

AMERICAN EXPRESS CO
Form 10-Q
April 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended March 31, 2014

or

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

For the Transition Period from _____ to _____

Commission file number 1-7657

AMERICAN EXPRESS COMPANY

(Exact name of registrant as specified in its charter)

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

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

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

10285
(Zip Code)

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

None

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or

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

Yes X No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No X

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

Class
Common Shares (par value \$.20 per share)

Outstanding at April 18, 2014
1,058,605,218 shares

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

Three Months Ended March 31 (<i>Millions, except per share amounts</i>)	2014	2013
Revenues		
Non-interest revenues		
Discount revenue	\$ 4,646	\$ 4,438
Net card fees	674	653
Travel commissions and fees	423	437
Other commissions and fees	618	573
Other	501	537
Total non-interest revenues	6,862	6,638
Interest income		
Interest on loans	1,711	1,683
Interest and dividends on investment securities	46	53
Deposits with banks and other	19	26
Total interest income	1,776	1,762
Interest expense		
Deposits	94	114
Long-term debt and other	345	405
Total interest expense	439	519
Net interest income	1,337	1,243
Total revenues net of interest expense	8,199	7,881
Provisions for losses		
Charge card	215	154
Card Member loans	250	243
Other	20	19
Total provisions for losses	485	416
Total revenues net of interest expense after provisions for losses	7,714	7,465
Expenses		
Marketing, promotion, rewards and Card Member services	2,417	2,330
Salaries and employee benefits	1,540	1,615

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Other, net	1,549	1,611
Total expenses	5,506	5,556
Pretax income	2,208	1,909
Income tax provision	776	629
Net income	\$ 1,432	\$ 1,280
Earnings per Common Share (Note 13):^(a)		
Basic	\$ 1.34	\$ 1.15
Diluted	\$ 1.33	\$ 1.15
Average common shares outstanding for earnings per common share:		
Basic	1,060	1,099
Diluted	1,067	1,106
Cash dividends declared per common share	\$ 0.23	\$ 0.20

(a) Represents net income less earnings allocated to participating share awards of \$12 million and \$11 million for the three months ended March 31, 2014 and 2013, respectively.

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

Three Months Ended March 31 (<i>Millions</i>)	2014	2013
Net income	\$ 1,432	\$ 1,280
Other comprehensive income (loss):		
Net unrealized securities gains (losses), net of tax of: 2014, \$23; 2013, \$(18)	39	(35)
Foreign currency translation adjustments, net of tax of: 2014, \$(23); 2013, \$(11)	(34)	(45)
Net unrealized pension and other postretirement benefit gains, net of tax of: 2014, \$15; 2013, \$21	27	27
Other comprehensive income (loss)	32	(53)
Comprehensive income	\$ 1,464	\$ 1,227

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY
CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2014	December 31, 2013
<i>(Millions, except per share data)</i>		
Assets		
Cash and cash equivalents		
Cash and due from banks	\$ 2,493	\$ 2,212
Interest-bearing deposits in other banks (includes securities purchased under resale agreements: 2014, \$241; 2013, \$143)	17,909	16,776
Short-term investment securities	338	498
Total cash and cash equivalents	20,740	19,486
Accounts receivable		
Card Member receivables (includes gross receivables available to settle obligations of consolidated variable interest entities: 2014, \$6,387; 2013, \$7,329), less reserves: 2014, \$414; 2013, \$386	44,240	43,777
Other receivables, less reserves: 2014, \$66; 2013, \$71	3,134	3,408
Loans		
Card Member loans (includes gross loans available to settle obligations of a consolidated variable interest entity: 2014, \$28,687; 2013, \$31,245), less reserves: 2014, \$1,191; 2013, \$1,261	62,825	65,977
Other loans, less reserves: 2014, \$9; 2013, \$13	651	608
Investment securities	4,761	5,016
Premises and equipment, less accumulated depreciation and amortization: 2014, \$6,090; 2013, \$5,978	3,893	3,875
Other assets (includes restricted cash of consolidated variable interest entities: 2014, \$698; 2013, \$58)	11,253	11,228
Total assets	\$ 151,497	\$ 153,375
Liabilities and Shareholders Equity		
Liabilities		
Customer deposits	\$ 42,671	\$ 41,763
Travelers Cheques and other prepaid products	3,843	4,240
Accounts payable	11,844	10,615
Short-term borrowings (includes debt issued by consolidated variable interest entities: 2014, nil; 2013, \$2,000)	2,821	5,021
Long-term debt (includes debt issued by consolidated variable interest entities: 2014, \$15,192; 2013, \$18,690)	54,095	55,330
Other liabilities	16,246	16,910
Total liabilities	131,520	133,879
Contingencies (Note 15)		
Shareholders Equity		
Common shares, \$0.20 par value, authorized 3.6 billion shares; issued and outstanding 1,059 million shares as of March 31, 2014 and 1,064 million shares as of December 31, 2013	212	213
Additional paid-in capital	12,337	12,202

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Retained earnings	8,822	8,507
Accumulated other comprehensive income (loss)		
Net unrealized securities gains, net of tax of: 2014, \$56; 2013, \$33	102	63
Foreign currency translation adjustments, net of tax of: 2014, \$(549); 2013, \$(526)	(1,124)	(1,090)
Net unrealized pension and other postretirement benefit losses, net of tax of: 2014, \$(162); 2013, \$(177)	(372)	(399)
Total accumulated other comprehensive loss	(1,394)	(1,426)
Total shareholders' equity	19,977	19,496
Total liabilities and shareholders' equity	\$ 151,497	\$ 153,375

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended March 31 (<i>Millions</i>)	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 1,432	\$ 1,280
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for losses	485	416
Depreciation and amortization	249	245
Deferred taxes and other	44	83
Stock-based compensation	88	96
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Other receivables	297	486
Other assets	478	330
Accounts payable and other liabilities	607	4,946
Travelers Cheques and other prepaid products	(395)	(335)
Net cash provided by operating activities	3,285	7,547
Cash Flows from Investing Activities		
Sale of investments	44	80
Maturity and redemption of investments	354	187
Purchase of investments	(71)	(472)
Net decrease in Card Member loans/receivables	2,072	1,510
Purchase of premises and equipment, net of sales: 2014, \$2; 2013, \$4	(226)	(204)
Acquisitions/dispositions, net of cash acquired	(6)	(11)
Net increase in restricted cash	(610)	(1,058)
Net cash provided by investing activities	1,557	32
Cash Flows from Financing Activities		
Net increase in customer deposits	918	1,141
Net (decrease) increase in short-term borrowings	(2,245)	166
Issuance of long-term debt	2,240	598
Principal payments on long-term debt	(3,500)	(3,001)
Issuance of American Express common shares	233	275
Repurchase of American Express common shares	(961)	(787)
Dividends paid	(246)	(222)
Net cash used in financing activities	(3,561)	(1,830)
Effect of exchange rate changes on cash and cash equivalents	(27)	(35)
Net increase in cash and cash equivalents	1,254	5,714
Cash and cash equivalents at beginning of period	19,486	22,250
Cash and cash equivalents at end of period	\$ 20,740	\$ 27,964

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The Company

American Express Company (the Company) is a global services company that provides customers with access to products, insights and experiences that enrich lives and build business success. The Company's principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world. The Company also focuses on generating alternative sources of revenue on a global basis in areas such as online and mobile payments and fee-based services. The Company's various products and services are sold globally to diverse customer groups, including consumers, small businesses, mid-sized companies and large corporations. These products and services are sold through various channels, including direct mail, online applications, targeted direct and third-party sales forces and direct response advertising.

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

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

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

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

2. Divestitures

On March 17, 2014, the Company announced that it signed an agreement to create a joint venture for its Global Business Travel division (GBT). In the proposed transaction, the Company will separate its GBT operations into a dedicated holding structure, which will include certain assets and liabilities that currently comprise GBT, and will maintain an approximate 50 percent ownership stake in a non-consolidated joint venture following the closing. In exchange for an investment of \$900 million in the joint venture, an investor group will hold the remaining interest. The closing of the joint venture transaction is subject to the receipt of requisite regulatory approvals and the satisfaction of other customary closing conditions. Assuming these conditions are met, the Company would plan to close the transaction in the second quarter of 2014. The carrying amount of GBT's assets and liabilities are not material to the Company's financial position.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****3. Accounts Receivable and Loans**

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

Accounts receivable as of March 31, 2014 and December 31, 2013 consisted of:

<i>(Millions)</i>	2014	2013
U.S. Card Services ^(a)	\$ 20,726	\$ 21,842
International Card Services	7,153	7,771
Global Commercial Services ^(b)	16,638	14,391
Global Network & Merchant Services ^(c)	137	159
Card Member receivables^(d)	44,654	44,163
Less: Reserve for losses	414	386
Card Member receivables, net	44,240	43,777
Other receivables, net ^(e)	\$ 3,134	\$ 3,408

(a) Includes \$6.4 billion and \$7.3 billion of gross Card Member receivables available to settle obligations of a consolidated variable interest entity (VIE) as of March 31, 2014 and December 31, 2013, respectively.

(b) Includes \$885 million and \$836 million due from airlines, of which Delta Air Lines (Delta) comprises \$653 million and \$628 million as of March 31, 2014 and December 31, 2013, respectively.

(c) Includes receivables primarily related to the Company's International Currency Card portfolios.

(d) Includes approximately \$13.9 billion and \$13.8 billion of Card Member receivables outside the U.S. as of March 31, 2014 and December 31, 2013, respectively.

(e) Other receivables primarily represent amounts related to (i) purchased joint venture receivables, (ii) Global Network Services (GNS) partner banks for items such as royalty and franchise fees, and (iii) certain merchants for billed discount revenue. Other receivables are presented net of reserves for losses of \$66 million and \$71 million as of March 31, 2014 and December 31, 2013, respectively.

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Loans as of March 31, 2014 and December 31, 2013 consisted of:

<i>(Millions)</i>	2014	2013
U.S. Card Services ^(a)	\$ 55,801	\$ 58,395
International Card Services	8,154	8,790
Global Commercial Services	61	53
Card Member loans	64,016	67,238
Less: Reserve for losses	1,191	1,261
Card Member loans, net	62,825	65,977
Other loans, net ^(b)	\$ 651	\$ 608

(a) Includes approximately \$28.7 billion and \$31.2 billion of gross Card Member loans available to settle obligations of a consolidated VIE as of March 31, 2014 and December 31, 2013, respectively.

(b) Other loans primarily represent loans to merchants and a store card loan portfolio. Other loans are presented net of reserves for losses of \$9 million and \$13 million as of March 31, 2014 and December 31, 2013, respectively.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Card Member Loans and Card Member Receivables Aging**

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

	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
2014 (Millions)					
Card Member Loans:					
U.S. Card Services	\$ 55,193	\$ 175	\$ 134	\$ 299	\$ 55,801
International Card Services	8,013	48	30	63	8,154
Card Member Receivables:					
U.S. Card Services	\$ 20,355	\$ 119	\$ 84	\$ 168	\$ 20,726
International Card Services ^(a)	7,050	34	21	48	7,153
Global Commercial Services	(b)	(b)	(b)	122	16,638
2013 (Millions)					
Card Member Loans:					
U.S. Card Services	\$ 57,772	\$ 183	\$ 134	\$ 306	\$ 58,395
International Card Services	8,664	43	28	55	8,790
Card Member Receivables:					
U.S. Card Services	\$ 21,488	\$ 125	\$ 69	\$ 160	\$ 21,842
International Card Services	(b)	(b)	(b)	83	7,771
Global Commercial Services	(b)	(b)	(b)	132	14,391

(a) Effective March 31, 2014, as a result of system enhancements, delinquency data is now available and presented on a prospective basis for the indicated aging categories. Comparable data for prior periods is not available. For risk management purposes, the Company has historically utilized 90 days past billing for the International Card Services (ICS) segment as described below in (b).

(b) Data for periods prior to 90 days past billing are not available due to system constraints. Therefore, such data have not been utilized for risk management purposes. The balances that are current to 89 days past due can be derived as the difference between the Total and the 90+ Days Past Due balances. For Card Member receivables in Global Commercial Services (GCS) as of March 31, 2014 and ICS and GCS as of December 31, 2013, delinquency data is tracked based on days past billing status rather than days past due. A Card Member account is considered 90 days past billing if payment has not been received within 90 days of the Card Member's billing statement date. In addition, if the Company initiates collection procedures on an account prior to the account becoming 90 days past billing, the associated Card Member receivable balance is considered as 90 days past billing. These amounts are

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shown above as 90+ Days Past Due for presentation purposes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Credit Quality Indicators for Card Member Loans and Receivables

The following tables present the key credit quality indicators as of or for the three months ended March 31:

	2014			2013		
	Net Write-Off Rate	30 Days	30 Days	Net Write-Off Rate	30 Days	30 Days
	Principal,	Past Due		Principal,	Past Due	
	Principal	Interest, &	as a % of	Principal	Interest, &	as a % of
	Only ^(a)	Fees ^(a)	Total	Only ^(a)	Fees ^(a)	Total
Card Member Loans:						
U.S. Card Services	1.7%	1.9%	1.1%	2.0%	2.2%	1.2%
International Card Services ^(b)	2.2%	2.7%	1.7%	1.8%	2.3%	1.7%
Card Member Receivables:						
U.S. Card Services	1.8%	2.0%	1.8%	2.0%	2.2%	1.9%
International Card Services ^(b)	1.9%	2.0%	1.4%	(c)	(c)	(c)

	2014		2013	
	Net Loss	Net Loss	Net Loss	Net Loss
	Ratio as	90 Days	Ratio as	90 Days
	a % of	Past Billing	a % of	Past Billing
	Charge	as a % of	Charge	as a % of
	Volume	Receivables	Volume	Receivables
Card Member Receivables:				
International Card Services	(c)	(c)	0.18%	1.1%
Global Commercial Services	0.09%	0.7%	0.08%	0.7%

- (a) The Company presents a net write-off rate based on principal losses only (i.e., excluding interest and/or fees) to be consistent with industry convention. In addition, because the Company's practice is to include uncollectible interest and/or fees as part of its total provision for losses, a net write-off rate including principal, interest and/or fees is also presented.

(b) For the period ending March 31, 2014, write-offs for certain installment loan products have been reclassified from Card Member receivables to Card Member loans.

(c) Historically, net loss ratio as a % of charge volume and 90 days past billings as a % of receivables were presented. Effective March 31, 2014, as a result of system enhancements, 30 days past due as a % of total, Net write-off rate (principal only) and Net write-off rate (principal and fees) have been presented.

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

Impaired Card Member Loans and Receivables

Impaired loans and receivables are defined by GAAP as individual larger balance or homogeneous pools of smaller balance loans and receivables for which it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the Card Member agreement. For information on impaired Card Member loans and receivables and the related accounting policies, refer to Note 4 on pages 74 - 76 of the Annual Report.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	As of March 31, 2014							For the Three Months Ended	
							March 31, 2014		
	Loans over 90 Days Past Due & Accruing Interest ^(a)	Non- Accrual Loans ^(b)	Receivables Modified as a TDR ^(c)	Total Impaired Loans & Receivables	Unpaid Principal Balance ^(d)	Allowance for TDRs ^(e)	Average Balance of Impaired Loans	Interest Income Recognized	
2014 (Millions)									
Card Member Loans:									
U.S. Card Services	\$ 181	\$ 220	\$ 337	\$ 738	\$ 687	\$ 80	\$ 793	\$ 16	
International Card Services	62	2		64	64		63	4	
Card Member Receivables:									
U.S. Card Services			49	49	48	36	50		
Total	\$ 243	\$ 222	\$ 386	\$ 851	\$ 799	\$ 116	\$ 906	\$ 20	

	As of December 31, 2013							For the Three Months Ended	
							March 31, 2013		
	Loans over 90 Days Past Due & Accruing Interest ^(a)	Non- Accrual Loans ^(b)	Receivables Modified as a TDR ^(c)	Total Impaired Loans & Receivables	Unpaid Principal Balance ^(d)	Allowance for TDRs ^(e)	Average Balance of Impaired Loans	Interest Income Recognized	
2013 (Millions)									
Card Member Loans:									
U.S. Card Services	\$ 170	\$ 244	\$ 373	\$ 787	\$ 731	\$ 84	\$ 1,105	\$ 12	

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International Card Services	54	4	5	63	62	70	4
Card Member Receivables:							
U.S. Card Services			50	50	49	38	115
Total	\$ 224	\$ 248	\$ 428	\$ 900	\$ 842	\$ 122	\$ 1,290

- (a) The Company's policy is generally to accrue interest through the date of write-off (i.e., at 180 days past due). The Company establishes reserves for interest that the Company believes will not be collected. Amounts presented exclude loans modified as a troubled debt restructuring (TDR).
- (b) Non-accrual loans not in modification programs include certain Card Member loans placed with outside collection agencies for which the Company has ceased accruing interest.
- (c) Total loans and receivables modified as a TDR includes \$91 million and \$92 million that are non-accrual and \$27 million and \$26 million that are past due 90 days and still accruing interest as of March 31, 2014 and December 31, 2013, respectively.
- (d) Unpaid principal balance consists of Card Member charges billed and excludes other amounts charged directly by the Company such as interest and fees.
- (e) Represents the reserve for losses for TDRs, which are evaluated individually for impairment. The Company records a reserve for losses for all impaired loans. Refer to Card Member Loans Evaluated Individually and Collectively for Impairment in Note 4 for further information regarding the reserve for losses on loans over 90 days past due and accruing interest and non-accrual loans, which are evaluated collectively for impairment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Card Member Loans and Receivables Modified as TDRs

The following table provides additional information with respect to the U.S. Card Services (USCS) Card Member loans and receivables modified as TDRs during the three months ended March 31. The ICS and GCS Card Member loans and receivables modifications were not significant. For information on TDRs and the related accounting policies, refer to Note 4 on pages 74 - 76 of the Annual Report.

	Three Months Ended			
	March 31, 2014			
				Average
				Payment
				Term
	Number of	Outstanding	Average	Extension
	Accounts	Balances ^{(a)(b)}	Interest Rate	
	(in thousands)	(\$ in millions)	Reduction	(# of Months)
			(% Points)	
Troubled Debt Restructurings:				
Card Member Loans	12	\$ 96	14	(c)
Card Member Receivables	4	47	(c)	12
Total	16	\$ 143		

Three Months Ended

March 31, 2013

				Average
				Payment
				Term
	Number of	Outstanding	Average	Extension
	Accounts	Balances ^{(a)(b)}	Interest Rate	
	(in thousands)	(\$ in millions)	Reduction	(# of Months)
			(% Points)	

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Troubled Debt Restructurings:					
Card Member Loans	23	\$	172	13	(c)
Card Member Receivables	8		104	(c)	12
Total	31	\$	276		

(a) Represents the outstanding balance immediately prior to modification. For the three months ended March 31, 2014 and 2013, modifications reduced the aggregate principal balance by nil and \$4 million, respectively.

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

(c) For Card Member loans, there have been no payment term extensions. The Company does not offer interest rate reduction programs for Card Member receivables as the receivables are non-interest-bearing.

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AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table provides information for the three months ended March 31, 2014 and 2013, with respect to the USCS Card Member loans and receivables modified as TDRs that subsequently defaulted within 12 months of modification. A Card Member is considered to have been in default from a modification program after one and up to two consecutive missed payments, depending on the terms of the modification program. For all Card Members that defaulted from a modification program, the probability of default is factored into the reserves for Card Member loans and receivables. The defaulted ICS Card Member loan and receivable modifications were not significant.

	2014		2013	
	Aggregated		Aggregated	
	Outstanding		Outstanding	
	Number of	Balances	Number of	Balances
	Accounts	Upon Default ^(a)	Accounts	Upon Default ^(a)
<i>(Accounts in thousands, Dollars in millions)</i>				
Troubled Debt Restructurings That Subsequently Defaulted:				
Card Member Loans	2	\$ 20	5	\$ 48
Card Member Receivables	1	7	1	12
Total	3	\$ 27	6	\$ 60

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

4. Reserves for Losses

Reserves for losses relating to Card Member loans and receivables represent management's best estimate of the probable inherent losses in the Company's outstanding portfolio of loans and receivables, as of the balance sheet date. Management's evaluation process requires certain estimates and judgments. For information on the Company's reserves for losses and the related accounting policies, refer to Note 5 on pages 77-78 of the Annual Report.

Changes in Card Member Receivables Reserve for Losses

The following table presents changes in the Card Member receivables reserve for losses for the three months ended March 31:

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<i>(Millions)</i>		2014		2013
Balance, January 1	\$	386	\$	428
Provisions ^(a)		215		154
Net write-offs ^(b)		(170)		(178)
Other ^(c)		(17)		6
Balance, March 31	\$	414	\$	410

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

(b) Consists of principal (resulting from authorized transactions) and fee components, less recoveries of \$92 million and \$99 million, including net write-offs from TDRs of \$2 million and \$14 million, for the three months ended March 31, 2014 and 2013, respectively.

(c) Effective March 31, 2014, amounts previously reserved for unauthorized transactions of \$(7) million have been reclassified to other liabilities on a prospective basis. Also included are foreign currency translation adjustments of nil and \$(2) million for the three months ended March 31, 2014 and 2013, respectively and other items of \$(10) million and \$8 million for the three months ended March 31, 2014 and 2013, respectively.

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Card Member Receivables Evaluated Individually and Collectively for Impairment**

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

<i>(Millions)</i>	2014	2013
Card Member receivables evaluated individually for impairment ^(a)	\$ 49	\$ 50
Related reserves ^(a)	\$ 36	\$ 38
Card Member receivables evaluated collectively for impairment	\$ 44,605	\$ 44,113
Related reserves ^(b)	\$ 378	\$ 348

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

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

Changes in Card Member Loans Reserve for Losses

The following table presents changes in the Card Member loans reserve for losses for the three months ended March 31:

<i>(Millions)</i>	2014	2013
Balance, January 1	\$ 1,261	\$ 1,471
Provisions ^(a)	250	243
Net write-offs		
Principal ^(b)	(280)	(304)
Interest and fees ^(b)	(42)	(38)
Other ^(c)	2	(5)
Balance, March 31	\$ 1,191	\$ 1,367

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- (a) Provisions for principal (resulting from authorized transactions), interest and fee reserves components.
- (b) Consists of principal write-offs (resulting from authorized transactions), less recoveries of \$107 million and \$114 million, including net write-offs from TDRs of \$(2) million and \$6 million, for the three months ended March 31, 2014 and 2013, respectively. Recoveries of interest and fees were de minimis.
- (c) Effective March 31, 2014, reserves related to unauthorized transactions of \$(6) million are reflected in other liabilities. All periods include foreign currency translation adjustments of \$(1) million for both the three months ended March 31, 2014 and 2013, and other items of \$9 million and \$(4) million for the three months ended March 31, 2014 and 2013, respectively.

Card Member Loans Evaluated Individually and Collectively for Impairment

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

<i>(Millions)</i>	2014	2013
Card Member loans evaluated individually for impairment ^(a)	\$ 337	\$ 378
Related reserves ^(a)	\$ 80	\$ 84
Card Member loans evaluated collectively for impairment ^(b)	\$ 63,679	\$ 66,860
Related reserves ^(b)	\$ 1,111	\$ 1,177

- (a) Represents loans modified in a TDR and related reserves. Refer to the Impaired Card Member Loans and Receivables discussion in Note 4 on pages 74-76 of the Annual Report for further information.
- (b) Represents current loans and loans less than 90 days past due, loans over 90 days past due and accruing interest, and non-accrual loans. The reserves include the quantitative results of analytical models that are specific to individual pools of loans and reserves for internal and external qualitative risk factors that apply to loans that are collectively evaluated for impairment and are not specific to any individual pool of loans.

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

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

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

Description of Securities (Millions)	2014				2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and municipal obligations	\$ 3,957	\$ 96	\$ (20)	\$ 4,033	\$ 4,060	\$ 54	\$ (79)	\$ 4,035
U.S. Government agency obligations	3			3	3			3
U.S. Government treasury obligations	268	4	(1)	271	318	3	(1)	320
Corporate debt securities	43	3		46	43	3		46
Mortgage-backed securities ^(a)	151	6		157	160	5	(1)	164
Equity securities ^(b)	17	51		68	29	95		124
Foreign government bonds and obligations	129	6		135	272	5	(1)	276
Other ^(c)	50		(2)	48	50		(2)	48
Total	\$ 4,618	\$ 166	\$ (23)	\$ 4,761	\$ 4,935	\$ 165	\$ (84)	\$ 5,016

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

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

(c) Other comprises investments in various mutual funds.

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

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Description of Securities (Millions)	2014				2013			
	Less than 12 months		12 months or more		Less than 12 months		12 months or more	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
State and municipal obligations	\$ 351	\$ (13)	\$ 115	\$ (7)	\$ 1,320	\$ (63)	\$ 106	\$ (16)
Foreign government bonds and obligations					208	(1)		
U.S. Government treasury obligations	128	(1)			166	(1)		
Mortgage-backed securities					35	(1)		
Other	30	(1)	17	(1)	30	(1)	17	(1)
Total	\$ 509	\$ (15)	\$ 132	\$ (8)	\$ 1,759	\$ (67)	\$ 123	\$ (17)

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(Unaudited)

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

Ratio of Fair Value to Amortized Cost (<i>Dollars in millions</i>)	Less than 12 months			12 months or more			Total		
	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses
2014:									
90% - 100%	58	\$ 509	\$ (15)	10	\$ 123	\$ (7)	68	\$ 632	\$ (22)
Less than 90%				1	9	(1)	1	9	(1)
Total as of March 31, 2014	58	\$ 509	\$ (15)	11	\$ 132	\$ (8)	69	\$ 641	\$ (23)
2013:									
90% - 100%	228	\$ 1,665	\$ (53)	6	\$ 24	\$ (2)	234	\$ 1,689	\$ (55)
Less than 90%	13	94	(14)	5	99	(15)	18	193	(29)
Total as of December 31, 2013	241	\$ 1,759	\$ (67)	11	\$ 123	\$ (17)	252	\$ 1,882	\$ (84)

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

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

Supplemental Information

Gross realized gains on the sales of investment securities, included in other non-interest revenues, were \$39 million and \$36 million, for the three months ended March 31, 2014 and 2013, respectively. There were no gross realized losses for the three months ended March 31, 2014 and 2013.

Contractual maturities of investment securities, excluding equity securities and other securities, as of March 31, 2014 were as follows:

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<i>(Millions)</i>	Cost	Estimated Fair Value
Due within 1 year	\$ 333	\$ 333
Due after 1 year but within 5 years	451	459
Due after 5 years but within 10 years	208	220
Due after 10 years	3,559	3,633
Total	\$ 4,551	\$ 4,645

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

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

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

<i>(Millions)</i>	2014	2013
Charge Trust	\$ 1	\$ 2
Lending Trust	697	56
Total	\$ 698	\$ 58

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

American Express Travel Related Services Company, Inc. (TRS), which is a consolidated subsidiary of the Company, is the primary beneficiary of both the trusts. Excluding its consolidated subsidiaries, TRS owns approximately \$0.8 billion of subordinated securities issued by the Lending Trust as of March 31, 2014.

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

7. Customer Deposits

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

<i>(Millions)</i>	2014	2013
U.S.:		
Interest-bearing	\$ 41,853	\$ 40,831

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Non-interest-bearing (includes Card Member credit balances of: 2014, \$298 million; 2013, \$340 million)	317	360
Non-U.S.:		
Interest-bearing	110	121
Non-interest-bearing (includes Card Member credit balances of: 2014, \$373 million; 2013, \$437 million)	391	451
Total customer deposits	\$ 42,671	\$ 41,763

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

<i>(Millions)</i>	2014	2013
U.S. retail deposits:		
Savings accounts Direct	\$ 26,276	\$ 24,550
Certificates of deposit:		
Direct	402	489
Third-party	6,325	6,929
Sweep accounts Third-party	8,850	8,863
Other retail deposits:		
Non-U.S. deposits and U.S. non-interest bearing deposits	147	155
Card Member credit balances U.S. and non-U.S.	671	777
Total customer deposits	\$ 42,671	\$ 41,763

The scheduled maturities of certificates of deposit as of March 31, 2014 were as follows:

<i>(Millions)</i>	U.S.	Non-U.S.	Total
2014	\$ 2,000	\$ 3	\$ 2,003
2015	1,247	1	1,248
2016	1,673		1,673
2017	572		572
2018	1,042		1,042
After 5 years	193		193
Total	\$ 6,727	\$ 4	\$ 6,731

As of March 31, 2014 and December 31, 2013, certificates of deposit in denominations of \$100,000 or more were as follows:

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<i>(Millions)</i>	2014		2013	
U.S.	\$	269	\$	324
Non-U.S.		2		2
Total	\$	271	\$	326

8. Derivatives and Hedging Activities

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

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

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

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

<i>(Millions)</i>	Other Assets Fair Value		Other Liabilities Fair Value	
	2014	2013	2014	2013
Derivatives designated as hedging instruments:				
Interest rate contracts				
Fair value hedges	\$ 412	\$ 455	\$ 11	\$ 2
Total return contract Fair value hedge		8	2	
Foreign exchange contracts				
Net investment hedges	62	174	180	116
Total derivatives designated as hedging instruments	474	637	193	118
Derivatives not designated as hedging instruments:				
Foreign exchange contracts, including certain embedded derivatives ^(a)	126	64	54	95
Total derivatives not designated as hedging instruments	126	64	54	95
Total derivatives, gross	600	701	247	213
Cash collateral netting ^(b)	(295)	(336)	(12)	
Derivative asset and derivative liability netting ^(c)	(54)	(36)	(54)	(36)
Total derivatives, net^(d)	\$ 251	\$ 329	\$ 181	\$ 177

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

(b) Represents the offsetting of derivative instruments and the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instrument(s) executed with the same counterparty under an enforceable master netting arrangement. Additionally, the Company posted \$50 million and \$26 million as of March 31, 2014 and December 31, 2013, respectively, as initial margin on its centrally cleared

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interest rate swaps; such amounts are not netted against the derivative balances.

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

(d) The Company has no individually significant derivative counterparties and therefore, no significant risk exposure to any single derivative counterparty. The total net derivative assets and derivative liabilities are presented within other assets and other liabilities on the Company's Consolidated Balance Sheets.

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

Derivative Financial Instruments that Qualify for Hedge Accounting

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

Fair Value Hedges

Interest Rate Contracts

The Company is exposed to interest rate risk associated with its fixed-rate long-term debt. The Company uses interest rate swaps to economically convert certain fixed-rate long-term debt obligations to floating-rate obligations at the time of issuance. As of March 31, 2014 and December 31, 2013, the Company hedged \$15.9 billion and \$14.7 billion, respectively, of its fixed-rate debt to floating-rate debt using interest rate swaps.

Total Return Contract

The Company hedges its exposure to changes in the fair value of its equity investment in ICBC in local currency. The Company uses a total return contract (TRC) to transfer this exposure to its derivative counterparty. As of March 31, 2014 and December 31, 2013, the fair value of the equity investment in ICBC was \$66 million (107.5 million shares) and \$122 million (180.7 million shares), respectively. To the extent the hedge is effective, the gain or loss on the TRC offsets the loss or gain on the investment in ICBC. Any difference between the changes in the fair value of the derivative and the hedged item results in hedge ineffectiveness and is recognized in other expenses in the Consolidated Statements of Income.

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(Unaudited)

The following table summarizes the impact on the Consolidated Statements of Income associated with the Company's hedges of its fixed-rate long-term debt and its investment in ICBC for the three months ended March 31:

For the Three Months Ended March 31: (Millions)

Derivative relationship	Derivative contract	Gains (losses) recognized in income				Net hedge ineffectiveness		
		Amount		Amount				
	Income Statement Line Item	2014	2013	Income Statement Line Item	2014	2013	2014	2013
Interest rate contracts	Other expenses	\$ (51)	\$ (104)	Other expenses	\$ 51	\$ 110	\$	\$ 6
Total return contract	Other non-interest revenues	13	4	Other non-interest revenues	(13)	(4)		

The Company also recognized a net reduction in interest expense on long-term debt of \$69 million and \$112 million for the three months ended March 31, 2014 and 2013, respectively, primarily related to the net settlements (interest accruals) on the Company's interest rate derivatives designated as fair value hedges.

Net Investment Hedges

The effective portion of the gain or (loss) on net investment hedges, net of taxes, recorded in AOCI as part of the cumulative translation adjustment was \$(17) million and \$(56) million for the three months ended March 31, 2014 and 2013, respectively. Any ineffective portion of the gain or (loss) on net investment hedges is recognized in other expenses during the period of change. No ineffectiveness associated with net investment hedges was reclassified from AOCI into income during the three months ended March 31, 2014 and 2013. During the three months ended March 31, 2014 and 2013, the Company reclassified \$17 million and nil, respectively, from AOCI to earnings as a component of other expenses.

Derivatives Not Designated as Hedges

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

The following table summarizes the impact on pretax earnings of derivatives not designated as hedges, as reported on the Consolidated Statements of Income for the three months ended March 31:

Pretax gains
Amount

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Description (<i>Millions</i>)	Income Statement Line Item	2014	2013
Foreign exchange contracts ^(a)	Other non-interest revenues	\$	\$ 1
	Other expenses	134	171
Total		\$ 134	\$ 172

(a) Foreign exchange contracts include embedded foreign currency derivatives. Gains on these embedded derivatives are included in other expenses.

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

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

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

<i>(Millions)</i>	2014				2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Investment securities: ^(a)								
Equity securities	\$ 68	\$ 68	\$	\$	\$ 124	\$ 124	\$	\$
Debt securities and other	4,693	271	4,422		4,892	320	4,572	
Derivatives ^(a)	600		600		701		701	
Total assets	5,361	339	5,022		5,717	444	5,273	