



# **American Express Company**

## **Basel III Standardized Approach Pillar 3 Disclosures**

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For the Quarterly Period Ended September 30, 2016

AMERICAN EXPRESS COMPANY  
BASEL III STANDARDIZED APPROACH PILLAR 3 DISCLOSURES  
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## **Introduction**

### **Business Overview**

American Express Company (“American Express” or the “Company”) is a global services company that provides customers with access to products, insights and experiences that enrich lives and build business success. The Company’s principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world. Business travel-related services are offered through the non-consolidated joint venture, American Express Global Business Travel (“GBT JV”).

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

The Company’s range of products and services includes charge and credit card products; network services; merchant acquisition and processing, servicing and settlement, and marketing and information products and services for merchants; fee services, including fraud prevention services and the design of customized customer loyalty and rewards programs; expense management products and services; other lending products, including merchant financing; travel-related services; and stored value/prepaid products.

The Company’s various products and services are sold globally to diverse customer groups, including consumers, small businesses, mid-sized companies and large corporations. These products and services are sold through various channels, including direct mail, online applications, in-house and third-party sales forces and direct response advertising.

### **Regulatory Capital Standards and Disclosures**

Since the late 1980s, the federal banking regulators’ capital adequacy rules have been based on accords agreed to by the Basel Committee on Banking Supervision (the “Basel Committee”). These frameworks include general risk-based capital rules applicable to all banking organizations based on the 1988 Capital Accord, known as Basel I, and risk-based capital rules applicable to banking organizations having \$250 billion or more in total consolidated assets or \$10 billion or more in foreign exposures, known as Advanced Approaches institutions, based on the advanced internal ratings-based approach for credit risk and the advanced measurement approach for operational risk in the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee in June 2006, known as Basel II.

In July 2013, US federal banking regulators adopted a final rule substantially revising the general risk-based capital rules previously applicable to banking organizations (Basel I), to make them more risk sensitive while implementing the final framework for strengthening international capital and liquidity regulation, known as Basel III (the “Final Rule”), released by the Basel Committee in December 2010. The Final Rule became effective for all banking organizations as of January 1, 2015 and is currently being phased-in, subject to transition provisions for certain adjustments to the components of capital. The Final Rule also introduced the Standardized Approach, a revised measurement of risk-weighted assets effective January 1, 2015, which replaces the Basel I calculation of risk-weighted assets.

As an Advanced Approaches institution, American Express is required to comply with the Final Rule, which, among other things, revised capital definitions and minimum capital ratio requirements beginning in 2014. The Company began reporting its Basel III Standardized Approach capital adequacy standards and new regulatory public disclosures (“Pillar 3”) as of March 31, 2015. The Company also reports its capital adequacy ratios on a parallel basis to federal banking regulators under Basel III requirements for an Advanced Approaches institution. The parallel reporting period will continue until the Company receives regulatory approval to exit, at which point the Company will begin publicly reporting its regulatory risk-based capital ratios under both the Basel III Standardized and Advanced Approaches (and will be required to use the lower of these ratios in order to determine whether the

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Company is in compliance with minimum capital requirements) and Pillar 3 disclosures under the Basel III Advanced Approaches. Refer to the “Pillar 3 Reports and Additional Information” section for information on how to find the Company’s SEC and regulatory public disclosures.

**Pillar 3 Reports and Additional Information**

This report contains the required Pillar 3 disclosures as of September 30, 2016, in accordance with the Basel III Standardized Approach guidelines of the Final Rule. The disclosures in this report are based on the Company’s current understanding of the Final Rule and other factors, which may be subject to change as the Company receives additional clarification and implementation guidance from regulators relating to the Final Rule, and as the interpretation of the Final Rule evolves over time. This report is prepared in accordance with the Pillar 3 disclosure policy approved by the Risk Committee of the Company’s Board of Directors. The disclosure policy addresses internal controls as well as disclosure controls and procedures associated with the preparation of this report. Certain key terms are defined in the “Glossary of Selected Terminology”.

Pillar 3 disclosures should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (the “2015 Annual Report”), the Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (“Q3’16 Form 10-Q”), and the Consolidated Financial Statements for Holding Companies – FR Y-9C for the quarter ended September 30, 2016 (the “FR Y-9C”). Some measures of exposures and other amounts disclosed in this report may not be directly comparable to other public disclosures reported by the Company and may not be comparable to similar measures used by other companies. American Express files annual, quarterly and current reports as well as other information with the SEC and the Federal Reserve. SEC filings are made available to the public from the SEC’s website at [www.sec.gov](http://www.sec.gov) and regulatory filings are made available from the Federal Reserve’s website at <http://www.ffiec.gov/nicpubweb/nicweb/NicHome.aspx>.

Pillar 3 disclosures are made available on the Company’s Investor Relations website at <http://ir.americanexpress.com>. To access these materials, click on the “Pillar 3 Disclosures” link under the caption “Financial Information” on the Investor Relations homepage. The Company’s Investor Relations website is also accessible through the main website at [www.americanexpress.com](http://www.americanexpress.com) by clicking on the “Investor Relations” link, which is located at the bottom of the Company’s homepage.

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**Scope of Application**

The Final Rule requires Pillar 3 disclosures for top-tier banking organizations domiciled in the United States with \$50 billion or more in total consolidated assets. As a result, this report has been prepared using the consolidated financial statements of the Company's top-tier BHC ("American Express Parent") only.

**Basis of Consolidation**

The basis of consolidation used for regulatory reporting purposes is the same as that used under the accounting principles generally accepted in the United States of America ("GAAP"). For additional information on the Company's principles of consolidation see the "Principles of Consolidation" section of the 2015 Annual Report.

**Capital Surplus of Insurance Underwriting Subsidiaries**

The Company's insurance underwriting subsidiaries maintain minimum capital levels as prescribed by their regulators. The Final Rule requires that the prescribed minimum regulatory capital requirements of these insurance underwriting subsidiaries to be aggregated and deducted from the Company's Total capital (50 percent of the minimum is deducted from Tier 1 capital and the remaining 50 percent is deducted from Tier 2 capital). The table presented in the "Components of Regulatory Capital" section provides additional information on the amount of minimum regulatory capital for insurance underwriting subsidiaries deducted from Tier 1 and Tier 2 capital as of September 30, 2016. The aggregate amount of capital in excess of minimum capital requirements related to the Company's insurance underwriting subsidiaries included in Total capital as of September 30, 2016 was \$307 million.

**Restrictions on the Transfer of Funds or Regulatory Capital**

Certain of the Company's subsidiaries are subject to regulatory restrictions on the transfer of net assets. Procedures exist to transfer net assets between the Company and its subsidiaries, while ensuring compliance with the various contractual and regulatory constraints. For additional information on restricted net assets of subsidiaries, refer to Note 23 "Regulatory Matters and Capital Adequacy" section of the 2015 Annual Report.

**Subsidiary Minimum Capital Requirements**

As of September 30, 2016, the Company did not have subsidiaries whose regulatory capital was less than the minimum required regulatory capital amount.

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## Capital Structure and Capital Adequacy

Beginning March 31, 2015, the Company has reported its regulatory risk-based capital ratios using the Basel III capital definitions, inclusive of transitional provisions, and risk-weighted assets using the Basel III Standardized Approach. The Basel III transitional provisions will be fully phased-in by January 1, 2019.

During 2014, the Company began reporting its capital adequacy ratios on a parallel basis to federal banking regulators using risk-weighted assets calculated under the Basel III Advanced Approaches and the requirements for an Advanced Approaches institution. During this parallel period, federal banking regulators assess the Company's compliance with the Advanced Approaches requirements. The Company continues to make progress in complying with the requirements, including refining the calculations to align the requirements with the Company's asset types. The parallel period will continue until the Company receives regulatory approval to exit parallel reporting, at which point the Company will begin publicly reporting capital ratios using risk-weighted assets calculated under both the Advanced Approaches and the Standardized Approach in the Final Rule, and will be required to use the lower of these ratios in order to determine whether the Company is in compliance with minimum capital requirements. Depending on how the Advanced Approaches are ultimately implemented for the Company's asset types, the capital ratios calculated under the Advanced Approaches may be lower than under the Standardized Approach. The Federal Reserve has indefinitely delayed use of the Advanced Approaches in CCAR and, therefore, the Standardized Approach will remain the applicable measurement for such purposes.

### Regulatory Risk-Based Capital Ratios

Definitions of the Company's regulatory risk-based capital ratios, which are calculated in accordance with the Final Rule, are presented below. For additional information on regulatory risk-based capital ratios, refer to the "Consolidated Capital Resources and Liquidity" section of the Q3'16 Form 10-Q.

The following provides definitions of the Company's regulatory risk-based capital ratios, which are calculated as per standard regulatory guidance:

*Risk-Weighted Assets* — Assets are weighted for risk according to a formula prescribed by the Federal Reserve to conform to capital adequacy guidelines. On- and off-balance sheet items are weighted for risk, with off-balance sheet items converted to balance sheet equivalents, using risk conversion factors, before being allocated a risk-adjusted weight. Off-balance sheet exposures comprise a minimal part of the Company's total risk-weighted assets. For additional information on the Company's risk-weighted assets refer to the "Risk-Weighted Assets" section of this report.

*Common Equity Tier 1 Regulatory Risk-Based Capital Ratio* — Calculated as Common Equity Tier 1 ("CET1") capital, divided by risk-weighted assets. CET1 is the sum of common shareholders' equity, adjusted for ineligible goodwill and intangible assets, certain deferred tax assets, as well as certain other comprehensive income items as follows: net unrealized gains/losses on securities and derivatives, and net unrealized pension and other postretirement benefit losses, all net of tax and subject to transition provisions.

*Tier 1 Regulatory Risk-Based Capital Ratio* — Calculated as Tier 1 capital divided by risk-weighted assets. Tier 1 capital is the sum of CET1 capital, perpetual preferred stock, and third-party non-controlling interests in consolidated subsidiaries, adjusted for capital held by insurance subsidiaries and deferred tax assets from net operating losses not deducted from CET1.

*Total Regulatory Risk-Based Capital Ratio* — Calculated as the sum of Tier 1 capital and Tier 2 capital, divided by risk-weighted assets. Tier 2 capital is the sum of the allowance for receivable and loan losses (limited to 1.25 percent of risk-weighted assets), a portion of the unrealized gains on equity securities, and \$600 million of subordinated notes, adjusted for capital held by insurance subsidiaries.

For additional information on the Company's regulatory capital refer to the "Components of Regulatory Capital" section of this report.

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The following table presents transitional Basel III Standardized Approach regulatory risk-based capital ratios for American Express, American Express Centurion Bank (“AECB”) and American Express Bank, FSB (“FSB”) as of September 30, 2016. Additional information on fully-phased in capital ratios are included in the “Consolidated Capital Resources and Liquidity” section of the Q3’16 Form 10-Q. The Final Rule establishes new capital adequacy minimums and buffer requirements, which will be fully phased-in by January 1, 2019.

	<b>Basel III Standards 2016 <sup>(a)</sup></b>	<b>Ratios as of September 30, 2016</b>
<b>Common Equity Tier 1</b>	5.1%	
<i>American Express</i>		13.6%
AECB		17.0
FSB		17.5
<b>Tier 1</b>	6.6	
<i>American Express</i>		14.9
AECB		17.0
FSB		17.5
<b>Total</b>	8.6%	
<i>American Express</i>		16.6
AECB		18.3
FSB		18.7%

(a) Transitional Basel III regulatory minimum capital requirement and the additional capital conservation buffer as defined by the Federal Reserve for calendar year 2016 for Advanced Approaches institutions. Refer to the “Capital Conservation Buffer” section of this disclosure for additional information.

**Components of Regulatory Capital**

American Express maintains a range of capital instruments to meet its regulatory capital requirements and to maintain a strong capital base. These capital instruments include common stock, non-cumulative perpetual preferred stock and subordinated debt. For additional information on the Company’s capital strategy refer to the “Capital Strategy” section of this report and the “Consolidated Capital Resources and Liquidity” section of the 2015 Annual Report and Q3’16 Form 10-Q.

*Common Stock*

The Company’s common stock is listed on The New York Stock Exchange under the trading symbol AXP. As of September 30, 2016, common stock plus related surplus, net of treasury stock and unearned employee stock ownership plan shares was \$11.4 billion. Under the Final Rule, the Company’s common stock qualifies as CET1 capital. For additional information on the Company’s common shares refer to Note 17 “Common and Preferred Shares” of the 2015 Annual Report.

*Preferred Stock*

As of September 30, 2016 the Company had \$750 million of non-cumulative perpetual preferred shares (the “Series B Preferred Shares”) outstanding with an initial fixed dividend coupon of 5.20 percent, and a floating dividend coupon at three-month LIBOR plus 3.428 percent. The Company also had \$850 million of non-cumulative perpetual preferred shares (the “Series C Preferred Shares”) outstanding as of September 30, 2016 with an initial dividend fixed coupon of 4.90 percent, and a floating dividend coupon at an annual rate equal to three-month LIBOR plus 3.285 percent. Based upon the Company’s understanding of the Final Rule, the Company’s Series B and Series C Preferred Shares qualify as additional Tier 1 capital. For additional information on the Company’s preferred shares refer to Note 17 “Common and Preferred Shares” of the 2015 Annual Report.

*Subordinated Debt*

The Company had \$600 million of Subordinated Notes outstanding as of September 30, 2016 with a coupon of 3.625 percent and a maturity date of December 5, 2024. Based upon the Company’s understanding of the Final Rule, these Subordinated Notes qualify as Tier 2 capital.



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The following table presents a reconciliation of total common shareholders' equity (included in Total shareholders' equity in the Company's Consolidated Balance Sheets) to regulatory Total capital as of September 30, 2016. Regulatory capital figures presented below are inclusive of Basel III Standardized Approach transition provisions.

<i>(Millions)</i>	<b>September 30, 2016</b>
Common stock and related surplus <sup>(a)</sup>	\$ 11,390
Retained earnings <sup>(b)</sup>	10,651
Accumulated other comprehensive income (AOCI)	(2,618)
<b>Total common shareholders' equity</b>	<b>19,423</b>
AOCI adjustment <sup>(c)</sup>	184
Less:	
Goodwill net of associated deferred tax liabilities (DTLs)	2,260
Intangible assets, net of associated DTLs	475
Ineligible deferred tax assets (DTAs)	56
<b>CET1 capital</b>	<b>16,816</b>
Additional Tier 1 capital before deductions <sup>(d)</sup>	1,589
Less: Tier 1 deductions <sup>(e)</sup>	51
<b>Tier 1 capital</b>	<b>18,354</b>
Tier 2 capital before deductions <sup>(f)</sup>	2,146
Less: Tier 2 deductions <sup>(g)</sup>	13
<b>Tier 2 capital</b>	<b>2,133</b>
<b>Total capital</b>	<b>\$ 20,487</b>

(a) Amount is composed of \$12,974 million of Common Stock and related surplus reported in the Company's Consolidated Balance Sheets, less \$1,584 million of Preferred Stock and related surplus, net of issuance costs which is considered as Tier 1 capital under the Final Rule.

(b) Amount is composed of \$10,661 million of Retained earnings reported in the Company's Consolidated Balance Sheets, less \$10 million for an allocated transfer tax reserve required for regulatory reporting purposes only.

(c) The AOCI adjustment reflects the transitional treatment over the phase-out period. Amount before applying transition provision (40 percent transition AOCI adjustment amount to be applied to CET1 Capital for 2016) is composed of \$50 million of net unrealized gains on available-for-sale securities and \$509 million unrealized losses of defined benefit postretirement plans recorded in AOCI.

(d) Amount is composed of \$1,584 million of Preferred Stock including related surplus, net of issuance costs and \$5 million in minority interests of majority owned consolidated subsidiaries.

(e) Amount is composed of \$38 million in DTAs that arise from net operating losses not deducted from CET1 capital and \$13 million capital deduction for 50 percent of the minimum regulatory capital of insurance underwriting subsidiaries.

(f) Amount is composed of \$1,546 million allowance for receivable and loan losses (limited to 1.25 percent of risk-weighted assets) and \$600 million of Subordinated Notes due 2024.

(g) Represents capital deduction for 50 percent of the minimum regulatory capital of insurance underwriting subsidiaries.

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**Risk-Weighted Assets**

The Company's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories for purposes of calculating the required regulatory risk-based capital ratios. The Final Rule amends and replaces the prior risk-weighting categories used to calculate Basel I risk-weighted assets with a broader array of risk weighting categories that are intended to be more risk sensitive and may result in higher risk weights. The following table presents the Basel III Standardized Approach risk-weighted assets by exposure type, as prescribed by the Final Rule and relevant to the Company, as of September 30, 2016.

<i>(Millions)</i>	<b>September 30, 2016</b>
Consumer and small business loans and receivables <sup>(a)</sup>	\$ 90,397
Corporate exposures <sup>(b)</sup>	18,745
Equity exposures <sup>(c)</sup>	2,602
Exposures to depository institutions, foreign banks, and credit unions	1,701
Exposures to public sector entities <sup>(d)</sup>	1,095
Loans and receivables greater than 90 days past due or on non-accrual <sup>(e)</sup>	1,011
Exposures to sovereign entities	173
Other <sup>(f)</sup>	7,843
<b>Total risk-weighted assets</b>	<b>\$ 123,567</b>

(a) Composed of loans and receivables due from individual and Global Small Business Services ("GSBS") Card Members.

(b) Primarily composed of Card Member loans and receivables due from the Company's Global Corporate Payments ("GCP") Card Members.

(c) Refer to the "Equities Not Subject to the Market Risk Rule" section for details on the composition of the Company's equity exposures.

(d) Primarily composed of investments in municipal and state bonds, Community Reinvestment Act ("CRA") investments and loans to GCP Card Members.

(e) Primarily composed of Card Member loans and receivables due from individual and GSBS Card Members that are greater than 90 days past due.

(f) Primarily composed of premises and equipment, other receivables, DTAs and prepaid assets.

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## **Capital Management**

The Company is 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 banks (collectively, “banking organizations”) have adequate capital given the level of assets and off-balance sheet obligations, and to minimize disincentives for holding liquid assets.

### **Capital Strategy**

The Company’s objective is to retain sufficient levels of capital generated through earnings and other sources to maintain a solid equity capital base and to provide flexibility to support future business growth. American Express believes capital allocated to growing businesses with a return on risk-adjusted equity in excess of the Company’s costs will generate shareholder value.

The level and composition of the Company’s consolidated capital position are determined through the internal capital adequacy assessment process, which takes into account the Company’s business activities, as well as marketplace conditions and requirements or expectations of credit rating agencies, regulators and shareholders, among others. The Company’s consolidated capital position is also influenced by subsidiary capital requirements. As a bank holding company, the Company is also subject to regulatory requirements; and the Federal Reserve has established specific capital adequacy guidelines for bank holding companies that involve quantitative measures of assets, liabilities and certain off-balance sheet items.

The Company seeks to maintain capital levels and ratios in excess of the minimum regulatory requirements and finance such capital in a cost efficient manner; failure to maintain minimum capital levels could affect the Company’s status as a financial holding company and cause the respective regulatory agencies to take actions that could limit the Company’s business operations.

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

### **Stress Testing**

As part of its implementation of the enhanced prudential requirements of Dodd-Frank, the Federal Reserve issued rules relating to supervisory and company-run analyses of certain large bank holding companies to evaluate whether the companies have sufficient capital, on a total consolidated basis, necessary to absorb losses and support operations under adverse economic conditions (so-called “stress tests”). The Federal Reserve applies its stress test and capital planning requirements on a consolidated basis to bank holding companies with at least \$50 billion in total consolidated assets, which includes the Company.

- *Supervisory Stress Testing:* The Federal Reserve conducts annual stress tests of bank holding companies. Under this rule, the stress tests use a minimum of three macroeconomic scenarios generated by the Federal Reserve (baseline, adverse and severely adverse), and are based on methodologies and data that the Federal Reserve makes available to companies each year. A summary of results of individual stress tests are made public by the Federal Reserve on a company-specific basis.
- *Company Stress Testing:* Bank holding companies are also required to conduct a similar stress test on a semiannual basis. A summary of the results of each of these tests are made available to the public on the Company’s Investor Relations website.

### **Capital Planning**

Bank holding companies with \$50 billion or more in total consolidated assets, including the Company, are required to develop and maintain a capital plan, and to submit the capital plan to the Federal Reserve for review under its Comprehensive Capital Analysis and Review (“CCAR”) process. The capital plan must cover a “planning horizon”

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of at least nine quarters (beginning with the quarter preceding the submission of the plan) and include the following components:

- an assessment of the bank holding company's expected uses and sources of capital over the planning horizon that accounts for the bank holding company's size, complexity, risk profile and scope of operations, and under expected and stressful conditions according to scenarios developed by the bank holding company and the Federal Reserve;
- a detailed description of the bank holding company's process for assessing capital adequacy, including how it will, under expected and stressful conditions, maintain capital commensurate with its risks, above the minimum regulatory ratios, and to serve as a source of strength to its subsidiary depository institutions, and sufficient to continue operations by maintaining steady access to funding, meeting obligations to creditors and other counterparties and continuing to serve as a credit intermediary;
- the bank holding company's capital policy; and
- a discussion of any expected changes to the bank holding company's business plan that are likely to have a material impact on the bank holding company's capital adequacy or liquidity.

For the purpose of CCAR, each bank holding company is required to submit the results of its stress tests based on three supervisory scenarios, at least one stress scenario developed by the bank holding company and a baseline scenario. The severely adverse stress scenario developed by the Federal Reserve for the 2016 process is designed to represent an outcome that, in the opinion of the Federal Reserve, is unlikely, but could occur if the U.S. economy were to experience a deep recession while at the same time economic activity in other major economies were also to contract significantly.

A bank holding company's Board of Directors, or a designated committee thereof, is required, at least annually, to review the "robustness" of the bank holding company's process for assessing capital adequacy, ensure that any deficiencies are remedied and approve the capital plan.

In its review of the capital plan, the Federal Reserve considers the plan's comprehensiveness, the reasonableness of its assumptions and analysis, and the bank holding company's methodologies for reviewing the robustness of the capital adequacy process and ability to maintain capital above minimum regulatory ratios under expected and stressful conditions throughout the planning horizon. In addition, the Federal Reserve engages in a qualitative review of a bank holding company's capital planning processes and procedures. Based on its overall review of the capital plan, the Federal Reserve either objects or does not object to the capital plan. Bank holding companies are also subject to an ongoing requirement to revise and resubmit their capital plans upon the occurrence of certain events specified by rule, or when required by the Federal Reserve. In addition to other limitations, the Company's ability to make any capital distributions (including dividends and share repurchases) is contingent on the Federal Reserve's non-objection to the Company's capital plan under both quantitative and qualitative tests. Likewise, the Federal Reserve may limit the Company's ability to take any capital actions should the Company fail to include any intended action in the capital plan. Should the Federal Reserve object to a capital plan, a bank holding company may not make any capital distribution other than those capital distributions that the Federal Reserve has indicated non-objection to in writing.

Beginning in 2016, participating bank holding companies are required to submit their capital plans and stress testing results to the Federal Reserve on or before April 5 of each year, instead of on or before January 5 of each year as previously required. On June 29, 2016, the Company was informed that the Federal Reserve did not object to its capital plan to return capital to shareholders through share repurchases of up to \$3.3 billion during the period beginning the third quarter of 2016 through and including the second quarter of 2017, as well as an increase in the quarterly dividend to \$0.32 per share from \$0.29 per share, beginning with the third quarter 2016 dividend declaration. The timing and amount of common shares purchased under the authorized capital plan will depend on various factors, including the Company's business plans, financial performance and market conditions.

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**Capital Conservation Buffer**

The capital conservation buffer (“CCB”) requirements were established by the Federal Reserve to improve capital conservation and encourage banking institutions to hold sufficient capital to reduce the risk that their capital levels would fall below regulatory minimums during periods of financial stress.

**Capital Conservation Buffer Requirements and Measurement**

Effective as of January 1, 2016, the Final Rule requires that the Standardized Approach regulatory capital ratios (CET1, Tier 1, and Total) to be in excess of the minimum regulatory capital ratio requirement plus a capital conservation buffer of 0.625 percent to avoid limitations on capital distributions and discretionary bonus payments to executive officers. The CCB will increase each subsequent year by an additional 0.625 percent until it is fully phased in at 2.5 percent on January 1, 2019. The table below presents the Company’s CCB measurement as of September 30, 2016 reflecting that all regulatory capital ratios met the required thresholds with the Total capital ratio being the constraint at 8.6 percent. This is well above CCB requirements and as a result the Company is not subject to restrictions or limitations on its capital distributions or discretionary bonus payments to executive officers as of September 30, 2016.

	<b>Ratios as of September 30, 2016 <sup>(a)</sup></b>	<b>Basel III Minimum 2016 <sup>(b)</sup></b>	<b>CCB Measurement <sup>(a-b)</sup></b>
CET1	13.6 %	4.5 %	9.1 %
Tier 1	14.9	6.0	8.9
Total	16.6 %	8.0 %	8.6 %

(a) Basel III Standardized Approaches regulatory risk-based capital ratios.

(b) Basel III Advanced Approaches regulatory minimum capital requirement as defined by the Federal Reserve.

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## **Credit Risk General Disclosures**

Credit risk is defined as loss due to obligor or counterparty default or changes in the credit quality of a security. The Company's credit risks are divided into two broad categories: individual and institutional. Individual credit risk arises principally from the consumer and small business charge cards, credit cards, lines of credit and loans. Institutional credit risk arises principally within the Company's Global Corporate Payments ("GCP"), Global Merchant Services ("GMS"), Global Network Services ("GNS") and Foreign Exchange Services businesses, as well as investment and liquidity management activities.

### **Risk Management**

The "Risk Management" section of the 2015 Annual Report includes additional information on the Company's overall risk management policies and objectives. For a discussion on the Company's risk management processes relating to credit risk, counterparty credit risk and interest rate risk refer to the "Governance", "Credit Risk Management Process" and "Market Risk Management Process" sections of the 2015 Annual Report.

- Overall risk management policies and procedures are discussed in the "Governance" section of the 2015 Annual Report. This section includes additional information on the Company's comprehensive Enterprise-wide Risk Management program that identifies, aggregates, monitors, and manages risks and defines the Company's risk appetite, governance, culture and capabilities.
- Credit risks are discussed in the "Credit Risk Management Process" section of the 2015 Annual Report. This section provides additional information on the nature of the Company's credit risks, both individual and institutional, as well as a discussion on the overall risk management structure, objectives and processes relating to these risks.
- Interest rate risks are discussed in the "Market Risk Management Process" section of the 2015 Annual Report. This section provides additional information on the nature of the Company's market risks, as well as a discussion on the overall risk management structure, objectives and processes relating to these risks.

### **Credit Risk Exposures**

The following tables present the Company's significant on- and off-balance sheet credit risk and average credit risk exposures by counterparty, remaining contractual maturity and geographic region. Credit risk exposures are presented using regulatory reporting categories similar to the categories reported in the Company's FR Y-9C, Schedule HC-R (Part II, Risk-Weighted Assets). The following information provides details on the composition of the Company's significant credit risk exposures presented in the tables below and their relationship to the Consolidated Balance Sheets reported in the Q3'16 Form 10-Q:

- Cash and balances due from depository institutions are primarily composed of Cash and cash equivalents as reported in the Company's Consolidated Balance Sheets, less securities purchased under agreements to resell and short-term investment securities.
- Loans and leases, net of unearned income are primarily composed of Card Member receivables, Card Member loans and Other loans as reported in the Company's Consolidated Balance Sheets.
- Securities are primarily composed of available-for-sale investment securities and short-term investment securities reported as Investment securities and Cash and cash equivalents in the Company's Consolidated Balance Sheets.
- Other assets are primarily composed of Other receivables and Investments in joint ventures and other partnerships as reported in the Company's Consolidated Balance Sheets. Other assets reported in the Company's Consolidated Balance Sheets but not presented in the credit risk tables below primarily include premises and equipment, goodwill, DTA, prepaid expenses, intangible assets and restricted cash. These amounts are not presented because they are not considered significant credit risks.
- Derivative contracts in a net asset position are reported in Other assets in the Company's Consolidated Balance Sheets but are presented below as a separate line item to align with regulatory reporting categories.

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Amounts presented represent both the on- and off- balance sheet derivative exposures and include effects of certain credit risk mitigation techniques, such as netting and collateral.

- Off-balance sheet exposures are primarily composed of commitments that are not unconditionally cancellable (including guarantees). Amounts presented represent the exposure that is subject to risk-weighting.

*Credit Risk Exposures by Counterparty*

The table below presents the Company's significant credit risk exposures by type and counterparty as of September 30, 2016. Counterparty classification is based on the risk of loss or default from the Company's sovereign, bank and corporate obligors.

<i>(Millions)</i>	<b>Sovereign</b>	<b>Bank</b>	<b>Corporate</b>	<b>Other</b>	<b>Total</b>
Cash and balances due from depository institutions	\$ 20,244	\$ 4,864	\$ 48	\$ 113	\$ 25,269
Loans and leases, net of unearned income	41	294	15,639	91,139	107,113
Securities	2,112	20	—	2,604	4,736
Other assets	—	460	1,155	3,873	5,488
Derivative contracts in a net asset position	—	517	100	—	617
Off-balance sheet	—	—	242	48	290
<b>Total credit risk exposure</b>	<b>\$ 22,397</b>	<b>\$ 6,155</b>	<b>\$ 17,184</b>	<b>\$ 97,777</b>	<b>\$ 143,513</b>

*Credit Risk Exposures by Remaining Contractual Maturity*

The table below presents the Company's significant credit risk exposures by type and remaining contractual maturity as of September 30, 2016. Exposures classified as "No Maturity" include investments in common stock (equity securities) and other credit risks that have no contractual maturity.

<i>(Millions)</i>	<b>Within 1 year</b>	<b>1-5 years</b>	<b>After 5 years</b>	<b>No Maturity</b>	<b>Total</b>
Cash and balances due from depository institutions	\$ 25,269	\$ —	\$ —	\$ —	\$ 25,269
Loans and leases, net of unearned income <sup>(a)</sup>	106,803	248	62	—	107,113
Securities	1,943	352	2,392	49	4,736
Other assets	2,558	—	—	2,930	5,488
Derivative contracts in a net asset position	477	131	9	—	617
Off-balance sheet	82	61	147	—	290
<b>Total credit risk exposure</b>	<b>\$ 137,132</b>	<b>\$ 792</b>	<b>\$ 2,610</b>	<b>\$ 2,979</b>	<b>\$ 143,513</b>

(a) Loans and leases, net of unearned income is composed of Card Member receivables, Card Member loans and Other loans as reported on the Company's Consolidated Balance Sheets. Card Member receivables have no stated interest rate and are due upon receipt of Card Member statements. As a result, these balances are included as due within one year. Card Member loans have no stated maturity and are included as due within one year. However, many of the Company's Card Members will revolve their balances, which may extend their repayment period beyond one year. Amounts reported as due after one year include installment loans and loans due from modification programs classified as Troubled Debt Restructurings (TDRs).

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*Credit Risk Exposures by Geographic Region and Average Credit Risk Exposures*

The table below presents the Company's significant credit risk exposures and average credit risk exposures by type and geographic region as of September 30, 2016. Geographic region is classified as U.S. and International (non-U.S.) and is based on the domicile of the card issuer. The quarterly average is measured using a 2-point average for both on-and off-balance sheet exposures.

<i>(Millions)</i>	<b>U.S.</b>	<b>International</b>	<b>Total</b>	<b>Average</b>
Cash and balances due from depository institutions	\$ 22,617	\$ 2,652	\$ 25,269	\$ 29,165
Loans and leases, net of unearned income	87,268	19,845	107,113	106,727
Securities	3,254	1,482	4,736	4,603
Other assets	3,279	2,209	5,488	5,237
Derivative contracts in a net asset position	178	439	617	748
Off-balance sheet	288	2	290	288
<b>Total credit risk exposure</b>	<b>\$ 116,884</b>	<b>\$ 26,629</b>	<b>\$ 143,513</b>	<b>\$ 146,768</b>

**Credit Risk: Card Member Loans and Card Member Receivables**

The Company's charge and lending payment card products result in the generation of Card Member receivables and Card Member loans, respectively. Charge cards generally carry no pre-set spending limits and are primarily designed as a method of payment and not as a means of financing purchases. Charge Card Members generally must pay the full amount billed each month. Credit cards have a range of revolving payment terms, grace periods, and rate and fee structures.

*Aging of Card Member Loans and Card Member Receivables*

Generally, a Card Member account is considered past due if payment is not received within 30 days after the billing statement date and delinquent if payment is not received within 60 days after the billing statement date. For additional details on the aging of Card Member loans and Card Member receivables and an analysis of the aging of past due loans refer to the "Card Member Loans and Card Member Receivables Aging" and the "Credit Quality Indicators for Card Member Loans and Receivables" sections in Note 3 "Loans and Accounts Receivable" of the Q3'16 Form 10-Q.

*Impairment of Card Member Loans and Card Member Receivables*

Impaired loans and receivables are defined 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. The Company considers impaired loans and receivables to include: (i) loans over 120 days after the billing statement date (i.e., 90 days past due) and still accruing interest, (ii) non-accrual loans and (iii) loans and receivables modified as troubled debt restructurings ("TDRs"). For additional information on impaired Card Member loans and receivables and the related policies, refer to the "Impaired Card Member Loans and Receivables" section in Note 3 "Accounts Receivable and Loans" and the "Card Member Receivables Evaluated Individually and Collectively for Impairment" section in Note 4 "Reserves for Losses" of the 2015 Annual Report and Q3'16 Form 10-Q.

*Write-Off of Card Member Loans and Card Member Receivables*

Card Member loan and receivable balances are written off when management considers amounts to be uncollectible, which is generally determined by the number of days past due and is typically no later than 210 days after the billing statement date (i.e., 180 days past due). Card Member loans and receivables in bankruptcy or owed by deceased individuals are generally written off upon notification, and recoveries are recognized as they are collected. For additional information on the Company's policies around reserve for losses and write-offs, refer to Note 4 "Reserves for Losses" of the 2015 Annual Report. Generally, the Company accrues interest through the date of write-off (typically 210 days after the billing statement date) with exceptions such as accelerated charge-offs due to bankruptcy, deceased and settlements, or TDR programs. The Company's policy is not to resume the accrual of interest on these loans.



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The following table presents the Company's impaired Card Member loans and receivables by significant geographic region (U.S. and International) and by counterparty type (Sovereign, Bank, Corporate and Other) as of September 30, 2016. Amounts presented exclude Card Member loans and Card Member receivables classified as HFS. Impaired Card Member receivables are not significant for International Consumer and Network Services ("ICNS") and are not presented.

<i>(Millions)</i>	<b>Card Member Loans and Receivables</b>					
	Region			Counterparty		
	US	International	Total	Sovereign, Bank & Corporate	Other <sup>(e)</sup>	Total
Loans over 90 Days Past Due & Accruing Interest <sup>(a)</sup>	\$ 183	\$ 52	\$ 235	\$ —	\$ 235	\$ 235
Non - Accrual Loans <sup>(b)</sup>	162	—	162	—	162	162
Loans & Receivables Modified as a TDR <sup>(c)</sup>	390	—	390	—	390	390
<b>Total Impaired Loans &amp; Receivables</b>	<b>\$ 735</b>	<b>\$ 52</b>	<b>\$ 787</b>	<b>\$ —</b>	<b>\$ 787</b>	<b>\$ 787</b>
<b>Allowance for TDRs <sup>(d)</sup></b>	<b>\$ 84</b>	<b>\$ —</b>	<b>\$ 84</b>	<b>\$ —</b>	<b>\$ 84</b>	<b>\$ 84</b>

(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 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 \$14 million that are non-accrual and \$19 million that are past due 90 days and still accruing interest as of September 30, 2016. The Company continues to classify Card Member accounts that have exited a modification program as TDR.

(d) 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 "Reserves for Losses" of the 2015 Annual Report and Q3'16 Form 10-Q for further disclosure 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.

(e) Amounts reported primarily include impaired loans and receivables due from individual and GSBS Card Members.

*Allowance for Loan and Lease Losses*

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

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

The process of estimating these reserves requires a high degree of judgment. To the extent historical credit experience, updated for any external and internal qualitative factors such as environmental trends, is not indicative of future performance, actual losses could differ significantly from management's judgments and expectations, resulting in either higher or lower future provisions for Card Member losses in any quarter. For additional information on the methodology used to estimate allowance for loan and lease losses and the policy for charging off uncollectible amounts refer to Note 4 "Reserves for Losses" of the 2015 Annual Report.

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The following table presents changes in the Card Member loans and Card Member receivables reserve for losses for the nine months ended September 30, 2016. Amounts reported as “Other” primarily relate to the Company’s U.S. Consumer Services (“USCS”), International Consumer and Network Services (“ICNS”) and Global Small Business Services (“GSBS”) businesses while Card Member loans and receivables classified as “Corporate”, “Sovereign” and “Bank” primarily relate to the Company’s GCP Card Member loans and receivables.

<i>(Millions)</i>	Card Member Loans			Card Member Receivables		
	Sovereign, Bank & Corporate	Other	Total	Sovereign, Bank & Corporate	Other	Total
<b>Balance, January 1, 2016</b>	\$ —	\$ 1,028	\$ 1,028	\$ 103	\$ 359	\$ 462
Provisions <sup>(a)</sup>	—	831	831	108	388	496
Net write-offs				(108)	(410)	(518)
Principal <sup>(b)</sup>	—	(687)	(687)			
Interest and fees <sup>(b)</sup>	—	(128)	(128)			
Other <sup>(c)</sup>	—	70	70	(0)	(3)	(3)
<b>Balance, September 30, 2016</b>	<b>\$ —</b>	<b>\$ 1,114</b>	<b>\$ 1,114</b>	<b>\$ 103</b>	<b>\$ 334</b>	<b>\$ 437</b>
Loans and Receivables evaluated individually for impairment <sup>(d)</sup>	\$ —	\$ 344	\$ 344	\$ —	\$ 46	\$ 46
Related reserves <sup>(d)</sup>	\$ —	\$ 60	\$ 60	\$ —	\$ 24	\$ 24
Loans and Receivables evaluated collectively for impairment <sup>(e)</sup>	\$ —	\$ 60,274	\$ 60,274	\$ 15,797	\$ 29,415	\$ 45,212
Related reserves <sup>(e)</sup>	\$ —	\$ 1,054	\$ 1,054	\$ 102	\$ 311	\$ 413

(a) Provisions for principal, fees and interest (Card Member loans only) reserve components.

(b) Consists of principal, fees and interest (Card Member loans only) components, less recoveries, including net write-offs from TDRs.

(c) Represents foreign currency translation adjustments. The nine months ended June 30, 2016 also includes reserves of \$67 million associated with \$265 million of Card Member loans reclassified from HFS to held for investment during the first half of the year.

(d) Represents loans and receivables modified as a TDR and related reserves and includes the impact of the transfer of the HFS receivables portfolio, which was not significant. Refer to Note 4 "Reserves for Losses" in the 2015 Annual Report and Q3'16 Form 10-Q for further information.

(e) 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 receivables, and reserves for internal and external qualitative risk factors that apply to loans and receivables that are collectively evaluated for impairment.

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## Counterparty Credit Risk for Derivative Contracts and Securities Purchased Under Agreements to Resell

Counterparty credit risk is the credit risk that the Company assumes when it enters into a financial contract with a counterparty. The risk arises due to non-payment of an amount contractually owed to the Company by the counterparty before the final settlement of the contract. Derivative contracts and securities purchased under agreements to resell are part of the Company's counterparty credit risk exposures.

The Company uses derivative financial instruments to manage exposures to various market risks and not for trading purposes. Derivative contracts and securities purchased under agreements to resell may give rise to counterparty credit risk, which is the risk that a derivative counterparty will default on, or otherwise be unable to perform pursuant to, an uncollateralized derivative exposure. The Company does not have exposure related to margin loan positions or credit derivatives.

### Counterparty Credit Risk Limits

Business units taking institutional credit risks are supported by independent Chief Credit Officers (CCO). These officers are guided by the Institutional Risk Management Committee, which is responsible for implementation and enforcement of the Institutional Credit Risk Management Policy and for providing guidance to the credit officers of each business unit with substantial institutional credit risk exposures. CCOs are required to obtain an independent credit risk assessment for all institutional counterparties from the central rating unit and assign limits in accordance with the risk tolerance of the company. For additional information on the Company's credit risk management processes refer to the "Credit Risk Management Process" section of the 2015 Annual Report.

### Derivative and Hedging Activities

Derivatives derive their value from an underlying variable or multiple variables, such as 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. Interest rate risk primarily arises through the funding of Card Member receivables and fixed-rate loans with variable-rate borrowings as well as through the risk to net interest margin from changes in the relationship between benchmark rates such as Prime and LIBOR. Foreign exchange risk is generated by Card Member cross-currency charges, foreign currency balance sheet exposures, foreign subsidiary equity and foreign currency earnings in entities outside the United States. For additional information on derivative and hedging activities refer to Note 14 "Derivatives and Hedging Activities" of the 2015 Annual Report and Note 9 of the Q3'16 Form 10-Q.

### Derivatives and Securities Purchased Under Agreements to Resell

The following table presents the Company's counterparty credit risk exposures to derivative contracts and securities purchased under agreements to resell as of September 30, 2016.

<i>(Millions)</i>	Gross Positive Fair Value <sup>(a)</sup>	Current Credit Exposure <sup>(b)</sup>	Eligible Collateral <sup>(c)</sup>	Net Unsecured Credit Exposure <sup>(d)</sup>	Net Unsecured Credit Exposure Adjusted <sup>(e)</sup>
Derivative contracts	\$ 720	\$ 621	\$ 280	\$ 341	\$ 341
Interest rate swaps	330	330	280	50	50
FX forwards	390	291	—	291	291
Securities purchased under agreements to resell	\$ 243	\$ 243	\$ —	\$ 243	\$ 243

(a) Represents the sum of all positive mark-to-market values of each individual derivative contract.

(b) For a single derivative contract, amount represents the greater of the mark-to-market value of the derivative contract or zero. For multiple derivative contracts subject to a qualifying master netting agreement, amount represents the greater of the net sum of all positive and negative mark-to-market values of the individual derivative contracts or zero.

(c) Represents collateral that secures a single derivative contract or multiple derivative contracts subject to a qualifying master netting agreement. As of September 30, 2016, the Company held \$256 million in cash collateral and \$24 million in non-cash collateral in the form of security interests in U.S. Treasury securities for interest rate swaps. In addition, the Company also has collateral for its securities purchased under agreements to resell but it is not eligible for netting under the Final Rule.

(d) Credit exposure after benefits from legally enforceable netting agreements and collateral arrangements.

(e) Credit exposure after benefits from legally enforceable netting agreements and collateral arrangements adjusted for price volatility and foreign exchange rate volatility as prescribed by the Final Rule.

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**Counterparty Credit Risk Mitigation**

The Company manages counterparty credit risk by considering the current exposure, which is the replacement cost of contracts on the measurement date, as well as estimating the maximum potential value of the contracts over the next 12 months, considering such factors as the volatility of the underlying or reference index. To mitigate derivative credit risk, counterparties are required to be pre-approved by the Company's centralized risk rating unit and rated as investment grade. Counterparty risk exposures are centrally monitored by the Company. Additionally, in order to mitigate the bilateral counterparty credit risk associated with derivatives, the Company has in certain instances entered into master netting agreements with its derivative counterparties, which provide a right of offset for certain exposures between the parties. A majority of the Company's derivative assets and liabilities as of September 30, 2016 are subject to such master netting agreements with its derivative counterparties. To further mitigate bilateral counterparty credit risk, the Company exercises its rights under executed Credit Support Annexes (CSAs) with certain of its derivative counterparties. These agreements require that, in the event the fair value change in the net derivatives position between the two parties exceeds certain dollar thresholds, the party in the net liability position posts collateral to its counterparty. All derivative contracts cleared through a central clearinghouse are collateralized to the full amount of the fair value of the contracts.

**Types of Eligible Collateral Held**

Eligible collateral held from derivative counterparties is limited to cash in U.S. dollar, U.S. Treasury Securities or other U.S. Government Obligations. Eligible collateral held is subject to applicable standard supervisory market price volatility and foreign exchange rate volatility haircut calculations as prescribed by the Final Rule and is reflected in the table above.

**Collateral Management and Valuation**

The Company has processes and controls in place to monitor the daily transfer of collateral as stipulated under its CSAs. Eligible non-cash collateral is limited to U.S. Government Obligations and their valuations are readily verified by available market quotes.

**Bank's Own Credit Deterioration**

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 any company specified credit risk-related event.

**Credit Reserves**

Credit reserves were not required as of September 30, 2016 as there were no derivative contracts or securities purchased under agreements to resell with counterparties in a non-performing status.

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## **Equities Not Subject to the Market Risk Rule**

The Company's equity exposures not subject to the Market Risk Rule are primarily entered into to meet strategic business needs, rather than for generating capital gains. Equity exposures include, but are not limited to, investments in money market funds and mutual funds; in joint ventures and other partnerships; in Community Reinvestment Act investments ("CRA"); and in connection with the Company's Bank Owned Life Insurance ("BOLI") programs.

### **Accounting and Valuation Methodologies**

The Company generally accounts for equity investments that are not subject to the Market Risk Rule using one of the approaches described below.

#### *Equity and Cost Method Investments*

Entities in which the Company's voting interest in common equity does not provide it with control, but allows the Company to exert significant influence over the operating and financial decisions, are accounted for under the equity method. All other investments in equity securities, to the extent that they are not considered marketable securities, are accounted for under the cost method.

#### *Available-for-Sale Investments*

The Company's available-for-sale investment securities are carried at fair value on the Consolidated Balance Sheets with unrealized gains (losses) recorded in AOCI, net of income taxes. Realized gains and losses are recognized upon disposition of the securities using the specific identification method on a trade date basis. For additional information on the Company's investment securities that are available-for-sale and a description of the methodology for determining the fair value of investment securities, refer to Note 5 "Investment Securities" of the Q3'16 Form 10-Q and to Note 15 "Fair Values" of the 2015 Annual Report, respectively.

### **Realized and Unrealized Gains (Losses)**

There were no significant unrealized gains (losses) on equity investments or net realized gains (losses) on the sale and liquidation of equity investments for the three months ended September 30, 2016.

### **Risk-Weighting Approaches**

The Company uses two approaches to risk weight equity exposures that are not subject to the Market Risk Rule: Simple Risk Weight Approach ("SRWA") and Alternative Modified Look-Through Approach ("AMLTA").

The Company applies SRWA to CRA, publicly traded and non-publicly traded equity exposures. Under this approach, the adjusted carrying value or exposure amount for each type of equity exposure is multiplied by a prescribed risk weight. The adjusted carrying value of an on-balance sheet equity exposure is the carrying value of the exposure. For an off-balance sheet commitment, the exposure amount is the effective notional amount multiplied by an applicable credit conversion factor which is based upon whether the commitment is conditional or unconditional and the related maturity.

Although the SRWA assigns specific risk weights to different types of equity exposures, the Final Rule allows "non-significant equity exposures" to be risk-weighted at 100 percent. Under the "non-significant equity exposures" treatment, the aggregate adjusted carrying value of the Company's equity exposures that is less than 10 percent of Tier 1 plus Tier 2 capital is risk-weighted at 100 percent, and the remaining portion is then risk-weighted as appropriate under the SRWA. The Company's total non-significant equity exposure is currently below the 10 percent of Tier 1 plus Tier 2 capital threshold.

The Company applies AMLTA for equity exposures to investment funds (money market funds, mutual funds, and BOLI investments). Under the AMLTA, the adjusted carrying value of an equity exposure to an investment fund is assigned on a pro-rata basis to the different risk weight categories based on the investment limits in the fund's prospectus, partnership agreement or similar contract that defines the fund's permissible investments. Under this approach, it is assumed that the fund invests to the maximum extent permitted under its investment limits in the

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exposure type with the highest applicable risk weight and continues to make investments in order of the exposure type with the next highest applicable risk weight, until the maximum total investment is reached.

**Nature and Types of Exposures**

The following table presents a summary of the Company's equity exposures not subject to the Market Risk Rule as of September 30, 2016.

<i>(Millions)</i>	<b>Cost</b>	<b>Unrealized Gains (Losses)</b>	<b>Estimated Fair Value</b>	<b>RWA</b>	<b>Minimum Capital <sup>(a)</sup></b>
Non-publicly traded:					
Non-significant equity exposures	\$ 1,134	\$ —	\$ 1,134	\$ 1,134	\$ 91
Significant investments in unconsolidated financial institutions	281	—	281	281	22
Publicly traded:					
Non-significant equity exposures	1	1	2	2	—
Community Development Equity exposures <sup>(b)</sup>	804	(1)	803	803	64
Investment Funds	999	—	999	382	31
<b>Total equity exposure</b>	<b>\$ 3,219</b>	<b>\$ —</b>	<b>\$ 3,219</b>	<b>\$ 2,602</b>	<b>\$ 208</b>

(a) Amount presented represents transitional Basel III regulatory minimum capital of 8 percent of risk-weighted assets.

(b) Amount presented is primarily composed of CRA equity exposures.

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### Interest Rate Risk for Non-Trading Activities

The Company is exposed to interest rate risk due to fluctuations in interest rates, including changes in the relationship between our lending rate (related to assets such as loans, receivables and investment securities) and our funding rate (related to liabilities such as debt and deposits).

The Company's Asset Liability Management Policy establishes the framework that guides and governs interest rate risk management, including clear quantitative limits and escalation triggers. This Policy is approved by the Risk Committee of the Board of Directors. Interest rate risk management is also guided by policy covering the use of derivative financial instruments, funding, liquidity and investments.

Interest rate exposure can vary over time as a result of, among other things, the proportion of total funding provided by variable- and fixed-rate debt and deposits compared to Card Member loans and receivables. Interest rate swaps are used from time to time to effectively convert debt issuances to (or from) variable-rate from (or to) fixed-rate.

The Company analyzes a variety of scenarios monthly to inform management of potential impacts of interest rate changes to earnings and the value of assets, liabilities and economic value of equity. As of September 30, 2016, the detrimental effect on the Company's annual net interest income of a hypothetical immediate 100 basis point increase in interest rates would be approximately \$198 million. To calculate this effect, the projected net interest income over the next 12 months is measured, incorporating assumptions relating to forecasted business growth, funding plans, depositor behavior and future interest rates implied by current market rates. The change in projected net interest income from a 100 basis point increase in rates is measured by increasing future interest rates by 100 basis points.

The table below presents a 12 month pretax net interest income sensitivity analysis as of September 30, 2016.

<i>(Millions)</i>	Instantaneous Parallel Rate Shocks			
	+400bps	+100bps	-100bps	-400bps
\$	(783)	(198)	320	305

Negative value represents a reduction in net interest income.

The Company is also subject to interest rate risk from changes in the relationship between the benchmark Prime rate that determines the yield on its variable-rate lending receivables and the benchmark LIBOR rate that determines the effective interest cost on a significant portion of its outstanding debt. Differences in the rate of change of these two indices, commonly referred to as basis risk, would impact the Company's variable-rate U.S. lending net interest margins because the Company borrows at rates based on LIBOR but lends to its customers based on the Prime rate. The detrimental effect on the Company's net interest income of a hypothetical 10 basis point decrease in the spread between Prime and one-month LIBOR over the next 12 months is estimated to be \$33 million. As of September 30, 2016, the Company had approximately \$34 billion of Prime-based, variable-rate U.S. lending receivables and \$33 billion of LIBOR-indexed debt, including asset securitizations.

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

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### Supplementary Leverage Ratio

The supplementary leverage ratio (“SLR”) is calculated by dividing Tier 1 capital by total leverage exposure under Basel III. The total leverage exposure reflects average total consolidated assets with adjustments for Tier 1 capital deductions, average off-balance sheet derivative exposures, securities purchased under agreements to resell and off-balance sheet exposures. The Company’s SLR as of September 30, 2016 was 10.3 percent, which is well above the regulatory minimum requirement of 3 percent (minimum requirement is effective as of March 31, 2018).

### Summary Comparison of Accounting Assets and Total Leverage Exposure

Total leverage exposure for supplementary leverage capital purposes was estimated to be \$178.7 billion and \$186.0 billion as of September 30, 2016 and June 30, 2016, respectively. Total leverage exposure is composed of average quarterly on-balance sheet and off-balance sheet exposure amounts. The on-balance sheet quarterly average is primarily derived using a 4-month average and the off-balance sheet quarterly average is primarily derived using a 3-month average. The 4-month average for on-balance sheet exposures is consistent with the Company’s approach for reporting leverage exposures in the FR Y-9C and will be replaced by a daily average as required changes to the Company’s accounting policies, processes, and systems are implemented and validated.

The following table presents a reconciliation of quarter end total consolidated assets as reported on the Company’s Consolidated Balance Sheets to total leverage exposure for the quarters ended September 30, 2016 and June 30, 2016.

<i>(Millions)</i>	<b>September 30, 2016</b>	<b>June 30, 2016</b>
Total consolidated assets <sup>(a)</sup>	\$ 153,377	\$ 159,642
Adjustments:		
Derivative exposures	284	336
Off-balance sheet exposures	23,745	28,391
Tier 1 capital deductions <sup>(b)</sup>	(2,842)	(2,861)
Other adjustments <sup>(c)</sup>	4,142	504
<b>Total leverage exposure</b>	<b>\$ 178,706</b>	<b>\$ 186,012</b>

(a) Total assets as reported on the Company’s Consolidated Balance Sheets in the Q3’16 Form 10-Q.

(b) Tier 1 capital deductions which include goodwill net of associated DTLs, intangible assets, net of associated DTLs, ineligible DTAs and additional tier 1 capital deductions. Refer to the “Components of Regulatory Capital” table of this report for information on the Company’s capital and related deductions.

(c) Represents the difference between Total assets as reported on the Company’s Consolidated Balance Sheets and average on- balance sheet assets reported for Total leverage exposure.



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**Supplementary Leverage Ratio**

The Company's SLR was 10.3 percent as of September 30, 2016 and 9.7 percent as of June 30, 2016. The change in the SLR was primarily driven by an increase in Tier 1 capital as a result of higher capital generation compared to capital distribution and a decrease in total leverage exposure as a result of the sale of a cobrand card portfolio, which caused average on- and off- balance sheet exposures to decline. The following table presents additional information on the components of total leverage exposure as well as the calculation of the SLR as of September 30, 2016 and June 30, 2016.

<i>(Millions, except percentages)</i>	<b>September 30, 2016</b>	<b>June 30, 2016</b>
<i>On-balance sheet exposures</i>		
On-balance sheet assets <sup>(a)</sup>	\$ 156,498	\$ 159,041
Less: Amounts deducted from tier 1 capital <sup>(b)</sup>	2,842	2,861
<b>Total on-balance sheet exposures</b>	<b>153,656</b>	<b>156,180</b>
<i>Derivative exposures</i>		
Replacement cost for derivative exposures (net of cash variation margin) <sup>(a)</sup>	853	1,013
Add-on amounts for potential future exposure (PFE) for derivative exposures	284	336
<b>Total derivative exposures</b>	<b>1,137</b>	<b>1,349</b>
<i>Repo-style transactions (securities purchased under agreements to resell)</i>		
On-balance sheet assets for securities purchased under agreements to resell <sup>(a)</sup>	168	92
<b>Total exposures for securities purchased under agreements to resell</b>	<b>168</b>	<b>92</b>
<i>Other off-balance sheet exposures</i>		
Off-balance sheet exposures at gross notional amounts	236,006	283,336
Less: Adjustments for conversion to credit equivalent amounts	212,261	254,945
<b>Off-balance sheet exposures</b>	<b>23,745</b>	<b>28,391</b>
<i>Capital and total leverage exposure</i>		
Tier 1 capital	18,354	18,026
<b>Total leverage exposure</b>	<b>\$ 178,706</b>	<b>\$ 186,012</b>
<b>Supplementary leverage ratio</b>	<b>10.3%</b>	<b>9.7%</b>

(a) Average on-balance sheet assets excluding on-balance sheet repo-style transactions (securities purchased under agreements to resell) and derivative exposures. Amount presented as "Replacement cost for derivative exposures" includes cash collateral received in derivative transactions as variation margin.

(b) Tier 1 capital deductions which include goodwill net of associated DTLs, intangible assets, net of associated DTLs, ineligible DTAs and additional Tier 1 capital deductions. Refer to the "Components of Regulatory Capital" table of this report for information on the Company's capital and related deductions.

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### **Glossary of Selected Terminology**

Accounting principles generally accepted in the United States of America (GAAP) – Accounting rules and conventions defining acceptable practices in preparing financial statements in the United States. The FASB is the primary source of accounting rules.

Bank Exposures – Exposures to U.S. depository institutions and foreign banks.

Capital Ratios – Represents the minimum standards established by the regulatory agencies as a measure to determine whether the regulated entity has sufficient capital to absorb on- and off-balance sheet losses beyond current loss accrual estimates.

Card Member – The individual holder of an issued American Express-branded charge, credit and certain prepaid cards.

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

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

Comprehensive Capital Analysis and Review (“CCAR”) – The Federal Reserve’s annual CCAR is an intensive assessment of the capital adequacy of large, complex BHCs and of the practices these BHCs use to assess their capital needs. The Federal Reserve expects these BHCs to have sufficient capital to withstand a highly stressful operating environment and be able to continue operations, maintain ready access to funding, meet obligations to creditors and counterparties, and serve as credit intermediaries.

Corporate Exposure – Corporate exposure means an exposure to a company/counterparty that is not a sovereign, a bank, a government-sponsored entity (“GSE”), a residential mortgage exposure, a residential mortgage exposure, a pre-sold construction loan, a statutory multifamily mortgage, a high volatility commercial real estate (“HVCRE”) exposure, a cleared transaction, a default fund contribution, a securitization exposure, an equity exposure; or an unsettled transaction.

Credit Conversion Factor – Percentage applied to an off-balance sheet amount to convert it to an exposure subject to risk-weighting. The credit conversion factor is set by the Final Rule.

Credit Risk Exposure – The total amount of credit extended to a borrower by a lender. The magnitude of credit exposure indicates the extent to which the lender is exposed to the risk of loss in the event of the borrower’s default.

Cross Currency Swaps – An agreement between two parties to exchange interest payments and principals denominated in two different currencies.

Final Rule – The Federal Reserve has established risk-based and leverage capital guidelines for bank holding companies, including the Company. On July 2, 2013, the Federal Reserve issued the Final Rule implementing a strengthened set of capital requirements, known as Basel III, in the United States.

Foreign Exchange Services – American Express business that consists of retail and wholesale currency exchange services and the Company’s FX International Payments operation.

FX Forwards – An agreement between two parties to exchange a certain amount of one currency for another currency at a specified exchange rate and at a specified future date. FX Forwards are used to hedge foreign currency risk. Forward contracts are traded between two counterparties over-the-counter (“OTC”).

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Global Commercial Services (“GCS”) – GCS includes the proprietary Global Corporate Payments (“GCP”) business, small business services businesses in the United States and internationally (collectively, Global Small Business Services (“GSBS”)), merchant financing products and Foreign Exchange Services.

Global Merchant Services (“GMS”) – GMS operates a global payments network that processes and settles proprietary and non-proprietary card transactions. GMS acquires merchants and provides multi-channel marketing programs and capabilities, services and data, leveraging the Company’s global closed-loop network. GMS also operates loyalty coalition businesses in certain countries around the world.

International Consumer and Network Services (“ICNS”) – ICNS issues a wide range of proprietary consumer cards outside the United States and enters into partnership agreements with third party card issuers and acquirers, licensing the American Express brand and extending the reach of the global network through the Global Network Services business (“GNS”). It also provides travel services to consumers outside the United States.

Interest Rate Risk – Exposure of a bank’s financial condition to adverse movements in interest rates.

Interest Rate Swaps – Interest rate swaps are primarily used to hedge interest rate exposure. It involves an agreement between two parties to exchange interest cash flows at specified intervals, based on a contractual notional. Most interest rate swaps are executed to swap a fixed rate with a floating rate or vice versa.

London Interbank Offered Rate (“LIBOR”) – A benchmark interest rate at which banks can obtain short-term loans from other banks in the London interbank market. The LIBOR is administered by the ICE Benchmark Administration and is fixed on a daily basis. The primary function of LIBOR is to serve as the benchmark reference rate for various financial products such as debt instruments, including government and corporate bonds, mortgages, student loans and credit cards, as well as derivatives such as currency and interest swaps.

Market Risk Rule – The Market Risk Rule is designed to determine capital requirements for trading assets based on general and specific market risk associated with these assets.

Pillar 3 – Third pillar of the Basel III framework requiring public disclosures designed to provide information on banking institutions’ regulatory capital and risk management practices.

Prime Interest Rate – The interest rate used by banks to set rates on consumer loan products. The prime interest rate is largely determined by the federal funds rate, which is the overnight rate at which banks lend to one another. It is often used as a reference rate, also called the base rate, for many types of loans, including small business and credit card loans.

Public Sector Entities (“PSEs”) – Public sector entity means a state, local authority, or other governmental subdivision below the sovereign level.

Sovereign Exposure – Sovereign means a central government (including the U.S. government) or an agency, department, ministry, or central bank of a central government. Sovereign exposure means a direct exposure to a sovereign or an exposure directly and unconditionally backed by the full faith and credit of a sovereign.

Unconditionally Cancelable – A commitment for which a banking organization may, at any time, with or without cause, refuse to extend credit (to the extent permitted under applicable law).

U.S. Consumer Services (“USCS”) – USCS issues a wide range of proprietary consumer cards and provides services to consumers in the United States, including consumer travel services.