared to 2016, primarily driven by Card Member loans provision, which increased $514 million due to strong loan growth, as well as increases in delinquencies and higher net write-off rates primarily due to the seasoning of recent loan vintages and a shift in mix over time towards non-cobrand lending products, which tend to have higher write-off rates.

Provisions for losses was relatively flat in 2016 compared to 2015. Card Member loans provision increased $16 million primarily driven by higher loan balances, increased net write-offs and a slight increase in delinquencies, partially offset by the impact of the HFS portfolios as 2016 did not reflect the associated credit costs.

Refer to Table 10 for the charge card and lending write-off rates for 2017, 2016 and 2015.

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EXPENSES

Marketing, promotion, rewards, Card Member services and other expenses increased in 2017 compared to 2016, reflecting higher Card Member rewards and Card Member services and other expenses, partially offset by lower marketing and promotion expenses. Card Member rewards expense increased $218 million, primarily driven by enhancements to Platinum rewards and increased spending volumes, partially offset by Costco-related expenses in the prior year. Card Member services and other expense increased $173 million driven by higher usage of travel-related benefits and enhanced Platinum card benefits. Marketing and promotion expenses decreased $112 million due to lower spending on growth initiatives.
Salaries and employee benefits and other operating expense increased in 2017 compared to 2016, primarily reflecting the gains on the sales of the HFS portfolios in the prior year, which were recognized as an expense reduction in other expenses, partially offset by lower technology and other servicing-related costs in the current year and restructuring charges in the prior year.
Total expenses decreased in 2016 compared to 2015, primarily driven by lower salaries and employee benefits and other operating expenses, largely reflecting the gains on the sales of the HFS portfolios as previously mentioned.

Income tax provision decreased in 2017 compared to 2016, primarily reflecting the impact of recurring permanent tax benefits on the lower level of pretax income.

TABLE 10: USCS SELECTED STATISTICAL INFORMATION

As of or for the Years Ended December 31,				Change 2017 vs. 2016	Change 2016 vs. 2015
(Millions, except percentages and where indicated)	2017	2016	2015		
Card billed business (billions)	$337.0	$345.3	$370.1	(2)%	(7)%
Charge card billed business as a % of total	36.4 %	34.7 %	32.4 %		
Total cards-in-force	34.9	32.7	40.7	7	(20)
Basic cards-in-force	25.0	23.3	28.6	7	(19)
Average basic Card Member spending (dollars)	$13,950	$13,447	$13,441	4	
Total segment assets (billions)	$94.2	$87.4	$92.7	8	(6)
Card Member loans:[a]					
Total loans (billions)	$53.7	$48.8	$43.5	10	12
Average loans (billions)	$48.9	$44.4	$51.1	10 %	(13)%
Net write-off rate — principal only[b]	1.8 %	1.5 %	1.4 %		
Net write-off rate — principal, interest and fees[b]	2.1 %	1.8 %	1.6 %		
30+ days past due loans as a % of total	1.3 %	1.1 %	1.0 %		
Calculation of Net Interest Yield on Average Card Member loans:					
Net interest income	$5,013	$4,546	$4,710		
Exclude:					
Interest expense not attributable to our Card Member loan portfolio [c]	120	80	72		
Interest income not attributable to our Card Member loan portfolio [d]	(101)	(24)	(15)		
Adjusted net interest income [e]	$5,032	$4,602	$4,767		

Average Card Member loans including HFS loan portfolios (billions)[f]	$48.9		$49.4		$52.1					
Net interest income divided by average Card Member loans	10.3	%	9.2	%	9.0	%				
Net interest yield on average Card Member loans [e]	10.3	%	9.3	%	9.2	%				
Card Member receivables:[a]										
Total receivables (billions)	$13.1		$12.3		$11.8		7	%	4	%
Net write-off rate — principal only[b]	1.3	%	1.4	%	1.6	%				
Net write-off rate — principal and fees[b]	1.4	%	1.6	%	1.8	%				
30+ days past due as a % of total	1.1	%	1.2	%	1.4	%				

(a) Refer to Table 7 footnote (a).

(b) Refer to Table 7 footnote (e).
(c) Refer to Table 8 footnote (a).
(d) Refer to Table 8 footnote (b).
(e) Refer to Table 8 footnote (c).
(f) Refer to Table 8 footnote (d).

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INTERNATIONAL CONSUMER AND NETWORK SERVICES

TABLE 11: ICNS SELECTED INCOME STATEMENT DATA

Years Ended December 31,				Change 2017 vs. 2016		Change 2016 vs. 2015	
(Millions, except percentages)	2017	2016	2015				
Revenues							
Non-interest revenues	$5,052	$4,785	$4,627	$267	6 %	$158	3 %
Interest income	1,029	922	945	107	12	(23)	(2)
Interest expense	251	219	235	32	15	(16)	(7)
Net interest income	778	703	710	75	11	(7)	(1)
Total revenues net of interest expense	5,830	5,488	5,337	342	6	151	3
Provisions for losses	367	325	300	42	13	25	8
Total revenues net of interest expense after provisions for losses	5,463	5,163	5,037	300	6	126	3
Expenses							
Marketing, promotion, rewards, Card Member services and other	2,341	2,177	1,980	164	8	197	10
Salaries and employee benefits and other operating expenses	2,029	2,168	2,153	(139)	(6)	15	1
Total expenses	4,370	4,345	4,133	25	1	212	5
Pretax segment income	1,093	818	904	275	34	(86)	(10)
Income tax provision	181	163	220	18	11	(57)	(26)
Segment income	$912	$655	$684	$257	39%	$(29)	(4)%
Effective tax rate	16.6 %	19.9 %	24.3 %				

ICNS issues a wide range of proprietary consumer cards outside the United States and enters into partnership agreements with third-party card issuers and acquirers, licensing the American Express brand and extending the reach of the global network. It also provides travel services outside the United States.

TOTAL REVENUES NET OF INTEREST EXPENSE

Non-interest revenues increased in 2017 compared to 2016, primarily driven by higher discount revenue due to an increase in both proprietary and non-proprietary (i.e., GNS) billed business, as well as higher net card fees, partially offset by a prior-year contractual payment from a GNS partner. Total billed business increased in 2017 compared to 2016, reflecting higher average proprietary spend per card. Refer to Tables 6 and 12 for additional information on billed business.

Net interest income increased in 2017 compared to 2016, primarily driven by an increase in interest income, reflecting higher average loan balances and higher yields, partially offset by an increase in interest expense driven by higher average debt.

Total revenues net of interest expense increased in 2016 compared to 2015, primarily driven by higher discount revenue due to an increase in both proprietary and non-proprietary billed business, a contractual payment from a GNS partner, as previously mentioned, and higher net card fees.

PROVISIONS FOR LOSSES

Provisions for losses increased in 2017 compared to 2016, due to strong growth in both Card Member receivables and loans, as well as a slight increase in net write-off rates.
Provisions for losses increased in 2016 compared to 2015, driven primarily by higher net write-off rates. Refer to Table 12 for Card Member loans and receivables write-off rates for 2017, 2016 and 2015.

EXPENSES

Marketing, promotion, rewards, Card Member services and other expenses increased in 2017 compared to 2016, primarily driven by higher Card Member rewards expense due to higher spending volumes, partially offset by lower marketing and promotion expenses in part due to lower spending on growth initiatives.
Salaries and employee benefits and other operating expense decreased in 2017 compared to 2016, primarily driven by lower salaries and employee benefits costs, and restructuring charges in the prior year.
Total expenses increased in 2016 compared to 2015, primarily driven by higher levels of spending on growth initiatives.
Income tax provision increased in 2017 compared to 2016 and decreased in 2016 compared to 2015. The effective tax rate in all periods reflects the impact of recurring permanent tax benefits both in relation to the segment's ongoing funding activities outside the United States, which is allocated to ICNS under our internal tax allocation process, and on varying levels of pretax income. In addition, the effective tax rates for all periods reflect the allocated share of tax benefits related to the resolution of certain prior-years’ items.

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TABLE 12: ICNS SELECTED STATISTICAL INFORMATION

As of or for the Years Ended December 31, (Millions, except percentages and where indicated)	2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
Card billed business (billions)					
Proprietary	$119.7	$105.9	$102.1	13 %	4 %
GNS	184.6	173.7	164.4	6	6
Total	$304.3	$279.6	$266.5	9	5
Total cards-in-force					
Proprietary	15.7	15.0	14.6	5	3
GNS	48.2	48.6	47.4	(1)	3
Total	63.9	63.6	62.0		3
Proprietary basic cards-in-force	10.8	10.3	9.9	5	4
Average proprietary basic Card Member spending (dollars)	$11,225	$10,386	$10,308	8	1
Total segment assets (billions)	$38.9	$35.7	$35.1	9	2
Card Member loans:[(a)]					
Total loans (billions)	$8.7	$7.0	$7.1	24	(1)
Average loans (billions)	$7.4	$6.8	$7.0	9 %	(3)%
Net write-off rate principal only[(b)]	2.1 %	2.0 %	1.9 %		
Net write-off rate principal, interest and fees[(b)]	2.5 %	2.5 %	2.4 %		
30+ days past due loans as a % of total	1.4 %	1.6 %	1.6 %		
Calculation of Net Interest Yield on Average Card Member Loans:					
Net interest income	$778	$703	$710		
Exclude:					
Interest expense not attributable to our Card Member loan portfolio[(c)]	61	44	56		
Interest income not attributable to our Card Member loan portfolio[(d)]	(13)	(7)	(18)		
Adjusted net interest income [(e)]	$826	$740	$748		
Average Card Member loans (billions)	$7.4	$6.8	$7.0		
Net interest income divided by average Card Member loans	10.5 %	10.3 %	10.1 %		
Net interest yield on average Card Member loans [(e)]	11.1 %	10.9 %	10.6 %		
Card Member receivables:[(a)]					
Total receivables (billions)	$7.8	$6.0	$5.6	30 %	7 %
Net write-off rate principal only[(b)]	2.0 %	2.0 %	2.1 %		
Net write-off rate principal and fees[(b)]	2.1 %	2.2 %	2.3 %		
30+ days past due as a % of total	1.3 %	1.3 %	1.5 %		

(a) Refer to Table 7 footnote (a).
(b) Refer to Table 7 footnote (e).
(c) Refer to Table 8 footnote (a).
(d) Refer to Table 8 footnote (b).
(e) Refer to Table 8 footnote (c).

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GLOBAL COMMERCIAL SERVICES

TABLE 13: GCS SELECTED INCOME STATEMENT DATA

Years Ended December 31, (Millions, except percentages)	2017	2016	2015	Change 2017 vs. 2016		Change 2016 vs. 2015	
Revenues							
Non-interest revenues	$9,463	$9,007	$8,930	$456	5 %	$77	1 %
Interest income	1,361	1,209	1,175	152	13	34	3
Interest expense	540	401	365	139	35	36	10
Net interest income	821	808	810	13	2	(2)	
Total revenues net of interest expense	10,284	9,815	9,740	469	5	75	1
Provisions for losses	744	604	588	140	23	16	3
Total revenues net of interest expense after provisions for losses	9,540	9,211	9,152	329	4	59	1
Expenses							
Marketing, promotion, rewards, Card Member services and other	3,724	3,398	3,142	326	10	256	8
Salaries and employee benefits and other operating expenses	2,817	2,868	2,846	(51)	(2)	22	1
Total expenses	6,541	6,266	5,988	275	4	278	5
Pretax segment income	2,999	2,945	3,164	54	2	(219)	(7)
Income tax provision	972	1,036	1,142	(64)	(6)	(106)	(9)
Segment income	$2,027	$1,909	$2,022	$118	6 %	$(113)	(6)%
Effective tax rate	32.4 %	35.2 %	36.1 %				

GCS 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.

TOTAL REVENUES NET OF INTEREST EXPENSE

Non-interest revenues increased in 2017 compared to 2016, primarily driven by higher discount revenue due to increases in billed business, partially offset by increased contra-discount revenue driven by higher client incentives due to higher volumes. The increase in non-interest revenues 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 increased in 2017 compared to 2016, primarily driven by an increase in average Card Member loans and higher yields, partially offset by higher interest expense, reflecting an increase in the cost of funds.

Total revenues net of interest expense were relatively flat in 2016 compared to 2015, reflecting lower Costco-related revenues.

PROVISIONS FOR LOSSES

Provisions for losses increased in both periods. The increase in 2017 compared to 2016 was primarily due to growth in both Card Member receivables and loans, as well as increases in net write-off and delinquency rates, all of which were partially offset by improving credit performance in the commercial financing portfolio. The increase in 2016 compared to 2015 was primarily driven by growth in the commercial financing portfolio, resulting in higher net write-offs.

EXPENSES

Marketing, promotion, rewards, Card Member services and other expenses increased in 2017 compared to 2016, primarily driven by higher Card Member rewards expenses, which increased $420 million, partially offset by lower marketing and promotion expenses as a result of reduced levels of spending on growth initiatives. The higher Card Member rewards expenses were primarily driven by enhancements to Platinum rewards and higher spending volumes, partially offset by Costco-related expenses in the prior year.

Salaries and employee benefits and other operating expense decreased in 2017 compared to 2016, primarily driven by lower technology and other servicing-related costs in the current year and the prior-year HFS valuation allowance adjustment and restructuring charges, all of which were partially offset by the prior-year gains on the sales of the HFS portfolios.

Total expenses increased in 2016 compared to 2015, primarily driven by increased marketing and promotion expense as a result of higher levels of spending on growth initiatives, higher Card Member rewards expenses resulting from higher spending volumes and the gains on the sales of the HFS portfolios, partially offset by lower Costco-related rewards expenses and restructuring charges.

Income tax provision decreased in 2017 compared to 2016, primarily reflecting the geographic mix of business and the allocated share of tax benefits related to the realization of certain foreign tax credits.

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TABLE 14: GCS SELECTED STATISTICAL INFORMATION

As of or for the Years Ended December 31, (Millions, except percentages and where indicated)	2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
Card billed business (billions)	$438.1	$408.0	$398.6	7 %	2 %
Total cards-in-force	14.0	13.6	15.1	3	(10)
Basic cards-in-force	14.0	13.6	15.1	3	(10)
Average basic Card Member spending (dollars)	$31,729	$28,515	$26,860	11	6
Total segment assets (billions)	$52.6	$46.5	$45.1	13	3
Card Member loans (billions)	$11.1	$9.5	$8.0	17	19
Card Member receivables (billions)	$33.1	$29.0	$26.7	14	9
Card Member loans:[a]					
Total loans - GSBS (billions)	$11.0	$9.5	$8.0	16	19
Average loans - GSBS (billions)	$10.3	$8.6	$9.7	20 %	(11)%
Net write-off rate (principal only) - GSBS[b]	1.6 %	1.4 %	1.3 %		
Net write-off rate (principal, interest and fees) - GSBS[b]	1.9 %	1.7 %	1.5 %		
30+ days past due as a % of total - GSBS	1.2 %	1.1 %	1.1 %		
Calculation of Net Interest Yield on Average Card Member Loans:					
Net interest income	$821	$809	$810		
Exclude:					
Interest expense not attributable to our Card Member loan portfolio[c]	409	312	286		
Interest income not attributable to our Card Member loan portfolio [d]	(113)	(111)	(94)		
Adjusted net interest income[e]	$1,117	$1,010	$1,002		
Average Card Member loans including HFS loan portfolios (billions)[f]	$10.3	$9.7	$9.9		
Net interest income divided by average Card Member loans	8.0 %	8.3 %	8.2 %		
Net interest yield on average Card Member loans[e]	10.8 %	10.4 %	10.1 %		
Card Member receivables:[a]					
Total receivables - GCP (billions)	$17.0	$14.8	$13.8	15 %	7 %
90 days past billing as a % of total - GCP[g]	0.9 %	0.9 %	0.9 %		
Net loss ratio (as a % of charge volume) - GCP	0.10 %	0.09 %	0.09 %		
Total receivables - GSBS (billions)	$16.1	$14.3	$12.9	13 %	11 %
Net write-off rate (principal only) - GSBS[b]	1.6 %	1.5 %	1.8 %		
Net write-off rate (principal, interest and fees) - GSBS[b]	1.8 %	1.7 %	2.1 %		
30+ days past due as a % of total - GSBS	1.6 %	1.6 %	1.7 %		

(a) Refer to Table 7 footnote (a).
(b) Refer to Table 7 footnote (e).
(c) Refer to Table 8 footnote (a).
(d) Refer to Table 8 footnote (b).
(e) Refer to Table 8 footnote (c).
(f) Refer to Table 8 footnote (d).

(g) 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.

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GLOBAL MERCHANT SERVICES

TABLE 15: GMS SELECTED INCOME STATEMENT DATA

Years Ended December 31, (Millions, except percentages)	2017	2016	2015	Change 2017 vs. 2016		Change 2016 vs. 2015	
Revenues							
Non-interest revenues	$4,333	$4,235	$4,471	$98	2 %	$(236)	(5)%
Interest income	1	1	1				
Interest expense	(262)	(237)	(211)	(25)	11	(26)	12
Net interest income	263	238	212	25	11	26	12
Total revenues net of interest expense	4,596	4,473	4,683	123	3	(210)	(4)
Provisions for losses	15	25	31	(10)	(40)	(6)	(19)
Total revenues net of interest expense after provisions for losses	4,581	4,448	4,652	133	3	(204)	(4)
Expenses							
Marketing, promotion, rewards, Card Member services and other	182	232	294	(50)	(22)	(62)	(21)
Salaries and employee benefits and other operating expenses	2,010	1,921	1,977	89	5	(56)	(3)
Total expenses	2,192	2,153	2,271	39	2	(118)	(5)
Pretax segment income	2,389	2,295	2,381	94	4	(86)	(4)
Income tax provision	815	837	882	(22)	(3)	(45)	(5)
Segment income	$1,574	$1,458	$1,499	$116	8 %	$(41)	(3)%
Effective tax rate	34.1 %	36.5 %	37.0 %				

GMS operates a global payments network that processes and settles proprietary and non-proprietary card transactions. GMS acquires merchants and provides multi-channel marketing programs and capabilities, services and data analytics, leveraging our global integrated network. GMS also operates loyalty coalition businesses in certain countries around the world.

TOTAL REVENUES NET OF INTEREST EXPENSE

Non-interest revenues increased in 2017 compared to 2016, primarily driven by an increase in discount revenue, which reflected growth in billed business, and an increase in loyalty coalition revenues, partially offset by Costco-related revenues in the prior year.

Net interest income increased in 2017 compared to 2016, reflecting a higher interest expense credit relating to internal transfer pricing and funding rates, which resulted in a net benefit for GMS due to its merchant payables.

Total revenues net of interest expense decreased in 2016 compared to 2015, primarily due to a decrease in non-interest revenues as a result of lower Costco-related revenues.

PROVISIONS FOR LOSSES

Provisions for losses decreased in both periods of comparison, primarily driven by lower net write-offs.

EXPENSES

Marketing, promotion, rewards, Card Member services and other expenses decreased in 2017 compared to 2016, reflecting lower levels of spending on growth initiatives.
Salaries and employee benefits and other operating expense increased in 2017 compared to 2016, primarily driven by charges related to the U.S. loyalty coalition business, partially offset by a benefit from a change in the liability related to non-delivery of goods and services by merchants and continued growth of the OptBlue program, which does not entail merchant acquirer payments.
Total expenses decreased in 2016 compared to 2015, primarily driven by lower marketing and promotion expenses and lower operating expenses driven by the growth of the OptBlue program as described above.
Income tax provision decreased in 2017 compared to 2016, primarily reflecting the allocated share of tax benefits related to the realization of certain foreign tax credits.

TABLE 16: GMS SELECTED STATISTICAL INFORMATION

As of or for the Years Ended December 31,				Change 2017 vs. 2016	Change 2016 vs. 2015
(Millions, except percentages and where indicated)	2017	2016	2015		
Loyalty Coalition revenue	$453	$410	$378	10 %	8 %
Average discount rate	2.43%	2.45%	2.46%		
Total segment assets (billions)	$29.0	$24.3	$23.5	19 %	3 %

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CORPORATE & OTHER

Corporate functions and certain other businesses, including our Prepaid Services business, are included in Corporate & Other.

Corporate & Other net expense was $3.7 billion, $1.1 billion and $1.4 billion in 2017, 2016 and 2015, respectively. The increase in 2017 compared to 2016 was primarily driven by the previously-mentioned Tax Act charge, partially offset by higher restructuring charges in the prior year. The decrease in 2016 compared to 2015 was primarily driven by impairment charges in 2015 and higher income from our Prepaid Services business in 2016, all partially offset by restructuring charges in 2016 and a benefit in 2015 from the reassessment of the functional currency of certain UK legal entities and other FX-related activity.

Results for all periods included net interest expense related to maintaining the liquidity requirements discussed in “Consolidated Capital Resources and Liquidity – Liquidity Management,” as well as interest expense related to other corporate indebtedness.

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CONSOLIDATED CAPITAL RESOURCES AND LIQUIDITY

Our balance sheet management objectives are to maintain:

- A 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.

CAPITAL STRATEGY

Our objective is to retain sufficient levels of capital generated through earnings and other sources to maintain a solid equity capital base and to provide flexibility to support future business growth. We believe capital allocated to growing businesses with a return on risk-adjusted equity in excess of our costs will generate shareholder value.

The level and composition of our consolidated capital position are determined through our Internal Capital Adequacy Assessment Process, which takes into account our business activities, as well as marketplace conditions and requirements or expectations of credit rating agencies, regulators and shareholders, among others. Our consolidated capital position is also influenced by subsidiary capital requirements. As a bank holding company, we are also subject to regulatory requirements administered by the U.S. federal banking agencies. The Federal Reserve has established specific capital adequacy guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items.

We report our capital ratios using the Basel III capital definitions, inclusive of transition provisions, and the Basel III standardized approach for calculating risk-weighted assets (see section on Transitional Basel III). The Basel III standards will be fully phased in by January 1, 2019 (see section on Fully Phased-in Basel III).

We also report capital adequacy standards on a parallel basis to regulators under Basel requirements for advanced approaches institutions. The parallel period will continue until we receive regulatory approval to exit parallel reporting, at which point we will begin publicly disclosing regulatory risk-based capital ratios using both the standardized and advanced approaches, and will be required to use the lower of the regulatory risk-based capital ratios based on the standardized or advanced approaches to determine whether we are in compliance with minimum capital requirements.

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The following table presents our regulatory risk-based capital ratios and leverage ratios and those of our significant bank subsidiaries, American Express Centurion Bank (Centurion Bank) and American Express Bank, FSB (American Express Bank), as of December 31, 2017.

TABLE 17: REGULATORY RISK-BASED CAPITAL AND LEVERAGE RATIOS

	Basel III Standards 2017[(a)]	Ratios as of December 31, 2017
Risk-Based Capital		
Common Equity Tier 1	5.8 %	
American Express Company		9.0 %
American Express Centurion Bank		12.7
American Express Bank, FSB		12.9
Tier 1	7.3	
American Express Company		10.1
American Express Centurion Bank		12.7
American Express Bank, FSB		12.9
Total	9.3	
American Express Company		11.8
American Express Centurion Bank		14.0
American Express Bank, FSB		14.2
Tier 1 Leverage	4.0	
American Express Company		8.6
American Express Centurion Bank		10.2
American Express Bank, FSB		11.7
Supplementary Leverage Ratio [(b)]	3.0 %	
American Express Company		7.4
American Express Centurion Bank		8.1
American Express Bank, FSB		9.7 %

(a) Transitional Basel III minimum capital requirement and additional capital conservation buffer as defined by the Federal Reserve for calendar year 2017 for advanced approaches institutions.

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

TABLE 18: REGULATORY RISK-BASED CAPITAL COMPONENTS AND RISK-WEIGHTED ASSETS

American Express Company ($ in Billions)	December 31, 2017
Risk-Based Capital	
Common Equity Tier 1	$ 13.2
Tier 1 Capital	14.7
Tier 2 Capital[(a)]	2.4
Total Capital	17.1
Risk-Weighted Assets	145.9
Average Total Assets to calculate the Tier 1 Leverage Ratio	171.2
Total Leverage Exposure to calculate SLR	$ 198.8

(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 the regulatory agencies with oversight of American Express, Centurion Bank and American Express Bank to take actions that could limit our business operations.

Due to the Tax Act impact of $2.6 billion, we reported a net loss in the fourth quarter. The net loss, combined with growth in the balance sheet and continued capital return in the quarter, resulted in a decline in our Common Equity Tier 1 Risk-Based Capital ratio to 9.0 percent, which is below the level we had projected in the 2017 CCAR process. As a result, we have suspended our share repurchase program for the first half of 2018 in order to rebuild our capital levels.

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.

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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 and subject to transition provisions.

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.

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.

FULLY PHASED-IN BASEL III

Basel III, when fully phased in, will require bank holding companies and their bank subsidiaries to maintain more capital than prior requirements, with a greater emphasis on common equity. The following table presents our estimates for our regulatory risk-based capital ratios and leverage ratios had Basel III been fully phased in as of December 31, 2017. These ratios are calculated using the standardized approach for determining risk-weighted assets. As noted previously, we are currently taking steps toward Basel III advanced approaches implementation in the United States. We believe the presentation of these ratios is helpful to investors by showing the impact of future regulatory capital standards on our capital and leverage ratios.

TABLE 19: ESTIMATED FULLY PHASED-IN BASEL III CAPITAL AND LEVERAGE RATIOS

($ in Billions)	December 31, 2017	
Estimated Common Equity Tier 1 Ratio under Fully Phased-In Basel III[(a)]	8.8	%
Estimated Tier 1 Capital Ratio under Fully Phased-In Basel III [(a)]	9.9	
Estimated Tier 1 Leverage Ratio under Fully Phased-In Basel III[(b)]	8.5	
Estimated Supplementary Leverage Ratio under Fully Phased-In Basel III [(b)]	7.3	%

Estimated Risk-Weighted Assets under Fully Phased-In Basel III[c]	$ 146.7
Estimated Average Total Assets to calculate the Tier 1 Leverage Ratio[b]	171.0
Estimated Total Leverage Exposure to calculate SLR under Fully Phased-In Basel III [d]	$ 198.7

(a) The Fully Phased-in Basel III Common Equity Tier 1 and Tier 1 risk-based capital ratios, non-GAAP measures, are calculated as Common Equity Tier 1 or Tier 1 capital under Fully Phased-in Basel III rules, as applicable, divided by risk-weighted assets under Fully Phased-in Basel III rules. Refer to Table 20 for a reconciliation of Common Equity Tier 1 and Tier 1 capital under Fully Phased-in Basel III rules to Common Equity Tier 1 and Tier 1 capital under Transitional Basel III rules.

(b) The Fully Phased-in Basel III Tier 1 and SLRs, non-GAAP measures, are calculated by dividing Fully Phased-in Basel III Tier 1 capital by our average total assets and Fully Phased-in total leverage exposure for SLR purposes under Fully Phased-in Basel III, respectively.

(c) Estimated Fully Phased-in Basel III risk-weighted assets, a non-GAAP measure, reflect our Basel III risk-weighted assets, with all transition provisions fully phased in. This includes incremental risk weighting applied to deferred tax assets and significant investments in unconsolidated financial institutions, as well as exposures to past due accounts, equities and sovereigns.

(d) Estimated Fully Phased-in Basel III Leverage Exposure, a non-GAAP measure, reflects average total consolidated assets with adjustments for Tier 1 capital deductions on a fully phased-in basis, off-balance sheet derivatives, undrawn conditionally and unconditionally cancellable commitments and other off-balance sheet liabilities.

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The following table presents a comparison of our CET1 and Tier 1 risk-based capital under Transitional Basel III rules to our estimated CET1 and Tier 1 risk-based capital under Fully Phased-in Basel III rules as of December 31, 2017.

TABLE 20: TRANSITIONAL BASEL III VERSUS FULLY PHASED-IN BASEL III

(Billions)	CET1	Tier 1
Risk-Based Capital under Transitional Basel III	$ 13.2	$ 14.7
Adjustments related to:		
AOCI	(0.1)	(0.1)
Transition provisions for intangible assets	(0.2)	(0.2)
Estimated CET1 and Tier 1 Risk-Based Capital under Fully Phased-in Basel III	$ 12.9	$ 14.4

Fully Phased-in Basel III Risk-Weighted Assets — Reflects our Basel III risk-weighted assets, with all transition provisions fully phased in. This includes incremental risk weighting applied to deferred tax assets and significant investments in unconsolidated financial institutions, as well as exposures to past due accounts, equities and sovereigns.

Fully Phased-in Basel III Tier 1 Leverage Ratio — Calculated by dividing Fully Phased-in Basel III Tier 1 capital by our average total consolidated assets.

Fully Phased-in Basel III SLR — Calculated by dividing Fully Phased-in Basel III Tier 1 capital by our Fully Phased-in total leverage exposure for SLR purposes under Fully Phased-in Basel III.

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. During the year ended December 31, 2017, we returned $5.5 billion to our shareholders in the form of common stock dividends of $1.2 billion and share repurchases of $4.3 billion. We repurchased 50 million common shares at an average price of $85.56 in 2017. These dividend and share repurchase amounts collectively represent approximately 190 percent of total capital generated during the year.

As previously mentioned, we decided to suspend our share buyback program for the first half of 2018 in order to rebuild our capital levels and ratios. We intend to continue our quarterly dividends during the first half of 2018 at the current level. Authorization for share repurchases beginning in the second half of 2018 must be submitted as part of our capital plan within the CCAR 2018 process.

In addition, during the year ended December 31, 2017, 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 and Series C Preferred Shares during 2017 were $39 million and $42 million, respectively. For additional information on our preferred shares, refer to Note 17 “Common and Preferred Shares” and Note 22 “Earnings per Common Share (EPS); Preferred Shares” to the “Consolidated Financial Statements.”

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. The diversity of funding sources by type of instrument, by maturity and by investor base, among other factors, provides additional insulation from the impact of disruptions in any one type of instrument, maturity or investor. The mix of our funding in any period will seek to achieve cost efficiency consistent with both maintaining diversified sources and achieving our liquidity objectives. Our funding strategy and activities are integrated into our asset-liability management activities. We have in place a funding policy covering American Express Company and all of our subsidiaries.

Our proprietary card businesses are the primary asset-generating businesses, with significant assets in both domestic and international Card Member lending and receivable activities. Our financing needs are in large part a consequence of our proprietary card-issuing businesses, and the maintenance of a liquidity position to support all of our business activities, such as merchant payments. We generally pay merchants for card transactions prior to reimbursement by Card Members and therefore fund the merchant payments during the period Card Member loans and receivables are outstanding. We also have additional financing needs associated with general corporate purposes.

FUNDING PROGRAMS AND ACTIVITIES

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.

We had the following consolidated debt and customer deposits outstanding as of December 31:

TABLE 21: SUMMARY OF CONSOLIDATED DEBT AND CUSTOMER DEPOSITS

(Billions)	2017	2016
Short-term borrowings	$3.3	$5.6
Long-term debt	55.8	47.0
Total debt	59.1	52.6
Customer deposits	64.5	53.0
Total debt and customer deposits	$123.6	$105.6

Our funding plan for the full year 2018 includes, among other sources, approximately $6 billion to $13 billion of unsecured term debt issuance and approximately $5 billion to $12 billion of secured term debt issuance. Our funding plans are subject to various risks and uncertainties, such as future business growth, the impact of global economic, political and other events on market capacity, demand for securities offered by us, regulatory changes, ability to securitize and sell receivables, and the performance of receivables previously sold in securitization transactions. Many of these risks and uncertainties are beyond our control.

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 22: 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 (FDIC), should reduce the impact that credit rating downgrades would have on our funding capacity and costs.

SHORT-TERM FUNDING PROGRAMS

Short-term borrowings, such as commercial paper, are defined as any debt with an original maturity of twelve months or less, as well as interest-bearing overdrafts with banks. Our short-term funding programs are used primarily to meet working capital needs, such as managing seasonal variations in receivables balances. The amount of short-term borrowings issued in the future will depend on our funding strategy, our needs and market conditions. As of December 31, 2017, we had $1.2 billion in commercial paper outstanding and we had an average of $1.1 billion in commercial paper outstanding during 2017. Refer to Note 9 to the “Consolidated Financial Statements” for a further description of these borrowings.

DEPOSIT PROGRAMS

We offer deposits within our Centurion Bank and American Express Bank subsidiaries. These funds are currently insured up to $250,000 per account holder through the FDIC. Our ability to obtain deposit funding and offer competitive interest rates is dependent on the capital levels of Centurion Bank and American Express Bank. We, through American Express Bank, have a direct retail deposit program, Personal Savings from American Express, which is our primary deposit product channel. The direct retail program makes FDIC-insured certificates of deposit (CDs) and high-yield savings account products available directly to consumers. We also source deposits through third-party distribution channels as needed to meet our overall funding objectives. As of December 31, 2017 we had $64.5 billion in customer deposits. Refer to Note 8 to the “Consolidated Financial Statements” for a further description of these deposits.

LONG-TERM DEBT PROGRAMS

As of December 31, 2017 we had $55.8 billion in long-term debt outstanding. During 2017, we and our subsidiaries issued $24.5 billion of unsecured debt and asset-backed securities with maturities ranging from 2 to 10 years. Refer to Note 9 to the “Consolidated Financial Statements” for a further description of these borrowings.

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ASSET SECURITIZATION PROGRAMS

We periodically securitize Card Member loans and receivables arising from our card business, as the securitization market provides us with cost-effective funding. Securitization of Card Member loans and receivables is accomplished through the transfer of those assets to a trust, which in turn issues securities collateralized by the transferred assets to third-party investors. The proceeds from issuance are distributed to us, through our wholly-owned subsidiaries, as consideration for the transferred assets. Refer to Note 6 to the "Consolidated Financial Statements" for a further description of these borrowings.

Our 2017 long-term debt and asset securitization issuances were as follows:

TABLE 23: DEBT ISSUANCES

(Billions)	2017
American Express Company:	
Fixed Rate Senior Notes (weighted-average coupon of 2.58%)	$5.0
Floating Rate Senior Notes (3-month LIBOR plus 45 basis points)	0.9
American Express Credit Corporation:	
Fixed Rate Senior Notes (weighted-average coupon of 2.56%)	7.3
Floating Rate Senior Notes (3-month LIBOR plus 45 basis points)	1.2
American Express Credit Account Master Trust:	
Fixed Rate Class A Certificates (weighted-average coupon of 1.90%)	8.1
Fixed Rate Class B Certificates (weighted-average coupon of 2.21%)	0.2
Floating Rate Class A Certificates (1-month LIBOR plus 33 basis points)	1.8
Floating Rate Class B Certificates (1-month LIBOR plus 41 basis points)	-
Total	$24.5

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, even in the event we are unable to raise new funds under our regular funding programs during a substantial weakening in economic conditions, in amounts sufficient to meet our expected future financial obligations and business requirements for liquidity for a period of at least twelve months. 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.

We seek to maintain access to a diverse set of on-balance sheet and off-balance sheet liquidity sources, including cash and other liquid assets, committed bank credit facilities and asset securitization conduit facilities. Through our U.S. bank subsidiaries, Centurion Bank and American Express Bank, we also hold collateral eligible for use at the Federal Reserve's discount window.

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 (LCR), as well as additional stress scenarios required under our liquidity risk policy. These stress scenarios possess distinct characteristics, varying by cash flow assumptions, time horizon and qualifying liquidity sources, among other factors. Scenarios under our liquidity risk policy include market-wide, firm-specific and combined liquidity stresses. The LCR rule prescribes cash flow assumptions over a 30-day period and establishes qualifying criteria for high-quality liquid assets. We consider other factors in determining the amount and type of liquidity we maintain, such as economic and financial market conditions, seasonality in business operations, growth in our businesses, potential acquisitions or dispositions, the cost and availability of alternative liquidity sources and credit rating agency guidelines and requirements.

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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 December 31, 2017, 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 American Express Credit Account Master Trust (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 December 31, 2017, $3.0 billion was drawn on the Charge Trust facility, which was subsequently repaid on January 16, 2018. No amounts were drawn on the Lending Trust facility.

Federal Reserve Discount Window

As insured depository institutions, Centurion Bank and American Express Bank 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 $68.0 billion as of December 31, 2017 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 December 31, 2017 of $3.5 billion, which expires on October 16, 2020. The availability of this credit line is subject to our compliance with certain financial covenants, principally the maintenance by American Express Credit Corporation (Credco) of a certain ratio of combined earnings and fixed charges to fixed charges. As of December 31, 2017, we were in compliance with each of our covenants. As of December 31, 2017, no amounts were drawn on the committed credit facility. The capacity of the facility mainly served to further enhance our contingent funding resources.

Our committed bank credit facility does not contain a material adverse change clause, which might otherwise preclude borrowing under the credit facility, nor is it dependent on our credit rating.

CASH FLOWS

The following table summarizes our cash flow activity, followed by a discussion of the major drivers impacting operating, investing and financing cash flows.

TABLE 24: CASH FLOWS

(Billions)	2017	2016	2015
Total cash provided by (used in):			
Operating activities	$ 13.5	$ 8.3	$ 10.7
Investing activities	(18.2)	1.9	(8.2)

Financing activities	12.2	(7.6)	(1.8)
Effect of foreign currency exchange rates on cash and cash equivalents	0.2	(0.2)	(0.2)
Net increase in cash and cash equivalents	$7.7	$2.4	$0.5

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.

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The increase in net cash provided by operating activities in the current period 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 in the current period primarily reflects growth in Card Member loans and receivables as well as the sales of the HFS portfolios in the prior period.

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 program.

The increase in net cash provided by financing activities in the current period was primarily driven by an increase in customer deposits during the current period, versus a decrease in the prior period, and a net increase in long-term debt during the current period, versus a net decrease in the prior period.

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OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We have identified both on- and off-balance sheet transactions, arrangements, obligations and other relationships that may have a material current or future effect on our financial condition, changes in financial condition, results of operations, or liquidity and capital resources.

CONTRACTUAL OBLIGATIONS

The table below identifies transactions that represent our contractually committed future obligations. Purchase obligations include our agreements to purchase goods and services that are enforceable and legally binding and that specify significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

TABLE 25: COMMITTED FUTURE OBLIGATIONS BY YEAR

	Payments due by year[(a)]				
(Millions)	2018	2019-2020	2021-2022	2023 and thereafter	Total
Long-term debt	$11,934	$28,926	$10,527	$ 5,535	$56,922
Interest payments on long-term debt[(b)]	1,195	1,532	691	1,545	4,963
Certificates of deposit	5,256	8,278	3,460		16,994
Other long-term liabilities[(c) (d)]	340	112	13	21	486
Operating lease obligations	131	222	129	831	1,313
Purchase obligations[(e)]	454	294	141	7	896
Deemed repatriation tax[(f)]	8	286	268	1,141	1,703
Total	$19,318	$39,650	$15,229	$ 9,080	$83,277

(a) The table above excludes approximately $0.8 billion of tax liabilities related to the uncertainty in income taxes as inherent complexities and the number of tax years currently open for examination in multiple jurisdictions do not permit reasonable estimates of payments, if any, to be made over a range of years. Refer to Note 21 to the “Consolidated Financial Statements” for additional information.

(b) Estimated interest payments were calculated using the effective interest rates as of December 31, 2017, and includes the effect of existing interest rate swaps. Actual cash flows may differ from estimated payments.

(c) As of December 31, 2017, there were no minimum required contributions, and no contributions are currently planned, for the U.S. American Express Retirement Plan. For the U.S. American Express Retirement Restoration Plan and non-U.S. defined benefit pension and postretirement benefit plans, contributions in 2017 are anticipated to be approximately $48 million, and this amount has been included within other long-term liabilities. Remaining obligations under defined benefit pension and postretirement benefit plans aggregating $578 million have not been included in the table above as the timing of such obligations is not determinable. Additionally, other long-term liabilities do not include $7.8 billion of Membership Rewards liabilities, which are not considered long-term liabilities as Card Members in good standing can redeem points immediately, without restrictions, and because the timing of point redemption is not determinable.

(d) As of December 31, 2017, we had committed to provide funding related to certain tax credit investments resulting in a $373 million unfunded commitment included in other long-term liabilities. In addition to this amount, there was a further $66 million of contractual off-balance sheet obligations that have not been included in the table above as the timing of such obligations is not determinable. Refer to Note 7 to the “Consolidated Financial Statements” for additional information.

(e) The purchase obligation amounts represent either the early termination fees or non-cancelable minimum contractual obligations, as applicable, by period under contracts that were in effect as of December 31, 2017.

(f) Represents our estimated obligation under the Tax Act to pay the deemed repatriation tax on certain non-US earnings over eight years, which has been calculated on a provisional basis. Refer to Note 21 to the "Consolidated Financial Statements" for additional information.

In addition to the contractual obligations noted in Table 25, as of December 31, 2017, we had $5.6 billion in commitments related to agreements with certain cobrand partners under which we make payments 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, all of which we expect will fully satisfy these commitments. Such cobrand agreements generally range from five to eight years.
We also have off-balance sheet arrangements that include guarantees, indemnifications and certain other off-balance sheet arrangements.

GUARANTEES

As of December 31, 2017, we had guarantees and indemnifications totaling approximately $1 billion related primarily to real estate and business dispositions in the ordinary course of business. Refer to Note 16 to the "Consolidated Financial Statements" for further discussion regarding our guarantees.

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CERTAIN OTHER OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2017, we had approximately $273 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.

We provide Card Member protection plans that cover losses associated with purchased products. The maximum potential liability related to these plans is the portion of annual billed business for which timely and valid disputes may be raised under applicable law and relevant customer agreements. However, based on historical experience, we believe that this total amount is not representative of our actual potential loss exposure. The actual amount of the potential exposure cannot be quantified as the billed business volumes which may include or result in claims under these plans are not sufficiently estimable. Losses related to these protection plans were immaterial for the years ended December 31, 2017, 2016 and 2015.

To mitigate counterparty credit risk related to derivatives, we accepted non-cash collateral in the form of security interests in U.S. Treasury securities from our derivatives counterparties with a fair value of $18 million as of December 31, 2016, none of which was sold or repledged. There was no non-cash collateral held as of December 31, 2017.

Refer to Notes 7 and 13 to the “Consolidated Financial Statements” for discussion regarding our other off-balance sheet arrangements.

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RISK MANAGEMENT

GOVERNANCE

We use our comprehensive Enterprise-wide Risk Management (ERM) program to identify, aggregate, monitor, and manage risks. The program also defines our risk appetite, governance, culture and capabilities. The implementation and execution of the ERM program is headed by our Chief Risk Officer.

Risk management is overseen by our Board of Directors through three Board committees: the Risk Committee, the Audit and Compliance Committee, and the Compensation and Benefits Committee. Each committee consists entirely of independent directors and provides regular reports to the full Board regarding matters reviewed at their committee. The committees meet regularly in private sessions with our Chief Risk Officer, the Chief Compliance & Ethics Officer, the Chief Audit Executive and other senior management with regard to our risk management processes, controls, talent and capabilities. The Board monitors the "tone at the top," our risk culture, and oversees emerging and strategic risks.

The Risk Committee of our Board of Directors provides oversight of our enterprise-wide risk management framework, processes and methodologies. The Risk Committee approves our ERM policy. The ERM policy governs risk governance, risk oversight and risk appetite for risks, including individual credit risk, institutional credit risk, market risk, liquidity risk, operational risk, reputational risk, compliance risk, model risk, asset/liability risk and strategic and business risk. Risk appetite defines the authorized risk limits to control exposures within our risk capacity and risk tolerance, including stressed forward-looking scenarios. In addition, it establishes principles for risk taking in the aggregate and for each risk type, and is supported by a comprehensive system for monitoring limits, escalation triggers and assessing control programs.

The Risk Committee reviews and concurs in the appointment, replacement, performance and compensation of our Chief Risk Officer and receives regular updates from the Chief Risk Officer on key risks, transactions and exposures. The Risk Committee reviews our risk profile against the tolerances specified in the Risk Appetite Framework, including significant risk exposures, risk trends in our portfolios and major risk concentrations.

The Risk Committee also provides oversight of our compliance with Basel capital and liquidity standards, our Internal Capital Adequacy Assessment Process, including its Comprehensive Capital Analysis and Review (CCAR) submissions, and resolution planning.

The Audit and Compliance Committee of our Board of Directors reviews and approves compliance policies, which include our Compliance Risk Tolerance Statement. In addition, the Audit and Compliance Committee reviews the effectiveness of our Corporate-wide Compliance Risk Management Program. More broadly, this committee is responsible for assisting the Board in its oversight responsibilities relating to the integrity of our financial statements and financial reporting process, internal and external auditing, including the qualifications and independence of the independent registered public accounting firm and the performance of our internal audit services function, and the integrity of our systems of internal accounting and financial controls.

The Audit and Compliance Committee provides oversight of our Internal Audit Group. The Audit and Compliance Committee reviews and concurs in the appointment, replacement, performance and compensation of our Chief Audit Executive and approves Internal Audit's annual audit plan, charter, policies and budget. The Audit and Compliance Committee also receives regular updates on the audit plan's status and results including significant reports issued by Internal Audit and the status of our corrective actions.

The Compensation and Benefits Committee of our Board of Directors works with the Chief Risk Officer to ensure our overall compensation programs, as well as those covering our business units and risk-taking employees, appropriately balance risk with business incentives and how business performance is achieved without taking imprudent or excessive risk. Our Chief Risk Officer is actively involved in setting goals, including for our business units. Our Chief Risk Officer also reviews the current and forward-looking risk profiles of each business unit, and provides input into performance evaluation. The Chief Risk Officer meets with the Compensation and Benefits Committee and attests whether performance goals and results have been achieved without taking imprudent risks. The Compensation and Benefits Committee uses a risk-balanced incentive compensation framework to decide on our bonus pools and the compensation of senior executives.

There are several internal management committees, including the Enterprise-wide Risk Management Committee (ERMC), chaired by our Chief Risk Officer. The ERMC is the highest-level management committee to oversee all firm-wide risks and is responsible for risk governance, risk oversight and risk appetite. It maintains the enterprise-wide risk appetite framework and monitors compliance with limits and escalations defined in it. The ERMC oversees implementation of risk policies company-wide. The ERMC reviews key risk exposures, trends and concentrations, significant compliance matters, and provides guidance on the steps to monitor, control and report major risks.

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As defined in the ERM policy, we follow the “three lines of defense” approach to risk management. The first line of defense comprises functions and management committees directly initiating risk taking. Business unit presidents, our Chief Credit Officer, Chief Market Risk Officer and Functional Risk Officer are part of the first line of defense. The second line comprises independent functions overseeing risk-taking activities of the first line. The Chief Risk Officer, the Chief Compliance & Ethics Officer, the Chief Operational Risk Officer and certain control groups, both at the enterprise level and within regulated entities, are part of the second line of defense. The global risk oversight team oversees the policies, strategies, frameworks, models, processes and capabilities deployed by the first line teams and provides challenges and independent assessments on how the first line of defense is managing risks.

Our Internal Audit Group constitutes the third line of defense, and provides independent assessments and effective challenge of the first and second lines of defense.

In addition, the Asset Liability Committee, chaired by our Chief Financial Officer, is responsible for managing market, liquidity, asset/liability risk, capital and resolution planning.

CREDIT RISK MANAGEMENT PROCESS

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

INDIVIDUAL CREDIT RISK

Individual credit risk arises principally from consumer and small business charge cards, credit cards, lines of credit, and loans. These portfolios consist of millions of customers across multiple geographies, industries and levels of net worth. We benefit from the high-quality profile of our customers, which is driven by our brand, premium customer servicing, product features and risk management capabilities, which span underwriting, customer management and collections. Externally, the risk in these portfolios is correlated to broad economic trends, such as unemployment rates and gross domestic product (GDP) growth, which can affect customer liquidity.

The business unit leaders and their Chief Credit Officers take the lead in managing the individual credit risk process. These Chief Credit Officers are guided by the Individual Credit Risk Committee, which is responsible for implementation and enforcement of the Individual Credit Risk Management Policy. This policy is further supported by subordinate policies and operating manuals covering decision logic and processes of credit extension, including prospecting, new account approvals, point-of-sale authorizations, credit line management and collections. The subordinate risk policies and operating manuals are designed to ensure consistent application of risk management principles and standardized reporting of asset quality and loss recognition.

Individual credit risk management is supported by sophisticated proprietary scoring and decision-making models that use the most up-to-date information on prospects and customers, such as spending and payment history and data feeds from credit bureaus. Additional data, such as commercial variables, are integrated to further mitigate small business risk. We have developed data-driven economic decision logic for customer interactions to better serve our customers.

INSTITUTIONAL CREDIT RISK

Institutional credit risk arises principally within our Global Commercial Services, Global Merchant Services, GNS, Prepaid Services and Foreign Exchange Services businesses, as well as investment and liquidity management activities. Unlike individual credit risk, institutional credit risk is characterized by a lower loss frequency but higher severity. It is affected both by general economic conditions and by client-specific events. The absence of large losses in any given year or over several years is not necessarily representative of the level of risk of institutional portfolios, given the infrequency of loss events in such portfolios.

Similar to Individual Credit Risk, business units taking institutional credit risks are supported by Chief Credit Officers. These officers are guided by the Institutional Risk Management Committee (IRMC), which is responsible for implementation and enforcement of the Institutional Credit Risk Management Policy and for providing guidance to the credit officers of each business unit with substantial institutional credit risk exposures. The committee, along with the business unit Chief Credit Officers, makes investment decisions in core risk capabilities, ensures proper implementation of the underwriting standards and contractual rights of risk mitigation, monitors risk exposures, and determines risk mitigation actions. The IRMC formally reviews large institutional risk exposures to ensure compliance with ERMC guidelines and procedures and escalates them to the ERMC as appropriate. At the same time, the IRMC provides guidance to the business unit risk management teams to optimize risk-adjusted returns on capital. A centralized risk rating unit and a specialized airline risk group provide risk assessment of our institutional obligors.

Exposure to the Airline Industry

We have multiple important cobrand, rewards, merchant acceptance and corporate payments arrangements with airlines. The ERM program evaluates the risks posed by our airline partners and the overall airline strategy companywide through comprehensive business analysis of global airlines. Our largest airline partner is Delta, and this relationship includes exclusive cobrand credit card partnerships and other arrangements including Membership Rewards redemption, merchant acceptance, travel and corporate payments. See "Risk Factors."

Debt Exposure

As part of our ongoing risk management process, we monitor our financial exposure to both sovereign and non-sovereign customers and counterparties, and measure and manage concentrations of risk by geographic regions, as well as by economic sectors and industries. A primary focus area for monitoring is credit deterioration due to weaknesses in economic and fiscal profiles. We evaluate countries based on the market assessment of the riskiness of their sovereign debt and our assessment of the economic and financial outlook and closely monitor those deemed high risk. As of December 31, 2017, we considered our gross credit exposures to government entities, financial institutions and corporations in those countries deemed high risk to be individually and collectively not material.

OPERATIONAL RISK MANAGEMENT PROCESS

We define operational risk as the risk of not achieving business objectives due to inadequate or failed processes, people, or information systems, or the external environment, including failures to comply with laws and regulations. Operational risk is inherent in all business activities and can impact an organization through direct or indirect financial loss, brand damage, customer dissatisfaction, or legal and regulatory penalties.

To appropriately measure and manage operational risk, we have implemented a comprehensive operational risk framework that is defined in the Operational Risk Management Policy approved by the Risk Committee. The Operational Risk Management Committee (ORMC), chaired by the Chief Operational Risk Officer, coordinates with all control groups on effective risk assessments and controls and oversees the preventive, responsive and mitigation efforts by Operational Excellence teams in the business units and staff groups.

We use the operational risk framework to identify, measure, monitor and report inherent and emerging operational risks. This framework, supervised by the ORMC, consists of (a) operational risk event capture, (b) a project office to coordinate issue management and control enhancements, (c) key risk indicators such as customer complaints or pre-implementation test metrics, and (d) process and entity-level risk assessments.

The framework requires the assessment of operational risk events to determine root causes, impact to customers and/or us, and resolution plan accountability to correct any defect, remediate customers, and enhance controls and testing to mitigate future issues. The impact is assessed from an operational, financial, brand, regulatory compliance and legal perspective.

INFORMATION AND CYBER SECURITY

We have implemented an Information Security Program and Operating Model that is designed to protect the confidentiality, integrity and availability of information and information systems from unauthorized access, use, disclosure, disruption, modification or destruction.

Our Information Security Program and Operating Model are based on the National Institute of Standards and Technology (NIST) Cybersecurity Common Standards Framework, which consist of controls designed to identify, protect, detect, respond and recover from information and cyber security incidents. The framework defines risks and associated controls which are embedded in our processes and technology. Those controls are measured and monitored by a combination of subject matter experts and a security operations center with our integrated cyber detection, response and recovery capabilities.

Chaired by the Chief Information Security Officer, our Information Security Risk Management Committee, a sub-committee of the ORMC, provides governance for our information security risk management program. In addition, the committee is responsible for establishing cyber risk tolerances and in managing cyber crisis preparedness. The Information Security and Technology Oversight team provides independent challenge and

assessment of the information, cyber security and technology risk management programs.
See “A significant operating disruption, a major information or cyber security incident or an increase in fraudulent activity could lead to reputational damage to our brand and significant legal, regulatory and financial exposure, and could reduce the use and acceptance of our charge and credit cards” under “Risk Factors” for additional information.

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PRIVACY AND DATA GOVERNANCE

Our Privacy Framework and Operating Model follow a similar structure. Chaired by the Chief Privacy Officer, our Privacy Risk Management Committee, a sub-committee of the ORMC, provides oversight and governance for our privacy program. The committee is responsible for the governance over the collection, notice, use, sharing, transfer, confidentiality and retention of personal data.

Our Enterprise Data Governance Framework and Policy defines governance requirements for data used in critical processes.

COMPLIANCE RISK MANAGEMENT PROCESS

We define compliance risk as the risk of legal or reputational harm, fines, monetary penalties and payment of damages or other forms of sanction as a result of non-compliance with applicable laws, regulations, rules or standards of conduct.

We view our ability to effectively mitigate compliance risk as an important aspect of our business model. Our Global Compliance and Ethics organization is responsible for establishing and maintaining our corporate-wide Compliance Risk Management Program. Pursuant to this program, we seek to manage and mitigate compliance risk by assessing, controlling, monitoring, measuring and reporting the legal and regulatory risks to which we are exposed.

We have a comprehensive Anti-Money Laundering program that monitors and reports suspicious activity to the appropriate government authorities. As part of that program, the Global Risk Oversight team provides independent risk assessment of the models and rules used by the Anti-Money Laundering team. In addition, the Internal Audit Group reviews the processes for practices consistent with regulatory guidance.

REPUTATIONAL RISK MANAGEMENT PROCESS

We define reputational risk as the risk that negative stakeholder reaction to our products, services, client and partner relationships, business activities and policies, management and workplace culture, or our response to unexpected events, could cause sustained, critical media coverage, a decline in revenue or investment, talent attrition, litigation, or government or regulatory scrutiny.

We view protecting our reputation for excellent customer service, trust, security and high integrity as core to our vision of providing the world’s best customer experience and fundamental to our long-term success.

Our business leaders are responsible for considering the reputational risk implications of business activities and strategies and ensuring the relevant subject matter experts are engaged as needed. The ERMC is responsible for ensuring reputational risk considerations are included in the scope of appropriate subordinate risk policies and committees and properly reflected in all decisions escalated to the ERMC.

MARKET RISK MANAGEMENT PROCESS

Market risk is the risk to earnings or asset and liability values resulting from movements in market prices. Our market risk exposures include:

Interest rate risk due to changes in the relationship between interest rates on our assets (such as loans, receivables and investment securities) and our interest rates on our liabilities (such as debt and deposits); and

Foreign exchange risk related to transactions, funding, investments and earnings in currencies other than the U.S. dollar.

Our Asset-Liability Management (ALM) and Market Risk policies establish the framework that guides and governs market risk management, including quantitative limits and escalation triggers. These policies are approved by the Risk Committee of the Board of Directors or Market Risk Management Committee.

Market risk is managed by the Market Risk Management Committee. The Market Risk Oversight Officer provides an independent risk assessment and oversight over the policies and exposure management for market risk and ALM activities, as well as overseeing compliance with the Volcker Rule and other regulatory requirements. Market risk management is also guided and governed by policies covering the use of derivative financial instruments, funding, liquidity and investments.

We analyze a variety of interest rate scenarios to inform us of the potential impacts from interest rate changes on earnings and the value of assets, liabilities and the economic value of equity. Our interest rate exposure can vary over time as a result of, among other things, the proportion of our total funding provided by variable-and fixed-rate debt and deposits compared to our Card Member loans and receivables. Interest rate swaps are used from time to time to effectively convert debt issuances to (or from) variable-rate, from (or to) fixed-rate. We do not engage in derivative financial instruments for trading purposes other than with respect to our Foreign Exchange International Payments business activities. Refer to Note 14 to the “Consolidated Financial Statements” for further discussion of our derivative financial instruments.

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As of December 31, 2017, a hypothetical, immediate 100 basis point increase in market interest rates would have a detrimental effect on our annual net interest income of approximately $167 million. This measure first projects net interest income over the following twelve-month time horizon considering forecasted business growth and anticipated future market interest rates. The detrimental impact from a rate increase is then measured by instantaneously increasing the anticipated future interest rates by 100 basis points. It is further assumed that our interest-rate sensitive assets and the majority of our liabilities that reprice within the twelve-month horizon generally reprice by 100 basis points. Our estimated repricing risk assumes that certain deposit liabilities reprice at a lower magnitude than benchmark rate movements consistent with historical deposit repricing experience in the industry and within our own portfolio. Actual changes in our net interest income will depend on many factors, and therefore may differ from our estimated risk to changes in market interest rates.

In addition to parallel rate changes, our net interest income is subject to changes in the relationship between market benchmark rates. For example, movements in Prime rate change the yield on a large portion of our variable-rate U.S. lending receivables and loans, while LIBOR rates determine the effective interest rate on a significant portion of our outstanding funding. Differences in the rate of change of these two benchmark indices, commonly referred to as basis risk, would thus impact our net interest income. The detrimental effect on our net interest income of a hypothetical 10 basis point decrease in the spread between Prime and one-month LIBOR over the next twelve months is estimated to be $33 million. We currently have approximately $44 billion of Prime-based, variable-rate U.S. lending receivables and loans and $33 billion of LIBOR-indexed debt, including asset securitizations. The replacement of LIBOR as a benchmark rate can have a further detrimental impact on our LIBOR-indexed debt if rates suddenly rise as new market activity transfers to other benchmark curves, such as the Secured Overnight Financing Rate.

Foreign exchange exposures arise in four principal ways: 1) Card Member spending in currencies that are not the billing currency, 2) cross-currency transactions and balances from our funding activities, 3) cross-currency investing activities, such as in the equity of foreign subsidiaries, and 4) revenues generated and expenses incurred in foreign currencies, which impact earnings.

These foreign exchange risks are managed primarily by entering into foreign exchange spot transactions or hedged with foreign exchange forward contracts when the hedge costs are economically justified and in notional amounts designed to offset pretax impacts from currency movements in the period in which they occur. As of December 31, 2017 and 2016, foreign currency derivative instruments with total notional amounts of approximately $30 billion and $28 billion were outstanding, respectively.

With respect to Card Member spending and cross-currency transactions, including related foreign exchange forward contracts outstanding, a hypothetical 10 percent strengthening of the U.S. dollar would result in an immaterial impact to projected earnings as of December 31, 2017. With respect to translation exposure of foreign subsidiary equity balances, including related foreign exchange forward contracts outstanding, a hypothetical 10 percent strengthening of the U.S. dollar would result in an immaterial reduction in other comprehensive income and equity as of December 31, 2017. With respect to earnings denominated in foreign currencies, the adverse impact on pretax income of a hypothetical 10 percent strengthening of the U.S. dollar related to anticipated overseas operating results for the next twelve months would be approximately $198 million as of December 31, 2017.

To a much lesser extent, we are also subject to market risk arising from activities conducted by our Foreign Exchange International Payments business. We aim to minimize market risk from these activities through hedging, where appropriate, and the establishment of limits to define and protect the company from excessive exposure.

The actual impact of interest rate and foreign exchange rate changes will depend on, among other factors, the timing of rate changes, the extent to which different rates do not move in the same direction or in the same direction to the same degree, changes in the cost, volume and mix of our hedging activities and changes in the volume and mix of our businesses.

FUNDING & LIQUIDITY RISK MANAGEMENT PROCESS

Liquidity risk is defined as our inability to meet our ongoing financial and business obligations as they become due at a reasonable cost.

Our Board-approved Liquidity Risk Policy establishes the framework that guides and governs liquidity risk management.

Liquidity risk is managed by the Funding and Liquidity Committee. In addition, the Market Risk Oversight Officer provides independent oversight of liquidity risk management. We manage liquidity risk by maintaining access to a diverse set of cash, readily-marketable securities and contingent sources of liquidity, such that we can continuously meet our business requirements and expected future financing obligations for at least a twelve-month period, even in the event we are unable to raise new funds under our regular funding programs during a substantial weakening in economic conditions. We consider the trade-offs between maintaining too much liquidity, which can be costly and limit financial flexibility, and having inadequate liquidity, which may result in financial distress during a liquidity event.

Liquidity risk is managed at an aggregate consolidated level as well as at certain subsidiaries in order to ensure that sufficient and accessible liquidity resources are maintained. The Funding and Liquidity Committee reviews forecasts of our aggregate and subsidiary cash positions and financing requirements, approves funding plans designed to satisfy those requirements under normal and stressed conditions, establishes guidelines to identify the amount of liquidity resources required and monitors positions and determines any actions to be taken.

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MODEL RISK MANAGEMENT PROCESS

We define model risk as the risk of adverse consequences, such as financial loss, poor business and strategic decision making, or damage to our reputation, from decisions based on incorrect or misused model outputs and reports.

We manage model risk through a comprehensive model governance framework, including policies and procedures for model development, independent model validation and change management capabilities that seek to minimize erroneous model methodology, outputs and misuse. We also assess model performance on an ongoing basis.

STRATEGIC AND BUSINESS RISK MANAGEMENT PROCESS

Strategic and business risk is the risk related to our inability to achieve our business objectives due to poor strategic decisions, including decisions related to mergers, acquisitions, and divestitures, poor implementation of strategic decisions or declining demand for our products and services.

Strategic decisions are reviewed and approved by business leaders and various committees and must be aligned with company policies. We seek to manage strategic and business risks through risk controls embedded in these processes as well as overall risk management oversight over business goals. Existing product performance is reviewed periodically by committees and business leaders. Mergers, acquisitions and divestitures can only be approved following Deal Committee due diligence, a comprehensive risk assessment by operational, market, credit and oversight leaders provided to the Chief Risk Officer and approval by either the Chief Risk Officer or appropriate risk committees. All new products and material changes in business processes are reviewed and approved by the New Products Committee and appropriate credit or risk committees.

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CRITICAL ACCOUNTING ESTIMATES

Refer to Note 1 to the “Consolidated Financial Statements” for a summary of our significant accounting policies. Certain of our accounting policies requiring significant management assumptions and judgments are as follows:

RESERVES FOR CARD MEMBER LOSSES

Reserves for Card Member losses represent our best estimate of the probable losses inherent in our outstanding portfolio of Card Member loans and receivables, as of the balance sheet date.

In estimating these losses, we use statistical and analytical models that analyze portfolio performance and reflect our judgment regarding the quantitative components of the reserve. The models take into account several factors, including delinquency-based loss migration rates, loss emergence periods and average losses over an appropriate historical period, as well as expected future recoveries. We also consider whether to adjust the quantitative reserve for certain external and internal qualitative factors that may increase or decrease the reserves for losses on Card Member loans and receivables.

The process of estimating these reserves requires a high degree of judgment. To the extent historical credit experience, updated for any external and internal qualitative factors such as environmental trends, is not indicative of future performance, actual losses could differ significantly from our judgments and expectations, resulting in either higher or lower future provisions for Card Member losses in any quarter.

As of December 31, 2017, a 10 percent increase in our estimate of losses inherent in the outstanding portfolio of Card Member loans and receivables, evaluated collectively for impairment, would increase reserves for losses with a corresponding change to provisions for losses by approximately $223 million. This sensitivity analysis is provided as a hypothetical scenario to assess the sensitivity of the provisions for losses. It does not represent our expectations for losses in the future, nor does it include how other portfolio factors such as delinquency-based loss migration rates or recoveries, or the amount of outstanding balances, may impact the level of reserves for losses and the corresponding impact on the provisions for losses.

LIABILITY FOR MEMBERSHIP REWARDS EXPENSE

The Membership Rewards program is our largest card-based rewards program. Card Members can earn points for purchases charged on their enrolled card products. A significant portion of our cards, by their terms, allow Card Members to earn bonus points for purchases at merchants in particular industry categories. Membership Rewards points are redeemable for a broad variety of rewards, including travel, shopping, gift cards, and covering eligible charges. Points typically do not expire, and there is no limit on the number of points a Card Member may earn. Membership Rewards expense is driven by charge volume on enrolled cards, customer participation in the program and contractual arrangements with redemption partners.

We record a Membership Rewards liability that represents the estimated cost of points earned that are expected to be redeemed by Card Members in the future. The Membership Rewards liability is impacted over time by enrollment levels, attrition, the volume of points earned and redeemed, and the associated redemption costs. We estimate the Membership Rewards liability by determining the URR and the WAC per point, which are applied to the points of current enrollees. Refer to Note 10 to the “Consolidated Financial Statements” for additional information.

The URR assumption is used to estimate the number of points earned by current enrollees that will ultimately be redeemed in future periods. We use statistical and actuarial models to estimate the URR of points earned to date by current Card Members based on redemption trends, card product type, enrollment tenure, card spend levels and credit attributes. The WAC per point assumption is used to estimate future redemption costs and is primarily based on redemption choices made by Card Members, reward offerings by partners, and Membership Rewards program changes. The WAC per point is derived from the previous 12 months of redemptions and is adjusted as appropriate for certain changes in redemption costs that are not representative of future cost expectations.

We periodically evaluate our liability estimation process and assumptions based on developments in redemption patterns, cost per point redeemed, partner contract changes and other factors.

The process of estimating the Membership Rewards liability includes a high degree of judgment. Actual redemptions and associated redemption costs could differ significantly from our estimates, resulting in either higher or lower Membership Rewards expense.

Changes in the Membership Rewards URR and WAC per point have the effect of either increasing or decreasing the liability through the current period Marketing, promotion, rewards and Card Member services expense by an amount estimated to cover the cost of all points previously earned but not yet redeemed by current enrollees as of the end of the reporting period. As of December 31, 2017, an increase in the estimated URR of current enrollees of 25 basis points would increase the Membership Rewards liability and corresponding rewards expense by approximately $103 million. Similarly, an increase in the WAC per point of 1 basis point would increase the Membership Rewards liability and corresponding rewards expense by approximately $98 million.

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FAIR VALUE MEASUREMENT

Our investment securities and derivative instruments are carried at fair value on the Consolidated Balance Sheets, which require management to make assumptions and apply judgments when assessing fair value.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability by utilizing the three-level hierarchy of inputs to valuation techniques used to measure fair value. When available, we use quoted market prices to determine fair value (Level 1). If quoted market prices are not available, we will measure fair value based on pricing models with significant observable inputs (Level 2). We do not have any financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3). For additional information on our fair value hierarchy, refer to Note 15 to the “Consolidated Financial Statements.”

Investment Securities

Our investment securities are mostly composed of fixed-income securities issued by states and municipalities in the United States, the U.S. Government and its Agencies and select foreign governments.

The fair value of our investment securities, including investments comprising defined benefit pension plan assets, are obtained primarily from third-party pricing services. The fair values provided by the pricing services are estimated using pricing models, where the inputs to those models are based on observable market inputs or recent trades of similar securities. We did not apply any adjustments to prices received from the pricing services used as of December 31, 2017 and 2016. For additional information on our investment securities, refer to Note 5 to the “Consolidated Financial Statements.”

Derivative Instruments

Our primary derivative instruments are interest rate swaps and foreign currency forward agreements.

The fair value of our derivative instruments is estimated internally by using third-party pricing models, where the inputs to those models are readily observable from actively quoted markets. For additional information on our derivatives and hedging activities, refer to Note 14 to the “Consolidated Financial Statements.”

In the measurement of fair value for our investment securities and derivative instruments, although the underlying inputs used in the pricing models are based on observable markets inputs, the pricing models do entail a certain amount of subjectivity, and therefore differing judgments in the underlying inputs, or how they are modeled, could result in a different estimate of fair value. While we rely on the third-party pricing model, we reaffirm our understanding of the valuation techniques at least annually and validate the valuation output on a quarterly basis.

GOODWILL RECOVERABILITY

Goodwill represents the excess of acquisition cost of an acquired business over the fair value of assets acquired and liabilities assumed. Goodwill is not amortized but is tested for impairment at the reporting unit level annually or when events or circumstances arise, such as adverse changes in the business climate, that would more likely than not reduce the fair value of the reporting unit below its carrying value. Our methodology for conducting this goodwill impairment testing contains both a qualitative and quantitative assessment.

We have the option to initially perform an assessment of qualitative factors in order to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The qualitative factors may include, but are not limited to, economic conditions, industry and market considerations, cost factors, overall financial performance of the reporting unit and other company and reporting unit-specific events. If we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we then perform the impairment evaluation using a more detailed quantitative assessment. We could also directly perform this quantitative assessment for any reporting unit, bypassing the qualitative assessment.

Our methodology for conducting the quantitative goodwill impairment testing is fundamentally based on the measurement of fair value for our reporting units, which inherently entails the use of significant management judgment. For valuation, we use a combination of the income approach (discounted cash flows) and market approach (market multiples) in estimating the fair value of our reporting units. When preparing discounted cash flow models under the income approach, we estimate future cash flows using the reporting unit's internal multi-year forecast, and a terminal value calculated using a growth rate that we believe is appropriate in light of current and expected future economic conditions. To discount these cash flows we use our expected cost of equity, determined using a capital asset pricing model. When using the market method under the market approach, we apply comparable publicly traded companies' multiples (e.g., earnings, revenues) to our reporting units' actual results. The judgment in estimating forecasted cash flows, discount rates and market comparables is significant, and imprecision could materially affect the fair value of our reporting units.

We could be exposed to an increased risk of further goodwill impairment if future operating results or macroeconomic conditions differ significantly from management's current assumptions.

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INCOME TAXES

We are subject to the income tax laws of the United States, its states and municipalities and those of the foreign jurisdictions in which we operate. These tax laws are complex, and the manner in which they apply to the taxpayer's facts is sometimes open to interpretation. In establishing a provision for income tax expense, we must make judgments about the application of inherently complex tax laws.

In particular, the Tax Act is complex and requires interpretation of certain provisions to estimate the impact on our income tax expense. The estimates are based on the information available and our current interpretation of the Tax Act, and may change due to changes in interpretations and assumptions we make and additional guidance or context from the Internal Revenue Service, the U.S. Treasury Department, the Financial Accounting Standards Board or others regarding the Tax Act. Our accounting for the impacts of the Tax Act is provisional and actual income tax expense could differ from our estimates. Refer to Note 21 to the "Consolidated Financial Statements" for additional information.

Unrecognized Tax Benefits

We establish a liability for unrecognized tax benefits, which are the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized in the financial statements.

In establishing a liability for an unrecognized tax benefit, assumptions may be made in determining whether, and the extent to which, a tax position should be sustained. A tax position is recognized only when it is more likely than not to be sustained upon examination by the relevant taxing authority, based on its technical merits. The amount of tax benefit recognized is the largest benefit that we believe is more likely than not to be realized on ultimate settlement. As new information becomes available, we evaluate our tax positions and adjust our unrecognized tax benefits, as appropriate.

Tax benefits ultimately realized can differ from amounts previously recognized due to uncertainties, with any such differences generally impacting the provision for income tax.

Deferred Tax Asset Realization

Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using the enacted tax rates expected to be in effect for the years in which the differences are expected to reverse.

Since deferred taxes measure the future tax effects of items recognized in the Consolidated Financial Statements, certain estimates and assumptions are required to determine whether it is more likely than not that all or some portion of the benefit of a deferred tax asset will not be realized. In making this assessment, we analyze and estimate the impact of future taxable income, reversing temporary differences and available tax planning strategies. These assessments are performed quarterly, taking into account any new information.

Changes in facts or circumstances can lead to changes in the ultimate realization of deferred tax assets due to uncertainties.

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OTHER MATTERS

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 and loans HFS (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 pricing at merchants accepting general-purpose American Express cards. It represents the percentage of billed business (generated from both proprietary and GNS Card Member spending) retained by us from merchants we acquire, or for merchants acquired by a third party on our behalf, net of amounts retained by such third party.
Basic cards-in-force — Proprietary basic consumer cards-in-force includes basic cards issued to the primary account owner, (i.e., not including additional supplemental cards issued on accounts). Proprietary basic small business and corporate cards-in-force includes both basic and supplemental cards issued. Non-proprietary basic cards-in-force includes cards that are issued and outstanding under network partnership agreements, except for supplemental cards and retail cobrand Card Member accounts which have had no out-of-store spending activity during the prior twelve-month period.
Billed business — Includes activities (including cash advances) related to proprietary cards, cards issued under network partnership agreements (non-proprietary billed business), corporate payment services and certain insurance fees charged on proprietary cards. In-store spending activity within retail cobrand portfolios in GNS, from which we earn no revenue, is not included in non-proprietary billed business. Card billed business is included in the United States or outside the United States based on where the issuer is located.
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 Transitional Basel III and Fully Phased-in Basel III.
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 loans and receivables HFS — Beginning as of December 1, 2015 and continuing until the sales were completed, represents Card Member loans and receivables related to our cobrand partnerships with Costco in the United States and JetBlue. The JetBlue and Costco portfolio sales were completed on March 18 and June 17, 2016,

respectively.
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.
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.

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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.
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. Discount revenue is reduced by incentive payments made to merchants, payments to third-party card issuing partners, cash-back reward costs and statement credits, corporate incentive payments and other similar items.
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 and loans HFS. 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 the 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.
Total cards-in-force — Represents the total number of charge and credit cards that are issued and outstanding and accepted on our network. Non-proprietary cards-in-force includes all charge and credit cards that are issued and outstanding under network partnership agreements, except for retail cobrand Card Member accounts which have no out-of-store spending activity during the prior twelve-month period.

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 no 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 continue to realize benefits from restructuring actions and manage operating expense growth; the amount we spend on Card Member 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 Card Member 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 in interpretations and assumptions we have made and 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 and reclassifications;

our ability to grow revenues net of interest expense and maintain billings momentum, 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 erosion of the average discount rate than expected, the strengthening of the U.S. dollar, more cautious spending by large and global corporate Card Members, the willingness of Card Members to pay higher card fees, lower spending on new cards acquired than estimated; and will depend on factors such as our success in addressing competitive pressures and implementing our strategies and business initiatives, including growing profitable spending from existing and new Card Members, increasing penetration among middle market and small business clients, expanding our international footprint and increasing merchant acceptance;

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 our cards, competition for cobrand relationships, competition from new and non-traditional competitors and the success of marketing, promotion or rewards programs; the erosion 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 than current expectations, which will depend in part on changes in the level of loan balances and delinquencies, mix of loan 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 and recoveries of previously written-off loans;
our ability to continue to grow loans faster than the industry, which may be affected by increasing competition, brand perceptions and reputation, our ability to manage risk in a growing Card Member loan portfolio, and the behavior of Card Members and their actual spending and borrowing patterns, which in turn may be driven by 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;

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our net interest yield on average Card Member loans not remaining consistent with current levels, which will be influenced by, among other things, interest rates, changes in consumer behavior that affect loan balances, such as paydown rates, Card Member acquisition strategy, product mix, cost of funds, credit actions, including line size and other adjustments to credit availability, potential pricing changes and 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 Card Member engagement, 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 manage 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; 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; the impact of accounting changes and reclassifications; and the level of M&A activity and related expenses;
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 investment in marketing and promotion expenses, 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 the pace at which we are able to rebuild our capital levels, including from earnings and a lower effective tax rate; the approval of our capital plans by our primary regulators; the amount we spend on acquisitions of companies; and our results of operations and economic environment 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;
changes in global economic and business conditions, consumer and business spending, the availability and cost of capital, unemployment rates, geopolitical conditions, foreign currency rates and interest rates, all of which may significantly affect demand for and spending on American Express cards, delinquency rates, loan balances and other aspects of our business and results of operations;
changes in capital and credit market conditions, including sovereign creditworthiness, 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, including with regard to broad payment system regulatory regimes, actions by the CFPB and other regulators and the stricter regulation of financial institutions, 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 our stock; or result in harm to the American Express brand;

uncertainty relating to the ultimate outcome of the antitrust lawsuit filed against us by the U.S. Department of Justice and certain state attorneys general, including the review of the case by the U.S. Supreme Court and the impact on existing private merchant cases and potentially additional litigation and/or arbitrations;

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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, terrorism, cyber-attacks or fraud, any of which could significantly affect demand for and spending on American Express cards, delinquency rates, loan 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 “Risk Factors” above and our other reports filed with the Securities and Exchange Commission.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to “Risk Management” under “MD&A” for quantitative and qualitative disclosures about market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP), and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control —Integrated Framework (2013).

Based on management’s assessment and those criteria, we conclude that, as of December 31, 2017, our internal control over financial reporting is effective.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has issued an audit report appearing on the following page on the effectiveness of our internal control over financial reporting as of December 31, 2017.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AMERICAN EXPRESS COMPANY:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of American Express Company and its subsidiaries (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

New York, New York

February 16, 2018

We have served as the Company's auditor since 2005.

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CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31 (Millions, except per share amounts)	2017	2016	2015
Revenues			
Non-interest revenues			
Discount revenue	$19,186	$18,680	$19,297
Net card fees	3,090	2,886	2,700
Other fees and commissions	3,022	2,753	2,866
Other	1,732	2,029	2,033
Total non-interest revenues	27,030	26,348	26,896
Interest income			
Interest on loans	8,138	7,205	7,309
Interest and dividends on investment securities	89	131	157
Deposits with banks and other	326	139	79
Total interest income	8,553	7,475	7,545
Interest expense			
Deposits	779	598	475
Long-term debt and other	1,333	1,106	1,148
Total interest expense	2,112	1,704	1,623
Net interest income	6,441	5,771	5,922
Total revenues net of interest expense	33,471	32,119	32,818
Provisions for losses			
Charge card	795	696	737
Card Member loans	1,868	1,235	1,190
Other	96	95	61
Total provisions for losses	2,759	2,026	1,988
Total revenues net of interest expense after provisions for losses	30,712	30,093	30,830
Expenses			
Marketing and promotion	3,217	3,650	3,109
Card Member rewards	7,608	6,793	6,996
Card Member services and other	1,439	1,133	1,018
Salaries and employee benefits	5,258	5,259	4,976
Other, net	5,776	5,162	6,793
Total expenses	23,298	21,997	22,892
Pretax income	7,414	8,096	7,938
Income tax provision	4,678	2,688	2,775
Net income	$2,736	$5,408	$5,163
Earnings per Common Share — (Note 22)[a]			
Basic	$2.98	$5.67	$5.07
Diluted	$2.97	$5.65	$5.05
Average common shares outstanding for earnings per common share:			
Basic	883	933	999
Diluted	886	935	1,003

(a) Represents net income less (i) earnings allocated to participating share awards of $21 million, $43 million and $38 million for the years ended December 31, 2017, 2016 and 2015, respectively, and (ii) dividends on preferred shares of $81 million, $80 million and $62 million for the years ended December 31, 2017, 2016 and 2015, respectively.

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31 (Millions)	2017	2016	2015
Net income	$2,736	$5,408	$5,163
Other comprehensive income (loss):			
Net unrealized securities losses, net of tax	(7)	(51)	(38)
Foreign currency translation adjustments, net of tax	301	(218)	(545)
Net unrealized pension and other postretirement benefits, net of tax	62	19	(32)
Other comprehensive income (loss):	356	(250)	(615)
Comprehensive income	$3,092	$5,158	$4,548

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

December 31 (Millions, except share data)	2017	2016
Assets		
Cash and cash equivalents		
Cash and due from banks	$5,148	$3,278
Interest-bearing deposits in other banks (includes securities purchased under resale agreements: 2017, $48; 2016, $115)	27,709	20,779
Short-term investment securities	70	1,151
Total cash and cash equivalents	32,927	25,208
Accounts receivable		
Card Member receivables (includes gross receivables available to settle obligations of a consolidated variable interest entity: 2017, $8,919; 2016, $8,874), less reserves: 2017, $521; 2016, $467	53,526	46,841
Other receivables, less reserves: 2017, $31; 2016, $45	3,163	3,232
Loans		
Card Member loans (includes gross loans available to settle obligations of a consolidated variable interest entity: 2017, $25,695; 2016, $26,129), less reserves: 2017, $1,706; 2016, $1,223	71,693	64,042
Other loans, less reserves: 2017, $80; 2016, $42	2,607	1,419
Investment securities	3,159	3,157
Premises and equipment, less accumulated depreciation and amortization: 2017, $5,455; 2016, $5,145	4,329	4,433
Other assets (includes restricted cash of consolidated variable interest entities: 2017, $62; 2016, $38)	9,755	10,561
Total assets	$181,159	$158,893
Liabilities and Shareholders’ Equity		
Liabilities		
Customer deposits	$64,452	$53,042
Travelers Cheques and other prepaid products	2,593	2,812
Accounts payable	14,657	11,190
Short-term borrowings	3,278	5,581
Long-term debt (includes debt issued by consolidated variable interest entities: 2017, $18,560; 2016, $15,113)	55,804	46,990
Other liabilities	22,148	18,777
Total liabilities	$162,932	$138,392
Contingencies and Commitments (Note 13)		
Shareholders’ Equity		
Preferred shares, $1.66^{2/3}$ par value, authorized 20 million shares; issued and outstanding 1,600 shares as of December 31, 2017 and 2016 (Note 17)		
Common shares, $0.20 par value, authorized 3.6 billion shares; issued and outstanding 859 million shares as of December 31, 2017 and 904 million shares as of December 31, 2016	172	181
Additional paid-in capital	12,210	12,733
Retained earnings	8,273	10,371
Accumulated other comprehensive loss		
Net unrealized securities gains, net of tax of: 2017,$1; 2016, $5		7
Foreign currency translation adjustments, net of tax of: 2017, $(363); 2016, $24	(1,961)	(2,262)
	(467)	(529)

Net unrealized pension and other postretirement benefits, net of tax of: 2017, $(179); 2016, $(186)		
Total accumulated other comprehensive loss	(2,428)	(2,784)
Total shareholders' equity	18,227	20,501
Total liabilities and shareholders' equity	$181,159	$158,893

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 (Millions)	2017	2016	2015
Cash Flows from Operating Activities			
Net income	$2,736	$5,408	$5,163
Adjustments to reconcile net income to net cash provided by operating activities:			
Provisions for losses	2,759	2,026	1,988
Depreciation and amortization	1,321	1,095	1,043
Deferred taxes and other	783	(1,132)	507
Stock-based compensation	282	254	234
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Other receivables	473	(281)	(714)
Other assets	(62)	192	2,058
Accounts payable and other liabilities	5,505	1,139	794
Travelers Cheques and other prepaid products	(257)	(410)	(367)
Net cash provided by operating activities	13,540	8,291	10,706
Cash Flows from Investing Activities			
Sales of available-for-sale investment securities	2	88	12
Maturities and redemptions of available-for-sale investment securities	2,494	2,429	2,091
Sales of other investments		10	
Purchase of investments	(2,612)	(2,162)	(1,713)
Net (increase) decrease in Card Member loans and receivables, including held for sale	(16,853)	3,220	(6,967)
Purchase of premises and equipment, net of sales: 2017, $1; 2016, $2; 2015, $42	(1,062)	(1,375)	(1,341)
Acquisitions/dispositions, net of cash acquired	(211)	(487)	(155)
Net (increase) decrease in restricted cash	(31)	145	(120)
Net cash (used in) provided by investing activities	(18,273)	1,868	(8,193)
Cash Flows from Financing Activities			
Net increase (decrease) in customer deposits	11,385	(1,935)	10,878
Net (decrease) increase in short-term borrowings	(2,300)	888	1,395
Proceeds from long-term borrowings	32,764	8,824	9,923
Payments of long-term borrowings	(24,082)	(9,848)	(19,246)
Issuance of American Express preferred shares			841
Issuance of American Express common shares	129	177	193
Repurchase of American Express common shares and other	(4,400)	(4,498)	(4,575)
Dividends paid	(1,251)	(1,207)	(1,172)
Net cash provided by (used in) financing activities	12,245	(7,599)	(1,763)
Effect of foreign currency exchange rates on cash and cash equivalents	207	(114)	(276)
Net increase in cash and cash equivalents	7,719	2,446	474
Cash and cash equivalents at beginning of year	25,208	22,762	22,288
Cash and cash equivalents at end of year	$32,927	$25,208	$22,762

Supplemental cash flow information			
Non-cash investing activities			
Transfer of Card Member loans and receivables, during the fourth quarter of 2015, to Card Member loans and receivables held for sale, net of reserves	$	$	$14,524

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Millions, except per share amounts)	Total	Preferred Shares	Common Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings
Balances as of December 31, 2014	$20,673	$	$ 205	$ 12,874	$ (1,919)	$ 9,513
Net income	5,163					5,163
Other comprehensive loss	(615)				(615)	
Preferred shares issued	841			841		
Repurchase of common shares	(4,509)		(12)	(714)		(3,783)
Other changes, primarily employee plans	310		1	347		(38)
Cash dividends declared preferred	(62)					(62)
Cash dividends declared common, $1.13 per share	(1,128)					(1,128)
Balances as of December 31, 2015	20,673		194	13,348	(2,534)	9,665
Net income	5,408					5,408
Other comprehensive loss	(250)				(250)	
Repurchase of common shares	(4,421)		(14)	(924)		(3,483)
Other changes, primarily employee plans	308		1	309		(2)
Cash dividends declared preferred	(80)					(80)
Cash dividends declared common, $1.22 per share	(1,137)					(1,137)
Balances as of December 31, 2016	20,501		181	12,733	(2,784)	10,371
Net income	2,736					2,736
Other comprehensive gain	356				356	
Repurchase of common shares	(4,314)		(10)	(742)		(3,562)
Other changes, primarily employee plans	212		1	219		(8)
Cash dividends declared preferred	(81)					(81)
Cash dividends declared common, $1.34 per share	(1,183)					(1,183)
Balances as of December 31, 2017	$18,227	$	$ 172	$ 12,210	$ (2,428)	$ 8,273

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
THE COMPANY

American Express Company (the Company) is a global services company that provides customers with access to products, insights and experiences that enrich lives and build business success. The Company's 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). The Company's 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 direct mail, online applications, in-house and third-party sales forces and direct response advertising.

Effective for the first quarter of 2016, the Company realigned its segment presentation to reflect the organizational changes announced during the fourth quarter of 2015. Prior periods have been restated to conform to the new reportable operating segments. Refer to Note 25 for additional discussion of the products and services that comprise each segment. Corporate functions and certain other businesses and operations are included in Corporate & Other.

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Significant intercompany transactions are eliminated. The Company consolidates entities in which it holds a "controlling financial interest." For voting interest entities, the Company is considered to hold a controlling financial interest when it is able to exercise control over the investees' operating and financial decisions. For variable interest entities (VIEs), the determination of which is based on the amount and characteristics of the entity's equity, the Company is considered to hold a controlling financial interest when it is determined to be the primary beneficiary. A primary beneficiary is the party that has both: (1) the power to direct the activities that most significantly impact that VIE's economic performance, and (2) the obligation to absorb the losses of, or the right to receive the benefits from, the VIE that could potentially be significant to that VIE. Entities in which the Company's voting interest in common equity does not provide it with control, but allows the Company to exert significant influence over operating and financial decisions, are accounted for under the equity method. All other investments in equity securities, to the extent they are not considered marketable securities, are accounted for under the cost method.

FOREIGN CURRENCY

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars based upon exchange rates prevailing at the end of the reporting period; non-monetary assets and liabilities are translated at the historic exchange rate at the date of the transaction; revenues and expenses are translated at the average month-end exchange rates during the year. Resulting translation adjustments, along with any related qualifying hedge and tax effects, are included in accumulated other comprehensive income (loss) (AOCI), a component of shareholders' equity. Translation adjustments, including qualifying hedge and tax effects, are reclassified to earnings upon the sale or substantial liquidation of investments in foreign operations. Gains and losses related to transactions in a currency other than the functional currency are reported net in Other expenses, in the Company's Consolidated Statements of Income. Net foreign currency transaction gains amounted to approximately $7 million and $68 million in 2017 and 2015, respectively, and net foreign currency transaction losses amounted to $18 million in 2016.

AMOUNTS BASED ON ESTIMATES AND ASSUMPTIONS

Accounting estimates are an integral part of the Consolidated Financial Statements. These estimates are based, in part, on management's assumptions concerning future events. Among the more significant assumptions are those that relate to reserves for Card Member losses on loans and receivables, the proprietary point liability for Membership Rewards costs, fair value measurements, goodwill and income taxes. These accounting estimates reflect the best judgment of management, but actual results could differ.

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INCOME STATEMENT

Discount Revenue

Discount revenue generally represents the amount earned by the Company on transactions occurring at merchants with which the Company, or a Global Network Services (GNS) partner, has entered into a card acceptance agreement for facilitating transactions between the merchants and the Company's Card Members. The amount of fees charged, or merchant discount, is generally deducted from the payment to the merchant and recorded as discount revenue at the time a Card Member enters into a point-of-sale transaction with a merchant.

Where the Company acts as the merchant acquirer and the card presented at a merchant is issued by a third-party financial institution, such as in the case of GNS partners, the Company makes financial settlement to the merchant and receives the discount revenue. In the Company's role as the operator of the card network, it also receives financial settlement from the GNS card issuer, which in turn receives an issuer rate that is individually negotiated between that issuer and the Company. The difference between the merchant discount the Company receives from the merchant (which is directly agreed between a merchant and the Company, and is not based on the issuer rate) and the issuer rate received by the GNS card issuer is recorded as discount revenue.

In cases where the Company is the card issuer and the merchant acquirer is a third party (which can be the case in a country in which an Independent Operator partner is the local merchant acquirer or in the United States under our OptBlue program with certain third-party merchant acquirers), the Company receives a network rate in its settlement with the merchant acquirer, which is individually negotiated between the Company and that merchant acquirer and is recorded as discount revenue. In contrast with networks such as those operated by Visa Inc. and MasterCard Incorporated, there are no collectively set interchange rates on the American Express network, issuer rates do not serve as a basis for merchant discount rates and no fees are agreed or due between the third-party financial institution participants 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 (refer to Note 10).

Other Fees and Commissions

Other fees and commissions represent Card Member delinquency fees, foreign currency conversion fees, loyalty coalition-related fees, travel commissions and fees and service fees, which are primarily recognized in the period in which they are charged to the Card Member (refer to Note 19). In addition, service fees are also earned from other customers (e.g., merchants) for a variety of services and are recognized when the service is performed, which is generally in the period the fee is charged. Also included are fees related to the Company's Membership Rewards program, 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 (refer to Note 10).

Contra-revenue

The Company regularly makes payments through contractual arrangements with merchants, corporate payments clients, Card Members, third-party issuing partners and certain other customers. These payments, including cash rebates and statement credits provided to Card Members, are generally classified as contra-revenue unless a specifically identifiable benefit (e.g., goods or services) is received by the Company or its Card Members in consideration for that payment, and the fair value of such benefit is determinable and measurable. If such conditions are met, then the payment is classified as expense up to the estimated fair value of the benefit. If no such benefit is identified, then the entire payment is classified as contra-revenue and included in the Consolidated Statements of Income in the revenue line item where the related transactions are recorded (e.g., Discount revenue or Other fees and commissions).

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 the Company’s 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.

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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.

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 the Company's long-term debt and short-term borrowings, as well as the realized impact of derivatives used to hedge interest rate risk on the Company's long-term debt.

Expenses

Marketing and promotion 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.

BALANCE SHEET

Cash and Cash Equivalents

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

Goodwill

Goodwill represents the excess of acquisition cost of an acquired business over the fair value of assets acquired and liabilities assumed. The Company allocates goodwill to its reporting units for the purpose of impairment testing. A reporting unit is defined as an operating segment, or a business that is one level below an operating segment, for which discrete financial information is regularly reviewed by the operating segment manager.

The Company evaluates goodwill for impairment annually as of June 30, or more frequently if events occur or circumstances change that would more likely than not reduce the fair value of one or more of the Company's reporting units below its carrying value. Prior to completing the assessment of goodwill for impairment, the Company also performs a recoverability test of certain long-lived assets. The Company has the option to perform a qualitative assessment of goodwill impairment to determine whether it is more likely than not that the fair value of its reporting units is less than the carrying values. Alternatively, the Company performs a more detailed quantitative assessment of goodwill impairment.

This qualitative assessment entails the evaluation of factors such as economic conditions, industry and market considerations, cost factors, overall financial performance of the reporting unit and other company and reporting unit-specific events. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it then performs the impairment evaluation using the quantitative assessment.

Under the quantitative assessment, the first step identifies whether there is a potential impairment by comparing the fair value of a reporting unit to the carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds the fair value, then a test is performed to determine the implied fair value of goodwill. An impairment loss is recognized based on the amount that the carrying amount of goodwill exceeds the implied fair value. When measuring the fair value of its reporting units in the quantitative assessment, the Company uses widely accepted valuation techniques, applying a combination of the income approach (discounted cash flows) and market approach (market multiples). When preparing discounted cash flow models under the income approach, the Company uses internal forecasts to estimate future cash flows expected to be generated by the reporting units. To discount these cash flows, the Company uses the expected cost of equity, determined by using a capital asset pricing model. The Company believes the discount rates used appropriately reflect the risks and uncertainties in the financial markets generally and specifically in the Company's internally-developed forecasts. When using market multiples under the market approach, the Company applies comparable publicly traded companies' multiples (e.g., earnings or revenues) to its reporting units' actual results.

For the year ended December 31, 2017, the Company performed a qualitative assessment and determined that it was more likely than not that the fair values of its reporting units exceeded their carrying values. For the year ended December 31, 2016, the Company performed the quantitative assessment for all of its reporting units and determined that there was no impairment of goodwill.

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Other Intangible Assets
Intangible assets, primarily customer relationships, are amortized on a straight-line basis over their estimated useful lives of 1 to 22 years. The Company reviews long-lived assets and asset groups, including intangible assets, for impairment whenever events and circumstances indicate their carrying amounts may not be recoverable. An impairment is recognized if the carrying amount is not recoverable and exceeds the asset or asset group's fair value.
Premises and Equipment
Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation. Costs incurred during construction are capitalized and are depreciated once an asset is placed in service. Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years for equipment, furniture and building improvements, and from 40 to 50 years for premises, which are depreciated based upon their estimated useful life at the acquisition date.
Leasehold improvements are depreciated using the straight-line method over the lesser of the remaining term of the leased facility, or the economic life of the improvement, and ranges from 5 to 10 years. The Company maintains operating leases worldwide for facilities and equipment. Rent expense for facility leases is recognized ratably over the lease term, and includes adjustments for rent concessions, rent escalations and leasehold improvement allowances. The Company recognizes lease restoration obligations at the fair value of the restoration liabilities when incurred and amortizes the restoration assets over the lease term.
Certain costs associated with the acquisition or development of internal-use software are also capitalized and recorded in Premises and equipment. Once the software is ready for its intended use, these costs are amortized on a straight-line basis over the software's estimated useful life, generally 5 years. The Company reviews these assets for impairment using the same impairment methodology used for its intangible assets.

OTHER SIGNIFICANT ACCOUNTING POLICIES

The following table identifies the Company's other significant accounting policies, along with the related Note and page number where the Note can be found.

Significant Accounting Policy	Note Number	Note Title	Page
Accounts Receivable	Note 3	Loans and Accounts Receivable	Page 94
Loans	Note 3	Loans and Accounts Receivable	Page 94
Reserves for Losses	Note 4	Reserves for Losses	Page 101
Investment Securities	Note 5	Investment Securities	Page 103
Asset Securitizations	Note 6	Asset Securitizations	Page 104
Membership Rewards	Note 10	Other Liabilities	Page 110
Stock-based Compensation	Note 11	Stock Plans	Page 111
Retirement Plans	Note 12	Retirement Plans	Page 113
Legal Contingencies	Note 13	Contingencies and Commitments	Page 113
Derivative Financial Instruments and Hedging Activities	Note 14	Derivatives and Hedging Activities	Page 115
Fair Value Measurements	Note 15	Fair Values	

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance on revenue recognition. The accounting standard establishes the principles to apply to determine the amount and timing of revenue recognition, specifying the accounting for certain costs related to revenue, and requiring additional disclosures about the nature, amount, timing and uncertainty of revenues and related cash flows. The guidance, as amended and effective January 1, 2018, supersedes most of the revenue recognition requirements in effect prior to that date.

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Beginning with the quarter ending March 31, 2018, the Company's consolidated financial statements will reflect the adoption of the standard using the full retrospective method, which applies the new standard to each prior reporting period presented. The most significant impacts of the adoption are changes to the presentation of certain credit and charge card related costs that previously were netted against Discount revenue, including Card Member cash-back reward costs and statement credits, corporate client incentive payments, as well as payments to third-party card issuing partners. Under the new 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 recognized as expenses. Our payments to third-party card issuing partners will be presented net of related Other revenues earned from the partners.

These reclassifications are expected to have the following impacts to the reported results for the fiscal years ended:

	Increase (Decrease)	
December 31 (Millions)	2017	2016
Revenues		
Discount revenue	$3,707	$3,699
Other	(278)	(253)
Expenses		
Marketing and promotion	2,350	2,420
Card Member rewards	$1,079	$1,026

The adoption of the new guidance also results in changes to the recognition timing of certain revenues, the impact of which is not material to net income. Similarly, the adoption does not have a material impact on the Company's consolidated balance sheets or statements of cash flows. The Company is in the process of implementing changes to its accounting policies, business processes, systems and internal controls to support the recognition, measurement and disclosure requirements under the new standard.

In January 2016, the FASB issued new accounting guidance on the recognition and measurement of financial assets and financial liabilities, which was effective and adopted by the Company as of January 1, 2018. The guidance makes targeted changes to 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. In the ordinary course of business, the Company makes investments in non-public companies, which historically were recognized under the cost method of accounting. Under the new guidance, these investments are prospectively adjusted for observable price changes through earnings upon the identification of identical or similar transactions of the same issuer. The adoption of the guidance, as of January 1, 2018, did not have a material impact on the Company's financial position, results of operations and cash flows. The Company implemented changes to its accounting policies, business processes and internal controls in support of the new guidance.

In February 2016, the 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. The Company will adopt the standard effective January 1, 2019, and is currently planning on using the modified retrospective approach, which requires recording existing operating leases on the Consolidated Balance Sheets upon adoption and in the comparative period. The Company is in the process of upgrading its lease administration software and changing business processes and internal controls in preparation for the adoption. Specifically, the Company is currently reviewing its lease portfolio and is evaluating and interpreting the requirements under the guidance, including the available accounting policy elections, in order to determine the impacts on the Company's financial position, results of operations and cash flows upon adoption.

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 was 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. The Company does not intend to adopt the new standard early and is currently evaluating the impact the new guidance will have on its financial position, results of operations and cash flows; 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 the Company's credit reserves as the new guidance involves earlier recognition of expected losses for the life of the assets. The Company has established an enterprise-wide, cross-discipline governance structure to implement the new standard, and continues to identify and conclude on key interpretive issues along with evaluating its existing credit loss forecasting models and processes in relation to the new guidance to determine what modifications may be required.

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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, the Company adopted the guidance, with no material impact on its financial position, results of operations and cash flows, along with associated changes to its accounting policies, business processes and internal controls in support of the new guidance.

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 AOCI to retained earnings. The optional guidance is effective January 1, 2019, with early adoption permitted. The Company is evaluating whether it will adopt the new guidance along with any impacts on the Company's financial position, results of operations and cash flows, none of which are expected to be material.

CLASSIFICATION OF VARIOUS ITEMS

Certain reclassifications of prior period amounts have been made to conform to the current period presentation. Specifically, during 2016, the Company determined that in the Consolidated Statements of Cash Flows for the comparative periods ended June 30, 2015, September 30, 2015 and December 31, 2015, certain activities related to long-term debt repayments were misclassified between financing activities and operating activities. There is no impact to the Consolidated Statements of Income or Consolidated Balance Sheets. The Company evaluated the effects of these misclassifications and concluded that none are material to any of its previously issued Consolidated Financial Statements. Nevertheless, the Company elected to revise prospectively the comparative periods mentioned above. For the year ended December 31, 2015, this revision resulted in a $361 million decrease to both Net cash used in financing activities and Net cash provided by operating activities. In addition, travel commissions and fees, which were previously disclosed separately on the Consolidated Statements of Income, are now included within Other fees and commissions.

NOTE 2

BUSINESS EVENTS

LOANS AND RECEIVABLES HELD FOR SALE

During the fourth quarter of 2015, it was determined the Company would sell the Card Member loans and receivables related to its cobrand partnerships with JetBlue Airways Corporation (JetBlue) and Costco Wholesale Corporation (Costco) in the United States (the HFS portfolios). As a result, the HFS portfolios were presented as held for sale (HFS) on the Consolidated Balance Sheets within Card Member loans and receivables HFS as of December 31, 2015. During the first half of 2016, the Company completed the sales of substantially all of these outstanding Card Member loans and receivables HFS and recognized gains, as an expense reduction in Other expenses, of $127 million and $1.1 billion during the three months ended March 31, 2016 and June 30, 2016, respectively. The impact of the sales, including the recognition of the proceeds received and the reclassification of the retained Card Member loans and receivables, was reported within the investing section of the Consolidated Statements of Cash Flows as a net decrease in Card Member receivables and loans, including HFS. From the point of classification as HFS through the sale completion dates, the Company continued to recognize discount revenue, interest income, other revenues and expenses related to the HFS portfolios in the respective line items on the Consolidated Statements of Income, with changes in the valuation of the HFS portfolios recognized in Other expenses.

GOODWILL AND TECHNOLOGY IMPAIRMENT

As discussed in Note 1, the Company evaluates goodwill for impairment annually, or more frequently if events occur or circumstances change that would more likely than not reduce the fair value of one or more of the Company’s reporting units below its carrying value. Based on its annual assessment as of June 30, 2015, the Company determined that goodwill was not impaired; however, during the fourth quarter of 2015, the Company announced changes to its management organizational structure under which reconsideration of the Company’s Prepaid Services business (a reporting unit that is included in Corporate & Other) occurred. As a result, the Company determined that sufficient indicators of potential impairment of goodwill existed and performed an impairment evaluation. In performing its quantitative impairment assessment, it was determined the carrying value of the Prepaid Services business’ goodwill exceeded its implied fair value and the Company recognized an impairment loss. The fair value of the Prepaid Services business asset group was measured based on an income approach (discounted cash flow valuation methodology), with the assistance of a third-party valuation firm. Prior to completing the assessment of goodwill for impairment, the Company performed a recoverability test of certain long-lived assets in the Prepaid Services business and determined that certain long-lived assets, primarily technology assets, were not recoverable. As a result, during the fourth quarter of 2015, the Company recorded a $384 million impairment charge, comprising a $219 million write-down of the entire balance of goodwill in the Prepaid Services business and a $165 million write-down of technology and other assets to fair value. These charges were reported in Other expenses. Refer to Note 7 for further discussion of the Company’s goodwill and intangible assets.

NOTE 3

LOANS AND ACCOUNTS RECEIVABLE

The Company’s lending and charge payment card products result in the generation of Card Member loans and Card Member receivables, respectively.

CARD MEMBER AND OTHER LOANS

Card Member loans are recorded at the time a Card Member enters into a point-of-sale transaction with a merchant and represent revolving amounts due on lending card products, as well as amounts due from charge Card Members who utilize the Pay Over Time features on their account and elect to revolve a portion of the outstanding balance by entering into a revolving payment arrangement with the Company. These loans have a range of terms such as credit limits, interest rates, fees and payment structures, which can be revised over time based on new information about Card Members, and in accordance with applicable regulations and the respective product’s terms and conditions. Card Members holding revolving loans are typically required to make monthly payments based on pre-established amounts and the amounts that Card Members choose to revolve are subject to finance charges.

Card Member loans are presented on the Consolidated Balance Sheets net of reserves for losses (refer to Note 4), and include principal and any related accrued interest and fees. The Company’s policy generally is to cease accruing interest on a Card Member loan at the time the account is written off, and establish reserves for interest that the Company believes will not be collected.

Card Member loans by segment and Other loans as of December 31, 2017 and 2016 consisted of:

(Millions)	2017	2016
U.S. Consumer Services[(a)]	$53,668	$48,758
International Consumer and Network Services	8,651	6,971
Global Commercial Services	11,080	9,536
Card Member loans	73,399	65,265
Less: Reserve for losses	1,706	1,223
Card Member loans, net	$71,693	$64,042
Other loans, net[(b)]	$2,607	$1,419

(a) Includes approximately $25.7 billion and $26.1 billion of gross Card Member loans available to settle obligations of a consolidated VIE as of December 31, 2017 and 2016, respectively.

(b) Other loans primarily represent personal and commercial financing products. Other loans are presented net of reserves for losses of $80 million and $42 million as of December 31, 2017 and 2016, respectively.

CARD MEMBER AND OTHER RECEIVABLES

Card Member receivables are also recorded at the time a Card Member enters into a point-of-sale transaction with a merchant and represent amounts due on charge card products. Each charge card transaction is authorized based on its likely economics, a Card Member’s most recent credit information and spend patterns. Additionally, global spend limits are established to limit the maximum exposure for the Company.

Charge Card Members generally must pay the full amount billed each month. Card Member receivable balances are presented on the Consolidated Balance Sheets net of reserves for losses (refer to Note 4), and include principal and any related accrued fees.

Card Member accounts receivable by segment and Other receivables as of December 31, 2017 and 2016 consisted of:

(Millions)	2017	2016
U.S. Consumer Services [(a)]	$13,143	$12,302
International Consumer and Network Services	7,803	5,966
Global Commercial Services	33,101	29,040
Card Member receivables	54,047	47,308
Less: Reserve for losses	521	467
Card Member receivables, net	$53,526	$46,841
Other receivables, net [(b)]	$3,163	$3,232

(a) Includes $8.9 billion of gross Card Member receivables available to settle obligations of a consolidated VIE as of both December 31, 2017 and 2016.

(b) Other receivables primarily represent amounts related to (i) GNS partner banks for items such as royalty and franchise fees, (ii) certain merchants for billed discount revenue, (iii) tax-related receivables, and (iv) loyalty coalition partners for points issued, as well as program participation and servicing fees. Other receivables are presented net of reserves for losses of $31 million and $45 million as of December 31, 2017 and 2016, respectively.

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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 December 31, 2017 and 2016:

2017 (Millions)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Card Member Loans:					
U.S. Consumer Services	$52,961	$201	162	344	$53,668
International Consumer and Network Services	8,530	37	28	56	8,651
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:					
U.S. Consumer Services	$12,993	53	33	64	$13,143
International Consumer and Network Services	7,703	29	21	50	7,803
Global Commercial Services					
Global Small Business Services	15,868	91	54	106	16,119
Global Corporate Payments[(a)]	(b)	(b)	(b)	148	16,982

2016 (Millions)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Card Member Loans:					
U.S. Consumer Services	$48,216	$156	$119	$267	$48,758
International Consumer and Network Services	6,863	32	24	52	6,971
Global Commercial Services					
Global Small Business Services	9,378	34	23	49	9,484
Global Corporate Payments[(a)]	(b)	(b)	(b)		52
Card Member Receivables:					
U.S. Consumer Services	$12,158	$45	$30	$69	$12,302
International Consumer and Network Services	5,888	22	15	41	5,966
Global Commercial Services					
Global Small Business Services	14,047	77	47	102	14,273
Global Corporate Payments[(a)]	(b)	(b)	(b)	135	14,767

(a) 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 the Company initiates 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).

(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.

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CREDIT QUALITY INDICATORS FOR CARD MEMBER LOANS AND RECEIVABLES

The following tables present the key credit quality indicators as of or for the years ended December 31:

	2017 Net Write-Off Rate Principal Only[(a)]	2017 Net Write-Off Rate Principal, Interest, & Fees[(a)]	2017 30+ Days Past Due as a % of Total	2016 Net Write-Off Rate Principal Only[(a)]	2016 Net Write-Off Rate Principal, Interest, & Fees[(a)]	2016 30+ Days Past Due as a % of Total
Card Member Loans:						
U.S. Consumer Services	1.8 %	2.1 %	1.3 %	1.5 %	1.8 %	1.1 %
International Consumer and Network Services	2.1 %	2.5 %	1.4 %	2.0 %	2.5 %	1.6 %
Global Small Business Services	1.6 %	1.9 %	1.2 %	1.4 %	1.7 %	1.1 %
Card Member Receivables:						
U.S. Consumer Services	1.3 %	1.4 %	1.1 %	1.4 %	1.6 %	1.2 %
International Consumer and Network Services	2.0 %	2.1 %	1.3 %	2.0 %	2.2 %	1.3 %
Global Small Business Services	1.6 %	1.8 %	1.6 %	1.5 %	1.7 %	1.6 %

	2017 Net Loss Ratio as a % of Charge Volume	2017 90+ Days Past Billing as a % of Receivables	2016 Net Loss Ratio as a % of Charge Volume	2016 90+ Days Past Billing as a % of Receivables
Card Member Receivables:				
Global Corporate Payments	0.10 %	0.9 %	0.09 %	0.9 %

(a) The Company presents 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, because the Company considers uncollectible interest and/or fees in estimating its reserves for credit losses, a net write-off rate including principal, interest and/or fees is also presented.

Refer to Note 4 for additional indicators, including external environmental qualitative factors, management considers in its monthly evaluation process for reserves for losses.

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 the Company will be unable to collect all amounts due according to the original contractual terms of the Card Member agreement. The Company considers impaired loans and receivables to include: (i) loans over 90 days past due still accruing interest, (ii) nonaccrual loans and (iii) loans and receivables modified as troubled debt restructurings (TDRs).

In instances where the Card Member is experiencing financial difficulty, the Company may modify, through various programs, Card Member loans and receivables in order to minimize losses and improve collectability, while providing Card Members with temporary or permanent financial relief. The Company has classified Card Member loans and receivables in these modification programs as TDRs and continues to classify Card Member accounts that have exited a modification program as a TDR, with such accounts identified as “Out of Program TDRs.”

Such modifications to the loans and receivables primarily include (i) temporary interest rate reductions (possibly as low as zero percent, in which case the loan is characterized as non-accrual in the Company’s TDR disclosures), (ii) placing the Card Member on a fixed payment plan not to exceed 60 months and (iii) suspending delinquency fees until the Card Member exits the modification program. Upon entering the modification program, the Card Member’s ability to make future purchases is either cancelled, or in certain cases suspended until the Card Member successfully exits the modification program. In accordance with the modification agreement with the Card Member, loans may revert back to the original contractual terms (including the contractual interest rate) when the Card Member exits the modification program, which is (i) when all payments have been made in accordance with the modification agreement or, (ii) when the Card Member defaults out of the modification program. The Company establishes a reserve for Card Member interest charges and fees considered to be uncollectible.

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Reserves for Card Member loans and receivables modified as TDRs are determined as the difference between the cash flows expected to be received from the Card Member (taking into consideration the probability of subsequent defaults), discounted at the original effective interest rates, and the carrying value of the related Card Member loan or receivables balance. The Company determines the original effective interest rate as the interest rate in effect prior to the imposition of any penalty interest rate. All changes in the impairment measurement are included in Provisions for losses in the Consolidated Statements of Income.

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The following tables provide additional information with respect to the Company's impaired Card Member loans and receivables. Impaired Card Member receivables are not significant for ICNS as of December 31, 2017, 2016 and 2015; therefore, this segment's receivables are not included in the following tables.

	As of December 31, 2017						
			Accounts Classified as a TDR [c]				
(Millions)	Over 90 days Past Due & Accruing Interest [a]	Non-Accruals [b]	In Program [d]	Out of Program [e]	Total Impaired Balance	Unpaid Principal Balance	Allowance for TDRs
Card Member Loans:							
U.S. Consumer Services	$233	$ 168	$178	$ 131	$ 710	$ 639	$ 49
International Consumer and Network Services	56				56	55	
Global Commercial Services	38	31	31	27	127	118	8
Card Member Receivables:							
U.S. Consumer Services			15	9	24	24	1
Global Commercial Services			37	19	56	56	2
Total	$327	$ 199	$261	$ 186	$ 973	$ 892	$ 60

	As of December 31, 2016						
			Accounts Classified as a TDR [c]				
(Millions)	Over 90 days Past Due & Accruing Interest [a]	Non-Accruals [b]	In Program [d]	Out of Program [e]	Total Impaired Balance	Unpaid Principal Balance	Allowance for TDRs
Card Member Loans:							
U.S. Consumer Services	$178	$ 139	$165	$ 129	$ 611	$ 558	$ 51
International Consumer and Network Services	52				52	51	
Global Commercial Services	30	30	26	26	112	103	9
Card Member Receivables:							
U.S. Consumer Services			11	6	17	17	7
Global Commercial Services			28	10	38	38	21
Total	$260	$ 169	$230	$ 171	$ 830	$ 767	$ 88

As of December 31, 2015

			Accounts Classified as a TDR [c]				
(Millions)	Over 90 days Past Due & Accruing Interest[a]	Non-Accruals[b]	In Program[d]	Out of Program[e]	Total Impaired Balance	Unpaid Principal Balance	Allowance for TDRs
Card Member Loans:							
U.S. Consumer Services	$140	$ 124	$149	$ 89	$ 502	$ 463	$ 44
International Consumer and Network Services	52				52	51	
Global Commercial Services	24	26	23	18	91	85	9
Card Member Receivables:							
U.S. Consumer Services			11	3	14	14	8
Global Commercial Services			16	3	19	19	12
Total	$216	$ 150	$199	$ 113	$ 678	$ 632	$ 73

(a) The Company's policy is generally to accrue interest through the date of write-off (typically 180 days past due). The Company establishes reserves for interest that it believes will not be collected. Amounts presented exclude Card Member loans classified as a TDR.

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

(c) Accounts classified as a TDR include $15 million, $20 million and $20 million that are over 90 days past due and accruing interest and $5 million, $11 million and $18 million that are non-accruals as of December 31, 2017, 2016 and 2015, respectively.

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

(e) Out of Program TDRs include $141 million, $132 million and $84 million of Card Member accounts that have successfully completed a modification program and $45 million, $39 million and $29 million of Card Member accounts that were not in compliance with the terms of the modification programs as of December 31, 2017, 2016 and 2015, respectively.

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The following table provides information with respect to the Company’s average balances and interest income recognized from Impaired Card Member loans and the average balances of impaired Card Member receivables for the years ended December 31:

2017 (Millions)	Average Balance	Interest Income Recognized
Card Member Loans:		
U.S. Consumer Services	$ 643	$ 68
International Consumer and Network Services	56	17
Global Commercial Services	120	17
Card Member Receivables:		
U.S. Consumer Services	20	
Global Commercial Services	45	
Total	$ 884	$ 102

2016 (Millions)	Average Balance	Interest Income Recognized
Card Member Loans:		
U.S. Consumer Services	$ 559	$ 53
International Consumer and Network Services	53	15
Global Commercial Services	103	13
Card Member Receivables:		
U.S. Consumer Services	14	
Global Commercial Services	28	
Total	$ 757	$ 81

2015 (Millions)	Average Balance	Interest Income Recognized
Card Member Loans:		
U.S. Consumer Services	$ 569	$ 48
International Consumer and Network Services	54	14
Global Commercial Services	104	11
Card Member Receivables:		
U.S. Consumer Services	13	
Global Commercial Services	20	
Total	$ 760	$ 73

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CARD MEMBER LOANS AND RECEIVABLES MODIFIED AS TDRS

The following table provides additional information with respect to the USCS and GCS Card Member loans and receivables modified as TDRs for the years ended December 31, 2017, 2016 and 2015. The ICNS Card Member loans and receivables modifications were not significant; therefore, this segment is not included in the following TDR disclosures.

2017	Number of Accounts (in thousands)	Outstanding Balances ($ in millions) [(a)]	Average Interest Rate Reduction (% points)	Average Payment Term Extensions (# of months)
Troubled Debt Restructurings:				
Card Member Loans	33	$ 224	10	(b)
Card Member Receivables	6	83	(c)	28
Total	39	$ 307		

2016	Number of Accounts (in thousands)	Outstanding Balances ($ in millions) [(a)]	Average Interest Rate Reduction (% points)	Average Payment Term Extensions (# of months)
Troubled Debt Restructurings:				
Card Member Loans	31	$ 220	9	(b)
Card Member Receivables	9	123	(c)	18
Total	40	$ 343		

2015	Number of Accounts (in thousands)	Outstanding Balances ($ in millions) [(a)]	Average Interest Rate Reduction (% points)	Average Payment Term Extensions (# of months)
Troubled Debt Restructurings:				
Card Member Loans	40	$ 285	9	(b)
Card Member Receivables	12	147	(c)	12
Total	52	$ 432		

(a) Represents the outstanding balance immediately prior to modification. The outstanding balance includes principal, 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) The Company does not offer interest rate reduction programs for Card Member receivables as the receivables are non-interest bearing.

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The following table provides information with respect to the USCS and GCS Card Member loans and receivables modified as TDRs that subsequently defaulted within 12 months of modification for the years ended December 31, 2017, 2016 and 2015. 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.

2017	Number of Accounts (thousands)	Aggregated Outstanding Balances Upon Default[a] (millions)
Troubled Debt Restructurings That Subsequently Defaulted:		
Card Member Loans	6	$ 39
Card Member Receivables	3	7
Total	9	$ 46

2016	Number of Accounts (thousands)	Aggregated Outstanding Balances Upon Default[a] (millions)
Troubled Debt Restructurings That Subsequently Defaulted:		
Card Member Loans	7	$ 41
Card Member Receivables	3	4
Total	10	$ 45

2015	Number of Accounts (thousands)	Aggregated Outstanding Balances Upon Default[a] (millions)
Troubled Debt Restructurings That Subsequently Defaulted:		
Card Member Loans	8	$ 52
Card Member Receivables	3	5
Total	11	$ 57

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

NOTE 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 the Company's outstanding portfolio of loans and receivables, as of the balance sheet date. Management's evaluation process requires certain estimates and judgments.

Reserves for losses are primarily based upon statistical and analytical models that analyze portfolio performance and reflect management's judgment regarding the quantitative components of the reserve. The models take into account several factors, including delinquency-based loss migration rates, loss emergence periods and average losses and recoveries over an appropriate historical period. Management considers whether to adjust the quantitative reserves for certain external and internal qualitative factors, which may increase or decrease the reserves for losses on Card Member loans and receivables. These external factors include employment, spend, sentiment, housing and credit, and changes in the legal and regulatory environment, while the internal factors include increased risk in certain portfolios, impact of risk management initiatives, changes in underwriting requirements and overall process stability. As part of this evaluation process, management also considers various reserve coverage metrics, such as reserves as a percentage of past due amounts, reserves as a percentage of Card Member loans or receivables, and net write-off coverage ratios.
Card Member loans and receivables balances are written off when management considers amounts to be uncollectible, which is generally determined by the number of days past due and is typically no later than 180 days past due. Card Member loans and receivables in bankruptcy or owed by deceased individuals are generally written off upon notification, and recoveries are recognized as they are collected.
This Note is presented excluding amounts associated with the Card Member loans and receivables HFS as of December 31, 2015; the Company did not have any Card Member loans and receivables HFS as of December 31, 2017 or 2016.

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CHANGES IN CARD MEMBER LOANS RESERVE FOR LOSSES

The following table presents changes in the Card Member loans reserve for losses for the years ended December 31:

(Millions)	2017	2016	2015
Balance, January 1	$1,223	$1,028	$1,201
Provisions[(a)]	1,868	1,235	1,190
Net write-offs			
Principal[(b)]	(1,181)	(930)	(967)
Interest and fees[(b)]	(227)	(175)	(162)
Transfer of reserves on HFS loan portfolios			(224)
Other[(c)]	23	65	(10)
Balance, December 31	$1,706	$1,223	$1,028

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

(b) Principal write-offs are presented less recoveries of $409 million, $379 million and $418 million, and include net write-offs from TDRs of $30 million, $34 million and $41 million, for the years ended December 31, 2017, 2016 and 2015, respectively. Recoveries of interest and fees were not significant.

(c) Includes foreign currency translation adjustments of $8 million, $(10) million and $(20) million, and other adjustments of $15 million, $8 million and $10 million for the years ended December 31, 2017, 2016 and 2015, respectively. The year ended December 31, 2016 included reserves of $67 million associated with $265 million of retained Card Member loans reclassified from HFS to held for investment as a result of retaining certain loans in connection with the respective sales of JetBlue and Costco cobrand card portfolios.

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 December 31:

(Millions)	2017	2016	2015
Card Member loans evaluated individually for impairment [(a)]	$367	$346	$279
Related reserves[(a)]	$57	$60	$53
Card Member loans evaluated collectively for impairment [(b)]	$73,032	$64,919	$58,294
Related reserves[(b)]	$1,649	$1,163	$975

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

(b) 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 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 years ended December 31:

(Millions)	2017	2016	2015
Balance, January 1	$467	$462	$465
Provisions[(a)]	795	696	737
Net write-offs[(b)]	(736)	(674)	(713)
Other[(c)]	(5)	(17)	(27)
Balance, December 31	$521	$467	$462

(a) Provisions for principal and fee reserve components.

(b)

Principal and fee write-offs are presented less recoveries of $359 million, $391 million and $401 million, including net write-offs from TDRs of $(2) million, $16 million and $60 million, for the years ended December 31, 2017, 2016 and 2015, respectively.

(c) Includes foreign currency translation adjustments of $12 million, $(12) million and $(16) million, and other adjustments of $(17) million, $(5) million and $(11) million for the years ended December 31, 2017, 2016 and 2015, respectively. Additionally, 2015 included the impact of the transfer of the HFS receivables portfolio, which was not significant.

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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 December 31:

(Millions) 2017