

AMERICAN EXPRESS CO
Form 10-K
February 17, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from

to

Commission File No. 1-7657

American Express Company

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

13-4922250

(I.R.S. Employer Identification No.)

200 Vesey Street

New York, New York

(Address of principal executive offices)

10285

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Shares (par value \$0.20 per Share)

Name of each exchange on which registered
New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for a shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2016, the aggregate market value of the registrant's voting shares held by non-affiliates of the registrant was approximately \$56.1 billion based on the closing sale price as reported on the New York Stock Exchange.

As of February 8, 2017, there were 901,270,758 common shares of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Portions of Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Shareholders to be held on May 1, 2017.

Table of Contents**TABLE OF CONTENTS****Form 10-K**

Item Number		Page
	<u>PART I</u>	
1.	<u>Business</u>	
	<u>Introduction</u>	1
	<u>Business Operations</u>	2
	<u>Competition</u>	4
	<u>Supervision and Regulation</u>	5
	<u>Executive Officers of the Company</u>	16
	<u>Employees</u>	17
	<u>Additional Information</u>	17
1A.	<u>Risk Factors</u>	17
1B.	<u>Unresolved Staff Comments</u>	31
2.	<u>Properties</u>	31
3.	<u>Legal Proceedings</u>	31
4.	<u>Mine Safety Disclosures</u>	32
	<u>PART II</u>	
5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	33
6.	<u>Selected Financial Data</u>	35
7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)</u>	36
	<u>Executive Overview</u>	36
	<u>Consolidated Results of Operations</u>	38
	<u>Business Segment Results</u>	45
	<u>Consolidated Capital Resources and Liquidity</u>	54
	<u>Off-Balance Sheet Arrangements and Contractual Obligations</u>	61
	<u>Risk Management</u>	62
	<u>Critical Accounting Estimates</u>	67
	<u>Other Matters</u>	70
7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	74
8.	<u>Financial Statements and Supplementary Data</u>	74
	<u>Management's Report on Internal Control Over Financial Reporting</u>	74
	<u>Report of Independent Registered Public Accounting Firm</u>	75
	<u>Index to Consolidated Financial Statements</u>	76

	<u>Consolidated Financial Statements</u>	77
	<u>Notes to Consolidated Financial Statements</u>	82
9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	131
9A.	<u>Controls and Procedures</u>	131
9B.	<u>Other Information</u>	131
<u>PART III</u>		
10.	<u>Directors, Executive Officers and Corporate Governance</u>	132
11.	<u>Executive Compensation</u>	132
12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	132
13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	132
14.	<u>Principal Accounting Fees and Services</u>	132
<u>PART IV</u>		
15.	<u>Exhibits, Financial Statement Schedules</u>	133
16.	<u>Form 10-K Summary</u>	133
	<u>Signatures</u>	134
	<u>Guide 3 Statistical Disclosure by Bank Holding Companies</u>	A-1
	<u>Exhibit Index</u>	E-1

Table of Contents

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

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

Table of Contents

PART I

ITEM 1. BUSINESS

INTRODUCTION

Overview

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

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

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

During 2016, we principally engaged in businesses comprising four reportable operating segments: U.S. Consumer Services, International Consumer and Network Services, Global Commercial Services and Global Merchant Services. Corporate functions and certain other businesses are included in Corporate & Other. You can find information regarding our reportable operating segments, geographic operations and classes of similar services in Note 25 to our Consolidated Financial Statements.

Products and Services

Our range of products and services includes:

Charge card, credit card and other payment and financing products

Network services

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

Other fee services, including fraud prevention services and the design and operation of customer loyalty programs

Expense management products and services

Travel-related services

Stored value/prepaid products

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

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

Our business as a whole has not experienced significant seasonal fluctuations, although card billed business tends to be moderately higher in the fourth quarter than in other quarters. As a result, the amount of Card Member loans and receivables outstanding tend to be moderately higher during that quarter. The average discount rate also tends to be slightly lower during the fourth quarter due to a higher level of retail-related billed business volumes.

Table of Contents

The American Express Brand

Our brand and its attributes—trust, security and service—are key assets. We continue to focus on our brand, and our products and services are evidence of our commitment to its attributes. Our brand has consistently been rated one of the most valuable brands in the world, and we believe it provides us with a significant competitive advantage.

We believe our brand is critical to our success, and we invest heavily in managing, marketing, promoting and protecting it. We also place significant importance on trademarks, service marks and patents, and seek to secure our intellectual property rights around the world.

Our Closed-Loop Network and Spend-Centric Model

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

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

We believe our closed-loop network and spend-centric business model continue to be competitive advantages by giving us the ability to provide differentiated value to Card Members, merchants and our card-issuing partners.*

BUSINESS OPERATIONS

Consumer Services

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

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

Designing card products with features that appeal to our target customer base

Using incentives to drive spending on our various card products and generate loyal Card Members, including our Membership Rewards® program, cash-back reward features and participation in loyalty programs sponsored by our cobrand and other partners

Providing exceptional customer service, digital resources and an array of benefits across card products to address travel and other needs

Developing a wide range of partner relationships, including with other corporations and institutions that sponsor certain of our cards under cobrand arrangements

Our charge cards are designed primarily as a method of payment with Card Members generally paying the full amount billed each month. Charges are approved based on a variety of factors, including a Card Member's current spending patterns, payment history, credit record and financial resources. Revolving credit card products and features provide Card Members with the flexibility to pay their bill in full each month or carry a monthly balance on their cards to finance the purchase of goods or services.

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

Table of Contents

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

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

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

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

The GNS business has established 150 card-issuing and/or merchant-acquiring arrangements with banks and other institutions in more than 130 countries and territories. GNS strengthens our brand visibility around the world, drives more transaction volume on the American Express network and increases the number of merchants choosing to accept the American Express card, generally without assuming additional Card Member credit risk or having to invest a large amount of resources, as our GNS partners already have established attractive customer bases and are responsible for most of the operating costs as well as for managing the credit risk associated with the cards they issue.

Global Commercial Services

In our Global Commercial Services (GCS) segment, we offer a wide range of payment and expense management solutions to companies and organizations of all sizes, including card and other payment solutions, cross border payment services and commercial financing solutions.

We have a suite of business-to-business payment solutions to help companies manage their spending and realize other potential benefits, including cost savings, process control and efficiency, and improved cash flow management. We offer local currency corporate cards and other expense management products in more than 85 countries and territories, and have global U.S. dollar and euro corporate cards available in more than 100 countries and territories. We also provide products and services, including charge cards, revolving credit cards and non-card payment and financing solutions, to small and mid-sized businesses and entrepreneurs in the United States and internationally.

We also engage in advocacy efforts on behalf of small businesses, including through our OPEN for Government Contracting program to help U.S. small businesses learn how to obtain government contracts as well as through programs designed to help women entrepreneurs learn how to grow and sustain businesses. We seek to increase awareness of the importance of small businesses in our communities and continued to lead Small Business Saturday® in 2016.

Global Merchant Services

Our Global Merchant Services (GMS) business builds and maintains relationships with merchants, merchant acquirers and processors, processes card transactions and settles with merchants that choose to accept our cards for purchases. We sign merchants to accept our cards and provide marketing information and other programs and services to merchants, leveraging the capabilities provided by our closed-loop network. We also offer support for card acceptance, fraud prevention and other value-added services.

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

Globally, as acceptance of general-purpose cards continues to increase, we continue to grow merchant acceptance of American Express cards around the world, as well as refine our approach to calculating merchant coverage. We estimate that, as of the end of 2016, our merchant network in the United States could accommodate more than 90 percent of general-purpose card spending. Our international spend coverage is more limited, although we continue to expand our merchant network in locations outside the United States. We estimate that our international merchant network as a whole could accommodate approximately 80 percent of general-purpose card spending. These percentages are based on comparing spending on all networks – general-purpose credit and charge cards at merchants that accept American Express cards with total general-purpose credit and charge card spending at all merchants.

Table of Contents

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

Corporate & Other

Corporate & Other consists of corporate functions and certain other businesses, including our prepaid services business that offers stored value/prepaid products, such as American Express Serve[®], Bluebird[®], the American Express[®] Gift Card and Travelers Cheques. Our support functions, including servicing, credit, insurance and technology, are organized by process rather than business unit, which we believe serves to streamline costs, reduce duplication of work, better integrate skills and expertise and improve customer service.

COMPETITION

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

As a card issuer, we compete with financial institutions that issue general-purpose charge and revolving credit cards and debit cards. We also encounter competition from businesses that issue their own private label cards or extend credit to their customers, such as retailers and online lenders. We face increasing competition for cobrand relationships, as both card issuer and network competitors have targeted key business partners with attractive value propositions.

Our global card network competes in the global payments industry with other card networks, including, among others, Visa, MasterCard, Discover (primarily in the United States), Diners Club International (which is owned by Discover Financial Services), and JCB and China UnionPay (primarily in Asia). We are the fourth largest general-purpose card network on a global basis based on purchase volume, behind China UnionPay, Visa and MasterCard. In addition to such networks, a range of companies globally, including merchant acquirers and processors, as well as regional payment networks (such as the National Payments Corporation of India), carry out some activities similar to those performed by our GMS and GNS businesses.

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

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

The number, spending characteristics and credit performance of customers

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

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

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

The success of marketing and promotional campaigns

Reputation and brand recognition

Innovation and investment in systems, technologies, and product and service offerings

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

The security of cardholder and merchant information

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

Table of Contents

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

SUPERVISION AND REGULATION**Overview**

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

Banking Regulation

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

Activities

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

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

Acquisitions and Investments

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

Table of Contents

Stress Testing and Capital Planning

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

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

The Federal Reserve has broad authority to object to capital plans, and to require bank holding companies to revise and resubmit their capital plans. We are also subject to an ongoing requirement to revise and resubmit our capital plans upon the occurrence of certain events specified by rule. In addition to other limitations, our ability to make any capital distributions (including dividends and share repurchases) is contingent on the Federal Reserve's non-objection to our capital plan.

We are required to submit our capital plans and stress testing results to the Federal Reserve on or before April 5 of each year. The Federal Reserve is expected to publish the decisions for all the bank holding companies participating in CCAR 2017, including the reasons for any objection to capital plans, by June 30, 2017. In addition, the Federal Reserve will publish separately the results of its supervisory stress test under both the supervisory severely adverse and adverse scenarios. The information to be released will include, among other things, the Federal Reserve's projection of company-specific information, including post-stress capital ratio information over the planning horizon.

Dividends and Other Capital Distributions

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

Dividend payments by the Company to shareholders are subject to the oversight of the Federal Reserve. As discussed in Stress Testing and Capital Planning, the Company may only make capital distributions that have been included in a capital plan to which the Federal Reserve has issued a non-objection. Even if the Federal Reserve has not objected to a distribution, the Company may still not make a distribution without Federal Reserve approval if, among other things, the Company will not meet a minimum regulatory capital ratio after giving effect to the capital distribution or if changes in facts would result in a requirement to resubmit our capital plan or the Company's earnings are materially underperforming its projections in the capital plan.

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

Capital, Leverage and Liquidity Regulation

Capital Rules

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

Table of Contents

Under the Capital Rules banking organizations are required to maintain minimum ratios for Common Equity Tier 1 (CET1), Tier 1 and Total capital to risk-weighted assets. In addition, all banking organizations remain subject to a minimum leverage ratio of Tier 1 capital to average total consolidated assets (as defined for regulatory purposes). The Company, as an advanced approaches institution, will also become subject to a supplementary leverage ratio on January 1, 2018. In addition, the Company, Centurion Bank and American Express Bank are required to calculate risk-based capital ratios under both the generally applicable standardized approach and the advanced approaches capital rule, and then use the lower of each capital ratio to determine whether each meets its minimum risk-based capital requirements.

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

The Company, Centurion Bank and American Express Bank must each maintain CET1, Tier 1 capital (that is, CET1 plus additional Tier 1 capital) and Total capital (that is, Tier 1 capital plus Tier 2 capital) ratios of at least 4.5 percent, 6.0 percent and 8.0 percent, respectively. The Capital Rules also implement a 2.5 percent capital conservation buffer composed entirely of CET1, on top of these minimum risk-weighted asset ratios. As a result, the minimum ratios are effectively 7.0 percent, 8.5 percent and 10.5 percent for the CET1, Tier 1 capital and Total capital ratios, respectively, on a fully phased-in basis. Implementation of the capital conservation buffer began on January 1, 2016 at the 0.625 percent level and will increase in equal increments at the beginning of each year (i.e., 1.25 percent as of January 1, 2017) until it is fully implemented on January 1, 2019. The required minimum capital ratios for the Company may be further increased by a countercyclical capital buffer composed entirely of CET1 up to 2.5 percent, which may be assessed when federal banking regulators determine that such a buffer is necessary to protect the banking system from disorderly downturns associated with excessively expansionary periods. As of October 2016, the Federal Reserve set the countercyclical capital buffer to zero percent. Assuming full phase in of the capital conservation buffer and the maximum countercyclical capital buffer were in place, the Company's effective minimum CET1, Tier 1 capital and Total capital ratios could be 9.5 percent, 11.0 percent and 13.0 percent, respectively.

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

In December 2015 and March 2016, the Basel Committee proposed a series of revisions to the standardized approach to calculating regulatory capital requirements, including new rules that would create additional capital requirements for certain unconditionally cancellable commitments such as unused credit card lines of credit. If adopted in the United States as proposed by the Basel Committee, this change would increase the capital requirements for card issuers like us. In addition, the Basel Committee has proposed adjustments to the standardized calculation of operational risk capital requirements. If adopted in the United States as proposed by the Basel Committee, the changes

could create additional capital requirements for banking organizations like us that are highly specialized in fee-based businesses and conduct significant fee-based activities.

Leverage Requirements

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

The Capital Rules also establish a supplementary leverage ratio requirement for advanced approaches banking organizations such as the Company. The supplementary leverage ratio is the ratio of Tier 1 capital to an expanded concept of leverage exposure that includes both on-balance sheet and certain off-balance sheet exposures. The Capital Rules require a minimum supplementary leverage ratio of 3.0 percent beginning January 1, 2018. The supplemental leverage ratio will be factored into our 2017 CCAR submission and evaluation of our capital plan by the Federal Reserve.

Liquidity Regulation

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

Table of Contents

In addition, the Company, Centurion Bank and American Express Bank are subject to a liquidity coverage ratio (LCR) requirement, which is designed to ensure that a banking entity maintains an adequate level of unencumbered high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30-day time horizon under an acute liquidity stress scenario specified by supervisors. The LCR measures the ratio of a firm's high-quality liquid assets to its projected net outflows. Starting July 1, 2016, the Company, Centurion Bank and American Express Bank were required to calculate the LCR each business day and maintain a minimum ratio of 90 percent, increasing to 100 percent on January 1, 2017. As of December 31, 2016, the Company, Centurion Bank and American Express Bank were in compliance with the requirements of the LCR rule. Beginning in April 2018, we will be required to disclose certain LCR calculation data and other information on a quarterly basis.

A second standard provided for in the Basel III liquidity framework, referred to as the net stable funding ratio (NSFR), requires a minimum amount of longer-term funding based on the assets and activities of banking entities. The LCR and NSFR requirements may cause banking entities generally to increase their holdings of cash, U.S. Treasury securities and other sovereign debt as a proportion of total assets and/or increase the proportion of longer-term debt. Federal banking regulators issued a proposed rule in May 2016 that is scheduled to become effective on January 1, 2018 to implement the NSFR for advanced approaches banking organizations, such as the Company. The NSFR would also apply to Centurion Bank and American Express Bank. The proposed rule requires that available stable funding be no less than required stable funding for the Company, Centurion Bank, and American Express Bank, as each such measure is calculated under the proposed rule. We would be required to regularly monitor the NSFR and correct any shortfalls, as well as publicly report certain information related to the NSFR.

Prompt Corrective Action

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

Under the FDIA, each of Centurion Bank and American Express Bank could be prohibited from accepting brokered deposits (i.e., deposits raised through third-party brokerage networks) or offering interest rates on any deposits significantly higher than the prevailing rate in its normal market area or nationally (depending upon where the deposits are solicited), unless (1) it is well capitalized or (2) it is adequately capitalized and receives a waiver from the FDIC. A significant amount of our outstanding U.S. retail deposits have been raised through third-party brokerage networks, and such deposits are considered brokered deposits for bank regulatory purposes. If a federal regulator determines that we are in an unsafe or unsound condition or that we are engaging in unsafe or unsound banking practices, the regulator may reclassify our capital category or otherwise place restrictions on our ability to accept or solicit brokered deposits.

Resolution Planning

We are required to prepare and provide to regulators a plan for the rapid and orderly resolution of the Company under the U.S. Bankruptcy Code in the event of material distress or failure. This resolution planning requirement may, as a practical matter, present additional constraints on our structure, operations and business strategy, and on transactions and business arrangements between our bank and non-bank subsidiaries, because we must consider the impact of these

matters on our ability to prepare and submit a resolution plan that demonstrates that we may be resolved under the Bankruptcy Code in a rapid and orderly manner. If the Federal Reserve and the FDIC determine that our plan is not credible and we fail to cure the deficiencies, we may be subject to more stringent capital, leverage or liquidity requirements; or restrictions on our growth, activities or operations; or may ultimately be required to divest certain assets or operations to facilitate an orderly resolution.

Orderly Liquidation Authority

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

Table of Contents

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

FDIC Powers upon Insolvency of Insured Depository Institutions

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

Other Banking Regulations

Source of Strength

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

Cross-Guarantee Liability

Under the cross-guarantee provision of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), Centurion Bank and American Express Bank may be liable to the FDIC with respect to any loss incurred or reasonably anticipated to be incurred by the FDIC in connection with the default of, or FDIC assistance to, any commonly controlled insured depository institution. Centurion Bank and American Express Bank are commonly controlled within the meaning of the FIRREA cross-guarantee provision. A depository institution's liability for a cross-guarantee claim of the FDIC generally has priority in right of payment to any obligation of the depository institution to its holding company or other affiliates.

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

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

FDIC Deposit Insurance and Insurance Assessments

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

Table of Contents

Community Reinvestment Act

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

Other Enhanced Prudential Standards

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

Consumer Financial Products Regulation

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

The review of products and practices to assess compliance and prevent unfair, deceptive or abusive conduct will be a continuing focus of the CFPB and regulators more broadly, as well as our own internal reviews. For example, federal banking regulators have recently announced they are conducting horizontal reviews of banking sales practices and we are cooperating with regulators in those reviews. In October 2012, the Company, TRS, Centurion Bank and American Express Bank reached settlements with several bank regulators relating to certain aspects of our U.S. consumer card practices. In December 2013, TRS, Centurion Bank and American Express Bank reached settlements with the FDIC, OCC and CFPB to resolve regulatory reviews of marketing and billing practices related to several credit card add-on products.

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

On May 5, 2016, the CFPB issued a proposed rule that, if enacted, would, among other changes, require that our consumer arbitration clause not apply to cases filed in court as class actions, unless and until class certification is denied or the class claims are dismissed. The CFPB set a 90-day period for comment, and the rule would become effective 211 days after publication in the Federal Register and apply to all agreements entered into after that date.

On July 28, 2016, the CFPB outlined proposals that would set forth additional requirements for third-party debt collection agencies, which we use in the ordinary course of business. This proposal is part of a rulemaking process that is not expected to result in a final rule, if any, becoming effective before 2018.

In 2003, the Federal Financial Institutions Examination Council issued guidance on credit card account management and loss allowance practices. Centurion Bank and American Express Bank regularly evaluate and discuss the guidance with their respective regulators and, as a result, may refine their practices from time to time based on regulatory input.

The guidance has not had, nor do we expect it to have, any material impact on our businesses or practices.

As an issuer of stored value/prepaid products, we are regulated in the United States under the money transmitter or sale of check laws in effect in most states. We are also required by the laws of many states to comply with unclaimed and abandoned property laws, under which we must pay to states the face amount of any Travelers Cheque or prepaid card that is uncashed or unredeemed after a period of time depending on the type of product. In October 2016, the CFPB finalized regulatory standards for prepaid cards, including uniform disclosures, certain protections for consumers and other requirements.

In countries outside the United States, we have seen an increase in regulatory focus in relation to a number of key areas impacting our card-issuing businesses, particularly consumer protection (such as the EU, the United Kingdom and Canada), responsible lending (such as Australia, Mexico, New Zealand and Singapore) and privacy and data protection (such as Europe, Australia, Canada, Mexico and Singapore). Regulators in a number of countries are shifting their focus from just ensuring compliance with local rules and regulations toward paying greater attention to the product design and operation with a focus on customers and outcomes. Regulators' expectations of firms in relation to their compliance, risk and control frameworks continue to increase and regulators are placing significant emphasis on a firm's systems and controls relating to the identification and resolution of issues.

Table of Contents**Payments Regulation**

The operation of card networks is subject to increasing focus in various countries in which we operate. Legislators and regulators have focused on the fees merchants pay to accept cards, including the way bankcard network members collectively set the interchange (that is, the fee paid by the bankcard merchant acquirer to the card issuer in payment networks like Visa and MasterCard), as well as the rules, contract terms and practices governing merchant card acceptance. Although, unlike the Visa and MasterCard networks, the American Express network does not have interchange fees or collectively set fees or rules, antitrust actions and government regulation relating to merchant pricing or terms of merchant rules and contracts could affect all networks directly or indirectly, as well as adversely impact consumers and merchants. Among other things, lower interchange and/or merchant discount revenue can be expected to lead card issuers either to look to reduce costs by scaling back or eliminating rewards, services or benefits to cardholders and other customers or to look for other sources of revenue from consumers such as higher annual card fees or interest charges.

In certain countries, such as certain Member States in the EU and Australia, merchants are permitted by law to surcharge card purchases. While surcharging continues to be actively considered in certain jurisdictions, the benefits to customers have not been apparent in countries that have allowed it, and in some cases regulators are addressing concerns about excessive surcharging by merchants. Surcharging, particularly where it disproportionately impacts American Express Card Members, which is known as differential surcharging, as well as other steering practices that are permitted by regulation in some countries, could have a material adverse effect on us if it becomes widespread.

In addition to the EU payments legislation and the Australia payments regulation discussed below, we see regulation of the payments industry in other countries. For example, in Mexico, the central bank adopted rules for the regulation of payment instruments and the authorization of payment clearinghouses, including requirements on non-discrimination and access; however, closed-loop networks such as American Express are exempt as are our licensing arrangements, provided that volumes under these arrangements fall below a certain sector share (as do currently our GNS volumes in Mexico). In Canada, regulators have prompted the major international card networks to make voluntary commitments on pricing, specifically interchange fee levels; in the case of American Express, our commitment extends to maintaining current pricing practices whereby issuer rates received by GNS partners are agreed to bilaterally with each partner, rather than multilaterally, and merchant pricing is simple, transparent and value-based with the same rate for the acquiring of credit and charge card transactions for a particular merchant regardless of the type of card that is presented. In Malaysia, the central bank introduced rules that impose caps on interchange fees, permit steering by merchants and co-badging of debit cards with other card networks, and require issuers to offer cardholders the option of taking up a basic card product with minimal or no cardholder incentives or rewards and at zero or nominal cost to the cardholder.

In some countries governments have established regulatory regimes that require international card networks to be locally licensed and/or to localize aspects of their operations. For example, card network operators in India must obtain authorization from the Reserve Bank of India, which has broad power under the Payment and Settlement Systems Act 2007 to regulate the membership and operations of card networks. In Hong Kong, the local monetary authority is implementing a new regulatory framework under which it is considering which card payment systems to designate for supervision. In Russia, card network operators must be authorized by the central bank, and newly enacted regulation requires networks to place security deposits with the central bank, process all local transactions using government-owned infrastructure and ensure that local transaction data remains within the country. Governments in some countries also provide resources or protection to select domestic payment card networks. For example, China recently adopted new regulation that will permit foreign card networks to operate domestically in the country for the first time, subject to licensing, capital and other requirements. The development and enforcement of these and other similar laws, regulations and policies in international markets may adversely affect our ability to

compete effectively in such countries and maintain and extend our global network.

European Union Payments Legislation

In the EU, the Payment Services Directive (PSD), adopted in 2007 and subsequently implemented by EU Member States, prescribes common rules across the EU for licensing and supervision of payment services providers, including card issuers and merchant acquirers, and for their conduct of business with customers. The objective of the PSD is to facilitate the operation of a single internal payments market in the EU through harmonization of EU Member State laws governing payment services. One provision of the PSD permits merchants to surcharge, subject to disclosure requirements, but also allows individual Member States to override this rule by prohibiting or limiting surcharging. To date, the Member States are split on whether they prohibit or permit surcharging, with countries such as the United Kingdom (which for a number of years has permitted it for credit card purchases), the Netherlands and Spain permitting it and other countries such as France, Italy and Sweden prohibiting it. All Member States permit merchants to offer discounts for particular forms of payment.

The Consumer Rights Directive (CRD) prohibits merchants from surcharging card purchases more than the merchants cost of acceptance in those