

AMERICAN EXPRESS CO
Form 10-Q
July 30, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2014

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 number 1-7657

AMERICAN EXPRESS COMPANY

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

13-4922250
(I.R.S. Employer Identification No.)

200 Vesey Street, New York, NY
(Address of principal executive offices)

10285
(Zip Code)

Registrant's telephone number, including area code _____ (212) 640-2000

None

Former name, former address and former fiscal year, if changed since last report.

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 Web site, 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

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

for such shorter period that the registrant was required to submit and post such files).

Yes X No

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No X

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

Class	Outstanding at July 18, 2014
Common Shares (par value \$0.20 per share)	1,046,567,365 shares

Table of Contents

AMERICAN EXPRESS COMPANY

FORM 10-Q

INDEX

Part I. <u>Financial Information</u>	<u>Page No.</u>
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Income – Three Months Ended June 30, 2014 and 2013</u>	1
<u>Consolidated Statements of Income – Six Months Ended June 30, 2014 and 2013</u>	2
<u>Consolidated Statements of Comprehensive Income – Three and Six Months Ended June 30, 2014 and 2013</u>	3
<u>Consolidated Balance Sheets – June 30, 2014 and December 31, 2013</u>	4
<u>Consolidated Statements of Cash Flows – Six Months Ended June 30, 2014 and 2013</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	72
Item 4. <u>Controls and Procedures</u>	72
Part II. <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	75
Item 1A. <u>Risk Factors</u>	77
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	79
Item 5. <u>Other Information</u>	80
Item 6. <u>Exhibits</u>	80
<u>Signatures</u>	81
<u>Exhibit Index</u>	E-1

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AMERICAN EXPRESS COMPANY****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

Three Months Ended June 30 (<i>Millions, except per share amounts</i>)	2014	2013
Revenues		
Non-interest revenues		
Discount revenue	\$ 4,945	\$ 4,729
Net card fees	687	647
Travel commissions and fees	500	495
Other commissions and fees	624	605
Other	585	567
Total non-interest revenues	7,341	7,043
Interest income		
Interest on loans	1,696	1,622
Interest and dividends on investment securities	45	52
Deposits with banks and other	18	20
Total interest income	1,759	1,694
Interest expense		
Deposits	91	107
Long-term debt and other	352	385
Total interest expense	443	492
Net interest income	1,316	1,202
Total revenues net of interest expense	8,657	8,245
Provisions for losses		
Charge card	183	161
Card Member loans	282	334
Other	24	23
Total provisions for losses	489	518
Total revenues net of interest expense after provisions for losses	8,168	7,727
Expenses		
Marketing, promotion, rewards and Card Member services	2,950	2,580
Salaries and employee benefits	1,658	1,543

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Other, net	1,248	1,609
Total expenses	5,856	5,732
Pretax income	2,312	1,995
Income tax provision	783	590
Net income	\$ 1,529	\$ 1,405
Earnings per Common Share (Note 13):^(a)		
Basic	\$ 1.44	\$ 1.28
Diluted	\$ 1.43	\$ 1.27
Average common shares outstanding for earnings per common share:		
Basic	1,052	1,090
Diluted	1,058	1,097
Cash dividends declared per common share	\$ 0.26	\$ 0.23

(a) Represents net income less earnings allocated to participating share awards of \$12 million and \$13 million for the three months ended June 30, 2014 and 2013, respectively.

See Notes to Consolidated Financial Statements.

Table of Contents

AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Six Months Ended June 30 <i>(Millions, except per share amounts)</i>	2014	2013
Revenues		
Non-interest revenues		
Discount revenue	\$ 9,591	\$ 9,167
Net card fees	1,361	1,300
Travel commissions and fees	923	932
Other commissions and fees	1,242	1,178
Other	1,086	1,104
Total non-interest revenues	14,203	13,681
Interest income		
Interest on loans	3,407	3,305
Interest and dividends on investment securities	91	105
Deposits with banks and other	37	46
Total interest income	3,535	3,456
Interest expense		
Deposits	185	221
Long-term debt and other	697	790
Total interest expense	882	1,011
Net interest income	2,653	2,445
Total revenues net of interest expense	16,856	16,126
Provisions for losses		
Charge card	398	315
Card Member loans	532	577
Other	44	42
Total provisions for losses	974	934
Total revenues net of interest expense after provisions for losses	15,882	15,192
Expenses		
Marketing, promotion, rewards and Card Member services	5,367	4,910
Salaries and employee benefits	3,198	3,158
Other, net	2,797	3,220
Total expenses	11,362	11,288

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Pretax income	4,520	3,904
Income tax provision	1,559	1,219
Net income	\$ 2,961	\$ 2,685
Earnings per Common Share (Note 13):^(a)		
Basic	\$ 2.78	\$ 2.43
Diluted	\$ 2.77	\$ 2.42
Average common shares outstanding for earnings per common share:		
Basic	1,056	1,094
Diluted	1,062	1,101
Cash dividends declared per common share	\$ 0.49	\$ 0.43

(a) Represents net income less earnings allocated to participating share awards of \$24 million for both the six months ended June 30, 2014 and 2013.
See Notes to Consolidated Financial Statements.

Table of Contents

AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

<i>(Millions)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net income	\$ 1,529	\$ 1,405	\$ 2,961	\$ 2,685
Other comprehensive (loss) income:				
Net unrealized securities (losses) gains, net of tax of: 2014, \$1 and \$24; 2013, \$(72) and \$(90)	3	(127)	42	(162)
Foreign currency translation adjustments, net of tax of: 2014, \$(55) and \$(78); 2013, \$142 and \$131	6	(228)	(28)	(273)
Net unrealized pension and other postretirement benefit gains, net of tax of: 2014, \$5 and \$20; 2013, \$10 and \$31	14	27	41	54
Other comprehensive (loss) income	23	(328)	55	(381)
Comprehensive income	\$ 1,552	\$ 1,077	\$ 3,016	\$ 2,304

See Notes to Consolidated Financial Statements.

Table of Contents

AMERICAN EXPRESS COMPANY
CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(Millions, except per share data)</i>	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents		
Cash and due from banks	\$ 2,643	\$ 2,212
Interest bearing deposits in other banks (includes securities purchased under resale agreements: 2014, \$297; 2013, \$143)	15,399	16,776
Short-term investment securities	388	498
Total cash and cash equivalents	18,430	19,486
Accounts receivable		
Card Member receivables (includes gross receivables available to settle obligations of consolidated variable interest entities: 2014, \$6,497; 2013, \$7,329), less reserves: 2014, \$413; 2013, \$386	44,893	43,777
Other receivables, less reserves: 2014, \$59; 2013, \$71	3,753	3,408
Loans		
Card Member loans (includes gross loans available to settle obligations of a consolidated variable interest entity: 2014, \$28,878; 2013, \$31,245), less reserves: 2014, \$1,170; 2013, \$1,261	65,168	65,977
Other loans, less reserves: 2014, \$10; 2013, \$13	703	608
Investment securities	4,855	5,016
Premises and equipment, less accumulated depreciation and amortization: 2014, \$6,162; 2013, \$5,978	3,870	3,875
Other assets (includes restricted cash of consolidated variable interest entities: 2014, \$68; 2013, \$58)	10,712	11,228
Total assets	\$ 152,384	\$ 153,375
Liabilities and Shareholders Equity		
Liabilities		
Customer deposits	\$ 42,136	\$ 41,763
Travelers Cheques and other prepaid products	3,718	4,240
Accounts payable	11,645	10,615
Short-term borrowings (includes debt issued by consolidated variable interest entities: 2014, nil; 2013, \$2,000)	3,436	5,021
Long-term debt (includes debt issued by consolidated variable interest entities: 2014, \$15,499; 2013, \$18,690)	54,836	55,330
Other liabilities	16,400	16,910
Total liabilities	132,171	133,879
Contingencies (Note 15)		
Shareholders Equity		
Common shares, \$0.20 par value, authorized 3.6 billion shares; issued and outstanding 1,046 million shares as of June 30, 2014 and 1,064 million shares as of December 31, 2013	210	213
Additional paid-in capital	12,247	12,202
Retained earnings	9,127	8,507

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Accumulated other comprehensive income (loss)		
Net unrealized securities gains, net of tax of: 2014, \$57; 2013, \$33	105	63
Foreign currency translation adjustments, net of tax of: 2014, \$(604); 2013, \$(526)	(1,118)	(1,090)
Net unrealized pension and other postretirement benefit losses, net of tax of: 2014, \$(157); 2013, \$(177)	(358)	(399)
Total accumulated other comprehensive loss	(1,371)	(1,426)
Total shareholders' equity	20,213	19,496
Total liabilities and shareholders' equity	\$ 152,384	\$ 153,375

See Notes to Consolidated Financial Statements.

Table of Contents

AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Six Months Ended June 30 (<i>Millions</i>)	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 2,961	\$ 2,685
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for losses	974	934
Depreciation and amortization	515	497
Deferred taxes and other	(397)	(45)
Stock-based compensation	164	197
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Other receivables	(701)	190
Other assets	752	964
Accounts payable and other liabilities	1,142	5,247
Travelers Cheques and other prepaid products	(525)	(440)
Net cash provided by operating activities	4,885	10,229
Cash Flows from Investing Activities		
Sale of investments	80	131
Maturity and redemption of investments	525	601
Purchase of investments	(443)	(606)
Net (increase) in Card Member loans/receivables	(1,153)	(1,374)
Purchase of premises and equipment, net of sales: 2014, nil; 2013, \$7	(546)	(475)
Acquisitions/dispositions, net of cash acquired	(109)	(191)
Net increase (decrease) in restricted cash	70	(16)
Net cash used in investing activities	(1,576)	(1,930)
Cash Flows from Financing Activities		
Net increase in customer deposits	371	347
Net (decrease) in short-term borrowings	(1,654)	(219)
Issuance of long-term debt	5,955	3,109
Principal payments on long-term debt	(6,661)	(8,427)
Issuance of American Express common shares	193	501
Repurchase of American Express common shares	(2,091)	(2,142)
Dividends paid	(489)	(443)
Net cash used in financing activities	(4,376)	(7,274)
Effect of exchange rate changes on cash and cash equivalents	11	(146)
Net (decrease) increase in cash and cash equivalents	(1,056)	879
Cash and cash equivalents at beginning of period	19,486	22,250
Cash and cash equivalents at end of period	\$ 18,430	\$ 23,129

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

On June 30, 2014, the Company completed a transaction to establish a non-consolidated joint venture comprising the former Global Business Travel (GBT) operations of the Company. This non-cash transaction is further described within Note 2 to the Consolidated Financial Statements.

See Notes to Consolidated Financial Statements

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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. The Company also focuses on generating alternative sources of revenue on a global basis in areas such as online and mobile payments and fee-based services. 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, targeted direct and third-party sales forces and direct response advertising.

The accompanying Consolidated Financial Statements should be read in conjunction with the financial statements incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the Annual Report).

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

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

Certain reclassifications of prior period amounts have been made to conform to the current period presentation. These reclassifications did not have a material impact on the Company's financial position, results of operations or cash flows.

Recently Issued Accounting Standards

Accounting Standards Update No. 2014-09, Revenue Recognition (Topic 606): Revenue from Contracts with Customers was issued on May 28, 2014. The guidance 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 supersedes most of the current revenue recognition requirements, and will be effective January 1, 2017. The Company is currently evaluating the impact this guidance will have on its financial position, results of operations and cash flows, including the method it will choose for adoption.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****2. Divestitures**

On June 30, 2014, the Company completed the previously announced transaction to establish a non-consolidated joint venture (JV) comprising the former GBT operations of the Company, historically reported within the Global Commercial Services (GCS) segment. The Company retained a 50 percent ownership interest with an estimated fair value of approximately \$900 million, which is accounted for as an equity method investment as of June 30, 2014, and reported in other assets. In exchange for a cash contribution of \$900 million paid into the JV, an unrelated third-party investor group holds the remaining 50 percent ownership interest. The investor group's cash contribution provides the primary basis for the Company's determination of the estimated fair value of its 50 percent ownership interest.

As a result of the transaction, the Company deconsolidated the GBT net assets and recognized a net gain of approximately \$626 million (\$409 million after tax), which is reported as a reduction to other expense for the quarter ended June 30, 2014. Prior to the deconsolidation, the carrying amount of GBT's assets and liabilities were not material to the Company's financial position.

The JV will operate under the American Express Global Business Travel brand, pursuant to a trademark license agreement provided by the Company. The Company has also entered into a transition services agreement and certain other operating agreements with the JV, pursuant to which the Company and the JV will provide one another with certain services and that will result in related-party receivables and payables on an ongoing basis.

3. Accounts Receivable and Loans

The Company's charge and lending payment card products result in the generation of Card Member receivables and Card Member loans, respectively. For information on the Company's accounts receivable and loans and the related accounting policies, refer to Note 4 on pages 72-76 of the Annual Report.

Accounts receivable by segment as of June 30, 2014 and December 31, 2013 consisted of:

<i>(Millions)</i>	2014	2013
U.S. Card Services ^(a)	\$ 21,238	\$ 21,842
International Card Services	7,457	7,771
Global Commercial Services ^(b)	16,460	14,391
Global Network & Merchant Services ^(c)	151	159
Card Member receivables ^(d)	45,306	44,163
Less: Reserve for losses	413	386
Card Member receivables, net	\$ 44,893	\$ 43,777
Other receivables, net ^(e)	\$ 3,753	\$ 3,408

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

- (a) Includes \$6.5 billion and \$7.3 billion of gross Card Member receivables available to settle obligations of a consolidated variable interest entity (VIE) as of June 30, 2014 and December 31, 2013, respectively.
- (b) Includes \$669 million and \$836 million due from airlines, of which Delta Air Lines (Delta) comprises \$637 million and \$628 million as of June 30, 2014 and December 31, 2013, respectively.
- (c) Includes receivables primarily related to the Company's International Currency Card portfolios.
- (d) Includes approximately \$14.0 billion and \$13.8 billion of Card Member receivables outside the U.S. as of June 30, 2014 and December 31, 2013, respectively.
- (e) Other receivables primarily represent amounts related to (i) purchased Global Network Services (GNS) joint venture receivables, (ii) tax receivables, (iii) GNS partner banks for items such as royalty and franchise fees, and (iv) certain merchants for billed discount revenue. Other receivables are presented net of reserves for losses of \$59 million and \$71 million as of June 30, 2014 and December 31, 2013, respectively.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

Loans as of June 30, 2014 and December 31, 2013 consisted of:

<i>(Millions)</i>	2014		2013	
U.S. Card Services ^(a)	\$	57,727	\$	58,395
International Card Services		8,555		8,790
Global Commercial Services		56		53
Card Member loans		66,338		67,238
Less: Reserve for losses		1,170		1,261
Card Member loans, net	\$	65,168	\$	65,977
Other loans, net ^(b)	\$	703	\$	608

(a) Includes approximately \$28.9 billion and \$31.2 billion of gross Card Member loans available to settle obligations of a consolidated VIE as of June 30, 2014 and December 31, 2013, respectively.

(b) Other loans primarily represent loans to merchants and a store card loan portfolio. Other loans are presented net of reserves for losses of \$10 million and \$13 million as of June 30, 2014 and December 31, 2013, respectively.

Card Member Loans and Card Member Receivables Aging

Generally, a Card Member account is considered past due if payment is not received within 30 days after the billing statement date. The following table presents the aging of Card Member loans and receivables as of June 30, 2014 and December 31, 2013:

2014 <i>(Millions)</i>	Current	30-59	60-89	90+	Total
		Days Past Due	Days Past Due	Days Past Due	
Card Member Loans:					
U.S. Card Services	\$ 57,181	\$ 155	\$ 116	\$ 275	\$ 57,727
International Card Services	8,415	45	30	65	8,555
Card Member Receivables:					
U.S. Card Services	\$ 20,915	\$ 111	\$ 59	\$ 153	\$ 21,238

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

International Card Services ^(a)	7,356	32	19	50	7,457
Global Commercial Services	(b)	(b)	(b)	119	16,460

2013 (Millions)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Card Member Loans:					
U.S. Card Services	\$ 57,772	\$ 183	\$ 134	\$ 306	\$ 58,395
International Card Services	8,664	43	28	55	8,790
Card Member Receivables:					
U.S. Card Services	\$ 21,488	\$ 125	\$ 69	\$ 160	\$ 21,842
International Card Services	(b)	(b)	(b)	83	7,771
Global Commercial Services	(b)	(b)	(b)	132	14,391

- (a) Beginning in first quarter 2014, as a result of system enhancements, delinquency data is now available and presented on a prospective basis for the indicated aging categories. Comparable data for prior periods is not available. For risk management purposes, the Company has historically utilized 90 days past billing for the International Card Services (ICS) segment, as described below in (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. For Card Member receivables in GCS as of June 30, 2014 and ICS and GCS as of December 31, 2013, 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 receivable balance is classified as 90 days past billing. These amounts are shown above as 90+ Days Past Due for presentation purposes.

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Credit Quality Indicators for Card Member Loans and Receivables

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

	2014			2013		
	Net Write-Off Rate		30 Days Past Due as a % of Total	Net Write-Off Rate		30 Days Past Due as a % of Total
	Principal Only ^(a)	Principal, Interest, & Fees ^(a)		Principal Only ^(a)	Principal, Interest, & Fees ^(a)	
Card Member Loans:						
U.S. Card Services	1.6%	1.9%	0.9%	2.0%	2.2%	1.1%
International Card Services ^(b)	2.0%	2.4%	1.6%	1.9%	2.3%	1.6%
Card Member Receivables:						
U.S. Card Services	1.8%	2.0%	1.5%	2.0%	2.1%	1.6%
International Card Services ^(b)	2.0%	2.2%	1.3%	(c)	(c)	(c)

	2014		2013	
	Net Loss Ratio as a % of Charge Volume	90 Days Past Billing as a % of Receivables	Net Loss Ratio as a % of Charge Volume	90 Days Past Billing as a % of Receivables
Card Member Receivables:				
International Card Services	(c)	(c)	0.19%	1.1%
Global Commercial Services	0.09%	0.7%	0.08%	0.7%

(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.

(b) Beginning in 2014, write-offs for certain installment loan products have been reclassified from Card Member receivables to Card Member loans. Prior period write-offs have not been reclassified.

(c) Historically, net loss ratio as a % of charge volume and 90 days past billings as a % of receivables were presented. Beginning in first quarter 2014, as a result of system enhancements, 30 days past due as a % of total, Net write-off rate (principal only) and Net write-off rate (principal and fees) have been presented.

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Refer to Note 5 on pages 77 - 78 of the Annual Report for additional indicators, including external environmental qualitative factors, management considers in its evaluation process for reserves for losses.

Impaired Card Member Loans and Receivables

Impaired loans and receivables are defined by GAAP as 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. For information on impaired Card Member loans and receivables and the related accounting policies, refer to Note 4 on pages 74 - 76 of the Annual Report.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table provides additional information with respect to the Company's impaired Card Member loans, which are not significant for GCS, and Card Member receivables, which are not significant for ICS and GCS, as of June 30, 2014 and December 31, 2013:

2014 (Millions)	Loans over 90 Days Past Due & Accruing Interest ^(a)	Non- Accrual Loans ^(b)	Loans & Receivables Modified as a TDR ^(c)	Total Impaired Loans & Receivables	Unpaid Principal Balance ^(d)	Allowance for TDRs ^(e)
Card Member Loans:						
U.S. Card Services	\$ 171	\$ 198	\$ 323	\$ 692	\$ 631	\$ 74
International Card Services	65			65	64	
Card Member Receivables:						
U.S. Card Services			44	44	43	32
Total	\$ 236	\$ 198	\$ 367	\$ 801	\$ 738	\$ 106

2013 (Millions)	Loans over 90 Days Past Due & Accruing Interest ^(a)	Non- Accrual Loans ^(b)	Loans & Receivables Modified as a TDR ^(c)	Total Impaired Loans & Receivables	Unpaid Principal Balance ^(d)	Allowance for TDRs ^(e)
Card Member Loans:						
U.S. Card Services	\$ 170	\$ 244	\$ 373	\$ 787	\$ 731	\$ 84
International Card Services	54	4	5	63	62	
Card Member Receivables:						
U.S. Card Services			50	50	49	38
Total	\$ 224	\$ 248	\$ 428	\$ 900	\$ 842	\$ 122

(a) The Company's policy is generally to accrue interest through the date of write-off (i.e., at 180 days past due). The Company establishes reserves for interest that the Company believes will not be collected. Amounts presented exclude loans modified as a troubled debt restructuring (TDR).

(b) Non-accrual loans not in modification programs include certain Card Member loans placed with outside collection agencies for which the Company has ceased accruing interest.

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

- (c) Total loans and receivables modified as a TDR includes \$94 million and \$92 million that are non-accrual and \$23 million and \$26 million that are past due 90 days and still accruing interest as of June 30, 2014 and December 31, 2013, respectively.
- (d) Unpaid principal balance consists of Card Member charges billed and excludes other amounts charged directly by the Company such as interest and fees.
- (e) Represents the reserve for losses for TDRs, which are evaluated individually for impairment. The Company records a reserve for losses for all impaired loans. Refer to Card Member Loans Evaluated Individually and Collectively for Impairment in Note 4 for further information regarding the reserve for losses on loans over 90 days past due and accruing interest and non-accrual loans, which are evaluated collectively for impairment.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table provides information with respect to the Company's interest income recognized and average balances of impaired Card Member loans, which are not significant for GCS, and Card Member receivables, which are not significant for ICS and GCS, for the three and six months ended June 30:

	Three Months Ended		Six Months Ended	
	June 30, 2014		June 30, 2014	
	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance
2014 (Millions)				
Card Member Loans:				
U.S. Card Services	\$ 9	\$ 715	\$ 25	\$ 760
International Card Services	4	65	8	64
Card Member Receivables:				
U.S. Card Services		47		47
Total	\$ 13	\$ 827	\$ 33	\$ 871

	Three Months Ended		Six Months Ended	
	June 30, 2013		June 30, 2013	
	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance
2013 (Millions)				
Card Member Loans:				
U.S. Card Services	\$ 10	\$ 999	\$ 22	\$ 1,041
International Card Services	4	69	8	69
Card Member Receivables:				
U.S. Card Services		91		100
Total	\$ 14	\$ 1,159	\$ 30	\$ 1,210

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Card Member Loans and Receivables Modified as TDRs

The following table provides additional information with respect to the U.S. Card Services (USCS) Card Member loans and receivables modified as TDRs for the three and six months ended June 30. The ICS and GCS Card Member loans and receivables modifications were not significant. For information on TDRs and the related accounting policies, refer to Note 4 on pages 74 - 76 of the Annual Report.

	Three Months Ended				Six Months Ended			
	June 30, 2014				June 30, 2014			
	Number of Accounts (in thousands)	Outstanding Balances ^{(a)(b)} (\$ in millions)	Average Interest Rate Reduction (% Points)	Average Payment Term Extension (# of Months)	Number of Accounts (in thousands)	Outstanding Balances ^{(a)(b)} (\$ in millions)	Average Interest Rate Reduction (% Points)	Average Payment Term Extension (# of Months)
Troubled Debt Restructurings:								
Card Member Loans	12	\$ 82	11	(c)	24	\$ 178	12	(c)
Card Member Receivables	3	41	(c)	12	7	88	(c)	12
Total	15	\$ 123			31	\$ 266		

	Three Months Ended				Six Months Ended			
	June 30, 2013				June 30, 2013			
	Number of Accounts (in thousands)	Outstanding Balances ^{(a) (b)} (\$ in millions)	Average Interest Rate Reduction (% Points)	Average Payment Term Extension (# of Months)	Number of Accounts (in thousands)	Outstanding Balances ^{(a) (b)} (\$ in millions)	Average Interest Rate Reduction (% Points)	Average Payment Term Extension (# of Months)
Troubled Debt Restructurings:								
Card Member Loans	12	\$ 94	11	(c)	35	\$ 267	12	(c)

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Card Member Receivables	4	51	(c)	12	12	154	(c)	12
Total	16	\$ 145			47	\$ 421		

- (a) Represents the outstanding balance immediately prior to modification. Modifications did not reduce the aggregate principal balances except for the six months ended June 30, 2013, where aggregate principal balances were reduced by \$4 million.
- (b) The outstanding balance includes principal, fees and accrued interest on Card Member loans and principal and fees on Card Member receivables.
- (c) For Card Member loans, there have been no payment term extensions. The Company does not offer interest rate reduction programs for Card Member receivables as the receivables are non-interest bearing.

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table provides information for the three and six months ended June 30, 2014 and 2013, with respect to the USCS Card Member loans and receivables modified as TDRs that subsequently defaulted within 12 months of modification. A Card Member is considered to have been in default from a modification program after one and up to two consecutive 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. The defaulted ICS Card Member loan and receivable modifications were not significant.

	Three Months Ended		Six Months Ended	
	June 30, 2014		June 30, 2014	
	Number of Accounts	Aggregated Outstanding Balances Upon Default ^(a)	Number of Accounts	Aggregated Outstanding Balances Upon Default ^(a)
<i>(Accounts in thousands, Dollars in millions)</i>				
Troubled Debt Restructurings That Subsequently Defaulted:				
Card Member Loans	2	\$ 20	4	\$ 40
Card Member Receivables	1	11	2	18
Total	3	\$ 31	6	\$ 58

	Three Months Ended		Six Months Ended	
	June 30, 2013		June 30, 2013	
	Number of Accounts	Aggregated Outstanding Balances Upon Default ^(a)	Number of Accounts	Aggregated Outstanding Balances Upon Default ^(a)
<i>(Accounts in thousands, Dollars in millions)</i>				
Troubled Debt Restructurings That Subsequently Defaulted:				
Card Member Loans	6	\$ 53	11	\$ 101
Card Member Receivables	1	13	2	25

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Total	7	\$	66	13	\$	126
-------	---	----	----	----	----	-----

(a) The outstanding balance includes principal, fees and accrued interest on Card Member loans and principal and fees on Card Member receivables.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****4. Reserves for Losses**

Reserves for losses relating to Card Member loans and receivables represent management's best estimate of the probable losses inherent 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. For information on the Company's reserves for losses and the related accounting policies, refer to Note 5 on pages 77-78 of the Annual Report.

Changes in Card Member Receivables Reserve for Losses

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

<i>(Millions)</i>	2014	2013
Balance, January 1	\$ 386	\$ 428
Provisions ^(a)	398	315
Net write-offs ^(b)	(359)	(358)
Other ^(c)	(12)	1
Balance, June 30	\$ 413	\$ 386

(a) Provisions for principal (resulting from authorized transactions) and fee reserve components.

(b) Consists of principal (resulting from authorized transactions) and fee components, less recoveries of \$180 million and \$200 million, including net write-offs from TDRs of \$8 million and \$19 million, for the six months ended June 30, 2014 and 2013, respectively.

(c) Beginning in first quarter 2014, reserves for card-related fraud losses of \$(7) million are reflected in other liabilities. All periods include foreign currency translation adjustments of nil and \$(6) million for the six months ended June 30, 2014 and 2013, respectively, and other items of \$(5) million and \$7 million for the six months ended June 30, 2014 and 2013, respectively.

Card Member Receivables Evaluated Individually and Collectively for Impairment

The following table presents Card Member receivables evaluated individually and collectively for impairment and related reserves as of June 30, 2014 and December 31, 2013:

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

<i>(Millions)</i>	2014	2013
Card Member receivables evaluated individually for impairment ^(a)	\$ 44	\$ 50
Related reserves ^(a)	\$ 32	\$ 38
Card Member receivables evaluated collectively for impairment	\$ 45,262	\$ 44,113
Related reserves ^(b)	\$ 381	\$ 348

(a) Represents receivables modified in a TDR and related reserves. Refer to the Impaired Card Member Loans and Receivables discussion in Note 4 on pages 74 - 76 of the Annual Report for further information.

(b) The reserves include the quantitative results of analytical models that are specific to individual pools of receivables and reserves for internal and external qualitative risk factors that apply to receivables that are collectively evaluated for impairment and are not specific to any individual pool of receivables.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Changes in Card Member Loans Reserve for Losses**

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

<i>(Millions)</i>	2014	2013
Balance, January 1	\$ 1,261	\$ 1,471
Provisions ^(a)	532	577
Net write-offs		
Principal ^(b)	(541)	(613)
Interest and fees ^(b)	(84)	(77)
Other ^(c)	2	(16)
Balance, June 30	\$ 1,170	\$ 1,342

(a) Provisions for principal (resulting from authorized transactions), interest and fee reserves components.

(b) Consists of principal write-offs (resulting from authorized transactions), less recoveries of \$216 million and \$230 million, including net write-offs from TDRs of \$(2) million and \$7 million, for the six months ended June 30, 2014 and 2013, respectively. Recoveries of interest and fees were de minimis.

(c) Beginning in first quarter 2014, reserves for card-related fraud losses of \$(6) million are reflected in other liabilities. All periods include foreign currency translation adjustments of \$(1) million and \$(11) million for the six months ended June 30, 2014 and 2013, respectively, and other items of \$9 million and \$(5) million for the six months ended June 30, 2014 and 2013, respectively.

Card Member Loans Evaluated Individually and Collectively for Impairment

The following table presents Card Member loans evaluated individually and collectively for impairment and related reserves as of June 30, 2014 and December 31, 2013:

<i>(Millions)</i>	2014	2013
Card Member loans evaluated individually for impairment ^(a)	\$ 323	\$ 378
Related reserves ^(a)	\$ 74	\$ 84

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Card Member loans evaluated collectively for impairment ^(b)	\$	66,015	\$	66,860
Related reserves ^(b)	\$	1,096	\$	1,177

- (a) Represents loans modified in a TDR and related reserves. Refer to the Impaired Card Member Loans and Receivables discussion in Note 4 on pages 74-76 of the Annual Report for further information.
- (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 and are not specific to any individual pool of loans.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****5. Investment Securities**

Investment securities include debt and equity securities that the Company classifies as available for sale. The Company's investment securities, principally debt securities, are carried at fair value on the Consolidated Balance Sheets with unrealized gains (losses) recorded in Accumulated Other Comprehensive Income (AOCI), net of income taxes. Realized gains and losses are recognized in results of operations upon disposition of the securities using the specific identification method on a trade date basis. For information on the Company's methodology for determining the fair value of investment securities and related accounting policies, refer to Note 3 on pages 68-71 of the Annual Report.

The following is a summary of investment securities as of June 30, 2014 and December 31, 2013:

Description of Securities (Millions)	2014				2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and municipal obligations	\$ 3,814	\$ 125	\$ (4)	\$ 3,935	\$ 4,060	\$ 54	\$ (79)	\$ 4,035
U.S. Government agency obligations	3			3	3			3
U.S. Government treasury obligations	346	4		350	318	3	(1)	320
Corporate debt securities	44	2		46	43	3		46
Mortgage-backed securities ^(a)	144	7		151	160	5	(1)	164
Equity securities ^(b)	6	18		24	29	95		124
Foreign government bonds and obligations	288	9		297	272	5	(1)	276
Other ^(c)	50		(1)	49	50		(2)	48
Total	\$ 4,695	\$ 165	\$ (5)	\$ 4,855	\$ 4,935	\$ 165	\$ (84)	\$ 5,016

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

(b) Primarily represents the Company's investment in the Industrial and Commercial Bank of China (ICBC).

(c) Other comprises investments in various mutual funds.

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table provides information about the Company's investment securities with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2014 and December 31, 2013:

Description of Securities (Millions)	2014				2013			
	Less than 12 months		12 months or more		Less than 12 months		12 months or more	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
State and municipal obligations	\$	\$	\$ 83	\$ (4)	\$ 1,320	\$ (63)	\$ 106	\$ (16)
Foreign government bonds and obligations					208	(1)		
U.S. Government treasury obligations					166	(1)		
Mortgage-backed securities					35	(1)		
Other			33	(1)	30	(1)	17	(1)
Total	\$	\$	\$ 116	\$ (5)	\$ 1,759	\$ (67)	\$ 123	\$ (17)

The following table summarizes the gross unrealized losses due to temporary impairments by ratio of fair value to amortized cost as of June 30, 2014 and December 31, 2013:

Ratio of Fair Value to Amortized Cost (Dollars in millions)	Less than 12 months			12 months or more			Total		
	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses
2014:									
90% - 100%		\$	\$	19	\$ 116	\$ (5)	19	\$ 116	\$ (5)
Less than 90%									
Total as of June 30, 2014		\$	\$	19	\$ 116	\$ (5)	19	\$ 116	\$ (5)
2013:									
90% - 100%	228	\$ 1,665	\$ (53)	6	\$ 24	\$ (2)	234	\$ 1,689	\$ (55)
Less than 90%	13	94	(14)	5	99	(15)	18	193	(29)
Total as of December 31, 2013	241	\$ 1,759	\$ (67)	11	\$ 123	\$ (17)	252	\$ 1,882	\$ (84)

The gross unrealized losses are attributed to overall wider credit spreads for state and municipal securities, wider credit spreads for specific issuers, adverse changes in market benchmark interest rates, or a combination thereof, all as compared to those prevailing when the investment securities were acquired.

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

Supplemental Information

Gross realized gains on the sales of investment securities, included in other non-interest revenues for the three and six months ended June 30, 2014 were \$41 million and \$80 million, respectively. Gross realized gains on the sale of investment securities, included in other non-interest revenues for the three and six months ended June 30, 2013 were, \$29 million and \$65 million, respectively. There were no realized losses for the three and six months ended June 30, 2014 and 2013.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

Contractual maturities of investment securities, excluding equity securities and other securities, as of June 30, 2014 were as follows:

<i>(Millions)</i>	Cost	Estimated Fair Value
Due within 1 year	\$ 426	\$ 426
Due after 1 year but within 5 years	521	529
Due after 5 years but within 10 years	210	225
Due after 10 years	3,482	3,602
Total	\$ 4,639	\$ 4,782

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

6. Asset Securitizations

The Company periodically securitizes Card Member receivables and loans arising from its card business through the transfer of those assets to securitization trusts. The trusts then issue securities to third-party investors, collateralized by the transferred assets. For information on the Company's asset securitizations and related accounting policies, refer to Note 7 on page 80 of the Annual Report.

The following table provides information on the restricted cash held by the American Express Issuance Trust II (the Charge Trust) and the American Express Credit Account Master Trust (the Lending Trust) as of June 30, 2014 and December 31, 2013, included in other assets on the Company's Consolidated Balance Sheets:

<i>(Millions)</i>	2014	2013
Charge Trust	\$ 1	\$ 2
Lending Trust	67	56
Total	\$ 68	\$ 58

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

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

American Express Travel Related Services Company, Inc. (TRS), which is a consolidated subsidiary of the Company, is the primary beneficiary of both the trusts. Excluding its consolidated subsidiaries, TRS owns approximately \$0.9 billion of subordinated securities issued by the Lending Trust as of June 30, 2014.

Under the respective terms of the Charge Trust and the Lending Trust agreements, the occurrence of certain triggering events associated with the performance of the assets of each trust could result in payment of trust expenses, establishment of reserve funds, or in a worst-case scenario, early amortization of investor securities. During the six months ended June 30, 2014 and the year ended December 31, 2013, no such triggering events occurred.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****7. Customer Deposits**

As of June 30, 2014 and December 31, 2013, customer deposits were categorized as interest bearing or non-interest bearing, as follows:

<i>(Millions)</i>	2014	2013
U.S.:		
Interest bearing	\$ 41,295	\$ 40,831
Non-interest bearing (includes Card Member credit balances of: 2014, \$306; 2013, \$340)	336	360
Non-U.S.:		
Interest bearing	108	121
Non-interest bearing (includes Card Member credit balances of: 2014, \$381; 2013, \$437)	397	451
Total customer deposits	\$ 42,136	\$ 41,763

Customer deposits by deposit type as of June 30, 2014 and December 31, 2013 were as follows:

<i>(Millions)</i>	2014	2013
U.S. retail deposits:		
Savings accounts Direct	\$ 26,107	\$ 24,550
Certificates of deposit:		
Direct	382	489
Third-party	5,907	6,929
Sweep accounts Third-party	8,899	8,863
Other retail deposits:		
Non-U.S. deposits and U.S. non-interest bearing deposits	154	155
Card Member credit balances U.S. and non-U.S.	687	777
Total customer deposits	\$ 42,136	\$ 41,763

The scheduled maturities of certificates of deposit as of June 30, 2014 were as follows:

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

<i>(Millions)</i>		U.S.	Non-U.S.	Total
2014	\$	1,539	\$ 3	\$ 1,542
2015		1,257	1	1,258
2016		1,680		1,680
2017		575		575
2018		1,043		1,043
After 5 years		195		195
Total	\$	6,289	\$ 4	\$ 6,293

As of June 30, 2014 and December 31, 2013, certificates of deposit in denominations of \$250,000 or more, in the aggregate, were as follows:

<i>(Millions)</i>		2014	2013
U.S.	\$	129	\$ 148
Non-U.S.		1	
Total	\$	130	\$ 148

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****8. Derivatives and Hedging Activities**

The Company uses derivative financial instruments (derivatives) to manage exposures to various market risks. Derivatives derive their value from an underlying variable or multiple variables, including interest rate, foreign exchange, and equity index or price. These instruments enable end users to increase, reduce or alter exposure to various market risks and, for that reason, are an integral component of the Company's market risk management. The Company does not engage in derivatives for trading purposes. For information on the Company's derivative instruments and the related accounting policies, refer to Note 12 on pages 87-90 of the Annual Report.

In relation to the Company's credit risk, under the terms of the derivative agreements it has with its various counterparties, the Company is not required to either immediately settle any outstanding liability balances or post collateral upon the occurrence of a specified credit risk-related event. Based on the assessment of credit risk of the Company's derivative counterparties as of June 30, 2014 and December 31, 2013, the Company does not have derivative positions that warrant credit valuation adjustments.

The Company's derivatives are carried at fair value on the Consolidated Balance Sheets. Refer to Note 3 on pages 68-71 of the Annual Report for a description of the Company's methodology for determining the fair value of derivatives.

The following table summarizes the total fair value, excluding interest accruals, of derivative assets and liabilities as of June 30, 2014 and December 31, 2013:

<i>(Millions)</i>	Other Assets Fair Value		Other Liabilities Fair Value	
	2014	2013	2014	2013
Derivatives designated as hedging instruments:				
Interest rate contracts				
Fair value hedges	\$ 393	\$ 455	\$ 1	\$ 2
Total return contract				
Fair value hedge	1	8		
Foreign exchange contracts				
Net investment hedges	39	174	148	116
Total derivatives designated as hedging instruments	433	637	149	118
Derivatives not designated as hedging instruments:				
Foreign exchange contracts, including certain embedded derivatives ^(a)	69	64	72	95
Total derivatives, gross	502	701	221	213
Less: Cash collateral netting ^(b)	(279)	(336)	(1)	
Derivative asset and derivative liability netting ^(c)	(46)	(36)	(46)	(36)
Total derivatives, net ^(d)	\$ 177	\$ 329	\$ 174	\$ 177

- (a) Includes foreign currency derivatives embedded in certain operating agreements.
- (b) Represents the offsetting of derivative instruments and the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instrument(s) executed with the same counterparty under an enforceable master netting arrangement. Additionally, the Company posted \$66 million and \$26 million as of June 30, 2014 and December 31, 2013, respectively, as initial margin on its centrally cleared interest rate swaps; such amounts are recorded within other receivables on the Company's Consolidated Balance Sheets and are not netted against the derivative balances.
- (c) Represents the amount of netting of derivative assets and derivative liabilities executed with the same counterparty under an enforceable master netting arrangement.
- (d) The Company has no individually significant derivative counterparties and therefore, no significant risk exposure to any single derivative counterparty. The total net derivative assets and derivative liabilities are presented within other assets and other liabilities on the Company's Consolidated Balance Sheets.

A majority of the Company's derivative assets and liabilities as of June 30, 2014 and December 31, 2013 are subject to master netting agreements with its derivative counterparties. In addition, the Company has no derivative amounts subject to enforceable master netting arrangements that are not offset on the Company's Consolidated Balance Sheets.

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Derivative Financial Instruments that Qualify for Hedge Accounting

Refer to Note 12 on pages 89 – 90 of the Annual Report for information on derivatives that qualify for hedge accounting.

Fair Value Hedges*Interest Rate Contracts*

The Company is exposed to interest rate risk associated with its fixed-rate long-term debt. The Company uses interest rate swaps to economically convert certain fixed-rate debt obligations to floating-rate obligations at the time of issuance. As of June 30, 2014 and December 31, 2013, the Company hedged \$17.6 billion and \$14.7 billion, respectively, of its fixed-rate debt to floating-rate debt using interest rate swaps.

Total Return Contract

The Company hedges its exposure to changes in the fair value of its equity investment in ICBC in local currency. The Company uses a total return contract (TRC) to transfer this exposure to its derivative counterparty. As of June 30, 2014 and December 31, 2013, the fair value of the equity investment in ICBC was \$21.7 million (34.3 million shares) and \$122 million (180.7 million shares), respectively. To the extent the hedge is effective, the gain or loss on the TRC offsets the loss or gain on the investment in ICBC. Any difference between the changes in the fair value of the derivative and the hedged item results in hedge ineffectiveness and is recognized in other expenses in the Consolidated Statements of Income.

On July 18, 2014, the Company sold its remaining 34.3 million shares in ICBC and terminated the TRC.

The following table summarizes the impact on the Consolidated Statements of Income associated with the Company's hedges of its fixed-rate long-term debt and its investment in ICBC for the three and six months ended June 30:

For the Three Months Ended June 30: (Millions)

Derivative relationship	Derivative contract		Gains (losses) recognized in income				Net hedge	
	Income Statement Line Item	Amount		Income Statement Line Item	Amount		ineffectiveness	
		2014	2013		2014	2013	2014	2013
Interest rate contracts	Other expenses	\$ (10)	\$ (190)	Other expenses	\$ 14	\$ 180	\$ 4	\$ (10)
Total return contract	Other non-interest revenues	(1)	27	Other non-interest revenues	1	(27)		

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

For the Six Months Ended June 30: (Millions)

Derivative relationship	Gains (losses) recognized in income									
	Derivative contract				Hedged item				Net hedge	
	Income Statement	Amount		Income Statement	Amount		ineffectiveness			
Line Item	2014	2013	Line Item	2014	2013	2014	2013			
Interest rate contracts	Other expenses	\$ (60)	\$ (293)	Other expenses	\$ 64	\$ 289	\$ 4	\$ (4)		
Total return contract	Other non-interest revenues	11	31	Other non-interest revenues	(11)	(31)				

The Company also recognized a net reduction in interest expense on long-term debt of \$74 million and \$91 million for the three months ended June 30, 2014 and 2013, respectively, and \$143 million and \$203 million for the six months ended June 30, 2014 and 2013, respectively, primarily related to the net settlements (interest accruals) on the Company's interest rate derivatives designated as fair value hedges.

Net Investment Hedges

The effective portion of the gain or (loss) on net investment hedges, net of taxes, recorded in AOCI as part of the cumulative translation adjustment was \$(116) million and \$339 million for the three months ended June 30, 2014 and 2013, respectively, and was \$(133) million and \$283 million for the six months ended June 30, 2014 and 2013, respectively. Any ineffective portion of the gain or (loss) on net investment hedges is recognized in other expenses during the period of change. During the three months ended June 30, 2014 and 2013, the Company reclassified \$(7) million and nil, respectively, and \$(9) million and nil for the six months ended June 30, 2014 and 2013, respectively, from AOCI to earnings as a component of other expenses. No ineffectiveness associated with net investment hedges was reclassified from AOCI into income during the three and six months ended June 30, 2014 and 2013.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Derivatives Not Designated as Hedges**

For information on derivatives not designated as hedges, refer to Note 12 on page 90 of the Annual Report.

The following table summarizes the impact on pretax earnings of derivatives not designated as hedges, as reported on the Consolidated Statements of Income for the three and six months ended June 30:

For the Three Months Ended June 30:		Pretax gains		Amount	
Description (<i>Millions</i>)	Income Statement Line Item	2014	2013		
Interest rate contracts	Other expenses	\$	\$		1
Foreign exchange contracts ^(a)	Other expenses		(50)		(89)
	Cost of Card Member services		2		
Total		\$	(48)	\$	(88)

For the Six Months Ended June 30:		Pretax gains		Amount	
Description (<i>Millions</i>)	Income Statement Line Item	2014	2013		
Foreign exchange contracts ^(a)	Other expenses	\$	83	\$	82
	Cost of Card Member services		3		
Total		\$	86	\$	82

(a) Foreign exchange contracts include embedded foreign currency derivatives.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****9. Fair Values****Financial Assets and Financial Liabilities Carried at Fair Value**

For information about the Company's valuation techniques for financial assets and financial liabilities measured at fair value and the fair value hierarchy, refer to Note 3 on pages 68–70 of the Annual Report. Refer to Note 12 on pages 87–90 of the Annual Report for additional information about the fair value of the Company's derivative financial instruments.

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis, categorized by GAAP's valuation hierarchy, as of June 30, 2014 and December 31, 2013:

<i>(Millions)</i>	2014				2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Investment securities: ^(a)								
Equity securities	\$ 24	\$ 24	\$	\$	\$ 124	\$ 124	\$	\$
Debt securities and other	4,831	350	4,481		4,892	320	4,572	
Derivatives ^(a)	502		502		701		701	
Total assets	5,357	374	4,983		5,717	444	5,273	
Liabilities:								
Derivatives ^(a)	221		221		213		213	
Total liabilities	\$ 221	\$	\$ 221	\$	\$ 213	\$	\$ 213	\$

(a) Refer to Note 5 for the fair values of investment securities and to Note 8 for the fair values of derivative assets and liabilities, on a further disaggregated basis.

Financial Assets and Financial Liabilities Carried at Other Than Fair Value

For information about the valuation techniques used in the measurement of financial assets and financial liabilities carried at other than fair value, refer to Note 3 on pages 70–71 of the Annual Report.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table discloses the estimated fair value for the Company's financial assets and financial liabilities that are not required to be carried at fair value on a recurring basis, as of June 30, 2014 and December 31, 2013. The fair values of these financial instruments are estimates based upon the market conditions and perceived risks as of June 30, 2014 and December 31, 2013, and require management judgment. These figures may not be indicative of their future fair values. The fair value of the Company cannot be reliably estimated by aggregating the amounts presented.

2014 (Billions)	Carrying Value	Corresponding Fair Value Amount			
		Total	Level 1	Level 2	Level 3
Financial Assets:					
Financial assets for which carrying values equal or approximate fair value					
Cash and cash equivalents	\$ 18	\$ 18	\$ 17	\$ 1 ^(a)	\$
Other financial assets ^(b)	\$ 49	\$ 49	\$	\$ 49	\$
Financial assets carried at other than fair value					
Loans, net	\$ 66	\$ 66 ^(c)	\$	\$	\$ 66
Financial Liabilities:					
Financial liabilities for which carrying values equal or approximate fair value					
Certificates of deposit ^(d)	\$ 6	\$ 6	\$	\$ 6	\$
Long-term debt	\$ 55	\$ 57 ^(c)	\$	\$ 57	\$

2013 (Billions)	Carrying Value	Corresponding Fair Value Amount			
		Total	Level 1	Level 2	Level 3
Financial Assets:					
Financial assets for which carrying values equal or approximate fair value					
Cash and cash equivalents	\$ 19	\$ 19	\$ 17	\$ 2 ^(a)	\$
Other financial assets ^(b)	\$ 48	\$ 48	\$	\$ 48	\$
Financial assets carried at other than fair value					
Loans, net	\$ 67	\$ 67 ^(c)	\$	\$	\$ 67
Financial Liabilities:					
Financial liabilities for which carrying values equal or approximate fair value					
Certificates of deposit ^(d)	\$ 7	\$ 8	\$	\$ 8	\$
Long-term debt	\$ 55	\$ 58 ^(c)	\$	\$ 58	\$

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

- (a) Reflects time deposits.
- (b) Includes accounts receivable (including fair values of Card Member receivables of \$6.5 billion and \$7.3 billion held by consolidated VIEs as of June 30, 2014 and December 31, 2013, respectively), restricted cash and other miscellaneous assets.
- (c) Includes fair values of loans of \$28.7 billion and \$31.0 billion, and long-term debt of \$15.6 billion and \$18.8 billion held by consolidated VIEs as of June 30, 2014 and December 31, 2013, respectively.
- (d) Presented as a component of customer deposits on the Consolidated Balance Sheets.

Nonrecurring Fair Value Measurements

The Company has certain assets that are subject to measurement at fair value on a nonrecurring basis. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable if determined to be impaired. During the six months ended June 30, 2014 and during the year ended December 31, 2013, the Company did not have any material impaired assets that were required to be measured at fair value.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****10. Guarantees**

The Company provides Card Member protection plans that cover losses associated with purchased products, as well as certain other guarantees in the ordinary course of business.

In relation to its maximum potential undiscounted future payments as shown in the table that follows, to date the Company has not experienced any significant losses related to guarantees. The Company's initial recognition of guarantees is at fair value. In addition, the Company establishes reserves when a loss is probable and the amount can be reasonably estimated.

The following table provides information related to such guarantees as of June 30, 2014 and December 31, 2013:

Type of Guarantee	Maximum potential undiscounted future payments ^(a) (Billions)		Related liability ^(b) (Millions)	
	2014	2013	2014	2013
Card and travel operations ^(c)	\$ 44	\$ 44	\$ 45	\$ 88
Other ^(d)	1	1	80	73
Total	\$ 45	\$ 45	\$ 125	\$ 161

(a) Represents the notional amounts that could be lost under the guarantees and indemnifications if there were a total default by the guaranteed parties. The maximum potential undiscounted future payments for Merchant Protection are measured using management's best estimate of maximum exposure based on all eligible claims in relation to annual billed business volumes.

(b) Included in other liabilities on the Company's Consolidated Balance Sheets.

(c) Primarily includes Return Protection and Merchant Protection.

(d) Primarily includes guarantees related to the Company's business dispositions and real estate.

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

11. Changes In Accumulated Other Comprehensive (Loss) Income

AOCI is a balance sheet item in the Shareholders' Equity section of the Company's Consolidated Balance Sheets. It is comprised of items that have not been recognized in earnings but may be recognized in earnings in the future when certain events occur. Changes in each component of AOCI for the three and six months ended June 30, 2014 and 2013 were as follows:

For the Three Months Ended June 30, 2014 (<i>Millions</i>), net of tax	Net Unrealized Gains (Losses) on Investment Securities	Foreign Currency Translation Adjustments	Net Unrealized Pension and Other Postretirement Benefit (Losses) Gains	Accumulated Other Comprehensive (Loss) Income
Balances as of March 31, 2014	\$ 102	\$ (1,124)	\$ (372)	\$ (1,394)
Net unrealized gains	32			32
Reclassification for realized (gains) losses into earnings	(29)	3		(26)
Net translation gain of investments in foreign operations		119		119
Net (losses) related to hedges of investment in foreign operations		(116)		(116)
Pension and other postretirement benefit gains			14	14
Net change in accumulated other comprehensive income	3	6	14	23
Balances as of June 30, 2014	\$ 105	\$ (1,118)	\$ (358)	\$ (1,371)

For the Six Months Ended June 30, 2014 (<i>Millions</i>), net of tax	Net Unrealized Gains (Losses) on Investment Securities	Foreign Currency Translation Adjustments	Net Unrealized Pension and Other Postretirement Benefit (Losses) Gains	Accumulated Other Comprehensive (Loss) Income
Balances as of December 31, 2013	\$ 63	\$ (1,090)	\$ (399)	\$ (1,426)
Net unrealized gains	100			100
Reclassification for realized (gains) losses into earnings	(58)	4		(54)
Net translation gain of investments in foreign operations		101		101
Net (losses) related to hedges of investment in foreign operations		(133)		(133)
Pension and other postretirement benefit gains			41	41
Net change in accumulated other comprehensive income (loss)	42	(28)	41	55

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

For the Six Months Ended June 30, 2013 (<i>Millions</i>), net of tax	Net Unrealized Gains (Losses) on Investment Securities	Foreign Currency Translation Adjustments	Net Unrealized Pension and Other Postretirement Benefit (Losses) Gains	Accumulated Other Comprehensive (Loss) Income
Balances as of December 31, 2012	\$ 315	\$ (754)	\$ (488)	\$ (927)
Net unrealized (losses)	(116)			(116)
Reclassification for realized (gains) into earnings	(46)			(46)
Net translation (loss) of investments in foreign operations		(556)		(556)
Net gains related to hedges of investment in foreign operations		283		283
Pension and other postretirement benefit gains			54	54
Net change in accumulated other comprehensive (loss) income	(162)	(273)	54	(381)
Balances as of June 30, 2013	\$ 153	\$ (1,027)	\$ (434)	\$ (1,308)

The following table presents the effects of reclassifications out of AOCI and into the Consolidated Statement of Income for the three and six months ended June 30, 2014 and 2013:

For the three months ended June 30 Description (<i>Millions</i>)	Income Statement Line Item	(Gains) losses recognized in income	
		2014 Amount	2013 Amount
Available-for-sale securities			
Net gain in AOCI reclassifications for previously unrealized net gains on investment securities	Other non-interest revenues	\$ (45)	\$ (36)
Related income tax expense	Income tax provision	16	13
Reclassification to net income related to available-for-sale securities		(29)	(23)
Foreign currency translation adjustments			
Reclassification of realized losses on translation adjustments and related hedges	Other expenses	6	
Related income tax expense	Income tax provision	(3)	
Reclassification of foreign currency translation adjustments		3	
Total		\$ (26)	\$ (23)

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

For the six months ended June 30	Description (<i>Millions</i>)	Income Statement Line Item	(Gains) losses recognized in income	
			2014 Amount	2013 Amount
Available-for-sale securities				
	Net gain in AOCI reclassifications for previously unrealized net gains on investment securities	Other non-interest revenues	\$ (90)	\$ (72)
	Related income tax expense	Income tax provision	32	26
	Reclassification to net income related to available-for-sale securities		(58)	(46)
Foreign currency translation adjustments				
	Reclassification of realized losses on translation adjustments and related hedges	Other expenses	8	
	Related income tax expense	Income tax provision	(4)	
	Reclassification of foreign currency translation adjustments		4	
	Total		\$ (54)	\$ (46)

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

12. Income Taxes

The Company is under continuous examination by the Internal Revenue Service (IRS) and tax authorities in other countries and states in which the Company has significant business operations. The tax years under examination and open for examination vary by jurisdiction. The IRS has completed its field examination of the Company's federal tax returns for years through 2007; however, refund claims for certain years continue to be reviewed by the IRS. In addition, the Company is currently under examination by the IRS for the years 2008 through 2011.

The Company believes it is reasonably possible that its unrecognized tax benefits could decrease within the next 12 months by as much as \$697 million principally as a result of potential resolutions of prior years' tax items with various taxing authorities. The prior years' tax items include unrecognized tax benefits relating to the deductibility of certain expenses or losses and the attribution of taxable income to a particular jurisdiction or jurisdictions. Of the \$697 million of unrecognized tax benefits, approximately \$538 million relates to amounts that if recognized would be recorded to shareholders' equity and would not impact the effective tax rate. With respect to the remaining \$159 million, it is not possible to quantify the impact that the decrease could have on the effective tax rate and net income due to the inherent complexities and the number of tax years open for examination in multiple jurisdictions. Resolution of the prior years' items that comprise this remaining amount could have an impact on the effective tax rate and on net income, either favorably (principally as a result of settlements that are less than the liability for unrecognized tax benefits) or unfavorably (if such settlements exceed the liability for unrecognized tax benefits).

The effective tax rate was 33.9 percent and 34.5 percent for the three and six months ended June 30, 2014, respectively. The effective tax rate was 29.6 percent and 31.2 percent for the three and six months ended June 30, 2013, respectively. The tax rate for the three and six months ended June 30, 2013 reflects the resolution of certain prior years' tax items.

The tax rates for all periods reflect the level of pretax income in relation to recurring permanent tax benefits and geographic mix of business.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****13. Earnings Per Common Share (EPS)**

The computations of basic and diluted EPS were as follows:

<i>(Millions, except per share amounts)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Basic and diluted:				
Net income	\$ 1,529	\$ 1,405	\$ 2,961	\$ 2,685
Earnings allocated to participating share awards ^(a)	(12)	(13)	(24)	(24)
Net income attributable to common shareholders	\$ 1,517	\$ 1,392	\$ 2,937	\$ 2,661
Denominator: ^(a)				
Basic: Weighted-average common stock	1,052	1,090	1,056	1,094
Add: Weighted-average stock options ^(b)	6	7	6	7
Diluted	1,058	1,097	1,062	1,101
Basic EPS	\$ 1.44	\$ 1.28	\$ 2.78	\$ 2.43
Diluted EPS	\$ 1.43	\$ 1.27	\$ 2.77	\$ 2.42

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

(b) The dilutive effect of unexercised stock options excludes 0.2 million of options from the computation of EPS for all periods because inclusion of the options would have been anti-dilutive.

For the three and six months ended June 30, 2014 and 2013, the Company met specified performance measures related to the Subordinated Debentures of \$750 million issued in 2006, and maturing in 2036, which resulted in no impact to EPS. If the performance measures were not achieved in any given quarter, the Company would be required to issue common shares and apply the proceeds to make interest payments.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****14. Non-Interest Revenue and Expense Detail**

The following is a detail of other commissions and fees:

<i>(Millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Foreign currency conversion fee revenue	\$ 227	\$ 222	\$ 440	\$ 432
Delinquency fees	174	167	355	331
Loyalty Partner-related fees	95	72	186	147
Service fees	90	94	180	176
Other ^(a)	38	50	81	92
Total other commissions and fees	\$ 624	\$ 605	\$ 1,242	\$ 1,178

(a) Other primarily includes fee revenue from fees related to Membership Rewards programs.

The following is a detail of other revenues:

<i>(Millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Global Network Services partner revenues	\$ 181	\$ 151	\$ 339	\$ 295
Net realized gains and losses on investment securities	41	29	80	65
Other ^(a)	363	387	667	744
Total other revenues	\$ 585	\$ 567	\$ 1,086	\$ 1,104

(a) Other includes revenues arising from foreign exchange gains on cross-border Card Member spending, merchant-related fees, insurance premiums earned from Card Member travel and other insurance programs, Travelers Cheques-related revenues, and other miscellaneous revenue and fees.

The following is a detail of marketing, promotion, rewards, Card Member services and other:

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

<i>(Millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Marketing and promotion	\$ 985	\$ 786	\$ 1,598	\$ 1,407
Card Member rewards	1,773	1,601	3,355	3,121
Card Member services and other	192	193	414	382
Total marketing, promotion, rewards, Card Member services and other	\$ 2,950	\$ 2,580	\$ 5,367	\$ 4,910

Marketing and promotion expense includes advertising costs, which are expensed in the year in which the advertising first takes place. Card Member rewards expense includes the costs of rewards programs, including Membership Rewards and co-brand arrangements. Card Member services expense includes protection plans and complimentary services provided to Card Members.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following is a detail of other, net expenses:

<i>(Millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Professional services	\$ 817	\$ 763	\$ 1,509	\$ 1,479
Occupancy and equipment	467	460	929	932
Card-related fraud losses	102	75	186	156
Communications	101	92	194	188
Gain on business travel joint venture transaction	(626)		(626)	
Other ^(a)	387	219	605	465
Total other, net	\$ 1,248	\$ 1,609	\$ 2,797	\$ 3,220

- (a) Other expense includes general operating expenses, gains (losses) on sale of assets or businesses not classified as discontinued operations (other than for the business travel joint venture transaction), litigation, certain internal and regulatory review-related reimbursements and insurance costs or settlements, investment impairments and certain Loyalty Partner-related expenses.

15. Contingencies

The Company and its subsidiaries are involved in a number of legal proceedings concerning matters arising out of the conduct of their respective business activities and are periodically subject to governmental and regulatory examinations, information gathering requests, subpoenas, inquiries and investigations (collectively, governmental examinations). As of June 30, 2014, the Company and various of its subsidiaries were named as a defendant or were otherwise involved in numerous legal proceedings and governmental examinations in various jurisdictions, both in and outside the U.S. The Company discloses its material legal proceedings and governmental examinations under Item 1. Legal Proceedings in Part II. Other Information, and under Legal Proceedings in the Annual Report (collectively, Legal Proceedings).

The Company has recorded liabilities for certain of its outstanding legal proceedings and governmental examinations. A liability is accrued when it is both (a) probable that a loss has occurred and (b) the amount of loss can be reasonably estimated. There may be instances in which an exposure to loss exceeds the accrued liability. The Company evaluates, on a quarterly basis, developments in legal proceedings and governmental examinations that could cause an increase or decrease in the amount of the liability that has been previously accrued or a revision to the disclosed estimated range of possible losses, as applicable.

The Company's legal proceedings range from cases brought by a single plaintiff to class actions with millions of putative class members. These legal proceedings, as well as governmental examinations, involve various lines of business of the Company and a variety of claims (including, but not limited to, common law tort, contract, antitrust and consumer protection claims), some of which present novel factual allegations and/or unique legal theories. While some matters pending against the Company specify the damages claimed by the plaintiff, many seek an unspecified amount of damages or are at very early stages of the legal process. Even when the amount of damages claimed against the Company are stated, the claimed amount may be exaggerated and/or unsupported. As a result, some matters have not yet progressed sufficiently through discovery

and/or development of important factual information and legal issues to enable the Company to estimate a range of possible loss.

Other matters have progressed sufficiently through discovery and/or development of important factual information and legal issues so that the Company is able to estimate a range of possible loss. Accordingly, for those legal proceedings and governmental examinations disclosed or referred to in Legal Proceedings where a loss is reasonably possible in future periods, whether in excess of a related accrued liability or where there is no accrued liability, and for which the Company is able to estimate a range of possible loss, the current estimated range is \$0 to \$360 million in excess of any accrued liability related to these matters.

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

This aggregate range represents management's estimate of possible loss with respect to these matters and is based on currently available information. This estimated range of possible loss does not represent the Company's maximum loss exposure. The legal proceedings and governmental examinations underlying the estimated range will change from time to time and actual results may vary significantly from current estimates.

Based on its current knowledge, and taking into consideration its litigation-related liabilities, the Company believes it is not a party to, nor are any of its properties the subject of, any pending legal proceeding or governmental examination that would have a material adverse effect on the Company's consolidated financial condition or liquidity. However, in light of the uncertainties involved in such matters, the ultimate outcome of a particular matter could be material to the Company's operating results for a particular period depending on, among other factors, the size of the loss or liability imposed and the level of the Company's earnings for that period.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****16. Reportable Operating Segments**

The Company is a leading global payments and travel company that is principally engaged in businesses comprising four reportable operating segments: USCS, ICS, GCS and Global Network Merchant Services (GNMS). Corporate functions and auxiliary businesses, including the Company's Enterprise Growth Group, as well as other Company operations are included in Corporate & Other.

The following table presents certain selected financial information for the three and six months ended June 30:

<i>(Millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Non-interest revenues:				
USCS	\$ 3,222	\$ 3,063	\$ 6,239	\$ 5,941
ICS	1,208	1,130	2,365	2,254
GCS	1,332	1,290	2,581	2,510
GNMS	1,366	1,313	2,659	2,547
Corporate & Other, including adjustments and eliminations ^(a)	213	247	359	429
Total	\$ 7,341	\$ 7,043	\$ 14,203	\$ 13,681
Interest income:				
USCS	\$ 1,408	\$ 1,354	\$ 2,831	\$ 2,740
ICS	275	259	552	549
GCS	3	3	7	6
GNMS	11	8	21	15
Corporate & Other, including adjustments and eliminations ^(a)	62	70	124	146
Total	\$ 1,759	\$ 1,694	\$ 3,535	\$ 3,456
Interest expense:				
USCS	\$ 153	\$ 178	\$ 303	\$ 360
ICS	92	90	174	187
GCS	66	62	125	122
GNMS	(78)	(63)	(140)	(125)
Corporate & Other, including adjustments and eliminations ^(a)	210	225	420	467
Total	\$ 443	\$ 492	\$ 882	\$ 1,011
Total revenues net of interest expense:				
USCS	\$ 4,477	\$ 4,239	\$ 8,767	\$ 8,321
ICS	1,391	1,299	2,743	2,616
GCS	1,269	1,231	2,463	2,394

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

GNMS		1,455		1,384		2,820		2,687
Corporate & Other, including adjustments and eliminations ^(a)		65		92		63		108
Total	\$	8,657	\$	8,245	\$	16,856	\$	16,126
Net income (loss):								
USCS	\$	770	\$	743	\$	1,646	\$	1,547
ICS		77		208		236		386
GCS		561		226		745		417
GNMS		373		412		816		785
Corporate & Other, including adjustments and eliminations ^(a)		(252)		(184)		(482)		(450)
Total	\$	1,529	\$	1,405	\$	2,961	\$	2,685

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

Table of Contents

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

Business Introduction

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

We are a global services company with four reportable operating segments: U.S. Card Services (USCS), International Card Services (ICS), Global Commercial Services (GCS) and Global Network and Merchant Services (GNMS). We provide our customers with access to products, insights and experiences that enrich lives and build business success. Our principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world. Our range of products and services includes:

charge and credit card products;

expense management products and services;

consumer and business travel services;

stored-value products such as Travelers Cheques and other prepaid products;

network services;

merchant acquisition and processing, servicing and settlement, and point-of-sale, marketing and information products and services for merchants; and

fee services, including fraud prevention services and the design of customized customer loyalty and rewards programs.

Our 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.

We compete in the global payments industry with charge, credit and debit card networks, issuers and acquirers, as well as evolving alternative payment mechanisms, systems and products. As the payments industry continues to evolve, we face increasing competition from non-traditional players that leverage new technologies and customers' existing card accounts and bank relationships to create payment or other fee-based solutions. We are transforming our existing businesses and creating new products and services for the digital marketplace as we seek to enhance our customers' digital experiences and develop platforms for online and mobile commerce. Emerging technologies also provide an opportunity to deliver financial products and services that help new and existing customer segments move and manage their money, which we are pursuing through our Enterprise Growth Group (EGG).

Our products and services generate these types of revenue for the Company:

Discount revenue, our largest revenue source, which represents fees generally charged to merchants when Card Members use their cards to purchase goods and services at merchants on the Company's network;

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Net card fees, which represent revenue earned for annual card membership fees;

Travel commissions and fees, which are earned by charging a transaction or management fee to both customers and suppliers for travel-related transactions;

Other commissions and fees, which are earned on foreign exchange conversions, card-related fees and assessments, Loyalty Partner-related fees and other service fees;

Table of Contents

Other revenue, which represents revenues arising from contracts with partners of our Global Network Services (GNS) business (including royalties and signing fees), insurance premiums earned from Card Member travel and other insurance programs, Travelers Cheques, and prepaid card-related revenues and other miscellaneous revenue and fees; and

Interest on loans, which principally represents interest income earned on outstanding balances.

In addition to funding and operating costs associated with these types of revenue, other major expense categories are related to marketing and rewards programs that add new Card Members and promote Card Member loyalty and spending, and provisions for Card Member credit and fraud losses.

Financial Targets

We seek to achieve three financial targets, on average and over time:

Revenues net of interest expense growth of at least 8 percent;

Earnings per share (EPS) growth of 12 to 15 percent; and

Return on average equity (ROE) of 25 percent or more.

If we achieve our EPS and ROE targets, we will seek to return on average and over time approximately 50 percent of the capital we generate to shareholders as dividends or through the repurchases of common stock, which may be subject to certain regulatory restrictions as described herein.

Forward-Looking Statements and Non-GAAP Measures

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

Bank Holding Company

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

Current Business Environment/Outlook

Our results for the second quarter of 2014 reflect increased spending by Card Members, growth in average Card Member loans and continued low write-off rates, while our strong balance sheet allowed us to return a substantial amount of capital to our shareholders.

Our second quarter results also include the impact of the closing of the previously announced joint venture (JV) transaction for our Global Business Travel (GBT) operations. As a result of the transaction, we deconsolidated the GBT net assets and recognized a net gain of approximately \$626 million (\$409 million after tax). The earnings impact of the gain in the quarter was substantially offset by a significant amount of incremental investments in growth initiatives, as well as the following items:

a restructuring charge of \$133 million (\$90 million after-tax);

JV transaction-related costs of \$79 million (\$56 million after-tax); and

a contribution to the American Express Foundation of \$40 million (\$25 million after-tax).

Table of Contents

Card Member billed business increased 9 percent over the prior year, which represented a modest acceleration from the first quarter of 2014 primarily due to volume growth in the U.S. Billed business growth internationally was relatively consistent with the first quarter. The average discount rate of 2.48 percent for the second quarter of 2014 decreased by 4 basis points from an average rate of 2.52 percent in both the second quarter of 2013 and the first quarter of 2014. In the current quarter, the discount rate was primarily impacted by changes in the mix of Card Member spending by industry and the timing of certain contract signings and payments to merchant partners. As indicated in prior quarters, changes in the mix of spending by location and industry, volume-related pricing discounts, strategic investments, certain pricing initiatives, competition in the market and other factors will likely result in erosion of the average discount rate over time. Average loans continued to grow year over year, which, along with lower funding costs, led to a 9 percent increase in net interest income. Lending write-off rates remained near historically low levels, though we expect, at some point, lending write-off rates will increase from such levels.

Total expenses increased 2 percent over the prior year. Marketing and promotion expenses increased 25 percent over the prior year, reflecting the above-mentioned incremental investments in growth initiatives. Operating expenses for the quarter decreased 8 percent, as compared to the prior year reflecting the gain on the JV transaction, which is reported as a reduction to other expense. We would not expect to see similar year-over-year declines in operating expenses for the second half of the year, although we remain committed to our goal to have operating expenses grow at an annual rate of less than 3 percent in 2014 after adjusting for the impact of the JV transaction and related items referenced above.

We continue to be impacted by certain tax law changes in 2014 and the failure of the U.S. Congress to renew legislation regarding our active financing income could increase our effective tax rate and have an adverse impact on net income in 2015 and beyond.

The regulatory environment continues to evolve and has heightened the focus that all financial services firms, including us, must have on controls and processes. The review of products and practices will be a continuing focus of ours, as well as regulators. In addition, regulation of the payments industry has increased significantly in recent years and various governments around the world have established or are proposing to establish payment system regulatory regimes. See [Certain Legislative, Regulatory and Other Developments](#) for additional information on the legislative and regulatory environment.

Competition remains extremely intense across our businesses. See Part II, Item 1A [Risk Factors](#) for a discussion of the risks related to competition for partner relationships. While our business is diversified by product and geography, including the corporate card business, a large international business and GNS partners around the world, the global economic environment remains challenging. In addition, our results could be adversely affected by U.S. income tax law changes, volatility in foreign exchange rates or changes in interest rates.

Table of Contents**American Express Company****Consolidated Results of Operations**

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

Table 1: Summary of Financial Performance

<i>(Millions, except percentages and per share amounts)</i>	Three Months Ended				Six Months Ended			
	June 30		Change		June 30		Change	
	2014	2013			2014	2013		
Total revenues net of interest expense	\$ 8,657	\$ 8,245	\$ 412	5%	\$ 16,856	\$ 16,126	\$ 730	5%
Provisions for losses	489	518	(29)	(6)	974	934	40	4
Expenses	5,856	5,732	124	2	11,362	11,288	74	1
Net income	1,529	1,405	124	9	2,961	2,685	276	10
Earnings per common share diluted ^(a)	\$ 1.43	\$ 1.27	\$ 0.16	13%	\$ 2.77	\$ 2.42	\$ 0.35	14%
Return on average equity ^(b)	28.8%	23.6%			28.8%	23.6%		
Return on average tangible common equity ^(c)	35.8%	29.7%			35.8%	29.7%		

(a) Earnings per common share diluted was reduced by the impact of earnings allocated to participating share awards and other items of \$12 million and \$13 million for three months ended June 30, 2014 and 2013, respectively, and \$24 million for both the six months ended June 30, 2014 and 2013.

(b) ROE is computed by dividing (i) one-year period net income (\$5.6 billion and \$4.6 billion for June 30, 2014 and 2013, respectively) by (ii) one-year average total shareholders' equity (\$19.6 billion and \$19.4 billion for June 30, 2014 and 2013, respectively).

(c) Return on average tangible common equity, a non-GAAP measure, is computed in the same manner as ROE except the computation of average tangible common equity, a non-GAAP measure, excludes from average total shareholders' equity, average goodwill and other intangibles of \$4.0 billion and \$4.1 billion as of June 30, 2014 and 2013, respectively. We believe return on average tangible common equity is a useful measure of the profitability of our business.

Table 2: Total Revenue Net of Interest Expense Summary

<i>(Millions, except percentages)</i>	Three Months Ended				Six Months Ended			
	June 30		Change		June 30		Change	
	2014	2013	2014 vs. 2013		2014	2013	2014 vs. 2013	
Discount revenue	\$ 4,945	\$ 4,729	\$ 216	5%	\$ 9,591	\$ 9,167	\$ 424	5%
Net card fees	687	647	40	6	1,361	1,300	61	5
Travel commissions and fees	500	495	5	1	923	932	(9)	(1)
Other commissions and fees	624	605	19	3	1,242	1,178	64	5
Other	585	567	18	3	1,086	1,104	(18)	(2)
Total non-interest revenues	7,341	7,043	298	4	14,203	13,681	522	4

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Total interest income	1,759	1,694	65	4	3,535	3,456	79	2
Total interest expense	443	492	(49)	(10)	882	1,011	(129)	(13)
Net interest income	1,316	1,202	114	9	2,653	2,445	208	9
Total revenues net of interest expense	\$ 8,657	\$ 8,245	\$ 412	5%	\$ 16,856	\$ 16,126	\$ 730	5%

Total Revenues Net of Interest Expense

Discount revenue increased \$216 million or 5 percent and \$424 million or 5 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The increases were driven by growth in billed business, partially offset by a decrease in the average discount rate and higher cash rebate rewards. Billed business was 9 percent and 7 percent for the three and six month periods, respectively, in both the U.S. and outside the U.S. Foreign exchange rates had a minimal impact on billed business outside the U.S. as compared to reported results for both the three and six month periods. See Tables 5, 6 and 7 for more detail on billed business performance. The average discount rate was 2.48 and 2.52 percent for the three months ended June 30, 2014 and 2013, respectively. The average discount rate was 2.50 and 2.52 percent for the six months ended June 30, 2014 and 2013, respectively. See Current Business Environment/Outlook for information on the changes in the average discount rate.

Table of Contents

Net card fees increased \$40 million or 6 percent and \$61 million or 5 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, reflecting growth in total cards-in-force and a higher average fee per card within USCS and ICS.

Travel commissions and fees increased \$5 million or 1 percent and decreased \$9 million or 1 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year.

Other commissions and fees increased \$19 million or 3 percent and \$64 million or 5 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The increases were primarily driven by higher revenue from our Loyalty Partner business, as well as higher delinquency fees for the six month period.

Other revenue increased \$18 million or 3 percent and decreased \$18 million or 2 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The increase for the three month period reflected lower Card Member reimbursements and a larger gain on the sale of investment securities, partially offset by the loss of revenue from the divested publishing business. The decrease for the six month period reflected the loss of revenue from the divested publishing business, partially offset by lower Card Member reimbursements and a larger gain on the sale of investment securities.

Interest income increased \$65 million or 4 percent and \$79 million or 2 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The increases reflected higher interest on loans, driven by growth in average Card Member loans, partially offset by decreases in interest and dividends on investment securities, driven by lower average investment securities. The three month period also reflected lower Card Member reimbursements.

Interest expense decreased \$49 million or 10 percent and \$129 million or 13 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The decreases were primarily driven by lower interest on deposits, as a result of lower funding costs, partially offset by higher average customer deposits. The decreases also reflected lower funding costs on long-term debt.

Table 3: Provisions for Losses Summary

	Three Months Ended June 30		Change		Six Months Ended June 30		Change	
	2014	2013	2014 vs. 2013		2014	2013	2014 vs. 2013	
<i>(Millions, except percentages)</i>								
Charge card	\$ 183	\$ 161	\$ 22	14%	\$ 398	\$ 315	\$ 83	26%
Card Member loans	282	334	(52)	(16)	532	577	(45)	(8)
Other	24	23	1	4	44	42	2	5
Total provisions for losses	\$ 489	\$ 518	\$ (29)	(6)%	\$ 974	\$ 934	\$ 40	4%

Provisions for Losses

Charge card provision for losses increased \$22 million or 14 percent and \$83 million or 26 percent for the three and six month periods ended June 30, 2014, respectively, as compared to the same periods in the prior year, driven by lower reserve releases. Card Member loans provision for losses decreased \$52 million or 16 percent and \$45 million or 8 percent for the three and six month periods ended June 30, 2014, respectively, as compared to the same periods in the prior year, driven by lower net write-offs due to improved credit performance, partially offset by lower reserve releases.

Table of Contents**Table 4: Expenses Summary**

<i>(Millions, except percentages)</i>	Three Months Ended				Six Months Ended			
	June 30		Change		June 30		Change	
	2014	2013	2014 vs. 2013		2014	2013	2014 vs. 2013	
Marketing and promotion	\$ 985	\$ 786	\$ 199	25%	\$ 1,598	\$ 1,407	\$ 191	14%
Card Member rewards	1,773	1,601	172	11	3,355	3,121	234	7
Card Member services and other	192	193	(1)	(1)	414	382	32	8
Total marketing, promotion, rewards, Card Member services and other	2,950	2,580	370	14	5,367	4,910	457	9
Salaries and employee benefits	1,658	1,543	115	7	3,198	3,158	40	1
Other, net	1,248	1,609	(361)	(22)	2,797	3,220	(423)	(13)
Total expenses	\$ 5,856	\$ 5,732	\$ 124	2%	\$ 11,362	\$ 11,288	\$ 74	1%

Expenses

Marketing and promotion expense increased \$199 million or 25 percent and \$191 million or 14 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, driven by the reinvestment of a significant portion of the gain from the business travel joint venture transaction in growth initiatives across all segments.

Card Member rewards expense increased \$172 million or 11 percent for the three months ended June 30, 2014, as compared to the same period in the prior year. The increase reflected higher co-brand rewards expense of \$74 million, primarily related to higher spending volumes, and an increase in Membership Rewards expense of \$98 million. The current period increase in Membership Rewards expense was primarily due to an \$87 million increase related to higher new points earned, in line with higher spending volume, in addition to an \$11 million increase related to Membership Rewards points previously earned but not yet redeemed. The latter increase was driven by enhancements in the Ultimate Redemption Rate (URR) estimation process in certain international countries, partially offset by slower average growth in the URR and favorable changes in the weighted average cost per point (WAC) assumptions as compared to the same period in the prior year.

Card Member rewards expense increased \$234 million or 7 percent for the six months ended June 30, 2014, as compared to the same period in the prior year. The increase reflected higher co-brand rewards expense of \$103 million and Membership Rewards expense of \$131 million, primarily driven by higher spending volumes.

The Membership Rewards URR for current program participants was 95 percent (*rounded up*) at June 30, 2014, an increase from 94 percent (*rounded down*) at June 30, 2013. The increase in the URR reflected greater engagement in our Membership Rewards program.

Card Member services and other expense decreased \$1 million or 1 percent and increased \$32 million or 8 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The increase in the six month period was primarily driven by increased engagement levels and usage of certain Card Member benefits.

Salaries and employee benefits expense increased \$115 million or 7 percent and \$40 million or 1 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The increases reflect a second quarter restructuring charge, partially offset by lower payroll expense in the six month period.

Other expense decreased \$361 million or 22 percent and \$423 million or 13 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by the net gain recognized as a result of the business travel joint venture transaction. This gain was partially offset by a charitable contribution to the American Express Foundation and a change in the estimated

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

value of certain investments in our Community Reinvestment Act portfolio in the current period and a Canadian value-added tax benefit in the prior year.

Table of Contents**Income Taxes**

The effective tax rate was 33.9 percent and 29.6 percent for the three months ended June 30, 2014, and 2013, respectively. The effective tax rate was 34.5 percent and 31.2 percent for the six months ended June 30, 2014 and 2013, respectively. The tax rates in all periods primarily reflected the level of pretax income in relation to recurring permanent tax benefits and the geographic mix of business. Additionally, the effective tax rate in the three and six month periods ended June 30, 2013 reflected the resolution of certain prior years' tax items.

Table 5: Selected Statistical Information

	Three Months Ended June 30		Change 2014 vs. 2013	Six Months Ended June 30		Change 2014 vs. 2013
	2014	2013		2014	2013	
Card billed business: (billions)						
United States	\$ 173.4	\$ 159.7	9%	\$ 332.6	\$ 309.7	7%
Outside the United States	84.7	78.0	9	163.6	152.5	7
Total	\$ 258.1	\$ 237.7	9	\$ 496.2	\$ 462.2	7
Total cards-in-force: (millions)						
United States	54.1	52.5	3	54.1	52.5	3
Outside the United States	55.8	51.8	8	55.8	51.8	8
Total	109.9	104.3	5	109.9	104.3	5
Basic cards-in-force: (millions)						
United States	42.0	40.7	3	42.0	40.7	3
Outside the United States	45.6	41.8	9	45.6	41.8	9
Total	87.6	82.5	6	87.6	82.5	6
Average discount rate	2.48%	2.52%		2.50%	2.52%	
Average basic Card Member spending ^(a)	\$ 4,288	\$ 4,097	5	\$ 8,281	\$ 8,002	3
Average fee per card ^(a)	\$ 41	\$ 40	3	\$ 41	\$ 40	3
Average fee per card adjusted ^(a)	\$ 45	\$ 44	2%	\$ 45	\$ 44	2%

(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, including the amortization of deferred direct acquisition costs divided by average worldwide proprietary cards-in-force. The adjusted average fee per card, which is a non-GAAP measure, is computed in the same manner, but excludes amortization of deferred direct acquisition costs. The amount of amortization excluded was \$77 million and \$66 million for the three months ended June 30, 2014 and 2013, respectively, and \$150 million and \$131 million for the six months ended June 30, 2014 and 2013, respectively. We present adjusted average fee per card because we believe this metric presents a useful indicator of card fee pricing across a range of our proprietary card products.

Table of Contents

The table below summarizes selected statistics for billed business and average spend during the three months ended June 30, 2014, compared to the same period in the prior year:

Table 6: Selected Statistical Information

	Three Months Ended June 30, 2014	
	Percentage Increase (Decrease)	Percentage Increase Assuming No Changes in Foreign Exchange Rates ^(a)
Worldwide ^(b)		
Billed business	9%	9%
Proprietary billed business	8	8
GNS billed business ^(c)	12	13
Airline-related volume (9% of worldwide billed business)	6	6
United States ^(b)		
Billed business	9	
Proprietary consumer card billed business ^(d)	8	
Proprietary small business billed business ^(d)	10	
Proprietary corporate services billed business ^(e)	8	
T&E-related volume (26% of U.S. billed business)	6	
Non-T&E-related volume (74% of U.S. billed business)	9	
Airline-related volume (8% of U.S. billed business)	5	
Outside the United States ^(b)		
Billed business	9	9
Japan, Asia Pacific & Australia (JAPA) billed business	10	11
Latin America & Canada (LACC) billed business	2	9
Europe, the Middle East & Africa (EMEA) billed business	12	6
Proprietary consumer and small business billed business ^(f)	6	6
JAPA billed business	3	5
LACC billed business	(1)	5
EMEA billed business	15	7
Proprietary corporate services billed business ^(e)	5%	5%

(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 three months ended June 30, 2014 apply to the corresponding year-earlier period against which such results are being compared). We believe the presentation of information on a foreign currency adjusted basis is helpful to investors by making it easier to compare our performance in one period to that of another period without the variability caused by fluctuations in currency exchange rates.

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

(c) Included in the GNMS segment.

(d) Included in the USCS segment.

(e) Included in the GCS segment.

(f) Included in the ICS segment.

Table of Contents

The table below summarizes selected statistics for billed business and average spend during the six months ended June 30, 2014, compared to the same period in the prior year:

Table 7: Selected Statistical Information

	Six Months Ended June 30, 2014	
	Percentage Increase (Decrease)	Percentage Increase Assuming No Changes in Foreign Exchange Rates ^(a)
Worldwide ^(b)		
Billed business	7%	8%
Proprietary billed business	7	7
GNS billed business ^(c)	11	14
Airline-related volume (10% of worldwide billed business)	5	6
United States ^(b)		
Billed business	7	
Proprietary consumer card billed business ^(d)	7	
Proprietary small business billed business ^(d)	9	
Proprietary corporate services billed business ^(e)	7	
T&E-related volume (27% of U.S. billed business)	6	
Non-T&E-related volume (73% of U.S. billed business)	8	
Airline-related volume (9% of U.S. billed business)	4	
Outside the United States ^(b)		
Billed business	7	10
JAPA billed business	8	13
LACC billed business	1	10
EMEA billed business	11	6
Proprietary consumer and small business billed business ^(f)	4	6
JAPA billed business		6
LACC billed business	(2)	6
EMEA billed business	13	7
Proprietary corporate services billed business ^(e)	5%	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 six months ended June 30, 2014 apply to the corresponding year-earlier period against which such results are being compared). We believe the presentation of information on a foreign currency adjusted basis is helpful to investors by making it easier to compare our performance in one period to that of another period without the variability caused by fluctuations in currency exchange rates.

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

(c) Included in the GNMS segment.

(d) Included in the USCS segment.

(e) Included in the GCS segment.

(f) Included in the ICS segment.

Table of Contents**Table 8: Selected Statistical Information**

<i>(Millions, except percentages and where indicated)</i>	As of or for the Three Months Ended June 30,			As of or for the Six Months Ended June 30,		
	2014	2013	Change	2014	2013	Change
Worldwide Card Member receivables:						
Total receivables <i>(billions)</i>	\$ 45.3	\$ 44.1	3 %	\$ 45.3	\$ 44.1	3 %
Loss reserves:						
Beginning balance	\$ 414	\$ 410	1 %	\$ 386	\$ 428	(10)%
Provisions ^(a)	183	161	14 %	398	315	26 %
Net write-offs ^(b)	(182)	(180)	1 %	(359)	(358)	0 %
Other ^(c)	(2)	(5)	(60)%	(12)	1	# %
Ending balance	\$ 413	\$ 386	7 %	\$ 413	\$ 386	7 %
% of receivables	0.9%	0.9%		0.9%	0.9%	
Net write-off rate principal only USCS/ICS	1.8%	(d)		1.9%	(d)	
Net write-off rate principal and fees USCS/ICS	2.0%	(d)		2.0%	(d)	
30 days past due as a % of total USCS/ICS	1.5%	(d)		1.5%	(d)	
Net loss ratio as a % of charge volume GCS	0.09%	0.08%		0.09%	0.08%	
90 days past billing as a % of total GCS	0.7%	0.7%		0.7%	0.7%	
Worldwide Card Member loans:						
Total loans <i>(billions)</i>	\$ 66.3	\$ 63.1	5 %	\$ 66.3	\$ 63.1	5 %
Loss reserves:						
Beginning balance	\$ 1,191	\$ 1,367	(13)%	\$ 1,261	\$ 1,471	(14)%
Provisions ^(a)	282	334	(16)%	532	577	(8)%
Net write-offs principal ^(b)	(267)	(309)	(14)%	(541)	(613)	(12)%
Net write-offs interest and fees ^(b)	(42)	(39)	8 %	(84)	(77)	9 %
Other ^(c)	6	(11)	# %	2	(16)	# %
Ending balance	\$ 1,170	\$ 1,342	(13)%	\$ 1,170	\$ 1,342	(13)%
Ending reserves principal	\$ 1,114	\$ 1,290	(14)%	\$ 1,114	\$ 1,290	(14)%
Ending reserves interest and fees	\$ 56	\$ 52	8 %	\$ 56	\$ 52	8 %
% of loans	1.8%	2.1%		1.8%	2.1%	
% of past due	171%	188%		171%	188%	
Average loans <i>(billions)</i>	\$ 65.2	\$ 62.5	4 %	\$ 65.0	\$ 62.7	4 %
Net write-off rate principal only ^(e)	1.6%	2.0%		1.7%	2.0%	
Net write-off rate principal, interest and fees ^(e)	1.9%	2.2%		1.9%	2.2%	
30 days past due as a % of total	1.0%	1.1%		1.0%	1.1%	
Net interest income divided by average loans ^(f)	8.1%	7.7%		8.2%	7.9%	
Net interest yield on Card Member loans ^(f)	9.2%	9.1%		9.3%	9.3%	

Denotes a variance greater than 100 percent

Table of Contents

- (a) Provisions for principal (resulting from authorized transactions), interest and/or fees on Card Member loans and principal (resulting from authorized transactions) and fee reserve components on Card Member receivables.
- (b) Write-offs, less recoveries.
- (c) Card Member receivables includes foreign currency translation adjustments of nil and \$(4) million and other adjustments of \$(2) million and \$(1) million for the three months ended June 30, 2014 and 2013, respectively. Card Member loans includes foreign currency translation adjustments of nil and \$(10) million the three months ended June 30, 2014 and 2013, respectively, and other adjustments of \$6 million and \$(1) million for the three months ended June 30, 2014 and 2013, respectively. Refer to Note 4 to the Consolidated Financial Statements for the components of other for the six months ended June 30, 2014 and 2013.
- (d) Historically, net loss ratio as a % of change volume and 90 days past billing as a % of receivables were presented for ICS. Beginning in first quarter 2014, as a result of system enhancements, 30 days past due as a % of total, net write-off rate (principal only) and net write-off rate (principal and fees) have been presented.
- (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 our practice is to include uncollectible interest and/or fees as part of our total provision for losses, a net write-off rate including principal, interest and/or fees is also presented.
- (f) Refer to Table 9 for the calculation of net interest yield on Card Member loans, a non-GAAP measure, net interest income divided by average loans, a GAAP measure, and our rationale for presenting net interest yield on Card Member loans.

Table 9: Net Interest Yield on Card Member Loans

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<i>(Millions, except percentages and where indicated)</i>				
Net interest income	\$ 1,316	\$ 1,202	\$ 2,653	\$ 2,445
Exclude:				
Interest expense not attributable to the Company's Card Member loan portfolio	259	295	522	606
Interest income not attributable to the Company's Card Member loan portfolio	(89)	(88)	(177)	(183)
Adjusted net interest income ^(a)	\$ 1,486	\$ 1,409	\$ 2,998	\$ 2,868
Average loans <i>(billions)</i>	\$ 65.2	\$ 62.5	\$ 65.0	\$ 62.7
Exclude:				
Unamortized deferred card fees, net of direct acquisition costs of Card Member loans, and other <i>(billions)</i>	(0.2)	(0.3)	(0.2)	(0.3)
Adjusted average loans <i>(billions)</i> ^(a)	\$ 65.0	\$ 62.2	\$ 64.8	\$ 62.4
Net interest income divided by average loans	8.1%	7.7%	8.2%	7.9%
Net interest yield on Card Member loans ^(a)	9.2%	9.1%	9.3%	9.3%

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

- (a) Adjusted average loans, adjusted net interest income, and net interest yield on Card Member loans are non-GAAP measures. We believe adjusted net interest income and adjusted average loans are useful to investors because they are components of net interest yield on Card Member loans, which provides a measure of profitability of our Card Member loan portfolio.

Table of Contents**Business Segment Results**

For information about the reportable operating segments of the Company, refer to the Business Segment Results Overview beginning on page 25 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the Annual Report).

U.S. Card Services**Table 10: USCS Selected Income Statement Data**

<i>(Millions, except percentages)</i>	Three Months Ended				Six Months Ended			
	2014	June 30, 2013	Change		2014	June 30, 2013	Change	
Revenues								
Discount revenue, net card fees and other	\$ 3,222	\$ 3,063	\$ 159	5 %	\$ 6,239	\$ 5,941	\$ 298	5 %
Interest income	1,408	1,354	54	4	2,831	2,740	91	3
Interest expense	153	178	(25)	(14)	303	360	(57)	(16)
Net interest income	1,255	1,176	79	7	2,528	2,380	148	6
Total revenues net of interest expense	4,477	4,239	238	6	8,767	8,321	446	5
Provisions for losses	339	356	(17)	(5)	681	646	35	5
Total revenues net of interest expense after provisions for losses	4,138	3,883	255	7	8,086	7,675	411	5
Expenses								
Marketing, promotion, rewards, Card Member services and other	1,865	1,735	130	7	3,447	3,280	167	5
Salaries and employee benefits and other operating expenses	1,073	973	100	10	2,033	1,950	83	4
Total expenses	2,938	2,708	230	8	5,480	5,230	250	5
Pre-tax segment income	1,200	1,175	25	2	2,606	2,445	161	7
Income tax provision	430	432	(2)		960	898	62	7
Segment income	\$ 770	\$ 743	\$ 27	4 %	\$ 1,646	\$ 1,547	\$ 99	6 %
Effective tax rate	35.8%	36.8%			36.8%	36.7%		

USCS issues a wide range of card products and services to consumers and small businesses in the U.S., and provides consumer travel services to Card Members and other consumers.

Discount revenue, net card fees and other revenues increased \$159 million or 5 percent and \$298 million or 5 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The increases were primarily driven by higher discount revenue, resulting from billed business growth, lower Card Member reimbursements and higher net card fees. Billed business increased 9 percent and 8 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily reflecting 5 percent and 4 percent increases in average spending per proprietary basic card for the three and six month periods, respectively, and 4 percent higher cards-in-force.

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Interest income increased \$54 million or 4 percent and \$91 million or 3 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by higher average Card Member loans, partially offset by higher Card Member reimbursements in the six month period.

Interest expense decreased \$25 million or 14 percent and \$57 million or 16 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, due to lower funding costs.

Table of Contents

Provisions for losses decreased \$17 million or 5 percent and increased \$35 million or 5 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The decrease for the three month period was primarily driven by the benefit of lower net write-offs for Card Member loans, partially offset by a lower charge card reserve release compared to the prior year. The increase for the six month period was primarily driven by a lower charge card reserve release compared to the prior year, partially offset by the benefit of lower net write-offs for Card Member loans. Refer to Table 11 for the lending and charge card write-off rates for 2014 and 2013.

Marketing, promotion, rewards, Card Member services and other expenses increased \$130 million or 7 percent and \$167 million or 5 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily reflecting higher Card Member rewards and marketing and promotion. The increases in marketing and promotion were driven by the reinvestment of a significant portion of the gain from the business travel joint venture transaction in growth initiatives. Card Member rewards expense increased \$97 million and \$135 million for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The increases reflected higher co-brand expense, which increased approximately \$58 million and \$88 million for the three and six month periods, respectively, primarily reflecting higher spending volumes, and increased Membership Rewards expense of \$39 million and \$47 million for the same periods. The increases in Membership Rewards expense were primarily due to higher new points earned slightly offset by favorable changes in the WAC assumptions and slower average growth in the URR.

Salaries and employee benefits and other operating expenses increased \$100 million or 10 percent and \$83 million or 4 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by a change in the estimated value of certain investments in our Community Reinvestment Act portfolio, higher provisions for card-related fraud losses and a second quarter restructuring charge.

Table of Contents**Table 11: USCS Selected Statistical Information**

	As of or for the			As of or for the		
	Three Months Ended			Six Months Ended		
	June 30, 2014	2013	Change	June 30, 2014	2013	Change
<i>(Millions, except percentages and where indicated)</i>						
Card billed business (<i>billions</i>)	\$ 136.5	\$ 125.6	9 %	\$ 260.8	\$ 242.3	8 %
Total cards-in-force	44.7	42.9	4 %	44.7	42.9	4 %
Basic cards-in-force	33.3	31.9	4 %	33.3	31.9	4 %
Average basic Card Member spending (<i>dollars</i>)*	\$ 4,133	\$ 3,954	5 %	\$ 7,938	\$ 7,664	4 %
U.S. Consumer Travel:						
Travel sales	\$ 1,027	\$ 1,158	(11)%	\$ 2,001	\$ 2,202	(9)%
Travel commissions and fees/sales	7.4%	6.7%		6.9%	6.6%	
Total segment assets (<i>billions</i>)	\$ 101.1	\$ 96.5	5 %	\$ 101.1	\$ 96.5	5 %
Segment capital	\$ 9,859	\$ 8,694	13 %	\$ 9,859	\$ 8,694	13 %
Return on average segment capital ^(a)	35.3%	29.9%		35.3%	29.9%	
Return on average tangible segment capital ^(a)	36.5%	31.2%		36.5%	31.2%	
Card Member receivables:						
Total receivables (<i>billions</i>)	\$ 21.2	\$ 20.9	1%	\$ 21.2	\$ 20.9	1 %
30 days past due as a % of total	1.5%	1.6%		1.5%	1.6%	
Average receivables (<i>billions</i>)	\$ 21.3	\$ 20.5	4 %	\$ 21.0	\$ 20.2	4 %
Net write-off rate principal only ^(b)	1.8%	1.9%		1.8%	2.0%	
Net write-off rate principal and fees ^(b)	2.0%	2.1%		2.0%	2.1%	
Card Member loans:						
Total loans (<i>billions</i>)	\$ 57.7	\$ 54.6	6 %	\$ 57.7	\$ 54.6	6 %
30 days past due loans as a % of total	0.9%	1.1%		0.9%	1.1%	
Net write-off rate principal only ^(b)	1.6%	2.0%		1.6%	2.0%	
Net write-off rate principal, interest and fees ^(b)	1.8%	2.2%		1.9%	2.2%	
Calculation of Net Interest Yield on						
Card Member loans:						
Net interest income	\$ 1,255	\$ 1,176		\$ 2,528	\$ 2,380	
Exclude:						
Interest expense not attributable to the Company's Card Member loan portfolio	40	47		79	95	
Interest income not attributable to the Company's Card Member loan portfolio	(3)	(2)		(6)	(4)	
Adjusted net interest income ^(c)	\$ 1,292	\$ 1,221		\$ 2,601	\$ 2,471	
Average loans (<i>billions</i>)	\$ 56.8	\$ 54.0		\$ 56.6	\$ 54.0	
Exclude:						
Unamortized deferred card fees, net of direct acquisition costs of Card Member loans (<i>billions</i>)						
Adjusted average loans (<i>billions</i>) ^(c)	\$ 56.8	\$ 54.0		\$ 56.6	\$ 54.0	

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Net interest income divided by average loans	8.9%	8.7%	8.9%	8.9%
Net interest yield on Card Member loans ^(c)	9.1%	9.1%	9.3%	9.2%

* Proprietary cards only.

(a) Return on average segment capital is calculated by dividing (i) one-year period segment income (\$3.3 billion and \$2.7 billion for the twelve months ended June 30, 2014 and 2013, respectively) by (ii) one-year average segment capital (\$9.3 billion and \$8.9 billion for both the three months ended June 30, 2014 and 2013). Return on average tangible segment capital, a non-GAAP measure, is computed in the same manner as return on average segment capital except the computation of average tangible segment capital, a non-GAAP measure, excludes from average segment capital average goodwill and other intangibles of \$311 million and \$357 million as of June 30, 2014 and 2013, respectively. We believe return on average tangible segment capital is a useful measure of the profitability of our business.

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

Table of Contents

- (c) Adjusted net interest income, adjusted average loans, and net interest yield on 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 and adjusted average loans are useful to investors because they are components of net interest yield on Card Member loans, which provides a measure of profitability of our Card Member loan portfolio.

International Card Services**Table 12: ICS Selected Income Statement Data**

	Three Months Ended				Six Months Ended				
	2014	June 30, 2013	Change		2014	June 30, 2013	Change		
<i>(Millions, except percentages)</i>									
Revenues									
Discount revenue, net card fees and other	\$ 1,208	\$ 1,130	\$ 78	7 %	\$ 2,365	\$ 2,254	\$ 111	5 %	
Interest income	275	259	16	6	552	549	3	1	
Interest expense	92	90	2	2	174	187	(13)	(7)	
Net interest income	183	169	14	8	378	362	16	4	
Total revenues net of interest expense	1,391	1,299	92	7	2,743	2,616	127	5	
Provisions for losses	90	101	(11)	(11)	177	182	(5)	(3)	
Total revenues net of interest expense after provisions for losses	1,301	1,198	103	9	2,566	2,434	132	5	
Expenses									
Marketing, promotion, rewards, Card Member services and other	577	478	99	21	1,073	930	143	15	
Salaries and employee benefits and other operating expenses	655	564	91	16	1,221	1,155	66	6	
Total expenses	1,232	1,042	190	18	2,294	2,085	209	10	
Pretax segment income	69	156	(87)	(56)	272	349	(77)	(22)	
Income tax provision	(8)	(52)	44	(85)	36	(37)	73	#	
Segment income	\$ 77	\$ 208	\$ (131)	(63)%	\$ 236	\$ 386	\$ (150)	(39)%	
Effective tax rate	(11.6)%	(33.3)%			13.2%	(10.6)%			

Denotes a variance greater than 100 percent

ICS issues proprietary consumer and small business cards outside the U.S. and operates a coalition loyalty business in various countries.

Discount revenue, net card fees and other revenues increased \$78 million or 7 percent and \$111 million or 5 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by higher discount revenue, Loyalty Partner-related fees and an increase in net card fees.

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Billed business increased 6 percent and 4 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily reflecting an increase in proprietary basic cards-in-force. Refer to Table 6 and 7 for additional information on billed business by region.

Interest income increased \$16 million or 6 percent and \$3 million or 1 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by lower Card Member reimbursements. Excluding the impact of changes in foreign exchange rates, interest income increased 10 percent for the three month period and 6 percent for the six month period.¹

¹ The foreign currency adjusted information, a non-GAAP measure, 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 year period against which such results are being compared). We believe the presentation of information on a foreign currency adjusted basis is helpful to investors by making it easier to compare our performance in one period to that of another period without the variability caused by fluctuations in currency exchange rates.

Table of Contents

Interest expense increased \$2 million or 2 percent and decreased \$13 million or 7 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The decrease in the six month period was primarily driven by lower funding costs. Excluding the impact of changes in foreign exchange rates, interest expense increased 6 percent for the three month period and decreased 1 percent for the six month period.²

Provisions for losses decreased \$11 million or 11 percent and \$5 million or 3 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by a decrease in charge card provision for losses as a result of lower net write-offs. Excluding the impact of changes in foreign exchange rates, provisions for losses were flat for the six month period.² Refer to Table 13 for the lending and charge card write-off rates for 2014 and 2013.

Marketing and promotion, rewards, Card Member services and other expenses increased \$99 million or 21 percent and \$143 million or 15 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The increases were primarily driven by higher Card Member rewards expense, which included a charge, related to enhancements in the Membership Rewards URR estimation process for certain international countries and higher marketing and promotion expense, related to the reinvestment of a significant portion of the gain from the business travel joint venture transaction in growth initiatives. Excluding the impact of changes in foreign exchange rates, marketing and promotion, rewards and Card Member services expense increased 18 percent for the six month period.²

Salaries and employee benefits and other operating expenses increased \$91 million or 16 percent and \$66 million or 6 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by a second quarter restructuring charge and a Canadian value-added tax benefit in the prior year.

The effective tax rate in all periods reflected the recurring permanent tax benefit related to the segment's ongoing funding activities outside the U.S., which is allocated to ICS under our internal tax allocation process. The effective tax rate for the three and six months ended June 30, 2013 also reflected the allocated share of tax benefits related to the resolution of certain prior years' tax items. In addition the effective tax rate for the six months ended June 30, 2013 reflected an additional benefit due to the renewal by the U.S. Congress of the active financing legislation on January 2, 2013. The effective tax rate in all periods reflected the impact of recurring permanent tax benefits on varying levels of pretax income.

² Refer to footnote 1 on page 48 relating to changes in foreign exchange rates.

Table of Contents**Table 13: ICS Selected Statistical Information**

	As of or for the			As of or for the		
	Three Months Ended June 30,			Six Months Ended June 30,		
<i>(Millions, except percentages and where indicated)</i>	2014	2013	Change	2014	2013	Change
Card billed business (<i>billions</i>)	\$ 34.1	\$ 32.3	6 %	\$ 66.0	\$ 63.6	4 %
Total cards-in-force	15.7	15.6	1 %	15.7	15.6	1 %
Basic cards-in-force	10.9	10.6	3 %	10.9	10.6	3 %
Average basic Card Member spending (<i>dollars</i>) [*]	\$ 3,137	\$ 3,058	3 %	\$ 6,084	\$ 6,019	1 %
International Consumer Travel:						
Travel sales	\$ 354	\$ 354	%	\$ 707	\$ 694	2 %
Travel commissions and fees/sales	6.8%	6.8%		6.5%	6.8%	
Total segment assets (<i>billions</i>)	\$ 31.6	\$ 29.7	6 %	\$ 31.6	\$ 29.7	6 %
Segment capital	\$ 3,027	\$ 3,070	(1)%	\$ 3,027	\$ 3,070	(1)%
Return on average segment capital ^(a)	15.7%	21.9%		15.7%	21.9%	
Return on average tangible segment capital ^(a)	28.8%	41.7%		28.8%	41.7%	
Card Member receivables:						
Total receivables (<i>billions</i>)	\$ 7.5	\$ 7.2	4 %	\$ 7.5	\$ 7.2	4 %
30 days past due loans as a % of total	1.3%	(b)		1.3%	(b)	
Net write-off rate principal only ^(c)	1.9%	(b)		2.0%	(b)	
Net write-off rate principal and fees ^(c)	2.0%	(b)		2.2%	(b)	
90 days past billing as a % of total	(b)	1.1%		(b)	1.1%	
Net loss ratio (as a % of charge volume)	(b)	0.21%		(b)	0.19%	
Card Member loans:						
Total loans (<i>billions</i>)	\$ 8.6	\$ 8.4	2 %	\$ 8.6	\$ 8.4	2 %
30 days past due loans as a % of total	1.6%	1.6%		1.6%	1.6%	
Net write-off rate principal only ^(c)	2.0%	1.9%		2.0%	1.9%	
Net write-off rate principal, interest and fees ^(c)	2.4%	2.4%		2.4%	2.3%	
Calculation of Net Interest Yield on						
Card Member loans:						
Net interest income	\$ 183	\$ 169		\$ 378	\$ 362	
Exclude:						
Interest expense not attributable to the Company's Card Member loan portfolio	21	26		39	49	
Interest income not attributable to the Company's Card Member loan portfolio	(10)	(5)		(20)	(12)	
Adjusted net interest income ^(d)	\$ 194	\$ 190		\$ 397	\$ 399	
Average loans (<i>billions</i>)	\$ 8.3	\$ 8.5		\$ 8.3	\$ 8.6	
Exclude:						
Unamortized deferred card fees, net of direct acquisition costs of Card Member loans, and other (<i>billions</i>)	(0.2)	(0.2)		(0.2)	(0.2)	
Adjusted average loans (<i>billions</i>) ^(d)	\$ 8.1	\$ 8.3		\$ 8.1	\$ 8.4	
Net interest income divided by average loans	8.8%	8.0%		9.1%	8.5%	

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Net interest yield on Card Member loans ^(d)	9.6%	9.2%	9.8%	9.6%
--	-------------	------	-------------	------

* Proprietary cards only.

- (a) Return on average segment capital is calculated by dividing (i) one-year period segment income (\$0.5 billion and \$0.7 billion for the twelve months ended June 30, 2014 and 2013, respectively) by (ii) one-year average segment capital (\$3.1 billion and \$2.9 billion for the twelve months ended June 30, 2014 and 2013, respectively). Return on average tangible segment capital, a non-GAAP measure, is computed in the same manner as return on average segment capital except the computation of average tangible segment capital, a non-GAAP measure, excludes from average segment capital average goodwill and other intangibles of \$1.4 billion for both the twelve months ended June 30, 2014 and 2013. We believe that return on average tangible segment capital is a useful measure of the profitability of our business.

Table of Contents

- (b) Historically, due to system constraints, net loss ratio as a % of change volume and 90 days past billing as a % of receivables were presented. Beginning in first quarter 2014, as a result of system enhancements, net write-off rate principal only, net write-off rate principal and fees and 30 days past due as a % of total will be presented.
- (c) Refer to footnote (e) within Table 8.
- (d) Adjusted net interest income, adjusted average loans and net interest yield on Card Member loans are non-GAAP measures. We believe adjusted net interest income and adjusted average loans are useful to investors because they are components of net interest yield on Card Member loans, which provides a measure of profitability of our Card Member loan portfolio.

Global Commercial Services

Table 14: GCS Selected Income Statement Data

<i>(Millions, except percentages)</i>	Three Months Ended				Six Months Ended				
	2014	June 30, 2013	Change		2014	June 30, 2013	Change		
Revenues									
Discount revenue, net card fees and other	\$ 1,332	\$ 1,290	\$ 42	3 %	\$ 2,581	\$ 2,510	\$ 71	3 %	
Interest income	3	3	7		6	1	17		
Interest expense	66	62	4	6	125	122	3	2	
Net interest expense	(63)	(59)	4	7	(118)	(116)	2	2	
Total revenues net of interest expense	1,269	1,231	38	3	2,463	2,394	69	3	
Provisions for losses	43	36	7	19	81	64	17	27	
Total revenues net of interest expense after provisions for losses	1,226	1,195	31	3	2,382	2,330	52	2	
Expenses									
Marketing, promotion, rewards, Card Member services and other	177	144	33	23	343	294	49	17	
Salaries and employee benefits and other operating expenses	184	718	(534)	(74)	889	1,420	(531)	(37)	
Total expenses	361	862	(501)	(58)	1,232	1,714	(482)	(28)	
Pretax segment income	865	333	532	#	1,150	616	534	87	
Income tax provision	304	107	197	#	405	199	206	#	
Segment income	\$ 561	\$ 226	\$ 335	# %	\$ 745	\$ 417	\$ 328	79 %	
Effective tax rate	35.1%	32.1%			35.2%	32.3%			

Denotes a variance greater than 100 percent

GCS offers global corporate payment and business travel services to large and mid-sized companies.

Discount revenue, net card fees and other revenues increased \$42 million or 3 percent and \$71 million or 3 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by higher discount revenue resulting from an increased level of Card Member spending. Billed business for both the three and six months ended June 30, 2014 increased 7 percent, primarily driven by a 7 percent and 6 percent increase in average spending per proprietary basic card for the three and six months ended June 30, 2014, respectively. Billed business volume increased 8 percent and 7 percent within the U.S. for the three and six month ended periods, respectively, while billed business volume outside the U.S. increased 5 percent for both the three and six months ended June 30, 2014.

Table of Contents

Net interest expense increased \$4 million or 7 percent and \$2 million or 2 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by increased funding requirements due to higher average Card Member receivable balances. Excluding the impact of changes in foreign exchange rates, net interest expense increased 11 percent for the three month period and 5 percent for the six month period.³

Provisions for losses increased \$7 million or 19 percent and \$17 million or 27 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by higher average Card Member receivables resulting in higher net write-offs, primarily in the U.S. Refer to Table 15 for the charge card net loss ratio as a percentage of charge volume. Excluding the impact of changes in foreign exchange rates, provisions for losses increased 16 percent for the three month period.³

Marketing and promotion, rewards, Card Member services and other expenses increased \$33 million or 23 percent and \$49 million or 17 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by the reinvestment of a significant portion of the gain from the business travel joint venture transaction in growth initiatives and higher rewards costs in both the three and six months ended June 30, 2014.

Salaries and employee benefits and other operating expenses decreased \$534 million or 74 percent and \$531 million or 37 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by the net gain from the previously discussed business travel joint venture transaction, partially offset by transaction-related costs and a second quarter restructuring charge.

Table 15: GCS Selected Statistical Information

<i>(Millions, except percentages and where indicated)</i>	As of or for the Three Months Ended June 30,			As of or for the Six Months Ended June 30,		
	2014	2013	Change	2014	2013	Change
Card billed business (<i>billions</i>)	\$ 47.6	\$ 44.4	7 %	\$ 93.1	\$ 87.2	7%
Total cards-in-force	7.0	7.0	%	7.0	7.0	%
Basic cards-in-force	7.0	7.0	%	7.0	7.0	%
Average basic Card Member spending (<i>dollars</i>) [*]	\$ 6,781	\$ 6,317	7 %	\$ 13,216	\$ 12,425	6%
Global Corporate Travel:						
Travel sales	\$ 4,882	\$ 4,954	(1)%	\$ 9,580	\$ 9,607	%
Travel commissions and fees/sales	8.2%	7.9%		7.7%	7.7%	
Total segment assets (<i>billions</i>)	\$ 20.8	\$ 20.5	1 %	\$ 20.8	\$ 20.5	1%
Segment capital	\$ 3,774	\$ 3,680	3 %	\$ 3,774	\$ 3,680	3%
Return on average segment capital ^(a)	32.0%	18.3%		32.0%	18.3%	
Return on average tangible segment capital ^(a)	60.3%	35.9%		60.3%	35.9%	
Card Member receivables:						
Total receivables (<i>billions</i>)	\$ 16.5	\$ 15.9	4 %	\$ 16.5	\$ 15.9	4%
90 days past billing as a % of total	0.7%	0.7%		0.7%	0.7%	
Net loss ratio (as a % of charge volume)	0.09%	0.08%		0.09%	0.08%	

* Proprietary cards only.

(a) Return on average segment capital is calculated by dividing (i) one-year period segment income (\$1.2 billion and \$0.7 billion for the twelve months ended June 30, 2014 and 2013, respectively) by (ii) one-year average segment capital (\$3.7 billion and \$3.6 billion for the twelve months ended June 30, 2014 and 2013, respectively). Return on average tangible segment capital, a non-GAAP measure, is computed in the same manner as return on average segment capital except the computation of average tangible segment capital, a non-GAAP measure, excludes from average segment capital average goodwill and other intangibles of \$1.8 billion for both the twelve months ended June 30, 2014 and 2013. The Company believes that return on average

tangible segment capital is a useful measure of the profitability of its business.

³ Refer to footnote 1 on page 48 relating to changes in foreign exchange rates

Table of Contents**Global Network & Merchant Services****Table 16: GNMS Selected Income Statement Data**

<i>(Millions, except percentages)</i>	Three Months Ended				Six Months Ended				
	2014	June 30, 2013	Change		2014	June 30, 2013	Change		
Revenues									
Discount revenue, net card fees and other	\$ 1,366	\$ 1,313	\$ 53	4 %	\$ 2,659	\$ 2,547	\$ 112	4 %	
Interest income	11	8	3	38	21	15	6	40	
Interest expense	(78)	(63)	(15)	24	(140)	(125)	(15)	12	
Net interest income	89	71	18	25	161	140	21	15	
Total revenues net of interest expense	1,455	1,384	71	5	2,820	2,687	133	5	
Provisions for losses	18	21	(3)	(14)	34	40	(6)	(15)	
Total revenues net of interest expense after provisions for losses	1,437	1,363	74	5	2,786	2,647	139	5	
Expenses									
Marketing, promotion, rewards, Card Member services and other	277	188	89	47	433	346	87	25	
Salaries and employee benefits and other operating expenses	582	528	54	10	1,073	1,072	1		
Total expenses	859	716	143	20	1,506	1,418	88	6	
Pretax segment income	578	647	(69)	(11)	1,280	1,229	51	4	
Income tax provision	205	235	(30)	(13)	464	444	20	5	
Segment income	\$ 373	\$ 412	\$ (39)	(9)%	\$ 816	\$ 785	\$ 31	4 %	
Effective tax rate	35.5%	36.3%			36.3%	36.1%			

GNMS operates a global payments network that processes and settles proprietary and non-proprietary card transactions. GNMS acquires merchants and provides point-of-sale products, multi-channel marketing programs and capabilities, services and data, leveraging the Company's global closed-loop network. It provides ATM services 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.

Discount revenue, net card fees and other revenues increased \$53 million or 4 percent and \$112 million or 4 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The increases are primarily driven by higher merchant-related revenues, driven by a 9 percent and 7 percent increase in global card billed business for the three and six months ended June 30, 2014, respectively.

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Net interest income increased \$18 million or 25 percent and \$21 million or 15 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by increased revenues from our Merchant Financing business. The interest expense credit relates to internal transfer pricing and funding rates, which resulted in a net benefit for GNMS due to its merchant payables. Excluding the impact of changes in foreign exchange rates, net interest income increased 33 percent for the three month period and 23 percent for the six month period.⁴

Provisions for losses decreased \$3 million or 14 percent and \$6 million or 15 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily reflecting lower merchant-related provision expenses.

⁴ Refer to footnote 1 on page 48 relating to changes in foreign exchange rates

Table of Contents

Marketing and promotion, rewards, Card Member services and other expenses increased \$89 million or 47 percent and \$87 million or 25 percent for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year, primarily driven by the reinvestment of a significant portion of the gain from the business travel joint venture transaction in growth initiatives. Excluding the impact of changes in foreign exchange rates, marketing and promotion, rewards, Card Member services and other expenses increased 29 percent for the six month period.⁵

Salaries and employee benefits and other operating expenses increased \$54 million or 10 percent and \$1 million for the three and six months ended June 30, 2014, respectively, as compared to the same periods in the prior year. The increase in the three months ended June 30, 2014 was primarily driven by higher professional services fees and a second quarter restructuring charge.

Table 17: GNMS Selected Statistical Information

	As of or for the			As of or for the		
	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Change	2014	2013	Change
<i>(Millions, except percentages and where indicated)</i>						
Global Worldwide Card billed business (billions)	\$ 258.1	\$ 237.7	9 %	\$ 496.2	\$ 462.2	7 %
Global Network & Merchant Services:						
Total segment assets (billions)	\$ 18.7	\$ 22.6	(17)%	\$ 18.7	\$ 22.6	(17)%
Segment capital	\$ 2,046	\$ 2,145	(5)%	\$ 2,046	\$ 2,145	(5)%
Return on average segment capital ^(a)	79.4%	71.0%		79.4 %	71.0%	
Return on average tangible segment capital ^(a)	87.8%	78.4%		87.8 %	78.4%	
Global Network Services:						
Card billed business (billions)	\$ 40.1	\$ 35.8	12 %	\$ 76.7	\$ 69.0	11 %
Total cards-in-force	42.5	38.8	10 %	42.5	38.8	10 %

(a) Return on average segment capital is calculated by dividing (i) one-year period segment income (\$1.6 billion and \$1.5 billion for the twelve months ended June 30, 2014 and 2013, respectively) by (ii) one-year average segment capital (\$2.0 billion and \$2.1 billion for the twelve months ended June 30, 2014 and 2013, respectively). Return on average tangible segment capital, a non-GAAP measure, is computed in the same manner as return on average segment capital except the computation of average tangible segment capital, a non-GAAP measure, excludes from average segment capital average goodwill and other intangibles of \$192 million and \$199 million as of June 30, 2014 and 2013, respectively. We believe return on average tangible segment capital is a useful measure of the profitability of our business.

Corporate & Other

Corporate functions and auxiliary businesses, including our EGG and other operations, are included in Corporate & Other.

Corporate & Other net expense increased to \$252 million and \$482 million for the three and six months ended June 30, 2014, respectively, as compared to \$184 million and \$450 million for the three and six months ended June 30, 2013, respectively. The increases were primarily driven by a charitable contribution to the American Express Foundation combined with incremental investments in growth initiatives and a second quarter restructuring charge, partially offset by lower interest expense. In addition, the increase in the six month period was partially offset by lower salary and benefits expense.

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

⁵ Refer to footnote 1 on page 48 relating to changes in foreign exchange rate.

Table of Contents

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 12-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 reflects 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.

Beginning in 2014, as a Basel III Advanced Approaches institution, we report our capital ratios using Basel III capital definitions, inclusive of transition provisions, and Basel I risk-weighted assets. Beginning in 2015, we will 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. The Basel III standards will be fully phased-in by January 1, 2019. We have also adopted Basel III in certain non-U.S. jurisdictions.

During 2014, we began reporting capital adequacy standards on a parallel basis to regulators under Basel requirements for a Basel III Advanced Approaches institution. The parallel period will continue until we receive regulatory approval to exit parallel reporting and subsequently begin publicly reporting our capital ratios using both Basel III Standardized and Advanced Approaches.

Table of Contents

The following table presents our regulatory risk-based capital ratios and leverage ratios and those of our significant bank subsidiaries, as well as additional ratios widely utilized in the marketplace, as of June 30, 2014.

Table 18: Regulatory Risk-Based Capital and Leverage Ratios

	Basel III Standards 2014 ^(a)	Ratios as of June 30, 2014
Risk-Based Capital		
Common Equity Tier 1	4.0%	
<i>American Express Company</i>		13.4%
American Express Centurion Bank		19.8
American Express Bank, FSB		15.2
Tier 1	5.5	
<i>American Express Company</i>		13.4
American Express Centurion Bank		19.8
American Express Bank, FSB		15.2
Total	8.0	
<i>American Express Company</i>		14.9
American Express Centurion Bank		21.1
American Express Bank, FSB		17.3
Tier 1 Leverage	4.0%	
<i>American Express Company</i>		11.7
American Express Centurion Bank		18.8
American Express Bank, FSB		16.8
Common Equity to Risk-Weighted Assets		
<i>American Express Company</i>		15.5
Tangible Common Equity to Risk-Weighted Assets^(b)		
<i>American Express Company</i>		12.5%

(a) Transitional Basel III minimum and conservation buffer as defined by the Federal Reserve for calendar year 2014 for Advanced Approaches institutions.

(b) Refer to page 57 for discussion on tangible common equity, a non-GAAP measure.

The transition provisions for 2014 under Basel III cause our reported capital ratios to be higher than they would have been under the prior regulatory standards, known as Basel I. Specifically, the Common Equity Tier 1 risk-based capital and Tier 1 risk-based capital ratios would have been approximately 40 basis points lower under Basel I. The largest contributor to the difference is the way intangible assets are being treated and ultimately transitioned in over a 5-year period under Basel III.

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

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. The off-balance sheet items comprise a minimal part of the overall calculation. Risk-weighted assets under Basel I as of June 30, 2014 were \$130.7 billion.

Common Equity Tier 1 Risk-Based Capital Ratio The Common Equity Tier 1 risk-based capital ratio is calculated as Common Equity Tier 1 capital, divided by risk-weighted assets. Common Equity Tier 1 is the sum of common shareholders' equity, adjusted for ineligible goodwill and

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

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. Common Equity Tier 1 capital as of June 30, 2014 was \$17.5 billion.

Table of Contents

Tier 1 Risk-Based Capital Ratio The Tier 1 capital ratio is calculated as Tier 1 capital divided by risk-weighted assets. Tier 1 capital is the sum of Common Equity Tier 1 capital, certain perpetual preferred stock (not applicable to us), and third-party non-controlling interests in consolidated subsidiaries. Tier 1 capital as of June 30, 2014 was \$17.5 billion.

Total Risk-Based Capital Ratio The total risk-based capital ratio is 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 receivable and loan losses (limited to 1.25 percent of risk-weighted assets) and a portion of the unrealized gains on equity securities, plus a \$750 million subordinated hybrid security, for which we received approval from the Federal Reserve for treatment as Tier 2 capital. Tier 2 capital as of June 30, 2014 was \$2.0 billion. The \$750 million subordinated hybrid security does not meet the requirements of Tier 2 capital under Basel III, and is being transitioned out of capital beginning in 2014. As a result, starting in the first quarter of 2014, the amount included in Tier 2 capital is \$375 million. See Fully Phased-in Basel III section.

Tier 1 Leverage Ratio The Tier 1 leverage ratio is calculated by dividing Tier 1 capital by our average total consolidated assets for the most recent quarter. Average total consolidated assets as of June 30, 2014 were \$149.3 billion.

The following provides a definition for Tangible Common Equity to Risk-Weighted Assets ratio, which is widely used in the marketplace, although it may be calculated differently by different companies:

Common Equity and Tangible Common Equity to Risk-Weighted Assets Ratios Common equity equals our shareholders' equity of \$20.2 billion as of June 30, 2014, and tangible common equity, a non-GAAP measure, equals common equity less goodwill and other intangibles of \$3.8 billion as of June 30, 2014. We believe presenting the ratio of tangible common equity to risk-weighted assets is a useful measure of evaluating the strength of our capital position.

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 respective regulatory agencies to take actions that could limit our business operations.

Our primary source of equity capital has been the generation of net income. Historically, capital generated through net income and other sources, such as the exercise of stock options by employees, has exceeded the annual growth in our capital requirements. To the extent capital has exceeded business, regulatory and rating agency requirements, we have historically returned excess capital to shareholders through our regular common share dividend and share repurchase program.

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. We do not currently intend or foresee a need to shift capital from non-U.S. subsidiaries with permanently reinvested earnings to a U.S. parent company.

Table of Contents**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. We estimate that had Basel III been fully phased-in during the six months ended June 30, 2014, our reported Common Equity Tier 1 risk-based capital and Tier 1 risk-based capital ratios would have been 12.6 percent and our reported Tier 1 leverage ratio would have been 11.2 percent. As of June 30, 2014, had the Basel III rules been fully phased-in, our supplementary leverage ratio would be 9.4 percent.⁶ 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 U.S. Our \$750 million subordinated hybrid security, which was previously fully included in Tier 2 capital (but not in Tier 1 capital), does not meet the requirements of Tier 2 capital under Basel III. The phase-out of this subordinated hybrid security from Tier 2 capital began in the first quarter of 2014, which affects our total risk-based capital ratio. However, this ratio is expected to remain well in excess of the required minimum.

The following provides definitions for Fully Phased-in Basel III capital ratios as defined by the Basel III rules using the Standardized Approach. All calculations are non-GAAP measures.

Fully Phased-in Basel III Common Equity Tier 1 Risk-Based Capital Ratio The Fully Phased-in Basel III Common Equity Tier 1 risk-based capital ratio is calculated as Common Equity Tier 1 under Fully Phased-in Basel III rules divided by risk-weighted assets under Fully Phased-in Basel III rules.

Fully Phased-in Basel III Tier 1 Risk-Based Capital Ratio The Fully Phased-in Basel III Tier 1 risk-based capital ratio is calculated as Tier 1 capital under Fully Phased-in Basel III rules divided by risk-weighted assets under Fully Phased-in Basel III rules.

The following table presents a comparison of our Common Equity Tier 1 and Tier 1 risk-based capital under Transitional Basel III rules to our estimated Common Equity Tier 1 and Tier 1 risk-based capital under Fully Phased-in Basel III rules.

Table 19: Transitional Basel III versus Fully Phased-in Basel III

	June 30,
<i>(Billions)</i>	2014
Risk-Based Capital under Transitional Basel III	\$ 17.5
Adjustments related to:	
AOCI	(0.2)
Transition provisions for intangible assets	(0.6)
Deferred tax assets	(0.1)
Other	0.1
Estimated Common Equity Tier 1 and Tier 1 Risk-based Capital under Fully Phased-in Basel III	\$ 16.7

Fully Phased-in Basel III Risk-Weighted Assets The Fully Phased-in Basel III risk-weighted assets reflect our Basel I risk-weighted assets, adjusted under Fully Phased-in Basel III rules. 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. The Fully Phased-in Basel III risk-weighted assets as of June 30, 2014 were estimated to be \$131.9 billion.

⁶ The Fully Phased-in Basel III capital ratios are non-GAAP measures. We believe the presentation of the capital ratios is helpful to investors by showing the impact of future regulatory capital standards on our capital ratios.

Table of Contents

Fully Phased-in Basel III Tier 1 Leverage Ratio The Fully Phased-in Basel III Tier 1 leverage ratio is calculated by dividing Fully Phased-in Basel III Tier 1 capital by our average total consolidated assets.

Basel III Supplementary Leverage Ratio The supplementary leverage ratio under Fully Phased-in Basel III rules is calculated by dividing Fully Phased-in Basel III Tier 1 capital by our total assets for supplementary leverage capital purposes under Basel III. Total assets for supplementary leverage capital purposes reflect total consolidated assets with adjustments for Tier 1 capital deductions, off-balance sheet derivatives, undrawn unconditionally cancellable commitments and other off-balance sheet liabilities. Total assets for supplementary leverage capital purposes as of June 30, 2014 were estimated to be \$177.2 billion.

Share Repurchases and Dividends

We have a share repurchase program to return excess capital to shareholders. The share repurchases reduce shares outstanding and offset, in whole or part, the issuance of new shares as part of employee compensation plans.

During the three and six months ended June 30, 2014, the Company returned \$1.4 billion and \$2.6 billion, respectively, to its shareholders in the form of dividends (\$0.3 billion and \$0.5 billion, respectively) and share repurchases (\$1.1 billion and \$2.1 billion, respectively). We repurchased 12.7 million common shares at an average price of \$90.30 in the second quarter of 2014. These dividend and share repurchase amounts represent approximately 87 percent and 80 percent of total capital generated during the three and six month periods, respectively. These percentages for 2014 are significantly greater than the on average and over time target to distribute approximately 50 percent of the capital to shareholders as dividends or through the repurchases of common stock. These distribution percentages result from the strength of our capital ratios and the amount of capital we generate from net income and through employee stock plans in relation to the amount of capital required to support our organic business growth and through acquisitions. The Company is expecting to execute its share repurchase program, subject to market conditions and pursuant to its capital plan, which includes up to \$2.3 billion in share repurchases for the remainder of 2014.

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 debt instrument, by maturity and by investor base, among other factors, provides additional insulation from the impact of disruptions in any one type of debt, 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 receivable and lending 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, including acquisition activities.

We seek to raise funds to meet all of our financing needs, including seasonal and other working capital needs, while also seeking to maintain sufficient highly liquid assets to meet our net cash flow needs under stressed environments, which include the scheduled maturities of funding obligations. We currently expect to satisfy Basel III's Liquidity Coverage Ratio standard, based upon our current understanding of the requirements, through our current funding programs and liquidity strategies.

Table of Contents

During the second quarter of 2014, we issued (i) \$1.3 billion of asset-backed securities from American Express Credit Account Master Trust (the Lending Trust) with a maturity of five years, which included \$1.25 billion of Class A certificates at 1-month LIBOR plus 37 basis points and \$67.0 million of Class B certificates at 1-month LIBOR plus 50 basis points and (ii) \$2.4 billion of dual-tranche senior unsecured notes from American Express Credit Corporation with a maturity of three years consisting of \$1.65 billion of fixed-rate senior notes with a coupon of 1.125 percent and \$0.75 billion of floating-rate senior notes at a rate of 3-month LIBOR plus 27 basis points. Subsequent to June 30, 2014, the Company issued \$1.0 billion of Class A asset-backed securities from the Lending Trust with a maturity of three years with a coupon of 1.26 percent.

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-backed securitization (ABS) activities are rated separately.

Table 20: Unsecured Debt Ratings

Credit Agency	Entity Rated	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 ^(a) and rated operating subsidiaries	Prime-1	A2	Stable
Moody's	American Express Company	Prime-2	A3	Stable
S&P	TRS and rated operating subsidiaries ^(b)	A-2	A-	Stable
S&P	American Express Company	A-2	BBB+	Stable

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

(b) S&P does not provide a rating for TRS short-term debt.

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.

Deposit Programs

We offer deposits within our American Express Centurion Bank (Centurion Bank) and American Express Bank, FSB (FSB) subsidiaries (together, the Banks). 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 Banks' capital levels. We, through the FSB, have a direct retail deposit program, Personal Savings from American Express, to supplement our distribution of deposit products sourced through third-party distribution channels. The direct retail program makes FDIC-insured certificates of deposit (CDs) and high-yield savings account products available directly to consumers.

Table of Contents

We held the following deposits as of June 30:

Table 21: Customer Deposits

<i>(Billions)</i>	June 30, 2014	December 31, 2013
U.S. retail deposits:		
Savings accounts Direct	\$ 26.1	\$ 24.6
Certificates of deposit: ^(a)		
Direct	0.4	0.5
Third-party	5.9	6.9
Sweep accounts Third-party	8.9	8.9
Other retail deposits:		
Non-U.S. deposits and U.S. non-interest bearing	0.1	0.1
Card Member credit balances - U.S. and non-U.S.	0.7	0.8
 Total customer deposits	 \$ 42.1	 \$ 41.8

(a) The weighted average remaining maturity and weighted average rate at issuance on the total portfolio of U.S. retail CDs, issued through direct and third-party programs, were 23.7 months and 48.6 percent, respectively, as of June 30, 2014.

Asset Securitization Programs

We periodically securitize Card Member receivables and loans arising from our card business, as the securitization market provides us with cost-effective funding. Securitization of Card Member receivables and loans 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.

The receivables and loans being securitized are reported as assets on our Consolidated Balance Sheets and the related securities issued to third-party investors are reported as long-term debt.

Under the respective terms of the securitization trust agreements, the occurrence of certain triggering events associated with the performance of the assets of each trust could result in payment of trust expenses, establishment of reserve funds, or in a worst-case scenario, early amortization of investor securities. During the six months ended June 30, 2014, no such triggering events occurred.

Liquidity Management

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

We incur and accept liquidity risk arising in the normal course of offering our products and services. The liquidity risks that we are exposed to can arise from a variety of sources, and thus our liquidity management strategy includes a variety of parameters, assessments and guidelines, including, but not limited to:

Edgar Filing: AMERICAN EXPRESS CO - Form 10-Q

Maintaining a diversified set of funding sources (refer to Funding Strategy section for more details);

Maintaining unencumbered liquid assets and off-balance sheet liquidity sources available to meet obligations;

Projecting cash inflows and outflows from a variety of sources and under a variety of scenarios, including contingent liquidity exposures such as collateral requirements for derivative transactions; and

Trade-offs between the risk of insufficient liquidity and our profitability are incorporated into the Internal Capital Adequacy Assessment Process.

Table of Contents

We maintain liquidity resources sufficient to meet our projected net cash flow needs during stressed environments over various time horizons, including 30-day and 12-month periods. Our liquidity resources include highly liquid assets, as well as a variety of other contingent liquidity resources, such as access to undrawn amounts under our secured borrowing facilities and committed bank credit facilities. In addition, the Company has access to secured borrowing at the Federal Reserve discount window.

As of June 30, 2014, we had \$12.1 billion in excess cash available to fund long-term maturities, which includes \$18.4 billion classified as cash and cash equivalents and \$0.02 billion restricted cash to fund asset-backed securitization maturities, less \$6.3 billion of cash available to fund day-to-day operations. The \$12.1 billion represents cash residing in the U.S.

The upcoming approximate maturities of our long-term unsecured debt issued in connection with asset-backed securitizations and long-term certificates of deposit are as follows:

Table 22: Debt Maturities

(Billions)	Debt Maturities						
	Unsecured Debt		Asset-Backed Securitizations		Certificates of Deposit		Total
Quarter Ending:							
September 30, 2014	\$	1.5	\$	2.5	\$	0.5	\$ 4.5
December 31, 2014		2.1 ^(a)				1.0	3.1
March 31, 2015				0.6		0.2	0.8
June 30, 2015		2.8				0.2	3.0
Total	\$	6.4	\$	3.1	\$	1.9	\$ 11.4

(a) Reflects the face amount of unsecured term debt; the long-term debt balance on the Company's consolidated balance sheet includes capitalized leases of \$0.1 billion and certain adjustments which are not included in these balances.

Our financing needs for the next 12 months are expected to arise from these debt and deposit maturities as well as changes in business needs, including changes in outstanding Card Member loans and receivables and acquisition activities.

We consider various factors in determining the amount 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 regulatory and credit rating agency considerations.

The yield we receive on our cash and readily marketable securities is, generally, less than the interest expense on the sources of funding for these balances. Thus, we incur substantial net interest costs on these amounts. The level of net interest costs will be dependent on the size of our cash and readily marketable securities holdings, as well as the difference between our cost of funding these amounts and their investment yields.

Securitized Borrowing Capacity

As of June 30, 2014, we maintained our committed, revolving, secured borrowing facility, with a maturity date of July 15, 2016, that 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, 2015, that 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). On July 30, 2014, we extended the Lending Trust's \$2.0 billion facility by two years to mature on September 15, 2017. Both facilities are used in the ordinary course of business to fund seasonal working capital needs, as well as to further enhance our contingent funding resources. As of June 30, 2014, no amounts were drawn on the Charge Trust facility or the Lending Trust facility.

Table of Contents*Federal Reserve Discount Window*

As insured depository institutions, the Banks 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 \$50.1 billion as of June 30, 2014 in U.S. credit card loans and charge card receivables that could be sold over time through our existing 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 Facilities

In addition to the secured borrowing facilities described earlier in this section, we maintained committed syndicated bank credit facilities as of June 30, 2014 of \$7.2 billion through facilities in the U.S. and Australia. On July 29, 2014, we extended our Australian dollar credit facility scheduled to mature on August 3, 2015 by two years to mature on August 3, 2017. Giving effect to this extension, our total committed bank credit facilities expire as follows:

Table 23: Expiration of Committed Syndicated Bank Credit Facilities

<i>(Billions)</i>		
2016	\$	2.3
2017		4.9
Total	\$	7.2

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

For the six months ended June 30,

<i>(Billions)</i>	2014	2013
Total Cash provided by (used in):		
Operating activities	\$ 4.9	\$ 10.2
Investing activities	(1.6)	(1.9)
Financing activities	(4.4)	(7.3)
Effect of exchange rates changes on cash and cash equivalents		(0.1)
 Net (decrease) increase in cash and cash equivalents	 \$ (1.1)	 \$ 0.9

Cash Flows from Operating Activities

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 various payments.

Table of Contents

For the six months ended June 30, 2014, net cash provided by operating activities was \$4.9 billion as a result of net income of \$3.0 billion adjusted by non-cash items such as certain changes in accounts payable, provisions for losses, depreciation and amortization, deferred taxes and stock-based compensation. In addition, the pretax gain of \$626 million related to the business travel joint venture transaction has been deducted from net income.

For the six months ended June 30, 2013, net cash provided by operating activities was \$10.2 billion as a result of net income of \$3.0 billion adjusted by non-cash items such as provision for losses, depreciation and amortization, deferred taxes and stock-based compensation. Additionally, the timing of the quarter end cutoff and higher discount business volumes, created an increase in accounts payable and corresponding inflow of cash.

Cash Flows from Investing Activities

Our investing activities primarily include funding Card Member loans and receivables and our available for sale investment portfolio.

For the six months ended June 30, 2014, net cash used in investing activities was \$1.6 billion consisting of an increase in Card Member loans and receivables primarily driven by increases in Card Member spend, as well as purchases of premises and equipment, net of sales.

For the six months ended June 30, 2013, net cash used in investing activities was \$1.9 billion consisting of an increase in Card Member receivables driven by higher Card Member spend partially offset by a decrease in Card Member loans resulting from higher pay downs, as well as lower purchases of premises and equipment, net of sales.

Cash Flows from Financing Activities

Our financing activities primarily include issuing and repaying debt, taking customer deposits, issuing and repurchasing our common shares, and paying dividends.

For the six months ended June 30, 2014, net cash used in financing activities was \$4.4 billion driven by a \$2.4 billion reduction in total short and long term debt as well as \$2.1 billion in repurchases of American Express common shares.

For the six months ended June 30, 2013, net cash used in financing activities was \$7.3 billion driven by a \$5.5 billion reduction in total short and long term debt as well as \$2.1 billion in repurchases of American Express common shares.

Certain Other Off-Balance Sheet Arrangements

As of June 30, 2014, we had approximately \$275 billion of unused credit available to Card Members as part of established lending product agreements. Total unused credit available to Card Members 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.

Table of Contents

OTHER REPORTING MATTERS

Certain Legislative, Regulatory and Other Developments

As a participant in the financial services industry, and as a bank holding company, we are subject to comprehensive examination and supervision by the Federal Reserve and to a range of laws and regulations that impact our business and operations. In light of legislative initiatives over the last several years and continuing regulatory reform implementation, compliance requirements and expenditures have risen for financial services firms, including us, and we expect compliance requirements and expenditures will continue to rise in the future.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) contains a wide array of provisions intended to govern the practices and oversight of financial institutions and other participants in the financial markets. Among other matters, the law created an independent Consumer Financial Protection Bureau (the CFPB), which has broad rulemaking authority over providers of credit, savings, payment and other consumer financial products and services with respect to certain federal consumer financial laws. Moreover, the CFPB has examination and enforcement authority with respect to certain federal consumer financial laws for providers of consumer financial products and services, including American Express Company and certain of our subsidiaries. The CFPB is directed to prohibit unfair, deceptive or abusive acts or practices, and to ensure that all consumers have access to fair, transparent and competitive markets for consumer financial products and services.

The review of products and practices to prevent unfair, deceptive or abusive conduct will be a continuing focus of the CFPB and banking regulators more broadly, as well as our own internal reviews. Internal and regulatory reviews have resulted in, and are likely to continue to result in, changes to our practices, products and procedures. Such reviews are also likely to continue to result in increased costs related to regulatory oversight, supervision and examination, and additional restitution to our Card Members and may result in additional regulatory actions, including civil money penalties.

In December 2013, we announced that certain of our subsidiaries reached settlements with several banking regulators, including the CFPB, to resolve regulatory reviews of marketing and billing practices related to several credit card add-on products. For a description of these settlements, see *Legal Proceedings* in our Annual Report on Form 10-K for the year ended December 31, 2013.

In October 2012, we announced that American Express Company and certain of our subsidiaries reached settlements with several bank regulators, including the CFPB, relating to certain aspects of our U.S. consumer card practices, which requires us to undertake certain actions that have continued in 2014. For a description of these settlements, see *Legal Proceedings* in our Annual Report on Form 10-K for the year ended December 31, 2012.

Dodd-Frank prohibits payment card networks from restricting merchants from offering discounts or incentives to customers to pay with particular forms of payment, such as cash, check, credit or debit card, or restricting merchants from setting certain minimum, and for certain merchants maximum, transaction amounts for credit cards, as long as any such discounts or incentives or any minimum or maximum transaction amounts do not discriminate on the basis of the issuer or network and comply with applicable federal or state disclosure requirements.

Table of Contents

Under Dodd-Frank, the Federal Reserve is also authorized to regulate interchange fees paid to financial institutions on debit card and certain general-use prepaid card transactions to ensure that they are reasonable and proportional to the cost of processing individual transactions, and to prohibit payment card networks and issuers from requiring transactions to be processed on a single payment network or fewer than two unaffiliated networks. The Federal Reserve's rule provides that the regulations on interchange and routing do not apply to a three-party network like American Express when it acts as both the issuer and the network for prepaid cards, and we are therefore not a payment card network as that term is defined and used for the specific purposes of the rule.

Dodd-Frank also authorizes the Federal Reserve to establish enhanced prudential regulatory requirements, including capital, leverage and liquidity standards, risk management requirements, concentration limits on credit exposures, mandatory resolution plans (so-called living wills) and stress tests for, among others, large bank holding companies, such as American Express Company, that have greater than \$50 billion in assets. We are also required to develop and maintain a capital plan, and to submit the capital plan to the Federal Reserve for our quantitative and qualitative review under the Federal Reserve's CCAR process. In addition, certain derivative transactions are now required to be centrally cleared, which have increased our collateral posting requirements.

Many provisions of Dodd-Frank require the adoption of additional rules or regulatory guidance for complete implementation. In addition, Dodd-Frank mandates multiple studies, which could result in additional legislative or regulatory action. Accordingly, the ultimate consequences of Dodd-Frank and its implementing regulations on our business, results of operations and financial condition continue to be uncertain at this time.

Department of Justice Litigation

The U.S. Department of Justice (DOJ) and certain states' attorneys general have 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 at the point of sale violate the U.S. antitrust laws. See Part II, Item 1. Legal Proceedings for descriptions of the DOJ action and related cases. Visa and MasterCard, which were also defendants in the DOJ and state action, entered into a settlement agreement and have been dismissed as parties pursuant to that agreement. The settlement enjoins Visa and MasterCard, with certain exceptions, from adopting or enforcing rules or entering into contracts that prohibit merchants from engaging in various actions to steer cardholders to other card products or payment forms at the point of sale. If similar conditions were imposed on American Express, it could have a material adverse effect on our business.

Other Legislative and Regulatory Initiatives

Various countries in which we operate have been considering and in some cases adopting legislation and rules that would or do impose changes on certain practices of card issuers, merchant acquirers and payment networks including antitrust actions, legislation to regulate particular practices or prices and the establishment of broad and ongoing regulatory oversight regimes for payment systems. Regulators and legislators outside the U.S. 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 payment networks, like Visa and MasterCard), as well as terms of merchant acceptance rules and contracts. Although, unlike the Visa and MasterCard networks, the American Express three-party payment network does not have interchange fees or collectively set any fees or rules, antitrust actions and government regulation relating to merchant pricing or terms of merchant rules and contracts could affect all networks directly or indirectly. Broad regulatory oversight over payment systems can also include, in some cases, requirements for international card networks to be locally licensed and/or to localize aspects of their operations. The development and enforcement of regulatory regimes may adversely affect our ability to maintain or increase our revenues and extend our global network.

Table of Contents

In January 2012, the European Commission (the Commission) published a Green Paper (a document to begin a process of consultation toward potential regulation) covering a range of issues affecting the payments industry. The Commission completed the consultation process and on July 24, 2013, issued its recommendations, which included draft legislation now under consideration within the Council of the European Union and the European Parliament. The Commission's recommendations included a number of proposals that would likely have significant impact across the industry and would apply either in whole or in part to American Express. The proposed changes include:

Price caps The Commission proposed capping interchange fees at 20 basis points for debit and prepaid cards and 30 basis points for credit and charge cards. Although American Express does not have interchange fees, as four-party networks such as Visa and MasterCard have, the caps would be deemed to apply to elements of the financial arrangements agreed between American Express and each GNS partner in the European Union (the EU). The discount rates American Express agrees with merchants would not be capped, but the interchange caps could exert downward pressures on merchant fees across the industry, including American Express discount rates. The Commission proposed to exclude commercial card transactions generally from the scope of these caps.

Network rules on card acceptance The Commission proposed to prohibit honor-all-cards and anti-steering rules across all card networks. In addition, the draft proposals sought harmonization of surcharging rules so that, across the EU, transactions that are subject to the interchange caps may not be surcharged, but transactions falling outside the scope of the caps could be surcharged up to cost.

Network licensing The Commission proposed to require all networks, including three-party payment networks that operate with licensing arrangements, which would include our GNS business, to establish objective, proportionate and non-discriminatory criteria under which a financial institution could qualify to be licensed to operate on the network. In addition, the scope of network licenses would be required to cover the entire EU. These requirements are inconsistent with the flexibility and discretion that American Express has had to date in deciding when, where and with whom to grant a license in the GNS business.

Separation of network processing The Commission proposed to require card networks to separate their network processing functions (in which transactions between different issuers and acquirers are processed for authorization, clearing and settlement). This proposal does not apply to three-party payment networks, such as American Express, but may be deemed applicable in situations where a different GNS issuer and acquirer is involved in a transaction, which represent a very small percentage of transactions on the American Express network. Further clarification of the applicability of this requirement is needed where, as with GNS, licensing arrangements do not give rise to inter-bank transactions or relationships.

These proposals are currently subject to debate and amendment by the European Parliament and Council of the European Union in a complex legislative process that will also involve the Commission. The Parliament held a preliminary vote in April 2014 broadly in favor of the Commission's proposals with some amendments, including the application of price caps to transactions on three-party networks above an unspecified share threshold and three-party network cards issued with co-brand partners or via agents; the inclusion of commercial cards within the scope of price caps; and the ability of Member States to ban surcharging altogether. The Council has yet to establish its position on the proposals and the Parliament will need to finalize its position in another vote, before the Commission, Parliament and Council ultimately agree on a compromise text. It is therefore too early to assess the exact scope and impact of any final legislation.

In certain countries, such as Australia, and in certain Member States in the EU, merchants are permitted by law to surcharge card purchases. While surcharging continues to be actively considered in certain jurisdictions, the benefits to customers have not been apparent in countries that have allowed it, and in some cases regulators are addressing concerns about excessive surcharging by merchants. Surcharging, particularly where it disproportionately impacts American Express Card Members, which is known as

Table of Contents

differential surcharging, could have a material adverse effect on us if it becomes widespread. The Reserve Bank of Australia changed the Australian surcharging standards beginning March 18, 2013 to allow us and other networks to limit a merchant's right to surcharge to the reasonable cost of card acceptance. In the EU, the Consumer Rights Directive prohibits merchants from surcharging card purchases more than the merchant's cost of acceptance in those Member States that permit surcharging.

Although neither a legislative nor regulatory initiative, the settlement by MasterCard and Visa in a U.S. merchant class litigation required, among other things, MasterCard and Visa to permit U.S. merchants, subject to certain conditions, to surcharge credit cards, while allowing them to continue to prohibit surcharges on debit and prepaid card transactions. In December 2013, we announced the proposed settlement of a number of U.S. merchant class action lawsuits, which, if approved, would change certain surcharging provisions in our U.S. card acceptance agreements. For a further description of the proposed settlement, see Item 1. Legal Proceedings in our Annual Report on Form 10-K for the year ended December 31, 2013.

Refer to Consolidated Capital Resources and Liquidity for a discussion of capital adequacy requirements established by federal banking regulators.

Glossary of Selected Terminology

Adjusted average loans Represents average Card Member loans excluding the impact of deferred card fees, net of direct acquisition costs of Card Member loans and certain other immaterial items.

Adjusted net interest income Represents net interest income attributable to our Card Member loans portfolio excluding the impact of interest expense and interest income not attributable to our Card Member loans portfolio.

Asset securitizations Asset securitization involves the transfer and sale of receivables or loans 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 receivables or loans. The trust uses the proceeds from the sale of such securities to pay the purchase price for the underlying receivables or loans. The receivables and loans of our Charge Trust and Lending Trust being securitized are reported as assets on our Consolidated Balance Sheets.

Average discount rate This calculation is designed to reflect pricing at merchants accepting general purpose American Express cards. It represents the percentage of billed business (both proprietary and GNS) retained by us from merchants we acquire, prior to payments to third parties unrelated to merchant acceptance.

Basel III supplementary leverage ratio Refer to the Capital Strategy section under Consolidated Capital Resources and Liquidity for the definition.

Basic cards-in-force Proprietary basic consumer cards-in-force includes basic cards issued to the primary account owner and does not include additional supplemental cards issued on that account. Proprietary basic small business and corporate cards-in-force include basic and supplemental cards issued to employee Card Members. Non-proprietary basic cards-in-force includes cards that are issued and outstanding under network partnership agreements, except for supplemental cards and retail co-brand Card Member accounts which have had no out-of-store spend activity during the prior 12-month period.

Table of Contents

Billed business Includes activities (including cash advances) related to proprietary cards, cards issued under network partnership agreements (non-proprietary billed business), corporate payments and certain insurance fees charged on proprietary cards. In-store spend activity within retail co-brand portfolios in GNS, from which we earn no revenue, is not included in non-proprietary billed business. Card billed business is reflected in the U.S. or outside the U.S. based on where the issuer is located.

Capital asset pricing model Generates an appropriate discount rate using internal and external inputs to value future cash flows based on the time value of money and the price for bearing uncertainty inherent in an investment.

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.

Card Member The individual holder of an issued American Express branded charge or credit card.

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

Card Member receivables Represents the outstanding amount due from Card Members for charges made on their American Express charge cards as well as any card-related fees.

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 customer's most recent credit information and spend patterns. Some charge card accounts have an additional lending-on-charge feature that allows revolving certain balances.

Common Equity Tier 1 risk-based capital ratio Refer to the Capital Strategy section under Consolidated Capital Resources and Liquidity for the definitions under Transitional Basel III and Fully Phased-in Basel III.

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 with whom we have entered into a card acceptance agreement for processing Card Member transactions. The discount fee generally is deducted from our payment reimbursing the merchant for Card Member purchases. Discount revenue is reduced by other payments made to merchants, third-party card issuing partners, cash-back reward costs, corporate incentive payments and other contra-revenue items.

Four-party network A payment network, such as Visa or MasterCard, in which the card issuer and merchant acquirer are different entities and the network does not have direct relationships with merchants or cardholders.

Table of Contents

Interest expense Interest expense includes interest incurred primarily to fund Card Member loans, charge card product 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) long-term debt, which primarily relates to interest expense on our long-term financing and short-term borrowings, which primarily relates to interest expense on commercial paper, federal funds purchased, bank overdrafts and other short-term borrowings.

Interest income 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 is assessed using the average daily balance method for loans. Unless the loan is classified as non-accrual, interest is recognized based upon the principal amount outstanding in accordance with the terms of the applicable account agreement until the outstanding balance is paid or written off.

Interest and dividends on investment securities primarily relates to our performing fixed-income securities. Interest income is accrued as earned using the effective interest method, which adjusts the yield for security premiums and discounts, fees and other payments, so that the related investment security recognizes a constant rate of return on the outstanding balance throughout its term. These amounts are recognized until these 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 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.

Liquidity Coverage Ratio Represents the proposed minimum standards being 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 the signing of 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 provision for projected refunds for cancellation of card membership.

Net interest yield on Card Member loans Net interest yield on Card Member loans is computed by dividing adjusted net interest income by adjusted average loans, computed on an annualized basis. The calculation of net interest yield on Card Member loans includes interest that is deemed uncollectible. For all presentations of net interest yield on Card Member loans, reserves and net write-offs related to uncollectible interest are recorded through provisions for losses Card Member loans; therefore, such reserves and net write-offs are not included in the net interest yield calculation.

Net loss ratio Represents the ratio of ICS and GCS 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 Card Members.

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

Table of Contents

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 USCS and ICS Card Member receivables.

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

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

Return on average segment capital Calculated by dividing one-year period segment income by one-year average segment capital.

Return on average tangible segment capital Computed in the same manner as return on average segment capital except the computation of average tangible segment capital excludes from average segment capital average goodwill and other intangibles.

Risk-weighted assets Refer to the Capital Strategy section under Consolidated Capital Resources and Liquidity for the definitions under Basel I and Fully Phased-in Basel III.

Segment capital Represents the capital allocated to a segment based upon specific business operational needs, risk measures, and regulatory capital requirements.

Three-party network A payment network, such as American Express, that acts as both the card issuer and merchant acquirer.

Tier 1 leverage ratio Refer to the Capital Strategy section under Consolidated Capital Resources and Liquidity for the definitions under Transitional Basel III and Fully Phased-in Basel III.

Tier 1 risk-based capital ratio Refer to the Capital Strategy section under Consolidated Capital Resources and Liquidity for the definitions under Transitional Basel III and Fully Phased-in Basel III.

Total cards-in-force Represents the number of cards that are issued and outstanding. Non-proprietary cards-in-force includes all cards that are issued and outstanding under network partnership agreements, except for retail co-brand Card Member accounts which have no out-of-store spend activity during the prior 12-month period.

Total risk-based capital ratio Refer to the Capital Strategy section under Consolidated Capital Resources and Liquidity for the definition.

Travel sales Represents the total dollar amount of travel transaction volume for airline, hotel, car rental, and other travel arrangements made for consumers and corporate clients. We earn revenue on these transactions by charging a transaction or management fee.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk to earnings or value resulting from movements in market prices. Our market risk exposure is primarily generated by interest rate risk in our card, insurance and Travelers Cheque businesses, as well as our investment portfolios, and foreign exchange risk in our operations outside the United States. As described in our Annual Report on Form 10-K for the year ended December 31, 2013 (refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risk):

the detrimental effect on our annual net interest income of a hypothetical 100 basis point increase in interest rates would be approximately \$227 million; and

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 12 months would be approximately \$192 million.

These sensitivities are based on the 2013 year-end positions, and assume that all relevant maturities and types of interest rates and foreign exchange rates that affect our results would increase instantaneously and simultaneously and to the same degree. There were no material changes in these market risks since December 31, 2013.

ITEM 4. CONTROLS AND PROCEDURES

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

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

Cautionary Note Regarding Forward-looking Statements

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

the ability to hold annual operating expense growth to less than 3 percent during 2014, which will depend in part on unanticipated increases in significant categories of operating expenses, such as consulting or professional fees, compliance or regulatory-related costs and technology costs, the payment of monetary damages and penalties, disgorgement and restitution, our decision to increase or decrease discretionary operating expenses depending on overall business performance, our ability to achieve the expected benefits of our reengineering plans, which will be impacted by, among other things, the factors identified in the fourth bullet, our ability to balance expense control and investments in the business, the impact of changes in foreign currency exchange rates on costs and results, the impact of accounting changes and reclassifications, and the level of acquisition activity and expenses;

Table of Contents

the actual amount to be spent by us on investments in the business during 2014, which will be based in part on management's ability to identify attractive investment opportunities and make such investments, which could be impacted by business, regulatory or legal complexities, and our performance, the ability to develop and implement technology and other resources to realize efficiencies and the ability to control operating, infrastructure and rewards expenses as business expands or changes, including the changing behavior of Card Members;

changes affecting our ability or desire to repurchase up to \$2.3 billion of our common shares for the remainder of 2014 and up to \$1.0 billion in the first quarter of 2015, such as acquisitions, results of operations, capital needs and the amount of shares issued by us to employees upon the exercise of options, among other factors, which will significantly impact the potential decrease in our capital ratios;

the possibility of not achieving the expected timing and financial impact of our reengineering plans, which could be caused by factors such as our inability to mitigate the operational and other risks posed by planned staff reductions, our inability to develop and implement technology resources to realize cost savings, underestimating hiring needs related to some of the job positions being eliminated and other employee needs not currently anticipated, lower than expected attrition rates and higher than expected redeployment rates;

our ability to meet our on-average and over-time growth targets for revenues net of interest expense, earnings per share and return on average equity, which will depend on factors such as our success in implementing our strategies and business initiatives including growing our share of overall spending, increasing merchant coverage, enhancing our prepaid offerings, expanding the GNS business and controlling expenses, and on factors outside management's control including the willingness of Card Members to sustain spending, the effectiveness of marketing and loyalty programs, regulatory and market pressures on pricing, credit trends, currency and interest rate fluctuations, and changes in general economic conditions, such as GDP growth, consumer confidence, unemployment and the housing market;

our ability to meet our on-average and over-time objective to return 50 percent of capital generated to shareholders through dividends and share repurchases, which will depend on factors such as approval of our capital plans by our regulators, the amount we spend on acquisitions, our results of operations and capital needs in any given period, and the amount of shares issued by us to employees upon the exercise of options;

uncertainty relating to the outcomes and costs associated with merchant class actions, including the success or failure of the settlement agreement, such as objections to the settlement agreement by plaintiffs and other parties and uncertainty and timing related to the approval of the settlement agreement by the Court, which can be impacted by appeals;

changes in global economic and business conditions, including consumer and business spending, the availability and cost of credit, unemployment and political conditions, all of which may significantly affect spending on American Express cards, delinquency rates, loan balances and other aspects of our business and results of operations;

Table of Contents

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, restrict our access to the capital markets or result in contingent payments under contracts;

litigation, such as class actions or proceedings brought by governmental and regulatory agencies (including the lawsuit filed against us by the U.S. Department of Justice and certain state attorneys general), that could result in (i) the imposition of behavioral remedies against us or us voluntarily making certain changes to our business practices, the effects of which in either case could have a material adverse impact on our financial performance; (ii) the imposition of substantial monetary damages and penalties, disgorgement and restitution; and/or (iii) damage to our global reputation and brand;

legal and regulatory developments wherever we do business, including legislative and regulatory reforms in the U.S., such as the establishment of the CFPB and Dodd-Frank's stricter regulation of large, interconnected financial institutions, which could make fundamental changes to many of our business practices or materially affect our capital or liquidity requirements, results of operations, or ability to pay dividends or repurchase our stock; actions and potential future actions by the FDIC and credit rating agencies applicable to securitization trusts, which could impact our ABS program; or potential changes to the taxation of our businesses, the allowance of deductions for significant expenses, or the incidence of consumption taxes on our transactions, products and services;

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 co-brand relationships and the success of marketing, promotion or rewards programs;

changes in the financial condition and creditworthiness of our business partners, such as bankruptcies, restructurings or consolidations, involving 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;

the impact of final laws and regulations, if any, arising from the European Commission's legislative proposals covering a range of issues affecting the payments industry, which will depend on various factors, including, but not limited to, the issues presented and decisions made in the European legislative and regulatory processes addressing the proposed regulation of interchange fees and other practices related to card-based payment transactions, the amount of time these processes take to reach completion, and the actual pricing and other requirements ultimately adopted in the final laws and regulations in the European Union and its Member States;

our ability to maintain and expand our presence in the digital payments space, including online and mobile channels, which will depend on our success in evolving our business models and processes for the digital environment, building partnerships and executing programs with companies, and utilizing digital capabilities that can be leveraged for future growth;

factors beyond our control such as fire, power loss, disruptions in telecommunications, severe weather conditions, natural disasters, terrorism, cyber attacks or fraud, which could significantly affect spending on American Express cards, delinquency rates, loan balances and travel-related spending or disrupt our global network systems and ability to process transactions; and

Table of Contents

the potential failure of the U.S. Congress to renew legislation regarding the active financing exception to Subpart F of the Internal Revenue Code, which could increase our effective tax rate and have an adverse impact on net income.

A further description of these uncertainties and other risks can be found in our Annual Report on Form 10-K for the year ended December 31, 2013 and our other reports filed with the Securities and Exchange Commission.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We and our subsidiaries are involved in a number of legal and arbitration proceedings, including class actions, arising out of the conduct of our respective business activities. We believe we have meritorious defenses to each of these actions and intend to defend them vigorously. In the course of our business, we and our subsidiaries are also subject to governmental examinations, information gathering requests, subpoenas, inquiries and investigations. We believe we are not a party to, nor are any of our properties the subject of, any pending legal, arbitration, regulatory or investigative proceedings that would have a material adverse effect on our consolidated financial condition or liquidity. However, it is possible that the outcome of any such proceeding could have a material impact on results of operations in any particular reporting period as the proceedings are resolved. Certain legal proceedings involving us or our subsidiaries are further described in this section and others, for which there have been no subsequent material developments since the filing of our Annual Report on Form 10-K for the year ended December 31, 2013, are described in such report.

For those legal proceedings and governmental examinations described in this section and in our Annual Report on Form 10-K for the year ended December 31, 2013, where a loss is reasonably possible in future periods, whether in excess of a related accrued liability or where there is no accrued liability, and for which we are able to estimate a range of possible loss, the current estimated range is zero to \$360 million in excess of the accrued liability (if any) related to those matters. This aggregate range represents management's estimate of possible loss with respect to these matters and is based on currently available information. This estimated range of possible loss does not represent our maximum loss exposure. The legal proceedings and governmental examinations underlying the estimated range will change from time to time and actual results may vary significantly from current estimates. For additional information, refer to Note 15 to the Consolidated Financial Statements.

Corporate Matters

During the last few years as regulatory interest in credit card network pricing to merchants or terms of merchant rules and contracts has increased, we have responded to many inquiries from banking and competition authorities throughout the world.

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, MasterCard International Incorporated and Visa, Inc., alleging a violation of Section 1 of the Sherman Antitrust Act. The complaint alleges that the defendants' policies prohibiting merchants from steering a customer to use another network's card, another type of card or another method of payment (anti-steering and non-discrimination rules and contractual provisions) violate the antitrust laws. The complaint seeks a judgment permanently enjoining the defendants from enforcing their anti-steering and non-discrimination rules and contractual provisions. The complaint does not seek monetary damages.

Table of Contents

The DOJ matter was coordinated pre-trial with individual and putative class actions pending in the Eastern District of New York against American Express brought by merchants alleging that our anti-steering provisions in its merchant acceptance agreements with the plaintiffs violate federal antitrust laws. As alleged by the plaintiffs, these provisions prevent merchants from offering consumers incentives to use alternative forms of payment when consumers wish to use an American Express-branded card. Plaintiffs seek damages and injunctive relief.

In July 2004, we were named as a defendant in a putative class action captioned The Marcus Corporation v. American Express Company, 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 these actions seek injunctive relief and an unspecified amount of damages.

In December 2013, we announced a proposed settlement of the Marcus case and the putative class actions challenging our anti-steering or non-discrimination provisions. The settlement, which provides for certain injunctive relief for the proposed classes, received preliminary approval in the United States District Court for the Eastern District of New York. The final approval hearing is scheduled for September 17, 2014.

Trial of the DOJ matter commenced on July 7, 2014. A trial date for the individual merchant actions has not been set. Defendants' motion for summary judgment in the DOJ case was denied on May 7, 2014. Defendants' motion for summary judgment in the individual merchant actions is pending.

We are a defendant in a class action captioned Kaufman v. American Express Travel Related Services, which was filed on February 14, 2007, and is pending in the United States District Court for the Northern District of Illinois. Plaintiffs' principal allegation is that our gift cards violate consumer protection statutes because consumers allegedly have difficulty in spending small residual amounts on the gift cards prior to the imposition of monthly service fees. The Court preliminarily certified a settlement class consisting of (with some exceptions) all purchasers, recipients and holders of all gift cards issued by American Express from January 1, 2002 through the date of preliminary approval of the settlement. We are also a defendant in Goodman v. American Express Travel Related Services, a putative class action pending in the United States District Court for the Eastern District of New York, that involves allegations similar to those made in Kaufman. Plaintiffs in Goodman have intervened in the Kaufman proceedings and will be subject to any final settlement in Kaufman that may be approved over their objections. A final settlement approval hearing was held on June 11, 2014 and we are awaiting decision.

U.S. Card Services and Global Merchant Services Matters

In July 2004, a purported class action complaint, Ross, et al. v. American Express Company, American Express Travel Related Services and American Express Centurion Bank, was filed in the United States District Court for the Southern District of New York alleging that we conspired with Visa, MasterCard and Diners Club in the setting of foreign currency conversion rates and in the inclusion of arbitration clauses in certain of their cardholder agreements. The suit seeks injunctive relief and unspecified damages. The class is defined as all Visa, MasterCard and Diners Club general-purpose cardholders who used cards issued by any of the MDL Defendant Banks. American Express Card Members are not part of the class. The settlement of the claims asserted on behalf of the damage class concerning foreign currency conversion rates was approved in 2012. On April 10, 2014, following a trial of the claims asserted by the injunction class concerning cardholder arbitration clauses, the Court dismissed plaintiffs' claims and granted judgment in favor of us. Plaintiffs have appealed.

In September 2010, a putative class action, captioned Meeks v. American Express Centurion Bank, was filed in Fulton County Superior Court, Georgia and later moved to federal court. Plaintiffs sought to certify a nationwide class of all American Express Card Members who received unilateral interest rate increases despite their accounts being in good standing. In 2013, two putative class actions, captioned Seldes v. American Express Centurion Bank and Manhattan Steamboat LLC v. American Express Bank, FSB, were filed by plaintiffs making allegations similar to those in Meeks and seeking to certify nationwide classes. The parties have reached settlements in these three actions and have advised the relevant courts of their intentions to file stipulations of dismissal with prejudice.

Table of Contents

ITEM 1A. RISK FACTORS

This section supplements and updates certain of the information found under Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 Form 10-K) and should be read in conjunction with the discussion of risk factors set forth in such section. Based on the information currently known to us, we believe that the matter discussed below, together with the risk factors set forth in the 2013 Form 10-K, identify the most significant risk factors affecting our company. However, the risks and uncertainties that we face are not limited to those described below and those set forth in the 2013 Form 10-K. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business and the trading price of our securities.

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 also 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 Costco and Delta Air Lines to offer co-branded 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. We face the risk that we could lose partner relationships, even after we have invested significant resources, time and expense in acquiring and developing the relationships, which could result in Card Member attrition or additional costs to retain Card Members. We also face the risk that existing relationships will be renegotiated with less favorable terms for us as competition for such relationships increases. The loss of business partners or the renegotiation of existing relationships with terms that are significantly worse for us could have a material adverse impact on our business and results of operations.

We may be obligated to make or accelerate payments to certain business partners such as co-brand partners and merchants upon the occurrence of certain triggering events such as: (i) our filing for bankruptcy, (ii) our economic condition deteriorating such that our senior unsecured debt rating is downgraded significantly below investment grade by S&P and Moody's, (iii) our ceasing to have a public debt rating, or (iv) a shortfall in certain performance levels. If we are not able to effectively manage the 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. Similarly, we have credit risk to certain co-brand partners relating to our prepayments for loyalty program points that may not be fully redeemed. 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.

The airline industry represents a significant portion of our billed business and in recent years has undergone bankruptcies, restructurings, consolidations and other similar events. The airline industry accounted for approximately 10 percent of our worldwide billed business for the six months ended June 30, 2014.

Table of Contents

There continues to be significant consolidation in the airline industry, particularly in the United States (e.g., American/US Airways), through mergers and/or grants of antitrust immunity to airline alliances and joint ventures, and this trend could continue. In particular, the United States Department of Transportation has granted antitrust immunity to members of the Skyteam, Star and Oneworld Alliances, enabling the covered airlines to closely coordinate their cross-regional operations and to launch highly integrated joint ventures in transatlantic and other markets, including jointly pricing and managing capacity on covered routes, sharing revenues and costs, and coordinating sales and corporate contracts, all outside the scope of the U.S. antitrust laws. The EC has similarly approved the Star and Oneworld Alliances, and its review of the Skyteam Alliance and cooperation between its members is continuing. Increasing consolidation and expanded antitrust immunity could create challenges for our relationships with the airlines, including reducing our profitability on our airline business.

Airlines are also some of the most important and valuable partners in our Membership Rewards program. If a participating airline merged with an airline that did not participate in Membership Rewards, the combined airline would have to determine whether or not to continue participation. Similarly, if one of our co-brand airline partners merged with an airline that had a competing co-brand card, the combined airline would have to determine which co-brand cards it would offer. Our largest airline co-brand loan portfolio, American Express Delta SkyMiles Credit Card, accounted for less than 15 percent of worldwide Card Member loans as of June 30, 2014.

If an airline determined to withdraw from Membership Rewards, change the terms under which it participates in the program or to cease offering an American Express co-brand Card, whether as the result of a merger or otherwise, such as the withdrawal of Continental Airlines in 2011 from our Airport Club Access program for Centurion and Platinum Card Members and our Membership Rewards points transfer program or the withdrawal of American Airlines in 2014 from our Airport Club Access program for Centurion and Platinum Card Members, our business could be adversely affected. For additional information relating to the general risks related to the airline industry, see Risk Management Exposure to the Airline Industry on page 44 of our 2013 Annual Report to Shareholders.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****(c) ISSUER PURCHASES OF SECURITIES**

The table below sets forth the information with respect to purchases of the Company's common stock made by or on behalf of the Company during the three months ended June 30, 2014.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(c)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1-30, 2014				
Repurchase program ^(a)	2,632,900	\$ 87.11	2,632,900	94,451,972
Employee transactions ^(b)	30,126	\$ 88.29	N/A	N/A
May 1-31, 2014				
Repurchase program ^(a)	5,233,000	\$ 88.45	5,233,000	89,218,972
Employee transactions ^(b)	26,604	\$ 87.03	N/A	N/A
June 1-30, 2014				
Repurchase program ^(a)	4,833,479	\$ 94.04	4,833,479	84,385,493
Employee transactions ^(b)	378	\$ 87.31	N/A	N/A
Total				
Repurchase program ^(a)	12,699,379	\$ 90.30	12,699,379	84,385,493
Employee transactions ^(b)	57,108	\$ 87.70	N/A	N/A

(a) As of June 30, 2014, there were approximately 84 million shares of common stock remaining under Board authorization. Such authorization does not have an expiration date and, at present, there is no intention to modify or otherwise rescind such authorization.

(b) Includes: (i) shares surrendered by holders of employee stock options who exercised options (granted under the Company's 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 the Company's incentive compensation plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares. The Company's incentive compensation plans provide that the value of the shares delivered or attested to, or withheld, be based on the price of the Company's 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 the Company deems appropriate.

Table of Contents

ITEM 5. OTHER INFORMATION

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the 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.

During the second quarter of 2014, American Express Global Business Travel booked 3 tickets on Mahan Air. We had negligible gross revenues and net profits attributable to these transactions. These transactions were permissible pursuant to certain exemptions from U.S. sanctions for travel-related transactions under the International Emergency Economic Powers Act, as amended. American Express Global Business Travel intends to continue to engage in this activity on a limited basis so long as such activity continues to be permitted under U.S. law.

In addition, a travel company that may be considered an affiliate of ours, American Express Nippon Travel Agency, Inc. (Nippon Travel Agency), has informed us that during the second quarter of 2014 it obtained 15 visas from the Iranian embassy in Japan in connection with certain travel arrangements on behalf of clients. Nippon Travel Agency had negligible gross revenues and net profits attributable to these transactions. Nippon Travel Agency has informed us that it intends to continue to engage in this activity so long as such activity is permitted under U.S. law.

ITEM 6. EXHIBITS

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

Table of Contents

SIGNATURES

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

AMERICAN EXPRESS COMPANY

(Registrant)

Date: July 30, 2014

By /s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and
Chief Financial Officer

Date: July 30, 2014

By /s/ Linda Zukauckas
Linda Zukauckas
Executive Vice President and
Corporate Comptroller
(Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

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

Exhibit	Description
12	Computation in Support of Ratio of Earnings to Fixed Charges.
31.1	Certification of Kenneth I. Chenault pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Jeffrey C. Campbell pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Kenneth I. Chenault pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Jeffrey C. Campbell pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document