AMERICAN EXPRESS CO
Form 10-Q
October 23, 2018
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 September 30, 2018

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

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company Emerging growth company

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

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

Yes No

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

Class	Outstanding at October 15, 2018
Common Shares (par value $0.20 per share)	854,261,803 Shares

Table of Contents
AMERICAN EXPRESS COMPANY
FORM 10-Q

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

Three Months Ended September 30 (Millions, except per share amounts)	2018	2017
Revenues		
Non-interest revenues		
Discount revenue	$6,181	$5,700
Net card fees	870	786
Other fees and commissions	798	755
Other	334	372
Total non-interest revenues	8,183	7,613
Interest income		
Interest on loans	2,554	2,131
Interest and dividends on investment securities	35	22
Deposits with banks and other	149	92
Total interest income	2,738	2,245
Interest expense		
Deposits	340	213
Long-term debt and other	437	355
Total interest expense	777	568
Net interest income	1,961	1,677
Total revenues net of interest expense	10,144	9,290
Provisions for losses		
Charge card	214	214
Card Member loans	560	531
Other	43	25
Total provisions for losses	817	770
Total revenues net of interest expense after provisions for losses	9,327	8,520
Expenses		
Marketing and business development	1,642	1,446
Card Member rewards	2,400	2,168
Card Member services	457	351
Salaries and employee benefits	1,350	1,265
Other, net	1,360	1,459
Total expenses	7,209	6,689
Pretax income	2,118	1,831
Income tax provision	464	472
Net income	$1,654	$1,359
Earnings per Common Share (Note 15):[(a)]		

Basic	$1.89	$1.51
Diluted	$1.88	$1.51
Average common shares outstanding for earnings per common share:		
Basic	858	878
Diluted	860	881
Cash dividends declared per common share	$0.39	$0.35

(a) Represents net income less (i) earnings allocated to participating share awards of $13 million and $11 million for the three months ended September 30, 2018 and 2017, respectively, and (ii) dividends on preferred shares of $20 million and $21 million for the three months ended September 30, 2018 and 2017, respectively.

See Notes to Consolidated Financial Statements.

1

Table of Contents

AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

Nine Months Ended September 30 (Millions, except per share amounts)	2018	2017
Revenues		
Non-interest revenues		
Discount revenue	$18,264	$16,830
Net card fees	2,544	2,305
Other fees and commissions	2,365	2,212
Other	1,060	1,112
Total non-interest revenues	24,233	22,459
Interest income		
Interest on loans	7,267	5,943
Interest and dividends on investment securities	83	68
Deposits with banks and other	390	233
Total interest income	7,740	6,244
Interest expense		
Deposits	910	538
Long-term debt and other	1,199	994
Total interest expense	2,109	1,532
Net interest income	5,631	4,712
Total revenues net of interest expense	29,864	27,171
Provisions for losses		
Charge card	701	590
Card Member loans	1,587	1,272
Other	110	64
Total provisions for losses	2,398	1,926
Total revenues net of interest expense after provisions for losses	27,466	25,245
Expenses		
Marketing and business development	4,650	4,187
Card Member rewards	7,180	6,425
Card Member services	1,282	1,009
Salaries and employee benefits	3,956	3,822
Other, net	4,107	4,175
Total expenses	21,175	19,618
Pretax income	6,291	5,627
Income tax provision	1,380	1,673
Net income	$4,911	$3,954
Earnings per Common Share (Note 15): [a]		
Basic	$5.60	$4.34
Diluted	$5.59	$4.33
Average common shares outstanding for earnings per common share:		
Basic	859	889
Diluted	861	892
Cash dividends declared per common share	$1.09	$0.99

(a) Represents net income less (i) earnings allocated to participating share awards of $38 million and $32 million for the nine months ended September 30, 2018 and 2017, respectively, and (ii) dividends on preferred shares of $61 million for both the nine months ended September 30, 2018 and 2017.

See Notes to Consolidated Financial Statements.

Table of Contents

AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2018	2017	2018	2017
Net income	$1,654	$1,359	$4,911	$3,954
Other comprehensive (loss) income:				
Net unrealized securities (losses) gains, net of tax	(11)	(2)	(29)	4
Foreign currency translation adjustments, net of tax	(19)	107	(85)	456
Net unrealized pension and other postretirement benefits, net of tax	9	7	38	8
Other comprehensive (loss) income	(21)	112	(76)	468
Comprehensive income	$1,633	$1,471	$4,835	$4,422

See Notes to Consolidated Financial Statements.

Table of Contents

AMERICAN EXPRESS COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Millions, except share data)	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents		
Cash and due from banks	$ 4,323	$ 5,148
Interest-bearing deposits in other banks (includes securities purchased under resale agreements: 2018, $55; 2017, $48)	25,856	27,709
Short-term investment securities	52	70
Total cash and cash equivalents	30,231	32,927
Accounts receivable		
Card Member receivables (includes gross receivables available to settle obligations of a consolidated variable interest entity: 2018, $7,690; 2017, $8,919), less reserves: 2018, $544; 2017, $521	54,972	53,526
Other receivables, less reserves: 2018, $29; 2017, $31	3,160	3,209
Loans		
Card Member loans (includes gross loans available to settle obligations of a consolidated variable interest entity: 2018, $23,739; 2017, $25,695), less reserves: 2018, $1,937; 2017, $1,706	75,666	71,693
Other loans, less reserves: 2018, $111; 2017, $80	3,431	2,607
Investment securities	6,071	3,159
Premises and equipment, less accumulated depreciation and amortization: 2018, $6,116; 2017, $5,455	4,295	4,329
Other assets (includes restricted cash of consolidated variable interest entities: 2018, $783; 2017, $62)	11,266	9,746
Total assets	$ 189,092	$ 181,196
Liabilities and Shareholders' Equity		
Liabilities		
Customer deposits	$ 69,301	$ 64,452
Travelers Cheques and other prepaid products	2,070	2,555
Accounts payable	15,605	14,657
Short-term borrowings	2,292	3,278
Long-term debt (includes debt issued by consolidated variable interest entities: 2018, $18,637; 2017, $18,560)	55,300	55,804
Other liabilities	23,064	22,189
Total liabilities	$ 167,632	$ 162,935
Contingencies (Note 8)		
Shareholders' Equity		
Preferred shares, 1.66^{2/3}$ par value, authorized 20 million shares; issued and outstanding 1,600 shares as of September 30, 2018 and December 31, 2017		
Common shares, $0.20 par value, authorized 3.6 billion shares; issued and outstanding 854 million shares as of September 30, 2018 and 859 million shares as of December 31, 2017	171	172

Additional paid-in capital	12,272	12,210
Retained earnings	11,521	8,307
Accumulated other comprehensive loss		
Net unrealized debt securities losses, net of tax of: 2018, $(8); 2017, $1	(29)	
Foreign currency translation adjustments, net of tax of: 2018, $(377); 2017,$(363)	(2,046)	(1,961)
Net unrealized pension and other postretirement benefits, net of tax of: 2018, $(167); 2017, $(179)	(429)	(467)
Total accumulated other comprehensive loss	(2,504)	(2,428)
Total shareholders' equity	21,460	18,261
Total liabilities and shareholders' equity	$ 189,092	$ 181,196

See Notes to Consolidated Financial Statements.

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Nine Months Ended September 30 (Millions)	2018	2017
Cash Flows from Operating Activities		
Net income	$4,911	$3,954
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for losses	2,398	1,926
Depreciation and amortization	1,007	953
Deferred taxes and other	(347)	(47)
Stock-based compensation	230	212
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Other receivables	(88)	1,026
Other assets	418	(129)
Accounts payable and other liabilities	2,133	1,186
Travelers Cheques and other prepaid products	(480)	(500)
Net cash provided by operating activities	10,182	8,581
Cash Flows from Investing Activities		
Sales of investment securities		1
Maturities and redemptions of investment securities	1,871	2,198
Purchases of investments	(5,198)	(2,339)
Net increase in Card Member receivables and loans[(a)]	(9,461)	(7,535)
Purchase of premises and equipment, net of sales: 2018, $1; 2017, $1	(871)	(812)
Acquisitions/dispositions, net of cash acquired	(512)	(210)
Net cash used in investing activities	(14,171)	(8,697)
Cash Flows from Financing Activities		
Net increase in customer deposits	4,876	8,219
Net decrease in short-term borrowings	(969)	(3,232)
Proceeds from long-term borrowings	17,035	19,875
Payments of long-term borrowings	(17,262)	(18,349)
Issuance of American Express common shares	68	82
Repurchase of American Express common shares	(917)	(3,087)
Dividends paid	(970)	(925)
Net cash provided by financing activities	1,861	2,583
Effect of foreign currency exchange rates on cash, cash equivalents and restricted cash	127	294
Net (decrease) increase in cash, cash equivalents and restricted cash	(2,001)	2,761
Cash, cash equivalents and restricted cash at beginning of period	33,264	25,494
Cash, cash equivalents and restricted cash at end of period	$31,263	$28,255

(a) Refer to Note 2 for additional information.

Supplementary cash flow information

Cash, cash equivalents and restricted cash reconciliation	Sep-18	Dec-17	Sep-17	Dec-16
Cash and cash equivalents per Consolidated Balance Sheets	$30,231	$32,927	$26,168	$25,208
Restricted cash included in Other assets per Consolidated Balance Sheets	1,032	337	2,087	286
Total cash, cash equivalents and restricted cash	$31,263	$33,264	$28,255	$25,494

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The Company

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

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

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

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

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

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

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

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

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

Discount Revenue

Discount revenue primarily represents the amount we earn on transactions occurring at merchants that have entered into a card acceptance agreement with us, or a Global Network Services (GNS) partner or other third-party merchant acquirer, for facilitating transactions between the merchants and Card Members. The amount of fees charged, or merchant discount, varies with, among other factors, the industry in which the merchant conducts business, the merchant's overall American Express-related transaction volume, the timing and method of payment to the merchant, the method of submission of transactions and, in certain instances, the geographic scope of the card acceptance agreement signed with us (e.g., local or global) and the transaction amount. The merchant discount is generally deducted from the payment to the merchant and recorded as discount revenue at the time the Card Member transaction occurs.

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

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

Net Card Fees

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

Other Fees and Commissions

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

Contra-revenue

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

Interest Income

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

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

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

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Interest Expense

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

Marketing and Business Development

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

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

Card Member Rewards

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

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

Classification of various items

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

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued new accounting guidance on leases. The standard, effective January 1, 2019, with early adoption permitted, would have caused us to recognize virtually all leases on the Consolidated Balance Sheets upon adoption and in the comparative period. However, in July 2018, the FASB issued an update to its guidance providing companies with the option to adopt the provisions of the standard prospectively without adjusting comparative periods; we will elect this option and adopt the standard on January 1, 2019. While we continue to assess the potential impacts upon adoption, we do not expect a material impact on our financial position, results of operations, cash flows or regulatory risk-based capital. We are also in the process of upgrading our lease administration software and changing business processes and internal controls in preparation for the adoption.

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In June 2016, the FASB issued new accounting guidance for the recognition of credit losses on financial instruments, effective January 1, 2020, with early adoption permitted on January 1, 2019. The guidance introduces a new credit reserving model known as the Current Expected Credit Loss (CECL) model, which is based on expected losses, and differs significantly from the incurred loss approach used today. The CECL model requires measurement of expected credit losses not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. In addition, for available-for-sale debt securities, the new guidance replaces the other-than-temporary impairment model, and requires the recognition of an allowance for reductions in a security’s fair value attributable to declines in credit quality, instead of a direct write-down of the security when a valuation decline is determined to be other-than-temporary. The guidance also requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. We do not intend to adopt the new standard early and are currently evaluating the impact the new guidance will have on our financial position, results of operations, cash flows and regulatory risk-based capital; however, it is expected that the CECL model will alter the assumptions used in estimating credit losses on Card Member loans and receivables, and may result in material increases to our credit reserves as the new guidance involves earlier recognition of expected losses for the life of the assets. We have established an enterprise-wide, cross-discipline governance structure to implement the new standard, and continue to identify and conclude on key interpretive issues along with evaluating our existing credit loss forecasting models and processes in relation to the new guidance to determine what modifications may be required.

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

Recently Adopted Accounting Standards

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

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

	Increase (Decrease)					
	Three months ended				Year Ended December	
(Millions)	December 31,	September 30, 2017	June 30,	March 31,	2017	2016

	2017		2017	2017		
Revenues						
Discount revenue	$981	$ 930	$928	$868	$3,707	$3,699
Other	(78)	(71)	(64)	(65)	(278)	(253)
Expenses						
Marketing and business development	617	591	593	549	2,350	2,420
Card Member rewards	$286	$ 268	$271	$254	$1,079	$1,026

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

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

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In January 2016, the FASB issued new accounting guidance on the recognition and measurement of financial assets and financial liabilities, which was effective and adopted by us as of January 1, 2018. The guidance makes targeted changes to GAAP; specifically to the classification and measurement of equity securities, and to certain disclosure requirements associated with the fair value of financial assets and liabilities. This applies to investments we make in non-public companies in the ordinary course of business, which historically were recognized under the cost method of accounting. These investments will be prospectively adjusted through earnings for observable price changes upon the identification of identical or similar transactions of the same company. The adoption of the guidance did not have a material impact on our financial position, results of operations and cash flows. We implemented changes to our accounting policies, business processes and internal controls in support of the new guidance. Such changes were not material.

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

2. Business Events

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

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. Loans and Accounts Receivable

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

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

(Millions)	2018	2017
Global Consumer Services Group[(a)]	$65,400	$62,319
Global Commercial Services	12,203	11,080
Card Member loans	77,603	73,399
Less: Reserve for losses	1,937	1,706
Card Member loans, net	$75,666	$71,693
Other loans, net[(b)]	$3,431	$2,607

(a) Includes approximately $23.7 billion and $25.7 billion of gross Card Member loans available to settle obligations of a consolidated variable interest entity (VIE) as of September 30, 2018 and December 31, 2017, respectively. The balance as of September 30, 2018 also includes loans related to the acquired Hilton portfolio (refer to Note 2).

(b) Other loans primarily represent consumer and commercial non-card financing products. Other loans are presented net of reserves for losses of $111 million and $80 million as of September 30, 2018 and December 31, 2017, respectively.

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

(Millions)	2018	2017
Global Consumer Services Group [(a)]	$18,916	$20,946
Global Commercial Services	36,600	33,101
Card Member receivables	55,516	54,047
Less: Reserve for losses	544	521
Card Member receivables, net	$54,972	$53,526
Other receivables, net [(b)]	$3,160	$3,209

(a) Includes $7.7 billion and $8.9 billion of gross Card Member receivables available to settle obligations of a consolidated VIE as of September 30, 2018 and December 31, 2017, respectively.

(b) Other receivables primarily represent amounts related to (i) GNS partners for items such as royalty and franchise fees, (ii) tax-related receivables, (iii) certain merchants for billed discount revenue, and (iv) loyalty coalition partners for points issued, as well as program participation and servicing fees. Other receivables are presented net of reserves for losses of $29 million and $31 million as of September 30, 2018 and December 31, 2017, respectively.

11

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Card Member Loans and Card Member Receivables Aging

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

2018 (Millions)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Card Member Loans:					
Global Consumer Services Group	$64,490	$271	$197	$442	$65,400
Global Commercial Services					
Global Small Business Services	12,018	46	30	63	12,157
Global Corporate Payments[(a)]	(b)	(b)	(b)		46
Card Member Receivables:					
Global Consumer Services Group	18,681	79	48	108	18,916
Global Commercial Services					
Global Small Business Services	$16,671	$90	$49	$103	$16,913
Global Corporate Payments[(a)]	(b)	(b)	(b)	$153	$19,687

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

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

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

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 nine months ended September 30:

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

	2018		2017	
	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:				
Global Corporate Payments	0.11 %	0.8 %	0.10 %	0.9 %

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

13

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Impaired Card Member Loans and Receivables

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

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

	As of September 30, 2018						
			Accounts Classified as a TDR(c)				
2018 (Millions)	Over 90 days Past Due & Accruing Interest(a)	Non-Accruals(b)	In Program(d)	Out of Program(e)	Total Impaired Balance	Unpaid Principal Balance	Allowance for TDRs
Card Member Loans:							
Global Consumer Services Group(f)	$ 304	$ 205	$ 279	$ 122	$ 910	$ 823	$ 69
Global Commercial Services	37	36	53	26	152	142	11
Card Member Receivables:							
Global Consumer Services Group			26	11	37	36	2
Global Commercial Services			56	23	79	78	3
Total	$ 341	$ 241	$ 414	$ 182	$ 1,178	$ 1,079	$ 85

	As of December 31, 2017						
			Accounts Classified as a TDR(c)				
2017 (Millions)	Over 90 days Past Due & Accruing	Non-Accruals(b)	In Program(d)	Out of Program(e)	Total Impaired Balance	Unpaid Principal Balance	Allowance for TDRs

	Interest[a]						
Card Member Loans:							
Global Consumer Services Group[f]	$289	$ 168	$178	$ 131	$ 766	$ 694	$ 49
Global Commercial Services	38	31	31	27	127	118	8
Card Member Receivables:							
Global Consumer Services Group			15	9	24	24	1
Global Commercial Services			37	19	56	56	2
Total	$327	$ 199	$261	$ 186	$ 973	$ 892	$ 60

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

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

(c) Accounts classified as a TDR include $17 million and $15 million that are over 90 days past due and accruing interest and $5 million that are non-accruals as of both September 30, 2018 and December 31, 2017.

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

(e) Out of Program TDRs include $138 million and $141 million of Card Member accounts that have successfully completed a modification program and $44 million and $45 million of Card Member accounts that were not in compliance with the terms of the modification programs as of September 30, 2018 and December 31, 2017, respectively.

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

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
(Millions)	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Card Member Loans:				
Global Consumer Services Group	$882	$ 27	$841	$ 79
Global Commercial Services	153	5	144	16
Card Member Receivables:				
Global Consumer Services Group	35		31	
Global Commercial Services	77		70	
Total	$1,147	$ 32	$1,086	$ 95

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
(Millions)	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Card Member Loans:				
Global Consumer Services Group	$695	$ 21	$682	$ 61
Global Commercial Services	122	5	119	13
Card Member Receivables:				
Global Consumer Services Group	20		19	
Global Commercial Services	44		42	
Total	$881	$ 26	$862	$ 74

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Card Member Loans and Receivables Modified as TDRs

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

	Three Months Ended September 30, 2018				Nine Months Ended September 30, 2018			
	Number of Accounts (in thousands)	Outstanding Balances ($ in millions)[(a)]	Average Interest Rate Reduction (% Points)	Average Payment Term Extension (# of Months)	Number of Accounts (in thousands)	Outstanding Balances ($ in millions)[(a)]	Average Interest Rate Reduction (% Points)	Average Payment Term Extension (# of Months)
Troubled Debt Restructurings:								
Card Member Loans	13	$ 98	12	(b)	36	$ 267	12	(b)
Card Member Receivables	1	24	(c)	27	4	78	(c)	28
Total	14	$ 122			40	$ 345		

	Three Months Ended September 30, 2017				Nine Months Ended September 30, 2017			
	Number of Accounts (in thousands)	Outstanding Balances ($ in millions)[(a)]	Average Interest Rate Reduction (% Points)	Average Payment Term Extension (# of Months)	Number of Accounts (in thousands)	Outstanding Balances ($ in millions)[(a)]	Average Interest Rate Reduction (% Points)	Average Payment Term Extension (# of Months)
Troubled Debt Restructurings:								
Card Member Loans	8	$ 57	9	(b)	23	$ 160	10	(b)
Card Member Receivables	1	18	(c)	31	4	64	(c)	27
Total	9	$ 75			27	$ 224		

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

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

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

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Number of Accounts (in thousands)	Aggregated Outstanding Balances Upon Default ($ in millions)[(a)]	Number of Accounts (in thousands)	Aggregated Outstanding Balances Upon Default ($ in millions)[(a)]
Troubled Debt Restructurings That Subsequently Defaulted:				
Card Member Loans	2	$ 13	5	$ 30
Card Member Receivables	1	2	3	7
Total	3	$ 15	8	$ 37

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Number of Accounts (in thousands)	Aggregated Outstanding Balances Upon Default ($ in millions)[(a)]	Number of Accounts (in thousands)	Aggregated Outstanding Balances Upon Default ($ in millions)[(a)]
Troubled Debt Restructurings That Subsequently Defaulted:				
Card Member Loans	2	$ 9	5	$ 30
Card Member Receivables	1	2	3	4
Total	3	$ 11	8	$ 34

(a) The outstanding balances upon default include 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 inherent losses in our outstanding portfolio of loans and receivables as of the balance sheet date. Management's evaluation process requires certain estimates and judgments.

Changes in Card Member Loans Reserve for Losses

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

(Millions)	2018	2017
Balance, January 1	$1,706	$1,223
Provisions[(a)]	1,587	1,272
Net write-offs[(b)]		
Principal	(1,140)	(856)
Interest and fees	(225)	(163)
Other[(c)]	9	26
Balance, September 30	$1,937	$1,502

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

(b) Principal write-offs are presented less recoveries of $330 million and $307 million for the nine months ended September 30, 2018 and 2017, respectively. Recoveries of interest and fees were not significant. Amounts include net (write-offs) recoveries from TDRs of $(21) million and $(25) million for the nine months ended September 30, 2018 and 2017, respectively.

(c) Includes foreign currency translation adjustments of $(4) million and $14 million and other adjustments of $13 million and $12 million for the nine months ended September 30, 2018 and 2017, 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 September 30, 2018 and December 31, 2017:

(Millions)	2018	2017
Card Member loans evaluated individually for impairment[(a)]	$480	$367
Related reserves [(a)]	$80	$57
Card Member loans evaluated collectively for impairment[(b)]	$77,123	$73,032
Related reserves [(b)]	$1,857	$1,649

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

(b) Represents current loans and loans less than 90 days past due, loans over 90 days past due and accruing interest, and non-accrual loans. The reserves include the quantitative results of analytical models that are specific to individual pools of loans, and reserves for internal and external qualitative risk factors that apply to loans that are collectively evaluated for impairment.

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Changes in Card Member Receivables Reserve for Losses

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

(Millions)	2018	2017
Balance, January 1	$521	$467
Provisions[(a)]	701	590
Net write-offs[(b)]	(661)	(548)
Other[(c)]	(17)	3
Balance, September 30	$544	$512

(a) Provisions for principal and fee reserve components.

(b) Net write-offs are presented less recoveries of $266 million and $271 million for the nine months ended September 30, 2018 and 2017, respectively. Amounts include net recoveries (write-offs) from TDRs of $1 million and $(2) million, for the nine months ended September 30, 2018 and 2017, respectively.

(c) Includes foreign currency translation adjustments of nil and $18 million and other adjustments of $(17) million and $(15) million for the nine months ended September 30, 2018 and 2017, respectively.

Card Member Receivables Evaluated Individually and Collectively for Impairment

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

(Millions)	2018	2017
Card Member receivables evaluated individually for impairment[(a)]	$116	$80
Related reserves [(a)]	$5	$3
Card Member receivables evaluated collectively for impairment	$55,400	$53,967
Related reserves [(b)]	$539	$518

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

(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.

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. Investment Securities

Investment securities principally include available-for-sale debt securities carried at fair value on the Consolidated Balance Sheets, with unrealized gains and losses recorded in AOCI, net of income taxes. Realized gains and losses are recognized upon disposition of the securities using the specific identification method.
Investment securities also include equity securities carried at fair value on the Consolidated Balance Sheets. Effective January 1, 2018, the unrealized gains and losses on equity securities are recorded in the Consolidated Statements of Income; prior to January 1, 2018, the unrealized gains and losses on equity securities were recorded in AOCI, net of income taxes.

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

Description of Securities (Millions)	2018 Cost	2018 Gross Unrealized Gains	2018 Gross Unrealized Losses	2018 Estimated Fair Value	2017 Cost	2017 Gross Unrealized Gains	2017 Gross Unrealized Losses	2017 Estimated Fair Value
Available-for-sale debt securities:								
State and municipal obligations	$682	$ 5	$ (3)	$ 684	$1,369	$ 11	$ (3)	$ 1,377
U.S. Government agency obligations	10		(1)	9	11			11
U.S. Government treasury obligations	4,688	2	(39)	4,651	1,051	3	(9)	1,045
Corporate debt securities	32			32	28			28
Mortgage-backed securities [(a)]	54	1	(1)	54	67	2		69
Foreign government bonds and obligations	595		(1)	594	581			581
Equity securities [(b)]	51		(4)	47	51		(3)	48
Total	$6,112	$ 8	$ (49)	$ 6,071	$3,158	$ 16	$ (15)	$ 3,159

(a) Represents mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.
(b) Equity securities comprise investments in common stock and mutual funds.

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

	2018				2017			
	Less than 12 months		12 months or more		Less than 12 months		12 months or more	
Description of Securities (Millions)	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	$67	$ (2)	$31	$ (1)	$157	$ (3)	$	$
U.S. Government treasury obligations	4,213	(31)	172	(8)	650	(3)	175	(6)
Mortgage-backed securities			16	(1)				

Equity securities [(a)]							36	(2)
Foreign government bonds and obligations	586	(1)						
Total	$4,866	$ (34)	$219	$ (10)	$807	$ (6)	$211	$ (8)

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

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Ratio of Fair Value to Amortized Cost (Dollars in millions)	Less than 12 months			12 months or more			Total		
	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses
2018:									
90%–100%	93	$ 4,866	$ (34)	21	$ 219	$ (10)	114	$ 5,085	$ (44)
Total as of September 30, 2018	93	$ 4,866	$ (34)	21	$ 219	$ (10)	114	$ 5,085	$ (44)
2017:									
90%–100%	34	$ 807	$ (6)	13	$ 211	$ (8)	47	$ 1,018	$ (14)
Total as of December 31, 2017	34	$ 807	$ (6)	13	$ 211	$ (8)	47	$ 1,018	$ (14)

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

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

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

(Millions)	Cost	Estimated Fair Value
Due within 1 year	$3,613	$ 3,612
Due after 1 year but within 5 years	1,622	1,590
Due after 5 years but within 10 years	210	204
Due after 10 years	616	618
Total	$6,061	$ 6,024

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

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

6. Asset Securitizations

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

We perform the servicing and key decision making for the Trusts, and therefore have the power to direct the activities that most significantly impact the Trusts' economic performance, which are the collection of the underlying Card Member loans and receivables. In addition, we hold all of the variable interests in both Trusts, with the exception of the debt securities issued to third-party investors. As of September 30, 2018, our ownership of variable interests was $5.4 billion and $7.7 billion for the Lending Trust and the Charge Trust, respectively. These variable interests held by us provide us with the right to receive benefits and the obligation to absorb losses, which could be significant to both the Lending Trust and the Charge Trust. Based on these considerations, we are the primary beneficiary of the Trusts and therefore consolidate the Trusts.

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

(Millions)	2018	2017
Lending Trust	$783	$ 55
Charge Trust		7
Total	$783	$ 62

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

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

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

7. Customer Deposits

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

(Millions)	2018	2017
U.S.:		
Interest bearing	$68,572	$63,666
Non-interest bearing (includes Card Member credit balances of: 2018, $321; 2017, $358)	355	395
Non-U.S.:		
Interest bearing	28	34
Non-interest bearing (includes Card Member credit balances of: 2018, $336; 2017, $344)	346	357
Total customer deposits	$69,301	$64,452

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

(Millions)	2018	2017
U.S. retail deposits:		
Savings accounts – Direct	$37,128	$31,915
Certificates of deposit:[(a)]		
Direct	610	290
Third-party (brokered)	15,219	16,684
Sweep accounts – Third-party (brokered)	15,615	14,777
Other deposits:		
U.S. non-interest bearing deposits	34	37
Non-U.S. deposits	38	47
Card Member credit balances U.S. and non-U.S.	657	702
Total customer deposits	$69,301	$64,452

(a) The weighted average remaining maturity and weighted average interest rate at issuance on the total portfolio of U.S. retail certificates of deposit issued through direct and third-party programs were 45 months and 2.27 percent, respectively, as of September 30, 2018.

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

(Millions)	U.S.	Non-U.S.	Total
2018	$2,859	$ 4	$2,863
2019	4,673	14	4,687
2020	3,976		3,976
2021	1,824		1,824
2022	2,260		2,260
After 5 years	237		237
Total	$15,829	$ 18	$15,847

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

(Millions)	2018	2017

U.S.	$214	$114
Non-U.S.	9	11
Total	$223	$125

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

8. Contingencies

In the ordinary course of business, we and our subsidiaries are subject to various pending and potential legal actions, arbitration proceedings, claims, investigations, examinations, information gathering requests, subpoenas, inquiries and matters relating to compliance with laws and regulations (collectively, legal proceedings). We disclose our material legal proceedings under Part II, Item 1. "Legal Proceedings" in this Quarterly Report on Form 10-Q and Part I, Item 3. "Legal Proceedings" in the 2017 Form 10-K.

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

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

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

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

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

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

9. Derivatives and Hedging Activities

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

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

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

	Other Assets Fair Value		Other Liabilities Fair Value	
(Millions)	2018	2017	2018	2017
Derivatives designated as hedging instruments:				
Fair value hedges - Interest rate contracts[(a)]	$	$ 11	$ 180	$ 34
Net investment hedges - Foreign exchange contracts	247	117	85	89
Total derivatives designated as hedging instruments	247	128	265	123
Derivatives not designated as hedging instruments:				
Foreign exchange contracts, including certain embedded derivatives[(b)]	80	82	137	95
Total derivatives, gross	327	210	402	218
Less: Cash collateral netting[(c)(d)]	(22)	(6)	(180)	(45)
Derivative asset and derivative liability netting[(e)]	(122)	(80)	(122)	(80)
Total derivatives, net	$ 183	$ 124	$ 100	$ 93

(a) For centrally cleared derivatives, variation margin payments are legally characterized as settlement payments as opposed to collateral. Accordingly, assets and liabilities are disclosed for centrally cleared derivatives, each net of variation margin. We also maintained several bilateral interest rate contracts that are shown gross of any collateral exchanged.
(b) Includes foreign currency derivatives embedded in certain operating agreements.
(c) Represents the offsetting of the fair value of bilateral interest rate contracts and certain foreign exchange contracts with the right to reclaim cash collateral or the obligation to return cash collateral.
(d) We posted $99 million and $146 million as of September 30, 2018 and December 31, 2017, respectively, as initial margin on our centrally cleared interest rate swaps; such amounts are recorded within Other receivables on the Consolidated Balance Sheets and are not netted against the derivative balances.
(e) Represents the amount of netting of derivative assets and derivative liabilities executed with the same counterparty under an enforceable master netting arrangement.

A majority of our derivative assets and liabilities as of September 30, 2018 and December 31, 2017 are subject to master netting agreements with our derivative counterparties. We have no derivative amounts subject to enforceable master netting arrangements that are not offset on the Consolidated Balance Sheets.

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Fair Value Hedges

We are exposed to interest rate risk associated with our fixed-rate long-term debt obligations. At the time of issuance, certain fixed-rate debt obligations are designated in fair value hedging relationships, using interest rate swaps, to economically convert the fixed interest rate to a floating interest rate. We have $24.8 billion and $23.8 billion of fixed-rate debt obligations designated in fair value hedging relationships as of September 30, 2018 and December 31, 2017, respectively.

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

	Gains (losses)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2018	2017	2018	2017
	Interest expense	Other expenses [(a)]	Interest expense	Other expenses [(a)]
Fixed-rate long-term debt	$63	$ 39	$331	$ 64
Derivatives designated as hedging instruments	(65)	(31)	(323)	(100)
Total	$(2)	$ 8	$8	$ (36)

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

The carrying values of the hedged liabilities, recorded within Long-term debt on the Consolidated Balance Sheets, were $24.2 billion and $23.6 billion as of September 30, 2018 and December 31, 2017, respectively, including offsetting amounts of $513 million and $182 million for the respective periods, related to the cumulative amount of fair value hedging adjustments.

We recognized a net increase of $20 million and a net reduction of $24 million in Interest expense on Long-term debt for the three months ended September 30, 2018 and 2017, respectively, and a net increase of $19 million and a net reduction of $105 million for the nine months ended September 30, 2018 and 2017, respectively, primarily related to the net settlements (interest accruals) on our interest rate derivatives designated as fair value hedges.

Net Investment Hedges

The gain or loss on net investment hedges, net of taxes, recorded in AOCI as part of the cumulative translation adjustment, were losses of $22 million and $184 million for the three months ended September 30, 2018 and 2017, respectively, and a gain of $136 million and a loss of $515 million for the nine months ended September 30, 2018 and 2017, respectively. Accumulated losses within AOCI of nil and $18 million for the three months ended September 30, 2018 and 2017, respectively, and gains of $1 million and losses of $18 million for the nine months ended September 30, 2018 and 2017, respectively, were reclassified into Other expenses upon investment sales or liquidations.

Derivatives Not Designated as Hedges

The changes in the fair value of derivatives that are not designated as hedges are intended to offset the related foreign exchange gains or losses of the underlying foreign currency exposures. The changes in the fair value of the derivatives and the related underlying foreign currency exposures resulted in net losses of $8 million and $15 million for the three months ended September 30, 2018 and 2017, respectively, and a net gain of $26 million and a net loss of $36 million for the nine months ended September 30, 2018 and 2017, respectively, and are recognized in Other expenses.

The changes in the fair value of an embedded derivative resulted in a loss of $5 million and a gain of $1 million for the three months ended September 30, 2018 and 2017, respectively, and losses of $11 million and $1 million for the nine months ended September 30, 2018 and 2017, respectively, and are recognized in Card Member services expense.

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
10. Fair Values

Financial Assets and Financial Liabilities Carried at Fair Value

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

	2018				2017			
(Millions)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Investment securities:[a]								
Equity securities	$47	$1	$46	$	$48	$1	$47	$
Debt securities	6,024	4,651	1,373		3,111	1,045	2,066	
Derivatives, gross[a]	327		327		210		210	
Total Assets	6,398	4,652	1,746		3,369	1,046	2,323	
Liabilities:								
Derivatives, gross[a]	402		402		218		218	
Total Liabilities	$402	$	$402	$	$218	$	$218	$

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

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

2018 (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[a]	$ 30	$30	$ 29	$ 1	$
Other financial assets[b]	59	59		59	
Financial assets carried at other than fair value					
Loans, net[c]	79	80			80
Financial Liabilities:					
Financial liabilities for which carrying values equal or approximate fair value	82	82		82	
Financial liabilities carried at other than fair value					
Certificates of deposit[d]	16	16		16	
Long-term debt[c]	$ 55	$56	$	$ 56	$

2017 (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[a]	$ 33	$33	$ 32	$ 1	$
Other financial assets[b]	57	57		57	
Financial assets carried at other than fair value					
Loans, net[c]	74	75			75
Financial Liabilities:					
Financial liabilities for which carrying values equal or approximate fair value	76	76		76	
Financial liabilities carried at other than fair value					
Certificates of deposit[d]	17	17		17	
Long-term debt[c]	$ 56	$57	$	$ 57	$

(a) Level 2 amounts reflect time deposits and short-term investments.
(b) Includes Card Member receivables (including fair values of Card Member receivables of $7.7 billion and $8.9 billion held by a consolidated VIE as of September 30, 2018 and December 31, 2017, respectively), Other receivables, restricted cash and other miscellaneous assets.
(c)

Balances include amounts held by a consolidated VIE for which the fair values of Card Member loans were $23.6 billion and $25.6 billion as of September 30, 2018 and December 31, 2017, respectively, and the fair values of Long-term debt were $18.5 billion and $18.6 billion as of September 30, 2018 and December 31, 2017, respectively.

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

Nonrecurring Fair Value Measurements

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

Table of Contents

AMERICAN EXPRESS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

11. Guarantees

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

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

12. Changes In Accumulated Other Comprehensive Income

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

Three Months Ended September 30, 2018 (Millions), net of tax	Net Unrealized Losses on Debt Securities	Foreign Currency Translation Adjustments	Net Unrealized Pension and Other Postretirement Benefit (Losses) Gains	Accumulated Other Comprehensive (Loss) Income
Balances as of June 30, 2018	$ (18)	$ (2,027)	$ (438)	$ (2,483)