

AMERICAN EXPRESS CO
Form 10-K
February 16, 2018

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

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

For the transition period from to
Commission File No. 1-7657
American Express Company
(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
As of June 30, 2017, the aggregate market value of the registrant's voting shares held by non-affiliates of the registrant was approximately \$74.3 billion based on the closing sale price as reported on the New York Stock Exchange.
As of February 6, 2018, there were 860,278,838 common shares of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

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This Annual Report on Form 10-K, including the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. You can identify forward-looking statements by words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “aim,” “will,” “may,” “should,” “could,” “would,” “likely,” “estimate,” “predict,” “potential,” “continue” or other similar expressions. We discuss certain factors that affect our business and operations and that may cause our actual results to differ materially from these forward-looking statements under “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements.” You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

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

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PART I

ITEM 1. BUSINESS

INTRODUCTION

Overview

American Express Company, together with its consolidated subsidiaries, is a global services company that provides customers with access to products, insights and experiences that enrich lives and build business success. Our principal products and services are charge and credit card products and travel-related services offered to consumers and businesses around the world.

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

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

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

Products and Services

Our range of products and services includes:

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

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

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

Our business as a whole has not experienced significant seasonal fluctuations, although card billed business tends to

be moderately higher in the fourth quarter than in other quarters. As a result, the amount of Card Member loans and receivables outstanding tend to be moderately higher during that quarter. The average discount rate also tends to be slightly lower during the fourth quarter due to a higher level of retail-related billed business volumes.

The American Express Brand

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

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Our Integrated Network and Spend-Centric Model

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

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

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

BUSINESS OPERATIONS

Global Consumer Services

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

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

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

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

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

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

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

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

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

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

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

Global Commercial Services

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

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

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

Global Merchant Services

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

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

We continue to grow merchant acceptance of American Express cards around the world. We estimate that, as of the end of 2017, our merchant network in the United States could accommodate nearly 95 percent of general-purpose card spending. Our international spend coverage is more limited, although we continue to focus on expanding our merchant network in locations outside the United States. We estimate that our international merchant network as a whole could accommodate more than 80 percent of general-purpose card spending. These percentages are based on comparing

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

spending on all networks' general-purpose credit and charge cards at merchants that accept American Express cards with total general-purpose credit and charge card spending at all merchants, and are not percentages of locations accepting American Express cards.

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

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Corporate & Other

Corporate & Other consists of corporate functions and certain other businesses, including our prepaid services business that offers stored value/prepaid products, such as American Express Serve[®], Bluebird[®], the American Express[®] Gift Card and Travelers Cheques. In August 2017, we announced that a third party, InComm, will assume program management and issuer processing responsibilities for our prepaid reloadable and gift card products in the United States, subject to final agreement. We also expect that InComm will acquire the Serve technology platform and other assets related to the American Express prepaid reloadable and gift card products business.

Our support functions, including servicing, credit, insurance and technology, are organized by process rather than business unit, which we believe serves to streamline costs, reduce duplication of work, better integrate skills and expertise and improve customer service.

COMPETITION

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

As a card issuer, we compete with financial institutions that issue general-purpose charge and revolving credit cards and debit cards. We also encounter competition from businesses that issue their own private label cards, operate their own mobile wallets or extend credit to their customers. We face increasing competition for cobrand relationships, as both card issuer and network competitors have targeted key business partners with attractive value propositions. Our global card network competes in the global payments industry with other card networks, including, among others, Visa, MasterCard, Discover (primarily in the United States), Diners Club International (which is owned by Discover Financial Services), and JCB and China UnionPay (primarily in Asia). We are the fourth largest general-purpose card network on a global basis based on purchase volume, behind China UnionPay, Visa and MasterCard. In addition to such networks, a range of companies globally, including merchant acquirers and processors, as well as regional payment networks (such as the National Payments Corporation of India), carry out some activities similar to those performed by our GMS and GNS businesses.

The principal competitive factors that affect the card-issuing, network and merchant service businesses include:

The features, value and quality of the products and services, including customer care, rewards programs, partnerships, benefits and digital and mobile services, and the costs associated with providing such features and services

The number, spending characteristics and credit performance of customers

The quantity, diversity and quality of the establishments where the cards can be used

The attractiveness of the value proposition to card issuers, merchant acquirers, cardholders and merchants (including the relative cost of using or accepting the products and services, and capabilities such as fraud prevention and data analytics)

The number and quality of other payment cards and other forms of payment available to customers

The success of marketing and promotional campaigns

Reputation and brand recognition

The speed of innovation and investment in systems, technologies, and product and service offerings

The nature and quality of expense management tools, electronic payment methods and data capture and reporting capabilities, particularly for business customers

The security of cardholder and merchant information

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

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

SUPERVISION AND REGULATION

Overview

As a participant in the financial services industry, we are subject to substantial regulation in the United States and in other jurisdictions, and the costs of compliance are substantial. In recent years, the financial services industry has been subject to rigorous scrutiny, high regulatory expectations, and a stringent regulatory enforcement environment. In addition, legislators and regulators in various countries in which we operate have focused on the operation of card networks, including through antitrust actions, legislation and regulations to change certain practices or pricing of card issuers, merchant acquirers and payment networks, and, in some cases, to establish broad and ongoing regulatory oversight regimes for payment systems. See “Risk Factors—Legal, Regulatory and Compliance Risks” for a discussion of the potential impact legislative and regulatory changes may have on our results of operations and financial condition.

Banking Regulation

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

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

Activities

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

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

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Acquisitions and Investments

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

Stress Testing and Capital Planning

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

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

We are required to submit our capital plans and stress testing results to the Federal Reserve on or before April 5 of each year. The Federal Reserve is expected to publish the decisions for all the bank holding companies participating in CCAR in 2018, including the reasons for any objection to capital plans, by June 30, 2018. In addition, the Federal Reserve will publish separately the results of its supervisory stress test under both the supervisory severely adverse and adverse scenarios. The information to be released will include, among other things, the Federal Reserve's projection of company-specific information, including post-stress capital ratio information over the planning horizon. We may be required to revise and resubmit our capital plan as required by the Federal Reserve following certain events, such as a significant acquisition. In addition to other limitations, our ability to make any capital distributions (including dividends and share repurchases) is contingent on the Federal Reserve's non-objection to our capital plan.

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Dividends and Other Capital Distributions

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

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

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

Capital, Leverage and Liquidity Regulation

Capital Rules

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

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

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

The Company, Centurion Bank and American Express Bank must each maintain CET1, Tier 1 capital (that is, CET1 plus additional Tier 1 capital) and Total capital (that is, Tier 1 capital plus Tier 2 capital) ratios of at least 4.5 percent, 6.0 percent and 8.0 percent, respectively. The Capital Rules also implement a 2.5 percent capital conservation buffer composed entirely of CET1, on top of these minimum risk-weighted asset ratios. As a result, the minimum ratios are

effectively 7.0 percent, 8.5 percent and 10.5 percent for the CET1, Tier 1 capital and Total capital ratios, respectively, on a fully phased-in basis. Implementation of the capital conservation buffer began on January 1, 2016 at the 0.625 percent level and increases in equal increments at the beginning of each year (i.e., 1.875 percent as of January 1, 2018) until it is fully implemented on January 1, 2019. The required minimum capital ratios for the Company may be further increased by a countercyclical capital buffer composed entirely of CET1 up to 2.5 percent, which may be assessed when federal banking regulators determine that such a buffer is necessary to protect the banking system from disorderly downturns associated with excessively expansionary periods. In December 2017, the Federal Reserve affirmed the countercyclical capital buffer of zero percent. Assuming full phase in of the capital conservation buffer and the maximum countercyclical capital buffer were in place, the Company's effective minimum CET1, Tier 1 capital and Total capital ratios could be 9.5 percent, 11.0 percent and 13.0 percent, respectively.

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

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

Leverage Requirements

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

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

Liquidity Regulation

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

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

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

Prompt Corrective Action

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

Under the FDIA, each of Centurion Bank and American Express Bank could be prohibited from accepting brokered deposits (i.e., deposits raised through third-party brokerage networks) or offering interest rates on any deposits

significantly higher than the prevailing rate in its normal market area or nationally (depending upon where the deposits are solicited), unless (1) it is well capitalized or (2) it is adequately capitalized and receives a waiver from the FDIC. A significant amount of our outstanding U.S. retail deposits are considered brokered deposits for bank regulatory purposes. If a federal regulator determines that we are in an unsafe or unsound condition or that we are engaging in unsafe or unsound banking practices, the regulator may reclassify our capital category or otherwise place restrictions on our ability to accept or solicit brokered deposits.

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Resolution Planning

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

Orderly Liquidation Authority

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

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

FDIC Powers upon Insolvency of Insured Depository Institutions

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

Other Banking Regulations

Source of Strength

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

Cross-Guarantee Liability

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

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Transactions Between Centurion Bank or American Express Bank and Their Respective Affiliates

Certain transactions (including loans and credit extensions from Centurion Bank and American Express Bank) between Centurion Bank and American Express Bank, on the one hand, and their affiliates (including the Company, TRS and their non-bank subsidiaries), on the other hand, are subject to quantitative and qualitative limitations, collateral requirements, and other restrictions imposed by statute and regulation. Transactions subject to these restrictions are generally required to be made on an arm's-length basis.

FDIC Deposit Insurance and Insurance Assessments

Centurion Bank and American Express Bank accept deposits that are insured by the FDIC up to the applicable limits. Under the FDIA, the FDIC may terminate the insurance of an institution's deposits upon a finding that the institution has engaged in unsafe or unsound practices; is in an unsafe or unsound condition to continue operations; or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not know of any practice, condition or violation that might lead to termination of deposit insurance at either of our insured depository institution subsidiaries. The FDIC's deposit insurance fund is funded by assessments on insured depository institutions, which are subject to adjustment by the FDIC.

Community Reinvestment Act

Centurion Bank and American Express Bank are subject to the CRA, which imposes affirmative, ongoing obligations on depository institutions to meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution.

Other Enhanced Prudential Standards

The Federal Reserve has not yet finalized prudential requirements, mandated by Dodd-Frank, regarding early remediation requirements for large bank holding companies experiencing financial distress and single counterparty credit limits (similar to bank-level lending limits but, as proposed, applicable to bank holding companies and controlled subsidiaries on a combined basis) for large bank holding companies.

Consumer Financial Products Regulation

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

Internal and regulatory reviews to assess compliance with such laws and regulations have resulted in, and are likely to continue to result in, changes to our practices, products and procedures, restitution to our Card Members and increased costs related to regulatory oversight, supervision and examination. Such reviews may also result in additional regulatory actions, including civil money penalties.

These types of reviews are likely to be a continuing focus for the CFPB and regulators more broadly, as well as for the company itself. For example, in August 2017, we announced that certain of our subsidiaries signed a consent order with the CFPB to resolve issues related to a previously-disclosed internal review of our card product offerings in Puerto Rico, the U.S. Virgin Islands and other U.S. Territories.

As an issuer of stored value/prepaid products, we are regulated in the United States under the "money transmitter" or "sale of check" laws in effect in most states. We are also required by the laws of many states to comply with unclaimed and abandoned property laws, under which we must pay to states the face amount of any Travelers Cheque or prepaid card that is uncashed or unredeemed after a period of time depending on the type of product.

In countries outside the United States, we have seen an increase in regulatory focus in relation to a number of key areas impacting our card-issuing businesses, particularly consumer protection (such as the European Union (EU), the United Kingdom and Canada) and responsible lending (such as Australia, Mexico, New Zealand and Singapore). Regulators in a number of countries are shifting their focus from just ensuring compliance with local rules and

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

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Payments Regulation

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

The EU, Australia and other jurisdictions have focused on the fees merchants pay to accept cards, including the way bankcard network members collectively set the “interchange” (that is, the fee paid by the bankcard merchant acquirer to the card issuer in “four party” networks like Visa and MasterCard), as well as the rules, contract terms and practices governing merchant card acceptance. In some cases, such regulation extends to certain aspects of our business. Even where we are not directly regulated, regulation of bankcard fees can significantly negatively impact the discount revenue derived from our business, including as a result of downward pressure on our discount rate from decreases in competitor pricing in connection with caps on interchange fees. Antitrust actions and government regulation relating to merchant pricing or terms of merchant rules and contracts can also adversely impact consumers and merchants.

Among other things, lower interchange and/or merchant discount revenue can lead card issuers to look to reduce costs by scaling back or eliminating rewards, services or benefits to cardholders, merchants and other customers, or to look for other sources of revenue, including from consumers through higher annual card fees or interest charges.

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

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

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

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

European Union Payments Legislation

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

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

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

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

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

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

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

Australia Payments Regulation

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

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

Privacy, Data Protection, Information and Cyber Security

Regulatory and legislative activity in the areas of privacy, data protection and information and cyber security continues to increase worldwide. We have established and continue to maintain policies that provide a framework for compliance with applicable privacy, data protection and information and cyber security laws, meet evolving customer privacy expectations and support and enable business innovation and growth.

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

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

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We are also subject to certain privacy, data protection and information and cyber security laws in other countries in which we operate (including countries in the EU, Australia, Canada, Japan, Hong Kong, Mexico and Singapore), some of which are more stringent and/or expansive than those in the United States. We have also seen some countries institute laws requiring in-country data processing and/or in-country storage of the personal data of its citizens. Compliance with such laws could result in higher technology, administrative and other costs for us and could limit our ability to optimize the use of our closed-loop data. Data breach notification laws or regulatory activities to encourage breach notification are also becoming more prevalent in jurisdictions outside the U.S. in which we operate. In Europe, the European Directive 95/46/EC (the Data Protection Directive), providing for the protection of individuals with regard to the processing of personal data and on the free movement of such data, will be replaced by the EU General Data Protection Regulation (EU GDPR) as of May 2018. The EU GDPR includes, among other things, a requirement for prompt notice of data breaches, in certain circumstances, to data subjects and supervisory authorities, applying uniformly across sectors and the EU, with significant fines for non-compliance. The EU GDPR also requires companies processing personal data of individuals residing in the EU, regardless of the location of the company, to comply with EU privacy and data protection rules. We generally rely on our binding corporate rules as the primary method for lawfully transferring data from our European affiliates to our affiliates in the United States and elsewhere globally.

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

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

Anti-Money Laundering, Sanctions and Anti-Corruption Compliance

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

Anti-Money Laundering

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

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

Office of Foreign Assets Control Regulation

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

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Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the Securities Exchange Act of 1934, as amended (the Exchange Act), an issuer is required to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with individuals or entities designated pursuant to certain Executive Orders. Disclosure is generally required even where the activities, transactions or dealings were conducted outside the United States by non-U.S. affiliates in compliance with applicable law, and whether or not the activities are sanctionable under U.S. law.

American Express Global Business Travel (GBT) and certain entities that may be considered affiliates of GBT have informed us that during the year ended December 31, 2017 approximately 300 visas were obtained from Iranian embassies and consulates around the world in connection with certain travel arrangements on behalf of clients. GBT had negligible gross revenues and net profits attributable to these transactions and intends to continue to engage in these activities on a limited basis so long as such activities are permitted under U.S. law.

Anti-Corruption

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

Compensation Practices

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

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

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EXECUTIVE OFFICERS OF THE COMPANY

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

DOUGLAS E. BUCKMINSTER –Group President, Global Consumer Services

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

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

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

L. KEVIN COX –Chief Human Resources Officer

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

PAUL D. FABARA –President, Global Services Group

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

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

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

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

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

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

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

ELIZABETH RUTLEDGE –Chief Marketing Officer

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

LAUREEN E. SEEGER –Executive Vice President and General Counsel

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

STEPHEN J. SQUERI –Chairman and Chief Executive Officer

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

ANRÉ WILLIAMS - Group President, Global Merchant and Network Services

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

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EMPLOYEES

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

ADDITIONAL INFORMATION

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

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

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

ITEM 1A. RISK FACTORS

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

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

Strategic, Business and Competitive Risks

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

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

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

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

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

The payments industry is highly competitive, and we compete with charge, credit and debit card networks, issuers and acquirers, paper-based transactions (e.g., cash and checks), bank transfer models (e.g., wire transfers and ACH), as well as evolving and growing alternative, non-traditional payment and financing providers.

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

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

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

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

and could adversely impact our average discount rate or dilute our brand.

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

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

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

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

We also face the risk that existing relationships will be renegotiated with less favorable terms for us as competition for such relationships continues to increase. We make payments to our cobrand partners, which can be significant, based primarily on the amount of Card Member spending and corresponding rewards earned on such spending and, under certain arrangements, on the number of accounts acquired and retained. The amount we pay to our cobrand partners has increased, particularly in the United States, and may continue to increase as arrangements are renegotiated due to increasingly intense competition for cobrand partners among card issuers and networks. We may also choose to not continue certain cobrand relationships.

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

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

Unlike our competitors in the payments industry that rely on revolving credit balances to drive profits, our business model is focused on Card Member spending. Discount revenue, which represents fees generally charged to merchants when Card Members use their cards to purchase goods and services on our network, is primarily driven by billed

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

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