AMERICAN EXPRESS CO
Form 10-Q
October 31, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2012

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ______ to ______

Commission file number 1-7657

AMERICAN EXPRESS COMPANY

(Exact name of registrant as specified in its charter)

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

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

None
Former name, former address and former fiscal year, if changed since last report.

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

Yes X No ___

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

Yes _X_ No ___

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

Large accelerated filer x Accelerated filer ¨

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

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

Yes ___ No _X_

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

Class	Outstanding at October 26, 2012
Common Shares (par value $.20 per share)	1,119,062,132 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Three Months Ended September 30 *(Millions, except per share amounts)*	**2012**	2011
Revenues		
Non-interest revenues		
Discount revenue	**$ 4,425**	$ 4,218
Net card fees	**633**	622
Travel commissions and fees	**465**	480
Other commissions and fees	**581**	604
Other	**577**	534
Total non-interest revenues	**6,681**	6,458
Interest income		
Interest on loans	**1,658**	1,587
Interest and dividends on investment securities	**60**	68
Deposits with banks and other	**21**	33
Total interest income	**1,739**	1,688
Interest expense		
Deposits	**118**	127
Long-term debt and other	**440**	448
Total interest expense	**558**	575
Net interest income	**1,181**	1,113
Total revenues net of interest expense	**7,862**	7,571
Provisions for losses		
Charge card	**190**	174
Cardmember loans	**264**	48
Other	**25**	27
Total provisions for losses	**479**	249
Total revenues net of interest expense after provisions for losses	**7,383**	7,322
Expenses		
Marketing, promotion, rewards and cardmember services	**2,461**	2,511
Salaries and employee benefits	**1,516**	1,598

Other, net		**1,536**		1,502
Total		**5,513**		5,611
Pretax income		**1,870**		1,711
Income tax provision		**620**		476
Net income	**$**	**1,250**	$	1,235
Earnings per Common Share (Note 11):[(a)]				
Basic	**$**	**1.10**	$	1.04
Diluted	**$**	**1.09**	$	1.03
Average common shares outstanding for earnings per common share:				
Basic		**1,126**		1,175
Diluted		**1,132**		1,181
Cash dividends declared per common share	**$**	**0.20**	$	0.18

(a) Represents net income less earnings allocated to participating share awards of $14 million and $15 million for the three months ended September 30, 2012 and 2011, respectively.

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Nine Months Ended September 30 *(Millions, except per share amounts)*	**2012**	2011
Revenues		
Non-interest revenues		
Discount revenue	**$ 13,164**	$ 12,398
Net card fees	**1,858**	1,836
Travel commissions and fees	**1,437**	1,457
Other commissions and fees	**1,739**	1,717
Other	**1,808**	1,546
Total non-interest revenues	**20,006**	18,954
Interest income		
Interest on loans	**4,851**	4,685
Interest and dividends on investment securities	**193**	255
Deposits with banks and other	**73**	71
Total interest income	**5,117**	5,011
Interest expense		
Deposits	**362**	395
Long-term debt and other	**1,320**	1,350
Total interest expense	**1,682**	1,745
Net interest income	**3,435**	3,266
Total revenues net of interest expense	**23,441**	22,220
Provisions for losses		
Charge card	**531**	533
Cardmember loans	**753**	104
Other	**68**	66
Total provisions for losses	**1,352**	703
Total revenues net of interest expense after provisions for losses	**22,089**	21,517
Expenses		
Marketing, promotion, rewards and cardmember services	**7,195**	7,542
Salaries and employee benefits	**4,687**	4,715
Other, net	**4,685**	4,052
Total	**16,567**	16,309

Pretax income from continuing operations		**5,522**		5,208
Income tax provision		**1,677**		1,501
Income from continuing operations		**3,845**		3,707
Income from discontinued operations, net of tax				36
Net income	**$**	**3,845**	$	3,743
Earnings per Common Share Basic (Note 11):				
Income from continuing operations attributable to common shareholders[(a)]	**$**	**3.33**	$	3.09
Income from discontinued operations				0.03
Net income attributable to common shareholders[(a)]	**$**	**3.33**	$	3.12
Earnings per Common Share Diluted (Note 11):				
Income from continuing operations attributable to common shareholders[(a)]	**$**	**3.31**	$	3.08
Income from discontinued operations				0.03
Net income attributable to common shareholders[(a)]	**$**	**3.31**	$	3.11
Average common shares outstanding for earnings per common share:				
Basic		**1,143**		1,184
Diluted		**1,149**		1,191
Cash dividends declared per common share	**$**	**0.60**	$	0.54

(a) Represents income from continuing operations or net income, as applicable, less earnings allocated to participating share awards of $42 million and $44 million for the nine months ended September 30, 2012 and 2011, respectively.

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	**2012**	2011	**2012**	2011
Net income	**$ 1,250**	$ 1,235	**$ 3,845**	$ 3,743
Other comprehensive income (loss):				
Net unrealized securities gains, net of tax of: 2012, $10 and $24; 2011, $83 and $137	**21**	113	**52**	205
Net unrealized derivatives (losses) gains, net of tax of: 2012, $1 and $1; 2011, $1 and $4		(1)	**1**	6
Foreign currency translation adjustments, net of tax of: 2012, $(168) and $(155); 2011, $118 and $(54)	**81**	(178)	**(46)**	(116)
Net unrealized pension and other postretirement benefit gains, net of tax of: 2012, $6 and $19; 2011, $14 and $12	**14**	14	**34**	19
Other comprehensive income (loss)	**116**	(52)	**41**	114
Comprehensive income	**$ 1,366**	$ 1,183	**$ 3,886**	$ 3,857

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Millions, except per share data)		**September 30, 2012**		December 31, 2011
Assets				
Cash and cash equivalents				
Cash and due from banks	**$**	**3,817**	$	3,514
Interest-bearing deposits in other banks (includes securities purchased under resale agreements: 2012, $68; 2011, $470)		**21,158**		20,572
Short-term investment securities		**168**		807
Total		**25,143**		24,893
Accounts receivable				
Cardmember receivables (includes gross receivables available to settle obligations of a consolidated variable interest entity: 2012, $7,070; 2011, $8,027), less reserves: 2012, $409; 2011, $438		**41,910**		40,452
Other receivables, less reserves: 2012, $85; 2011, $102		**3,272**		3,657
Loans				
Cardmember loans (includes gross loans available to settle obligations of a consolidated variable interest entity: 2012, $31,043; 2011, $33,834), less reserves: 2012, $1,459; 2011, $1,874		**60,291**		60,747
Other loans, less reserves: 2012, $18; 2011, $18		**500**		419
Investment securities		**6,060**		7,147
Premises and equipment, less accumulated depreciation: 2012, $5,307; 2011, $4,747		**3,553**		3,367
Other assets (includes restricted cash of consolidated variable interest entities: 2012, $1,297; 2011, $207)		**12,144**		12,655
Total assets	**$**	**152,873**	$	153,337
Liabilities and Shareholders Equity				
Liabilities				
Customer deposits	**$**	**37,195**	$	37,898
Travelers Cheques outstanding		**4,454**		5,123
Accounts payable		**13,093**		10,458
Short-term borrowings		**4,027**		4,337
Long-term debt (includes debt issued by consolidated variable interest entities: 2012, $15,597; 2011, $20,856)		**56,271**		59,570
Other liabilities		**18,355**		17,157
Total liabilities		**133,395**		134,543
Contingencies (Note 13)				
Shareholders Equity				
Common shares, $0.20 par value, authorized 3.6 billion shares; issued and outstanding 1,122 million shares as of September 30, 2012 and 1,164 million shares as of December 31, 2011		**224**		232
Additional paid-in capital		**12,166**		12,217
Retained earnings		**7,923**		7,221
Accumulated other comprehensive (loss) income				

Net unrealized securities gains, net of tax of: 2012, $192; 2011, $168		**340**		288
Net unrealized derivatives losses, net of tax of: 2012, $; 2011, $(1)				(1)
Foreign currency translation adjustments, net of tax of: 2012, $(614); 2011, $(459)		**(728)**		(682)
Net unrealized pension and other postretirement benefit losses, net of tax of: 2012, $(214); 2011, $(233)		**(447)**		(481)
Total accumulated other comprehensive loss		**(835)**		(876)
Total shareholders equity		**19,478**		18,794
Total liabilities and shareholders equity	**$**	**152,873**	$	153,337

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended September 30 *(Millions)*	**2012**	2011
Cash Flows from Operating Activities		
Net income	**$ 3,845**	$ 3,743
Income from discontinuing operations, net of tax		(36)
Income from continuing operations	**3,845**	3,707
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for losses	**1,352**	703
Depreciation and amortization	**751**	733
Deferred taxes and other	**79**	1,045
Stock-based compensation	**232**	227
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Other receivables	**323**	46
Other assets	**1,112**	(234)
Accounts payable and other liabilities	**3,595**	732
Travelers Cheques outstanding	**(675)**	(585)
Net cash provided by operating activities	**10,614**	6,374
Cash Flows from Investing Activities		
Sale of investments	**427**	944
Maturity and redemption of investments	**1,085**	4,714
Purchase of investments	**(311)**	(904)
Net increase in cardmember loans/receivables	**(1,877)**	(1,971)
Purchase of premises and equipment, net of sales: 2012, $3; 2011, $6	**(765)**	(885)
Acquisitions/dispositions, net of cash acquired/sold	**(456)**	(610)
Net (increase) decrease in restricted cash	**(1,089)**	3,658
Net cash (used in) provided by investing activities	**(2,986)**	4,946
Cash Flows from Financing Activities		
Net (decrease) increase in customer deposits	**(316)**	3,455
Net (decrease) increase in short-term borrowings	**(346)**	738
Issuance of long-term debt	**7,831**	9,311
Principal payments on long-term debt	**(11,417)**	(14,113)
Issuance of American Express common shares	**393**	507
Repurchase of American Express common shares	**(2,953)**	(1,950)
Dividends paid	**(675)**	(646)
Net cash used in financing activities	**(7,483)**	(2,698)
Effect of exchange rate changes on cash	**105**	(33)
Net increase in cash and cash equivalents	**250**	8,589
Cash and cash equivalents at beginning of period	**24,893**	16,356

Cash and cash equivalents at end of period	**$**	**25,143**	$	24,945

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The Company

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

The accompanying Consolidated Financial Statements should be read in conjunction with the financial statements incorporated by reference in the Annual Report on Form 10-K of American Express Company for the year ended December 31, 2011.

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

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense, and the disclosures of contingent assets and liabilities. Actual results could be different from these estimates and assumptions.

Beginning the first quarter of 2012, the Company revised the income statement reporting of annual membership card fees on lending products, increasing net card fees and reducing interest on loans. Corresponding amounts presented in prior periods have been reclassified to conform to the current period presentation.

Certain other reclassifications of prior period amounts have been made to conform to the current period presentation. The card fees revision discussed above and these other reclassifications did not have a material impact on the Company s financial position, results of operations or cash flows.

2. Fair Values

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company s principal or, in the absence of a principal, most advantageous market for the specific asset or liability.

GAAP provides for a three-level hierarchy of inputs to valuation techniques used to measure fair value, defined as follows:

Level 1 Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability, including:

- Quoted prices for similar assets or liabilities in active markets

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

- Quoted prices for identical or similar assets or liabilities in markets that are not active

- Inputs other than quoted prices that are observable for the asset or liability

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 Inputs that are unobservable and reflect the Company s own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding the timing and amount of expected cash flows). The Company did not measure any financial instruments presented on the Consolidated Balance Sheets at fair value on a recurring basis using significantly unobservable inputs (Level 3) during the nine months ended September 30, 2012 or during the year ended December 31, 2011, although the disclosed fair value of certain assets that are not carried at fair value, as presented later in this Note, are classified within Level 3.

The Company monitors the market conditions and evaluates the fair value hierarchy levels at least quarterly. For any transfers in and out of the levels of the fair value hierarchy, the Company elects to disclose the fair value measurement at the beginning of the reporting period during which the transfer occurred.

Financial Assets and Financial Liabilities Carried at Fair Value

The following table summarizes the Company s financial assets and financial liabilities measured at fair value on a recurring basis, categorized by GAAP s valuation hierarchy (as described in the preceding paragraphs), as of September 30, 2012 and December 31, 2011:

	2012			2011		
(Millions)	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets:						
Investment securities:[a]						
Equity securities	**$ 281**	**$ 281**	**$**	$ 360	$ 360	$
Debt securities and other[b]	**5,779**	**339**	**5,440**	6,787	340	6,447
Derivatives[a]	**1,089**		**1,089**	1,516		1,516
Total assets	**$ 7,149**	**$ 620**	**$ 6,529**	$ 8,663	$ 700	$ 7,963
Liabilities:						
Derivatives[a]	**$ 403**	**$**	**$ 403**	$ 108	$	$ 108
Total liabilities	**$ 403**	**$**	**$ 403**	$ 108	$	$ 108

(a) Refer to Note 5 for the fair values of investment securities and to Note 8 for the fair values of derivative assets and liabilities, both on a further disaggregated basis.

(b) The Level 1 amounts represent the Company s holdings of U.S. Government treasury obligations at September 30, 2012 and December 31, 2011.

Valuation Techniques Used in the Fair Value Measurement of Financial Assets and Financial Liabilities Carried at Fair Value

For the financial assets and liabilities measured at fair value on a recurring basis (categorized in the valuation hierarchy table above) the Company applies the following valuation techniques:

Investment Securities

When available, quoted prices of identical investment securities in active markets are used to determine fair value. Such investment securities are classified within Level 1 of the fair value hierarchy.

When quoted prices of identical investment securities in active markets are not available, the fair values for the Company s investment securities are obtained primarily from pricing services engaged by the

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(Unaudited)

Company, and the Company receives one price for each security. The fair values provided by the pricing services are estimated using pricing models, where the inputs to those models are based on observable market inputs or recent trades of similar securities. Such investment securities are classified within Level 2 of the fair value hierarchy. The inputs to the valuation techniques applied by the pricing services vary depending on the type of security being priced but are typically benchmark yields, benchmark security prices, credit spreads, prepayment speeds, reported trades and broker-dealer quotes, all with reasonable levels of transparency. The pricing services did not apply any adjustments to the pricing models used. In addition, the Company did not apply any adjustments to prices received from the pricing services.

The Company reaffirms its understanding of the valuation techniques used by its pricing services at least annually. In addition, the Company corroborates the prices provided by its pricing services for reasonableness by comparing the prices from the respective pricing services to valuations obtained from different pricing sources as well as comparing prices to the sale prices received from sold securities at least quarterly. In instances where price discrepancies are identified between different pricing sources, the Company evaluates such discrepancies to ensure that the prices used for its valuation represent the fair value of the underlying investment securities. Refer to Note 5 for additional fair value information.

Derivative Financial Instruments

The fair value of the Company s derivative financial instruments is estimated by a third-party valuation service that uses proprietary pricing models or by internal pricing models, where the inputs to those models are readily observable from actively quoted markets. The pricing models used are consistently applied and reflect the contractual terms of the derivatives as described below. The Company reaffirms its understanding of the valuation techniques used by the third-party valuation service at least annually. The Company s derivative instruments are classified within Level 2 of the fair value hierarchy.

The fair value of the Company s interest rate swaps is determined based on a discounted cash flow method using the following significant inputs: the contractual terms of the swap such as the notional amount, fixed coupon rate, floating coupon rate (based on interbank rates consistent with the frequency and currency of the interest cash flows) and tenor, as well as discount rates consistent with the underlying economic factors of the currency in which the cash flows are denominated.

The fair value of the Company s total return contract, which serves as a hedge against the Hong Kong dollar (HKD) change in fair value associated with the Company s investment in the Industrial and Commercial Bank of China (ICBC), is determined based on a discounted cash flow method using the following significant inputs as of the valuation date: number of shares of the Company s underlying ICBC investment, the quoted market price of the shares in HKD and the monthly settlement terms of the contract inclusive of price and tenor.

The fair value of foreign exchange forward contracts is determined based on a discounted cash flow method using the following significant inputs: the contractual terms of the forward contracts such as the notional amount, maturity dates and contract rate, as well as relevant foreign currency forward curves, and discount rates consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Credit valuation adjustments are necessary when the market parameters, such as a benchmark curve, used to value derivatives are not indicative of the credit quality of the Company or its counterparties. The Company considers the counterparty credit risk by applying an observable forecasted default rate to the current exposure. Refer to Note 8 for additional fair value information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Financial Assets and Financial Liabilities Carried at Other Than Fair Value

The following table discloses the estimated fair value for the Company s financial assets and financial liabilities that are not required to be carried at fair value on a recurring basis, as of September 30, 2012:

(Billions)	Carrying Value	Corresponding Fair Value Amount Total	Level 1	Level 2	Level 3
Financial Assets:					
Financial assets for which carrying values equal or approximate fair value					
Cash and cash equivalents	**$ 25**	**$ 25**	**$ 24**	**$ 1** [(a)]	**$**
Other financial assets[(b)]	**$ 47**	**$ 47**	**$**	**$ 47**	**$**
Financial assets carried at other than fair value					
Loans, net	**$ 61**	**$ 61**[(c)]	**$**	**$**	**$ 61**
Financial Liabilities:					
Financial liabilities for which carrying values equal or approximate fair value	**$ 58**	**$ 58**	**$**	**$ 58**	**$**
Financial liabilities carried at other than fair value					
Certificates of deposit[(d)]	**$ 10**	**$ 10**	**$**	**$ 10**	**$**
Long-term debt	**$ 56**	**$ 60**[(c)]	**$**	**$ 60**	**$**

(a) Reflects time deposits.

(b) Includes accounts receivables (including fair values of cardmember receivables of $7.0 billion held by consolidated variable interest entities (VIEs) as of September 30, 2012), restricted cash and other miscellaneous assets.

(c) Includes fair values of loans and long-term debt of $30.7 billion and $15.8 billion, respectively, held by consolidated VIEs as of September 30, 2012.

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

The fair values of these financial instruments are estimates based upon the market conditions and perceived risks as of September 30, 2012, and require management judgment. These figures may not be indicative of their future fair values. The fair value of the Company cannot be reliably estimated by aggregating the amounts presented.

Valuation Techniques Used in the Fair Value Measurement of Financial Assets and Financial Liabilities Carried at Other Than Fair Value

For the financial assets and liabilities that are not required to be measured at fair value on a recurring basis (categorized in the valuation hierarchy table above) the Company applies the following valuation techniques to measure fair value:

Financial Assets for Which Carrying Values Equal or Approximate Fair Value

Financial assets for which carrying values equal or approximate fair value include cash and cash equivalents, cardmember receivables, accrued interest and certain other assets. For these assets, the carrying values approximate fair value because they are short term in duration, have no defined maturity or have a market-based interest rate.

Financial Assets Carried at Other Than Fair Value

Loans

Loans are recorded at historical cost, less reserves, on the Consolidated Balance Sheets. In estimating the fair value for the Company s loans the Company uses a discounted cash flow model. Due to the lack of a comparable whole loan sales market for similar credit card receivables and a lack of observable pricing

AMERICAN EXPRESS COMPANY

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(Unaudited)

inputs thereof, the Company uses various inputs derived from an equivalent securitization market to estimate fair value. Such inputs include projected income (inclusive of future interest payments and late fee revenue), estimated pay-down rates, discount rates and relevant credit costs.

Financial Liabilities for Which Carrying Values Equal or Approximate Fair Value

Financial liabilities for which carrying values equal or approximate fair value include accrued interest, customer deposits (excluding certificates of deposit, which are described further below), Travelers Cheques outstanding, accounts payable, short-term borrowings and certain other liabilities for which the carrying values approximate fair value because they are short term in duration, have no defined maturity or have a market-based interest rate.

Financial Liabilities Carried at Other Than Fair Value

Certificates of Deposit

Certificates of deposit (CDs) are recorded at their historical issuance cost on the Consolidated Balance Sheets. Fair value is estimated using a discounted cash flow methodology based on the future cash flows and the discount rate that reflects the Company s current rates for similar types of CDs within similar markets.

Long-term Debt

Long-term debt is recorded at historical issuance cost on the Consolidated Balance Sheets adjusted for the impact of fair value hedge accounting on certain fixed-rate notes. The fair value of the Company s long-term debt is measured using quoted offer prices when quoted market prices are available. If quoted market prices are not available, the fair value is determined by discounting the future cash flows of each instrument at rates currently observed in publicly traded debt markets for debt of similar terms and credit risk. For long-term debt, where there are no rates currently observable in publicly traded debt markets of similar terms and comparable credit risk, the Company uses market interest rates and adjusts those rates for necessary risks, including its own credit risk. In determining an appropriate spread to reflect its credit standing, the Company considers credit default swap spreads, bond yields of other long-term debt offered by the Company, and interest rates currently offered to the Company for similar debt instruments of comparable maturities.

Nonrecurring Fair Value Measurements

The Company did not have any material assets that were measured at fair value for impairment on a nonrecurring basis during the nine months ended September 30, 2012 or during the year ended December 31, 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Accounts Receivable and Loans

As described below, the Company s charge and lending payment card products result in the generation of cardmember receivables and cardmember loans, respectively.

Cardmember and Other Receivables

Cardmember receivables, representing amounts due from charge payment card product customers, are recorded at the time a cardmember enters into a point-of-sale transaction with a merchant. Each charge card transaction is authorized based on its likely economics reflecting a cardmember s most recent credit information and spend patterns. Additionally, global spend limits are established to limit the maximum exposure for the Company.

Charge card customers generally must pay the full amount billed each month.

Cardmember receivable balances are presented on the Consolidated Balance Sheets net of reserves for losses (refer to Note 4), and include principal and any related accrued fees.

Accounts receivable as of September 30, 2012 and December 31, 2011 were as follows:

(Millions)		**2012**		2011
U.S. Card Services[(a)]	**$**	**19,522**	$	20,645
International Card Services		**7,228**		7,222
Global Commercial Services[(b)]		**15,393**		12,829
Global Network & Merchant Services[(c)]		**176**		194
Cardmember receivables[(d)]		**42,319**		40,890
Less: Reserve for losses		**409**		438
Cardmember receivables, net	**$**	**41,910**	$	40,452
Other receivables, net[(e)]	**$**	**3,272**	$	3,657

(a) Includes \$6.6 billion and \$7.5 billion of gross cardmember receivables available to settle obligations of a consolidated VIE as of September 30, 2012 and December 31, 2011, respectively.

(b) Includes \$0.5 billion of gross cardmember receivables available to settle obligations of a consolidated VIE as of both September 30, 2012 and December 31, 2011. Also includes \$0.7 billion and \$0.6 billion due from airlines, of which Delta Air Lines (Delta) comprises \$0.5 billion and \$0.3 billion as of September 30, 2012 and December 31, 2011, respectively.

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

(d) Includes approximately $13.6 billion and $12.8 billion of cardmember receivables outside the United States as of September 30, 2012 and December 31, 2011, respectively.

(e) Other receivables primarily represent amounts related to (i) purchased joint venture receivables, (ii) the Company s travel customers and suppliers, (iii) certain merchants for billed discount revenue and (iv) other receivables due to the Company in the ordinary course of business. As of December 31, 2011, other receivables also included investments that matured on December 31, 2011, but which did not settle until January 3, 2012. Other receivables are presented net of reserves for losses of $85 million and $102 million as of September 30, 2012 and December 31, 2011, respectively.

Cardmember and Other Loans

Cardmember loans, representing amounts due from lending payment card product customers, are recorded at the time a cardmember enters into a point-of-sale transaction with a merchant or when a charge card customer enters into an extended payment arrangement with the Company. The Company s lending portfolios primarily include revolving loans to cardmembers obtained through either their credit card accounts or the lending-on-charge feature of their charge card accounts. These loans have a range of terms such as credit limits, interest rates, fees and payment structures, which can be revised over time based on new information about cardmembers and in accordance with applicable regulations and the respective product s terms and conditions. Cardmembers holding revolving loans are typically required to make monthly payments based on pre-established amounts. The amounts that cardmembers choose to revolve are subject to finance charges.

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Cardmember loans are presented on the Consolidated Balance Sheets net of reserves for losses (refer to Note 4), and include principal, accrued interest and fees receivable. The Company s policy generally is to cease accruing interest on a cardmember loan at the time the account is written off, and establish reserves for interest that the Company believes will not be collected.

Loans as of September 30, 2012 and December 31, 2011 consisted of:

(Millions)		**2012**		2011
U.S. Card Services[(a)]	**$**	**52,865**	$	53,686
International Card Services		**8,853**		8,901
Global Commercial Services		**32**		34
Cardmember loans		**61,750**		62,621
Less: Reserve for losses		**1,459**		1,874
Cardmember loans, net	**$**	**60,291**	$	60,747
Other loans, net[(b)]	**$**	**500**	$	419

(a) Includes approximately $31.0 billion and $33.8 billion of gross cardmember loans available to settle obligations of a consolidated VIE as of September 30, 2012 and December 31, 2011, respectively.

(b) Other loans primarily represent a store card loan portfolio whose billed business is not processed on the Company s network, loans to merchants and small business installment loans. Other loans are presented net of reserves for losses of $18 million as of both September 30, 2012 and December 31, 2011.

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Cardmember Loans and Cardmember Receivables Aging

Generally, a cardmember account is considered past due if payment is not received within 30 days after the billing statement date. The following table represents the aging of cardmember loans and receivables as of September 30, 2012 and December 31, 2011:

2012 *(Millions)*	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Cardmember Loans:					
U.S. Card Services	**$ 52,201**	**$ 210**	**$ 145**	**$ 309**	**$ 52,865**
International Card Services	**8,714**	**47**	**29**	**63**	**8,853**
Cardmember Receivables:					
U.S. Card Services	**$ 19,164**	**$ 130**	**$ 73**	**$ 155**	**$ 19,522**
International Card Services[(a)]	**(b)**	**(b)**	**(b)**	**66**	**7,228**
Global Commercial Services[(a)]	**(b)**	**(b)**	**(b)**	**100**	**15,393**

2011 *(Millions)*	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Cardmember Loans:					
U.S. Card Services	$ 52,930	$ 218	$ 165	$ 373	$ 53,686
International Card Services	8,748	52	32	69	8,901
Cardmember Receivables:					
U.S. Card Services	$ 20,246	$ 122	$ 81	$ 196	$ 20,645
International Card Services[(a)]	(b)	(b)	(b)	63	7,222
Global Commercial Services[(a)]	(b)	(b)	(b)	109	12,829

(a) For cardmember receivables in International Card Services (ICS) and Global Commercial Services (GCS), delinquency data is tracked based on days past billing status rather than days past due. A cardmember account is considered 90 days past billing if payment has not been received within 90 days of the cardmember s billing statement date. In addition, if the Company initiates collection procedures on an account prior to the account becoming 90 days past billing the associated cardmember receivable balance is considered as 90 days past billing. These amounts are shown above as 90+ Days Past Due for presentation purposes.

(b) Historically, data for periods prior to 90 days past billing are not available due to financial reporting system constraints. Therefore, it has not been relied upon for risk management purposes. The balances that are current to 89 days past due can be derived as the difference between the Total and the 90+ Days Past Due balances.

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Credit Quality Indicators for Cardmember Loans and Receivables

The following tables present the key credit quality indicators as of or for the nine months ended September 30:

	2012			2011		
	Net Write-Off Rate			Net Write-Off Rate		
	Principal Only[a]	Principal, Interest, & Fees[a]	30 Days Past Due as a % of Total	Principal Only[a]	Principal, Interest, & Fees[a]	30 Days Past Due as a % of Total
Cardmember Loans:						
U.S. Card Services	**2.2%**	**2.4%**	**1.3%**	3.2%	3.5%	1.5%
International Card Services	**1.9%**	**2.5%**	**1.6%**	2.9%	3.5%	1.9%
Cardmember Receivables:						
U.S. Card Services	**2.0%**	**2.1%**	**1.8%**	1.7%	1.8%	2.0%

	2012		2011	
	Net Loss Ratio as a % of Charge Volume	90 Days Past Billing as a % of Receivables	Net Loss Ratio as a % of Charge Volume	90 Days Past Billing as a % of Receivables
Cardmember Receivables:				
International Card Services	**0.16%**	**0.9%**	0.15%	0.9%
Global Commercial Services	**0.07%**	**0.7%**	0.06%	0.7%

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

Refer to Note 4 for additional indicators, including external environmental factors, that management considers in its monthly evaluation process for reserves for losses.

Impaired Cardmember Loans and Receivables

Impaired loans and receivables are defined by GAAP as individual larger balance or homogeneous pools of smaller balance restructured 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 loan and receivable agreement. The Company considers impaired loans and receivables to include: (i) loans over 90 days past due still accruing interest, (ii) non-accrual loans and (iii) loans and receivables modified as troubled debt restructurings (TDRs).

The Company may modify, through various company sponsored programs, cardmember loans and receivables in instances where the cardmember is experiencing financial difficulty to minimize losses while providing cardmembers with temporary or permanent financial relief. The Company has classified cardmember loans and receivables in these modification programs as TDRs. Such modifications to the loans and receivables may include (i) reducing the interest rate (as low as zero percent, in which case the loan is characterized as non-accrual in the Company s TDR disclosures), (ii) reducing the outstanding balance (in the event of a settlement), (iii) suspending delinquency fees until the cardmember exits the modification program and (iv) placing the cardmember on a fixed payment plan not to exceed 60 months. Upon entering the modification program, the cardmember s ability to make future purchases is either cancelled, or in certain cases suspended until the cardmember successfully exits the modification program. In accordance with the modification agreement with the cardmember, loans with modified terms will revert back to the original contractual terms (including contractual interest rate) when the cardmember exits the modification program, either (i) when all payments have been made in accordance with the modification agreement or (ii) the

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cardmember defaults out of the modification program. In either case, the Company establishes a reserve for cardmember interest charges considered to be uncollectible. The performance of a loan or a receivable modified as a TDR is closely monitored to understand its impact on the Company s reserve for losses. Though the ultimate success of modification programs remains uncertain, the Company believes the programs improve the cumulative loss performance of such loans and receivables.

Reserves for cardmember loans and receivables modified as TDRs are determined by the difference between the cash flows expected to be received from the cardmember (taking into consideration the probability of subsequent defaults), discounted at the original effective interest rates, and the carrying value of the cardmember loan or receivable balance. The Company determines the original effective interest rate as the interest rate in effect prior to the imposition of any penalty interest rate. All changes in the impairment measurement, including the component due to the passage of time, are included in the provision for losses in the Consolidated Statements of Income.

The following table provides additional information with respect to the Company s impaired cardmember loans and receivables, which are not significant for ICS and GCS, as of September 30, 2012 and December 31, 2011:

2012 *(Millions)*	Loans over 90 Days Past Due & Accruing Interest[(a)]	Non-Accrual Loans[(b)]	Loans & Receivables Modified as a TDR[(c)]	Total Impaired Loans & Receivables	Unpaid Principal Balance[(d)]	Allowance for TDRs[(e)]
Cardmember Loans:						
U.S. Card Services	**$ 60**	**$ 437**	**$ 666**	**$ 1,163**	**$ 1,135**	**$ 150**
International Card Services	**62**	**4**	**7**	**73**	**72**	**1**
Cardmember Receivables:						
U.S. Card Services			**119**	**119**	**114**	**80**
Total	**$ 122**	**$ 441**	**$ 792**	**$ 1,355**	**$ 1,321**	**$ 231**

2011 *(Millions)*	Loans over 90 Days Past Due & Accruing Interest[(a)]	Non-Accrual Loans[(b)]	Loans & Receivables Modified as a TDR[(c)]	Total Impaired Loans & Receivables	Unpaid Principal Balance[(d)]	Allowance for TDRs[(e)]
Cardmember Loans:						
U.S. Card Services	$ 64	$ 529	$ 736	$ 1,329	$ 1,268	$ 174
International Card Services	67	6	8	81	80	2
Cardmember Receivables:						
U.S. Card Services			174	174	165	118
Total	$ 131	$ 535	$ 918	$ 1,584	$ 1,513	$ 294

(a) The Company s policy is generally to accrue interest through the date of write-off (at 180 days past due). The Company establishes reserves for interest that the Company believes will not be collected. Excludes loans modified as a TDR.

(b) Non-accrual loans not in modification programs include certain cardmember loans placed with outside collection agencies for which the Company has ceased accruing interest. The Company s policy is generally not to resume the accrual of interest on these loans. Payments received are applied against the recorded loan balance. Interest income is recognized on a cash basis for any payments received after the loan balance has been paid in full. Excludes loans modified as a TDR.

(c) Total loans and receivables modified as a TDR includes $333 million and $410 million that are non-accrual and $6 million and $4 million that are past due 90 days and still accruing interest as of September 30, 2012 and December 31, 2011, respectively.

(d) Unpaid principal balance consists of cardmember charges billed and excludes other amounts charged directly by the Company such as interest and fees.

(e) Represents the reserve for losses for TDRs, which are evaluated separately for impairment. The Company records a reserve for losses for all impaired loans. Refer to Cardmember Loans Evaluated Separately and Collectively for Impairment in Note 4 for further discussion of the reserve for losses on loans over 90 days past due and accruing interest and non-accrual loans, which are evaluated collectively for impairment.

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The following table provides information with respect to the Company s interest income recognized and average balances of impaired cardmember loans and receivables, which are not significant for ICS and GCS, during the three and nine months ended September 30:

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
(Millions)	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance
Cardmember Loans:				
U.S. Card Services	**$ 15**	**$ 1,182**	**$ 45**	**$ 1,244**
International Card Services	**4**	**73**	**12**	**77**
Cardmember Receivables:				
U.S. Card Services		**120**		**140**
Total	**$ 19**	**$ 1,375**	**$ 57**	**$ 1,461**

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
(Millions)	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance
Cardmember Loans:				
U.S. Card Services	$ 16	$ 1,390	$ 51	$ 1,541
International Card Services	5	92	22	102
Cardmember Receivables:				
U.S. Card Services		149		138
Total	$ 21	$ 1,631	$ 73	$ 1,781

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Cardmember Loans and Receivables Modified as TDRs

The following table provides additional information with respect to the cardmember loans and receivables modified as TDRs, which are not significant for ICS, during the three and nine months ended September 30:

(Accounts in thousands, Dollars in millions)	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Number of Accounts	Aggregated Pre-Modification Outstanding Balances[(a)]	Aggregated Post-Modification Outstanding Balances[(a)]	Number of Accounts	Aggregated Pre-Modification Outstanding Balances[(a)]	Aggregated Post-Modification Outstanding Balances[(a)]
Troubled Debt Restructurings:						
U.S. Card Services Cardmember Loans	**26**	**$ 193**	**$ 190**	**82**	**$ 600**	**$ 587**
U.S. Card Services Cardmember Receivables	**9**	**104**	**103**	**28**	**326**	**320**
Total[(b)]	**35**	**$ 297**	**$ 293**	**110**	**$ 926**	**$ 907**

(Accounts in thousands, Dollars in millions)	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	Number of Accounts	Aggregated Pre-Modification Outstanding Balances[(a)]	Aggregated Post-Modification Outstanding Balances[(a)]	Number of Accounts	Aggregated Pre-Modification Outstanding Balances[(a)]	Aggregated Post-Modification Outstanding Balances
Troubled Debt Restructurings:						
U.S. Card Services Cardmember Loans	35	$ 269	$ 259	116	$ 875	$ 839
U.S. Card Services Cardmember Receivables	14	108	105	36	292	281
Total[(b)]	49	$ 377	$ 364	152	$ 1,167	$ 1,120

(a) Includes principal and accrued interest.

(b) The difference between the pre- and post-modification outstanding balances is attributable to amounts charged off for cardmember loans and receivables being resolved through the Company s short-term settlement programs.

As described previously, the Company s cardmember loans and receivables modification programs may include (i) reducing the interest rate, (ii) reducing the outstanding balance, (iii) suspending delinquency fees and (iv) placing the cardmember on a fixed payment plan not exceeding 60 months. Upon entering the modification program, the cardmember s ability to make future purchases is either cancelled, or in certain cases suspended until the cardmember successfully exits the modification program.

The Company has evaluated the primary financial effects of the impact of the changes to an account upon modification as follows:

Interest Rate Reduction: For the three months ended September 30, 2012 and 2011, the average interest rate reduction was 11 percentage points and 12 percentage points, respectively. For both the nine months ended September 30, 2012 and 2011, the average interest rate reduction was 12 percentage points. None of these interest rate reductions had a significant impact on interest on loans in the Consolidated Statements of Income. The Company does not offer interest rate reduction programs for U.S. Card Services (USCS) cardmember receivables as these receivables are non-interest bearing.

Outstanding Balance Reduction: The table above presents the financial effects to the Company as a result of reducing the outstanding balance for short-term settlement programs. The difference between the pre- and post-modification outstanding balances represents the amount that either has been written-off or will be written-off upon successful completion of the settlement program.

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Payment Term Extension: For the three and nine months ended September 30, 2012, the average payment term extension was approximately 12 months and 13 months, respectively, for USCS cardmember receivables. For both the three and nine months ended September 30, 2011, the average payment term extension was approximately 15 months for USCS cardmember receivables. For USCS cardmember loans, there have been no payment term extensions.

The following table provides information for the three and nine months ended September 30, 2012 and 2011, with respect to the cardmember loans and receivables modified as TDRs on which there was a default within the previous 12 months. A cardmember will default from a modification program after one and up to three consecutive missed payments, depending on the terms of the modification program. The defaulted ICS cardmember loan modifications were not significant.

(Accounts in thousands, Dollars in millions)	Three Months Ended September 30, 2012 Number of Accounts	Three Months Ended September 30, 2012 Aggregated Outstanding Balances Upon Default[(a)]	Nine Months Ended September 30, 2012 Number of Accounts	Nine Months Ended September 30, 2012 Aggregated Outstanding Balances Upon Default[(a)]
Troubled Debt Restructurings That Subsequently Defaulted:				
U.S. Card Services Cardmember Loans	**4**	**$ 39**	**19**	**$ 149**
U.S. Card Services Cardmember Receivables	**1**	**8**	**1**	**28**
Total	**5**	**$ 47**	**20**	**$ 177**

(Accounts in thousands, Dollars in millions)	Three Months Ended September 30, 2011 Number of Accounts	Three Months Ended September 30, 2011 Aggregated Outstanding Balances Upon Default[(a)]	Nine Months Ended September 30, 2011 Number of Accounts	Nine Months Ended September 30, 2011 Aggregated Outstanding Balances Upon Default[(a)]
Troubled Debt Restructurings That Subsequently Defaulted:				
U.S. Card Services Cardmember Loans	9	$ 65	36	$ 271

U.S. Card Services Cardmember Receivables	1		7	5		32
Total	10	$	72	41	$	303

(a) The outstanding balance includes principal and accrued interest.

4. Reserves for Losses

Reserves for losses relating to cardmember loans and receivables represent management s best estimate of the losses inherent in the Company s outstanding portfolio of loans and receivables. Management s evaluation process requires certain estimates and judgments.

Reserves for losses are primarily based upon statistical models that analyze portfolio performance and reflect management s judgment regarding overall reserve adequacy. The models take into account several factors, including loss migration rates and average losses and recoveries over an appropriate historical period. Management considers whether to adjust the models for specific factors such as increased risk in certain portfolios, impact of risk management initiatives on portfolio performance and concentration of credit risk based on factors such as vintage, industry or geographic regions. In addition, management may increase or decrease the reserves for losses on cardmember loans for other external environmental factors, including various indicators related to employment, spend, sentiment, housing and credit, as well as the legal and regulatory environment. Generally, due to the short-term nature of cardmember receivables, the impact of

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additional external factors on the losses inherent within the cardmember receivables portfolio is not significant. As part of this evaluation process, management also considers various reserve coverage metrics, such as reserves as a percentage of past due amounts, reserves as a percentage of cardmember receivables or loans and net write-off coverage.

Cardmember loans and receivables 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 180 days. Cardmember loans and receivables in bankruptcy or owed by deceased individuals are written off upon notification and recoveries are recognized as they are collected.

Changes in Cardmember Receivables Reserve for Losses

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

(Millions)	**2012**	2011
Balance, January 1	**$ 438**	$ 386
Additions:		
Provisions[(a)]	**434**	404
Other[(b)]	**97**	129
Total provision	**531**	533
Deductions:		
Net write-offs[(c)]	**(487)**	(406)
Other[(d)]	**(73)**	(125)
Balance, September 30	**$ 409**	$ 388

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

(b) Provisions for unauthorized transactions.

(c) Consists of principal (resulting from authorized transactions) and fee components, less recoveries of $292 million and $255 million for the nine months ended September 30, 2012 and 2011, respectively.

(d)

Includes net write-offs resulting from unauthorized transactions of $(100) million and $(123) million for the nine months ended September 30, 2012 and 2011, respectively; foreign currency translation adjustments of $4 million and nil for the nine months ended September 30, 2012 and 2011, respectively; cardmember bankruptcy reserves of $18 million and nil for the nine months ended September 30, 2012 and 2011, respectively; and other items of $5 million and $(2) million for the nine months ended September 30, 2012 and 2011, respectively. Cardmember bankruptcy reserves were classified as other liabilities in prior periods.

Cardmember Receivables Evaluated Individually and Collectively for Impairment

The following table presents cardmember receivables evaluated individually and collectively for impairment and related reserves as of September 30, 2012 and December 31, 2011:

(Millions)		**2012**		2011
Cardmember receivables evaluated individually for impairment[a]	**$**	**119**	$	174
Related reserves [a]	**$**	**80**	$	118
Cardmember receivables evaluated collectively for impairment	**$**	**42,200**	$	40,716
Related reserves	**$**	**329**	$	320

(a) Represents receivables modified in a TDR and related reserves. Refer to the Impaired Loans and Receivables discussion in Note 3 for further information.

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Changes in Cardmember Loans Reserve for Losses

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

(Millions)	**2012**	2011
Balance, January 1	**$ 1,874**	$ 3,646
Additions:		
Provisions[(a)]	**669**	23
Other[(b)]	**84**	81
Total provision	**753**	104
Deductions:		
Net write-offs:		
Principal[(c)]	**(970)**	(1,375)
Interest and fees[(c)]	**(121)**	(159)
Other[(d)]	**(77)**	(77)
Balance, September 30	**$ 1,459**	$ 2,139

(a) Provisions for principal (resulting from authorized transactions), interest and fee reserves components.

(b) Provisions for unauthorized transactions.

(c) Consists of principal write-offs (resulting from authorized transactions), less recoveries of $382 million and $444 million for the nine months ended September 30, 2012 and 2011, respectively. Recoveries of interest and fees were de minimis.

(d) Includes net write-offs for unauthorized transactions of $(84) million and $(76) million for the nine months ended September 30, 2012 and 2011, respectively; foreign currency translation adjustments of $10 million and $(1) million for the nine months ended September 30, 2012 and 2011, respectively; cardmember bankruptcy reserves of $4 million and nil for the nine months ended September 30, 2012 and 2011, respectively; and other items of $(7) million and nil for the nine months ended September 30, 2012 and 2011, respectively. Cardmember bankruptcy reserves were classified as other liabilities in prior periods.

Cardmember Loans Evaluated Individually and Collectively for Impairment

The following table presents cardmember loans evaluated individually and collectively for impairment and related reserves as of September 30, 2012 and December 31, 2011:

(Millions)		**2012**		2011
Cardmember loans evaluated individually for impairment[(a)]	**$**	**673**	$	744
Related reserves[(a)]	**$**	**151**	$	176
Cardmember loans evaluated collectively for impairment[(b)]	**$**	**61,077**	$	61,877
Related reserves[(b)]	**$**	**1,308**	$	1,698

(a) Represents loans modified in a TDR and related reserves. Refer to the Impaired Loans and Receivables discussion in Note 3 for further information.

(b) Represents current loans and loans less than 90 days past due, loans over 90 days past due and accruing interest, and non-accrual loans and related reserves. The reserves include the results of analytical models that are specific to individual pools of loans and reserves for external environmental factors that apply to loans in geographic markets that are collectively evaluated for impairment and are not specific to any individual pool of loans.

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5. Investment Securities

Investment securities include debt and equity securities classified as available for sale. The Company s investment securities, principally debt securities, are carried at fair value on the Consolidated Balance Sheets with unrealized gains (losses) recorded in Accumulated Other Comprehensive Income (AOCI), net of income taxes. Realized gains and losses are recognized in results of operations upon disposition of the securities using the specific identification method on a trade date basis. Refer to Note 2 for a description of the Company s methodology for determining the fair value of investment securities.

The following is a summary of investment securities as of September 30, 2012 and December 31, 2011:

	2012				2011			
Description of Securities *(Millions)*	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and municipal obligations	**$ 4,421**	**$ 199**	**$ (6)**	**$ 4,614**	$ 4,968	$ 103	$ (72)	$ 4,999
U.S. Government agency obligations	**3**			**3**	352	2		354
U.S. Government treasury obligations	**330**	**9**		**339**	330	10		340
Corporate debt securities[(a)]	**374**	**7**	**(1)**	**380**	626	9	(3)	632
Mortgage-backed securities[(b)]	**231**	**17**		**248**	261	17		278
Equity securities[(c)]	**73**	**208**		**281**	95	265		360
Foreign government bonds and obligations	**126**	**15**		**141**	120	10		130
Other[(d)]	**53**	**1**		**54**	54			54
Total	**$ 5,611**	**$ 456**	**$ (7)**	**$ 6,060**	$ 6,806	$ 416	$ (75)	$ 7,147

(a) The September 30, 2012 and December 31, 2011 balances include, on a cost basis, $300 million and $550 million, respectively, of corporate debt obligations issued under the Temporary Liquidity Guarantee Program that are guaranteed by the Federal Deposit Insurance Corporation (FDIC).

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

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

(d) Other comprises investments in various mutual funds.

The following table provides information about the Company s investment securities with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2012 and December 31, 2011:

	2012				2011			
	Less than 12 months		12 months or more		Less than 12 months		12 months or more	
Description of Securities *(Millions)*	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
State and municipal obligations	**$**	**$**	**$ 126**	**$ (6)**	$	$	$ 1,094	$ (72)
Corporate debt securities			**3**	**(1)**	15	(2)	2	(1)
Total	**$**	**$**	**$ 129**	**$ (7)**	$ 15	$ (2)	$ 1,096	$ (73)

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The following table summarizes the gross unrealized losses due to temporary impairments by ratio of fair value to amortized cost as of September 30, 2012 and December 31, 2011:

	Less than 12 months			12 months or more			Total		
Ratio of Fair Value to Amortized Cost *(Dollars in millions)*	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses
2012:									
90% 100%		**$**	**$**	**13**	**$ 126**	**$ (6)**	**13**	**$ 126**	**$ (6)**
Less than 90%				**1**	**3**	**(1)**	**1**	**3**	**(1)**
Total as of September 30, 2012		**$**	**$**	**14**	**$ 129**	**$ (7)**	**14**	**$ 129**	**$ (7)**
2011:									
90% 100%		$	$	114	$ 884	$ (35)	114	$ 884	$ (35)
Less than 90%	1	15	(2)	22	212	(38)	23	227	(40)
Total as of December 31, 2011	1	$ 15	$ (2)	136	$ 1,096	$ (73)	137	$ 1,111	$ (75)

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

Overall, for the investment securities in gross unrealized loss positions identified above, (i) the Company does not intend to sell the investment securities, (ii) it is more likely than not that the Company will not be required to sell the investment securities before recovery of the unrealized losses and (iii) the Company expects that the contractual principal and interest will be received on the investment securities. As a result, the Company recognized no other-than-temporary impairment during the nine months ended September 30, 2012 or the year ended December 31, 2011.

Supplemental Information

Gross realized gains on sales of investment securities, included in other non-interest revenues for the three and nine months ended September 30, 2012, were $35 million and $85 million, respectively (there were no gross realized gains for the three and nine months ended September 30, 2011). Gross realized losses on sales of investment securities, included in other non-interest revenues for the three and nine months ended September 30, 2012, were nil and $1 million, respectively (there were no gross realized losses for the three and nine months ended September 30, 2011).

Contractual maturities of investment securities, excluding equity securities and other securities, as of September 30, 2012 were as follows:

(Millions)	Cost	Estimated Fair Value
Due within 1 year	$ **507**	$ **509**
Due after 1 year but within 5 years	**344**	**353**
Due after 5 years but within 10 years	**166**	**179**
Due after 10 years	**4,468**	**4,684**
Total	$ **5,485**	$ **5,725**

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

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6. Asset Securitizations

Charge Trust and Lending Trust

The Company periodically securitizes cardmember receivables and loans arising from its card business through the transfer of those assets to securitization trusts. The trusts then issue securities to third-party investors, collateralized by the transferred assets.

Cardmember receivables are transferred to the American Express Issuance Trust (the Charge Trust) and cardmember loans are transferred to the American Express Credit Account Master Trust (the Lending Trust). The Charge Trust and the Lending Trust are consolidated by American Express Travel Related Services Company, Inc. (TRS), which is a consolidated subsidiary of the Company. The trusts are considered VIEs as they have insufficient equity at risk to finance their activities, which are to issue securities that are collateralized by the underlying cardmember receivables and loans.

TRS, in its role as servicer of the Charge Trust and the Lending Trust, has the power to direct the most significant activity of the trusts, which is the collection of the underlying cardmember receivables and loans in the trusts. In addition, TRS, excluding its consolidated subsidiaries, owns approximately $0.9 billion of subordinated securities issued by the Lending Trust as of September 30, 2012. These subordinated securities have the obligation to absorb losses of the Lending Trust and provide the right to receive benefits from the Lending Trust, both of which are significant to the VIE. TRS role as servicer for the Charge Trust does not provide it with a significant obligation to absorb losses or a significant right to receive benefits. However, TRS position as the parent company of the entities that transferred the receivables to the Charge Trust makes it the party most closely related to the Charge Trust. Based on these considerations, TRS is the primary beneficiary of both the Charge Trust and the Lending Trust.

The debt securities issued by the Charge Trust and the Lending Trust are non-recourse to the Company. Securitized cardmember receivables and loans held by the Charge Trust and the Lending Trust are available only for payment of the debt securities or other obligations issued or arising in the securitization transactions. The long-term debt of each trust is payable only out of collections on their respective underlying securitized assets.

There was a de minimis amount and approximately $15 million of restricted cash held by the Charge Trust as of September 30, 2012 and December 31, 2011, respectively, and approximately $1.3 billion and $192 million of restricted cash held by the Lending Trust as of September 30, 2012 and December 31, 2011, respectively, included in other assets on the Company s Consolidated Balance Sheets. These amounts relate to collections of cardmember receivables and loans to be used by the trusts to fund future expenses and obligations, including interest paid on investor certificates, credit losses and upcoming debt maturities.

Charge Trust and Lending Trust Triggering Events

Under the respective terms of the Charge Trust and the Lending Trust agreements, the occurrence of certain triggering events associated with the performance of the assets of each trust could result in payment of trust expenses, establishment of reserve funds, or in a worst-case scenario, early amortization of investor certificates. During the nine months ended September 30, 2012 and the year ended December 31, 2011, no such triggering events occurred.

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7. Customer Deposits

As of September 30, 2012 and December 31, 2011, customer deposits were categorized as interest-bearing or non-interest-bearing deposits as follows:

(Millions)	**2012**	2011
U.S.:		
Interest-bearing	**$ 37,038**	$ 37,271
Non-interest-bearing	**8**	4
Non-U.S.:		
Interest-bearing	**140**	612
Non-interest-bearing	**9**	11
Total customer deposits	**$ 37,195**	$ 37,898

Customer deposits were aggregated by deposit type offered by the Company as of September 30, 2012 and December 31, 2011 as follows:

(Millions)	**2012**	2011
U.S. retail deposits:		
Savings accounts Direct	**$ 16,981**	$ 14,649
Certificates of deposit:		
Direct	**757**	893
Third-party	**9,032**	10,781
Sweep accounts Third-party	**10,268**	10,948
Other deposits	**157**	627
Total customer deposits	**$ 37,195**	$ 37,898

The scheduled maturities of certificates of deposit as of September 30, 2012 were as follows:

(Millions)		U.S.		Non-U.S.		Total
2012	**$**	**959**	**$**	**2**	**$**	**961**
2013		**4,876**		**1**		**4,877**
2014		**2,608**				**2,608**
2015		**365**				**365**
2016		**618**				**618**
After 5 years		**363**				**363**
Total	**$**	**9,789**	**$**	**3**	**$**	**9,792**

As of September 30, 2012 and December 31, 2011, certificates of deposit in denominations of $100,000 or more were as follows:

(Millions)		**2012**		2011
U.S.	**$**	**497**	$	580
Non-U.S.		**2**		304
Total	**$**	**499**	$	884

8. Derivatives and Hedging Activities

The Company uses derivative financial instruments (derivatives) to manage exposures to various market risks. Derivatives derive their value from an underlying variable or multiple variables, including interest rate, foreign exchange, and equity indices or prices. These instruments enable end users to increase, reduce or alter exposure to various market risks and, for that reason, are an integral component of the Company s market risk management. The Company does not engage in derivatives for trading purposes.

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Market risk is the risk to earnings or value resulting from movements in market prices. The Company s market risk exposure is primarily generated by:

- Interest rate risk in its card, insurance and Travelers Cheque businesses, as well as its investment portfolios; and

- Foreign exchange risk in its operations outside the United States and the associated funding of such operations.

The Company centrally monitors market risks using market risk limits and escalation triggers as defined in its Asset/Liability Management Policy.

The Company s market exposures are in large part byproducts of the delivery of its products and services. Interest rate risk arises through the funding of cardmember 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.

Interest rate exposure within the Company s charge card and fixed-rate lending products is managed by varying the proportion of total funding provided by short-term and variable-rate debt and deposits compared to fixed-rate debt and deposits. In addition, interest rate swaps are used from time to time to economically convert fixed-rate debt obligations to variable-rate obligations or to convert variable-rate debt obligations to fixed-rate obligations. The Company may change the mix between variable-rate and fixed-rate funding based on changes in business volumes and mix, among other factors.

Foreign exchange risk is generated by cardmember cross-currency charges, foreign currency balance sheet exposures, foreign subsidiary equity and foreign currency earnings in entities outside the United States. The Company s foreign exchange risk is managed primarily by entering into agreements to buy and sell currencies on a spot basis or by hedging this market exposure to the extent it is economically justified through various means, including the use of derivatives such as foreign exchange forwards and cross-currency swap contracts, which can help mitigate the Company s exposure to specific currencies.

In addition to the exposures identified above, effective August 1, 2011, the Company entered into a total return contract (TRC) to hedge its exposure to changes in the fair value of its equity investment in ICBC in local currency. Under the terms of the TRC, the Company receives from the TRC counterparty an amount equivalent to any reduction in the fair value of its investment in ICBC in local currency, and in return the Company pays to the TRC counterparty an amount equivalent to any increase in the fair value of its investment in local currency, along with all dividends paid by ICBC, as well as ongoing hedge costs. The TRC matures on August 1, 2014.

Derivatives 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 manages this 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 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. To further mitigate bilateral counterparty credit risk, the Company exercises its rights under executed credit support agreements 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.

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In relation to the Company s credit risk, under the terms of the derivative agreements it has with its various counterparties, the Company is not required to either immediately settle any outstanding liability balances or post collateral upon the occurrence of a specified credit risk-related event. Based on the assessment of credit risk of the Company s derivative counterparties as of September 30, 2012 and December 31, 2011, the Company does not have derivative positions that warrant credit valuation adjustments.

The Company s derivatives are carried at fair value on the Consolidated Balance Sheets. The accounting for changes in fair value depends on the instruments intended use and the resulting hedge designation, if any, as discussed below. Refer to Note 2 for a description of the Company s methodology for determining the fair value of derivatives.

The following table summarizes the total fair value, excluding interest accruals, of derivative assets and liabilities as of September 30, 2012 and December 31, 2011:

	Other Assets Fair Value		Other Liabilities Fair Value	
(Millions)	**2012**	2011	**2012**	2011
Derivatives designated as hedging instruments:				
Interest rate contracts				
Fair value hedges	**$ 938**	$ 999	**$**	$
Cash flow hedges				1
Total return contract				
Fair value hedge		13	**23**	
Foreign exchange contracts				
Net investment hedges	**26**	344	**273**	54
Total derivatives designated as hedging instruments	**$ 964**	$ 1,356	**$ 296**	$ 55
Derivatives not designated as hedging instruments:				
Interest rate contracts	**$**	$ 1	**$ 1**	$
Foreign exchange contracts, including certain embedded derivatives[a]	**125**	159	**104**	50
Equity-linked embedded derivative[b]			**2**	3
Total derivatives not designated as hedging instruments	**125**	160	**107**	53
Total derivatives, gross	**$ 1,089**	$ 1,516	**$ 403**	$ 108
Cash collateral netting[c]	**(681)**	(587)	**(16)**	
Derivative asset and derivative liability netting[c]	**(18)**	(14)	**(18)**	(14)

Total derivatives, net	**$ 390**	$ 915	**$ 369**	$ 94

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

(b) Represents an equity-linked derivative embedded in one of the Company s investment securities.

(c) As permitted under GAAP, balances represent the netting of cash collateral received and posted under credit support agreements, and the netting of derivative assets and derivative liabilities under master netting agreements.

Derivative Financial Instruments that Qualify for Hedge Accounting

Derivatives executed for hedge accounting purposes are documented and designated as such when the Company enters into the contracts. In accordance with its risk management policies, the Company structures its hedges with terms similar to that of the item being hedged. The Company formally assesses, at inception of the hedge accounting relationship and on a quarterly basis, whether derivatives designated as hedges are highly effective in offsetting the fair value or cash flows of the hedged items. These assessments usually are made through the application of a regression analysis method. If it is determined that a derivative is not highly effective as a hedge, the Company will discontinue the application of hedge accounting.

Fair Value Hedges

A fair value hedge involves a derivative designated to hedge the Company s exposure to future changes in the fair value of an asset or a liability, or an identified portion thereof that is attributable to a particular risk.

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Interest Rate Contracts

The Company is exposed to interest rate risk associated with its fixed-rate long-term debt. The Company uses interest rate swaps to economically convert certain fixed-rate long-term debt obligations to floating-rate obligations at the time of issuance. As of September 30, 2012 and December 31, 2011, the Company hedged $20.0 billion and $17.1 billion, respectively, of its fixed-rate debt to floating-rate debt using interest rate swaps.

To the extent the fair value hedge is effective, the gain or loss on the hedging instrument offsets the loss or gain on the hedged item attributable to the hedged risk. Any difference between the changes in the fair value of the derivative and the hedged item is referred to as hedge ineffectiveness and is reflected in earnings as a component of other expenses. Hedge ineffectiveness may be caused by differences between the debt s interest coupon and the benchmark rate, primarily due to credit spreads at inception of the hedging relationship that are not reflected in the valuation of the interest rate swap. Furthermore, hedge ineffectiveness may be caused by changes in the relationship between 3-month LIBOR and 1-month LIBOR, as basis spreads may impact the valuation of the interest rate swap without causing an offsetting impact in the value of the hedged debt. If a fair value hedge is de-designated or no longer considered to be effective, changes in fair value of the derivative continue to be recorded through earnings but the hedged asset or liability is no longer adjusted for changes in fair value resulting from changes in interest rates. The existing basis adjustment of the hedged asset or liability is amortized or accreted as an adjustment to yield over the remaining life of that asset or liability.

Total Return Contract

The Company hedges its exposure to changes in the fair value of its equity investment in ICBC in local currency. The Company uses a TRC to transfer this exposure to its derivative counterparty. As of September 30, 2012 and December 31, 2011, the fair value of the equity investment in ICBC was $280 million (474.7 million shares) and $359 million (605.4 million shares), respectively. To the extent the hedge is effective, the gain or loss on the TRC offsets the loss or gain on the investment in ICBC. Any difference between the changes in the fair value of the derivative and the hedged item results in hedge ineffectiveness and is recognized in other expenses in the Consolidated Statements of Income.

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

For the Three Months Ended September 30: *(Millions)*

	Gains (losses) recognized in income						
	Derivative contract			Hedged item			Net hedge
Derivative relationship	Income Statement Line Item	Amount **2012**	Amount 2011	Income Statement Line Item	Amount **2012**	Amount 2011	ineffectiveness **2012**	ineffectiveness 2011
Interest rate contracts	Other, net expenses	**$ (28)**	$ 219	Other, net expenses	**$ (2)**	$ (191)	**$ (30)**	$ 28
Total return contract	Other non-interest revenues	**(19)**	166	Other non-interest revenues	**19**	(178)		(12)

For the Nine Months Ended September 30: *(Millions)*

	Gains (losses) recognized in income							
	Derivative contract			Hedged item			Net hedge	
Derivative relationship	Income Statement Line Item	Amount 2012	Amount 2011	Income Statement Line Item	Amount 2012	Amount 2011	ineffectiveness 2012	ineffectiveness 2011
Interest rate contracts	Other, net expenses	**$ (64)**	$ 202	Other, net expenses	**$ 25**	$ (189)	**$ (39)**	$ 13
Total return contract	Other non-interest revenues	**2**	166	Other non-interest revenues	**(2)**	(178)		(12)

The Company also recognized a net reduction in interest expense on long-term debt of $127 million for both the three months ended September 30, 2012 and 2011, primarily related to the net settlements (interest accruals) on the Company s interest rate derivatives designated as fair value hedges. For both the nine months ended September 30, 2012 and 2011, the impact on interest expense was a net reduction in interest expense on long-term debt of $377 million.

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Cash Flow Hedges

A cash flow hedge involves a derivative designated to hedge the Company s exposure to variable future cash flows attributable to a particular risk. Such exposures may relate to either an existing recognized asset or liability or a forecasted transaction. The Company hedges existing long-term variable-rate debt, the rollover of short-term borrowings and the anticipated forecasted issuance of additional funding through the use of derivatives, primarily interest rate swaps. These derivative instruments economically convert floating-rate debt obligations to fixed-rate obligations for the duration of the instrument. As of September 30, 2012 and December 31, 2011, the Company hedged nil and $305 million, respectively, of its floating-rate debt using interest rate swaps.

For derivatives designated as cash flow hedges, the effective portion of the gain or loss on the derivatives is recorded in AOCI and reclassified into earnings when the hedged cash flows are recognized in earnings. The amount that is reclassified into earnings is presented in the Consolidated Statements of Income in the same line item in which the hedged instrument or transaction is recognized, primarily in interest expense. Any ineffective portion of the gain or loss on the derivatives is reported as a component of other expenses. If a cash flow hedge is de-designated or terminated prior to maturity, the amount previously recorded in AOCI is recognized into earnings over the period that the hedged item impacts earnings. If a hedge relationship is discontinued because it is probable that the forecasted transaction will not occur according to the original strategy, any related amounts previously recorded in AOCI are recognized into earnings immediately.

In the normal course of business, as the hedged cash flows are recognized into earnings, the Company expects to reclassify a de minimis amount of net pretax losses on derivatives from AOCI into earnings during the next 12 months.

Net Investment Hedges

A net investment hedge is used to hedge future changes in currency exposure of a net investment in a foreign operation. The Company primarily designates foreign currency derivatives, typically foreign exchange forwards, and on occasion foreign currency denominated debt, as hedges of net investments in certain foreign operations. These instruments reduce exposure to changes in currency exchange rates on the Company s investments in non-U.S. subsidiaries. The effective portion of the gain or (loss) on net investment hedges, net of taxes, recorded in AOCI as part of the cumulative translation adjustment, was $(320) million and $181 million for the three months ended September 30, 2012 and 2011, respectively, and was $(294) million and $(41) million for the nine months ended September 30, 2012 and 2011, respectively. Any ineffective portion of the gain or loss on net investment hedges is recognized in other expenses during the period of change.

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For the three months ended September 30, 2012 and 2011, there were no amounts reclassified from AOCI into earnings and there was no hedge ineffectiveness on cash flow hedges and net investment hedges recorded within the Consolidated Statements of Income.

The following table summarizes the impact of cash flow hedges and net investment hedges on the Consolidated Statements of Income for the nine months ended September 30:

		Gains (losses) recognized in income					
		Amount reclassified from AOCI into income				Net hedge ineffectiveness	
Description *(Millions)*	Income Statement Line Item	**2012**	2011	Income Statement Line Item		**2012**	2011
Cash flow hedges:[a]							
Interest rate contracts	Interest expense	**$ (1)**	$ (13)	Other, net expenses		**$**	$
Net investment hedges:							
Foreign exchange contracts	Other, net expenses	**$**	$	Other, net expenses		**$**	$ (3)

(a) During the nine months ended September 30, 2012 and 2011, there were no forecasted transactions that were considered no longer probable to occur.

Derivatives Not Designated as Hedges

The Company has derivatives that act as economic hedges, but are not designated as such for hedge accounting purposes. Foreign currency transactions and non-U.S. dollar cash flow exposures from time to time may be partially or fully economically hedged through foreign currency contracts, primarily foreign exchange forwards, options and cross-currency swaps. These hedges generally mature within one year. Foreign currency contracts involve the purchase and sale of a designated currency at an agreed upon rate for settlement on a specified date. The changes in the fair value of the derivatives effectively offset the related foreign exchange gains or losses on the underlying balance sheet exposures. From time to time, the Company may enter into interest rate swaps to specifically manage funding costs related to its proprietary card business.

The Company has certain operating agreements containing payments that may be linked to a market rate or price, primarily foreign currency rates. The payment components of these agreements may meet the definition of an embedded derivative, in which case the embedded derivative is accounted for separately and is classified as a foreign exchange contract based on its primary risk exposure. In addition, the Company holds an investment security containing an embedded equity-linked derivative.

For derivatives that are not designated as hedges, changes in fair value are reported in current period earnings.

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The following table summarizes the impact on pretax earnings of derivatives not designated as hedges, as reported on the Consolidated Statements of Income for the three and nine months ended September 30:

For the Three Months Ended September 30: *(Millions)*

		Pretax gains (losses)	
		Amount	
Description	Income Statement Line Item	**2012**	2011
Interest rate contracts	Other, net expenses	**$ (1)**	$
Foreign exchange contracts[(a)]	Interest and dividends on investment securities		2
	Interest expense on short-term borrowings		
	Interest expense on long-term debt and other		33
	Other, net expenses	**(13)**	(48)
Equity-linked contract	Other non-interest revenues		(1)
Total		**$ (14)**	$ (14)

For the Nine Months Ended September 30: *(Millions)*

		Pretax gains (losses)	
		Amount	
Description	Income Statement Line Item	**2012**	2011
Interest rate contracts	Other, net expenses	**$ (2)**	$ 2
Foreign exchange contracts[(a)]	Interest and dividends on investment securities		7
	Interest expense on short-term borrowings		3
	Interest expense on long-term debt and other		94
	Other, net expenses	**31**	(97)
Equity-linked contract	Other non-interest revenues	**2**	(1)
Total		**$ 31**	$ 8

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

9. Guarantees

The Company provides cardmember protection plans that cover losses associated with purchased products, as well as certain other guarantees in the ordinary course of business which are within the scope of GAAP governing the accounting for guarantees.

In relation to its maximum potential undiscounted future payments as shown in the table that follows, to date the Company has not experienced any significant losses related to guarantees. The Company s initial recognition of guarantees is at fair value, which has been determined in accordance with GAAP governing fair value measurement. In addition, the Company establishes reserves when a loss is probable and the amount can be reasonably estimated.

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The following table provides information related to such guarantees as of September 30, 2012 and December 31, 2011:

		Maximum potential undiscounted future payments[(a)] *(Billions)*			Related liability[(b)] *(Millions)*	
Type of Guarantee		**2012**		2011		**2012**		2011
Card and travel operations[(c)]	**$**	**45**	$	51	**$**	**93**	$	96
Other[(d)]		**1**		1		**94**		98
Total	**$**	**46**	$	52	**$**	**187**	$	194

(a) Represents the notional amounts that could be lost under the guarantees and indemnifications if there was a total default by the guaranteed parties. The Merchant Protection guarantee is calculated using management s best estimate of maximum exposure based on all eligible claims as measured against annual billed business volumes. The Company mitigates this risk by withholding settlement from the merchant or obtaining deposits and other guarantees from merchants considered higher risk due to various factors. The amounts being held by the Company are not significant when compared to the maximum potential undiscounted future payments.

(b) Included as part of other liabilities on the Company s Consolidated Balance Sheets.

(c) Includes Return Protection, Account Protection and Merchant Protection.

(d) Primarily includes guarantees related to the Company s business dispositions and real estate.

10. Income Taxes

The Company is under continuous examination by the Internal Revenue Service (IRS) and tax authorities in other countries and states in which the Company has significant business operations. The tax years under examination and open for examination vary by jurisdiction. The IRS has completed its field examination of the Company s federal tax returns for years through 2004, however refund claims for those years continue to be reviewed by the IRS. In addition, the Company is currently under examination by the IRS for the years 2005 through 2007.

The Company believes it is reasonably possible that its unrecognized tax benefits could decrease within the next 12 months by as much as $918 million principally as a result of potential resolutions of prior years tax items with various taxing authorities. The prior years tax items include unrecognized tax benefits relating to the deductibility of certain expenses or losses and the attribution of taxable income to a particular jurisdiction or jurisdictions. Of the $918 million of unrecognized tax benefits, approximately $677 million relates to amounts that if recognized would be recorded to shareholders equity and would not impact the effective tax rate. With respect to the remaining $241 million, it is not possible to quantify the impact that the decrease could have on the effective tax rate and net income due to the inherent complexities and the number of tax years open for examination in multiple jurisdictions. Resolution of the prior years items that comprise this remaining amount could have an impact on the effective tax rate and on net income, either favorably (principally as a result of settlements that are less than the liability for unrecognized tax benefits) or unfavorably (if such settlements exceed the liability for unrecognized tax benefits).

The effective tax rate from continuing operations was 33.2 percent and 30.4 percent for the three and nine months ended September 30, 2012, respectively. The tax rate for the nine months ended September 30, 2012 includes a tax benefit of $146 million, related to the realization of certain foreign tax credits.

The effective tax rate from continuing operations was 27.8 percent and 28.8 percent for the three and nine months ended September 30, 2011, respectively. The tax rate for the three and nine months ended September 30, 2011 includes a $77 million tax benefit related to the realization of certain foreign tax credits. The tax rate for the nine months ended September 30, 2011 also includes the impact of a $102 million tax benefit related to the favorable resolution of certain prior years tax items.

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In addition, the tax rates for all periods reflect the level of pretax income in relation to recurring permanent tax benefits and geographic mix of business.

11. Earnings Per Common Share (EPS)

The computations of basic and diluted EPS were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions, except per share amounts)	**2012**	2011	**2012**	2011
Numerator:				
Basic and diluted:				
Income from continuing operations	**$ 1,250**	$ 1,235	**$ 3,845**	$ 3,707
Earnings allocated to participating share awards[(a)]	**(14)**	(15)	**(42)**	(44)
Income from discontinued operations, net of tax				36
Net income attributable to common shareholders	**$ 1,236**	$ 1,220	**$ 3,803**	$ 3,699
Denominator:[(a)]				
Basic: Weighted-average common stock	**1,126**	1,175	**1,143**	1,184
Add: Weighted-average stock options[(b)]	**6**	6	**6**	7
Diluted	**1,132**	1,181	**1,149**	1,191
Basic EPS:				
Income from continuing operations attributable to common shareholders	**$ 1.10**	$ 1.04	**$ 3.33**	$ 3.09
Income from discontinued operations				0.03
Net income attributable to common shareholders	**$ 1.10**	$ 1.04	**$ 3.33**	$ 3.12
Diluted EPS:				
Income from continuing operations attributable to common shareholders	**$ 1.09**	$ 1.03	**$ 3.31**	$ 3.08
Income from discontinued operations				0.03
Net income attributable to common shareholders	**$ 1.09**	$ 1.03	**$ 3.31**	$ 3.11

(a) The Company s unvested restricted stock awards, which include the right to receive non-forfeitable dividends or dividend equivalents, are considered participating securities. Calculations of EPS under the two-class method exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator.

(b) For both the three and nine months ended September 30, 2012, the dilutive effect of unexercised stock options excludes 8 million options from the computation of EPS because inclusion of the options would have been anti-dilutive. For both the three and nine months ended September 30, 2011, the dilutive effect of unexercised stock options excludes 19 million options from the computation of EPS because inclusion of the options would have been anti-dilutive.

For the three and nine months ended September 30, 2012 and 2011, the Company met specified performance measures related to the Subordinated Debentures of $750 million issued in 2006, which resulted in no impact to EPS. If the performance measures were not achieved in any given quarter, the Company would be required to issue common shares and apply the proceeds to make interest payments.

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AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

12. Details of Certain Consolidated Statements of Income Line Items
The following is a detail of other commissions and fees:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	**2012**	2011	**2012**	2011
Foreign currency conversion revenue	**$ 220**	$ 225	**$ 643**	$ 651
Delinquency fees	**156**	155	**476**	439
Service fees	**81**	89	**263**	266
Other	**124**	135	**357**	361
Total other commissions and fees	**$ 581**	$ 604	**$ 1,739**	$ 1,717

The following is a detail of other revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	**2012**	2011	**2012**	2011
Global Network Services partner revenues	**$ 156**	$ 157	**$ 474**	$ 459
Net gain on investment securities	**35**		**84**	
Other	**386**	377	**1,250**	1,087
Total other revenues	**$ 577**	$ 534	**$ 1,808**	$ 1,546

Other revenues include revenues arising from contracts with Global Network Services (GNS) partners including royalties and signing fees, insurance premiums earned from cardmember travel and other insurance programs, Travelers Cheques related revenues, publishing revenues and other miscellaneous revenues and fees.

The following is a detail of marketing, promotion, rewards and cardmember services:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	**2012**	2011	**2012**	2011
Marketing and promotion	**$ 764**	$ 757	**$ 2,168**	$ 2,261
Cardmember rewards	**1,496**	1,565	**4,425**	4,755
Cardmember services	**201**	189	**602**	526
Total marketing, promotion, rewards and cardmember services	**$ 2,461**	$ 2,511	**$ 7,195**	$ 7,542

Marketing and promotion expense includes advertising costs, which are expensed in the year in which the advertising first takes place. Cardmember rewards expense includes the costs of rewards programs, including Membership Rewards and co-brand arrangements. Cardmember services expense includes protection plans and complimentary services provided to cardmembers.

AMERICAN EXPRESS COMPANY

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(Unaudited)

The following is a detail of other, net:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	**2012**	2011	**2012**	2011
Professional services	**$ 690**	$ 690	**$ 2,092**	$ 2,098
Occupancy and equipment	**453**	433	**1,337**	1,218
Communications	**93**	93	**284**	280
MasterCard and Visa settlements, net of legal fees		(68)		(494)
Other	**300**	354	**972**	950
Total other, net	**$ 1,536**	$ 1,502	**$ 4,685**	$ 4,052

Other expense includes general operating expenses, gains (losses) on sale of assets or businesses not classified as discontinued operations, litigation, internal and regulatory review-related refunds and insurance costs or settlements, investment impairments and certain Loyalty Partner expenses.

13. Contingencies

The Company and its subsidiaries are involved in a number of legal proceedings concerning matters arising out of the conduct of their respective business activities and are periodically subject to governmental and regulatory examinations, information gathering requests, subpoenas, inquiries and investigations (collectively, governmental examinations). As of September 30, 2012, the Company and various of its subsidiaries were named as a defendant or were otherwise involved in numerous legal proceedings and governmental examinations in various jurisdictions, both in and outside the United States. The Company discloses its material legal proceedings and governmental examinations under Item 1. Legal Proceedings, in Part II. Other Information, and under Legal Proceedings in its Annual Report on Form 10-K for the year ended December 31, 2011 (collectively, Legal Proceedings).

The Company has recorded liabilities for certain of its outstanding legal proceedings and governmental examinations. A liability is accrued when it is both (a) probable that a loss with respect to the legal proceeding has occurred and (b) the amount of loss can be reasonably estimated. As discussed below, there may be instances in which an exposure to loss exceeds the accrued liability. The Company evaluates, on a quarterly basis, developments in legal proceedings and governmental examinations that could cause an increase or decrease in the amount of the liability that has been previously accrued or a revision to the disclosed estimated range of possible losses, as applicable.

The Company s legal proceedings range from cases brought by a single plaintiff to class actions with hundreds of thousands of putative class members. These legal proceedings, as well as governmental examinations, involve various lines of business of the Company and a variety of claims (including, but not limited to, common law tort, contract, antitrust and consumer protection claims), some of which present novel factual allegations and/or unique legal theories. While some matters pending against the Company specify the damages claimed by the plaintiff, many seek a not-yet-quantified amount of damages or are at very early stages of the legal process. Even when the amount of damages claimed against the Company are stated, the claimed amount may be exaggerated and/or unsupported. As a result, some matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable the Company to estimate a range of possible loss.

Other matters have progressed sufficiently through discovery and/or development of important factual information and legal issues so that the Company is able to estimate a range of possible loss. Accordingly, for those legal proceedings and governmental examinations disclosed or referred to in Legal Proceedings where a loss is reasonably possible in future periods, whether in excess of a related accrued liability or where there is no accrued liability, and for which the Company is able to estimate a range of possible loss,

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AMERICAN EXPRESS COMPANY

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(Unaudited)

the current estimated range is zero to $510 million in excess of any accrued liability related to those matters. This aggregate range represents management s estimate of possible loss with respect to these matters and is based on currently available information. This estimated range of possible loss does not represent the Company s maximum loss exposure. The legal proceedings and governmental examinations underlying the estimated range will change from time to time and actual results may vary significantly from current estimates.

Based on its current knowledge, and taking into consideration its litigation-related liabilities, the Company believes it is not a party to, nor are any of its properties the subject of, any pending legal proceeding or governmental examination that would have a material adverse effect on the Company s consolidated financial condition or liquidity. However, in light of the uncertainties involved in such matters, the ultimate outcome of a particular matter could be material to the Company s operating results for a particular period depending on, among other factors, the size of the loss or liability imposed and the level of the Company s earnings for that period.

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AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

14. Reportable Operating Segments

The Company is a leading global payments and travel company that is principally engaged in businesses comprising four reportable operating segments: USCS, ICS, GCS and Global Network & Merchant Services (GNMS). Corporate functions and auxiliary businesses, including the Company s publishing business, the Enterprise Growth Group (including Global Payment Options), as well as other Company operations are included in Corporate & Other.

The following table presents certain operating segment information:

(Millions)	Three Months Ended September 30, **2012**	2011	Nine Months Ended September 30, **2012**	2011
Non-interest revenues:				
USCS	**$ 2,887**	$ 2,752	**$ 8,566**	$ 8,008
ICS	**1,126**	1,156	**3,351**	3,315
GCS	**1,218**	1,195	**3,718**	3,631
GNMS	**1,238**	1,188	**3,683**	3,459
Corporate & Other, including adjustments and eliminations[(a)]	**212**	167	**688**	541
Total	**$ 6,681**	$ 6,458	**$ 20,006**	$ 18,954
Interest income:				
USCS	**$ 1,362**	$ 1,287	**$ 3,978**	$ 3,770
ICS	**289**	299	**858**	913
GCS	**3**	3	**8**	7
GNMS	**7**	2	**16**	4
Corporate & Other, including adjustments and eliminations[(a)]	**78**	97	**257**	317
Total	**$ 1,739**	$ 1,688	**$ 5,117**	$ 5,011
Interest expense:				
USCS	**$ 194**	$ 201	**$ 568**	$ 604
ICS	**102**	108	**300**	322
GCS	**65**	68	**192**	196
GNMS	**(65)**	(60)	**(182)**	(163)
Corporate & Other, including adjustments and eliminations[(a)]	**262**	258	**804**	786
Total	**$ 558**	$ 575	**$ 1,682**	$ 1,745
Total revenues, net of interest expense:				
USCS	**$ 4,055**	$ 3,838	**$ 11,976**	$ 11,174
ICS	**1,313**	1,347	**3,909**	3,906

GCS		**1,156**		1,130		**3,534**		3,442
GNMS		**1,310**		1,250		**3,881**		3,626
Corporate & Other, including adjustments and eliminations[(a)]		**28**		6		**141**		72
Total	**$**	**7,862**	$	7,571	**$**	**23,441**	$	22,220
Income (loss) from continuing operations:								
USCS	**$**	**699**	$	733	**$**	**2,169**	$	1,953
ICS		**164**		221		**539**		571
GCS		**183**		197		**579**		558
GNMS		**360**		332		**1,089**		969
Corporate & Other, including adjustments and eliminations[(a)]		**(156)**		(248)		**(531)**		(344)
Total	**$**	**1,250**	$	1,235	**$**	**3,845**	$	3,707

(a) Corporate & Other includes adjustments and eliminations for intersegment activity.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Introduction

American Express (the Company) is a global services company that provides customers with access to products, insights and experiences that enrich lives and build business success. The Company s principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world. The Company s range of products and services include:

- charge and credit card products;
- expense management products and services;
- consumer and business travel services;
- stored-value products such as Travelers Cheques and other prepaid products;
- network services;
- merchant acquisition and processing, servicing and settlement, and point-of-sale, marketing and information products and services for merchants; and
- fee services, including market and trend analyses and related consulting services, fraud prevention services, and the design of customized customer loyalty and rewards programs.

The Company s 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.

The Company competes in the global payments industry with charge, credit and debit card networks, issuers and acquirers, as well as evolving alternative payment mechanisms, systems and products. As the payments industry continues to evolve, the Company is facing increasing competition from non-traditional players, such as online networks, telecom providers and software-as-a-service providers, who leverage new technologies and customers existing charge and credit card accounts and bank relationships to create payment or other fee-based solutions. In 2009, the Company established the Enterprise Growth Group, which focuses on generating alternative sources of global revenues in areas such as online and mobile payments and fee-based services. In addition to the Enterprise Growth Group, the Company is seeking to transform all of its businesses for the digital marketplace, including increasing the Company s share of online spend across all products and enhancing customers digital experiences.

The Company s products and services generate the following types of revenue for the Company:

- Discount revenue, which is the Company s largest revenue source, represents fees charged to merchants when cardmembers use their cards to purchase goods and services at merchants on the Company s network;
- Net card fees, which represent revenue earned for annual card membership fees;

Travel commissions and fees, which are earned by charging a transaction or management fee for airline or other travel-related transactions;

Other commissions and fees, which are earned on foreign exchange conversions and card-related fees and assessments;

Other revenue, which represents insurance premiums earned from cardmember travel and other insurance programs, revenues arising from contracts with Global Network Services (GNS) partners (including royalties and signing fees), publishing revenues and other miscellaneous revenue and fees; and

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Interest on loans, which principally represents interest income earned on outstanding balances.

In addition to funding and operating costs associated with these types of revenue, other major expense categories are related to marketing and reward programs that add new cardmembers and promote cardmember loyalty and spending, and provisions for cardmember credit and fraud losses.

Financial Targets

The Company seeks to achieve three financial targets, on average and over time:

Revenues net of interest expense growth of at least 8 percent;

Earnings per share (EPS) growth of 12 to 15 percent; and

Return on average equity (ROE) of 25 percent or more.

If the Company achieves its EPS and ROE targets, it will seek to return on average and over time 50 percent of the capital it generates to shareholders as dividends or through the repurchases of common stock, which may be subject to certain regulatory restrictions as described herein.

Forward-Looking Statements and Non-GAAP Measures

Certain of the statements in this Form 10-Q are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Refer to the Forward-Looking Statements section below. In addition, certain information included within this Form 10-Q constitute non-GAAP financial measures. The Company s calculations of non-GAAP financial measures may differ from the calculations of similarly titled measures by other companies.

Bank Holding Company

The Company is a bank holding company under the Bank Holding Company Act of 1956 and the Federal Reserve Board (Federal Reserve) is the Company s primary federal regulator. As such, the Company is subject to the Federal Reserve s regulations, policies and minimum capital standards.

Current Economic Environment/Outlook

During the third quarter of 2012 cardmember spending volumes continued to grow in the United States and internationally, and across all of the Company s businesses. The rate of growth was, however, slower than in the first half of the year, reflecting in part the impact of a challenging global economic environment.

The positive impacts of the Company s billings and loan growth and higher other non-interest revenues were partially offset by significantly lower lending reserve releases this quarter as compared to a year ago, and a significantly higher effective tax rate. The growth in spend volumes, combined with a decline in total expenses, allowed the Company to invest in business initiatives. The Company continues to focus its investments on both driving near-term metrics and building capabilities that will benefit the medium- to long-term success of the Company.

The Company s very strong credit performance contributed to lending loss rates that have improved to all-time lows, although provision expense for the third quarter of 2012 increased over the year ago quarter in light of the significantly lower lending reserve releases referred to above.

In the third quarter, the Company achieved its objective to grow operating expenses (i.e., expenses other than marketing, promotion, rewards and cardmember services) more slowly than revenues, and will continue to focus on this objective over the next two to three years.

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Competition remains extremely intense across all of the Company s businesses and the global economic environment remains very uneven. The Company expects that it will take some time for the U.S. economy to get back onto a steady, upward growth track. Moreover, in the absence of legislative action, there continues to be growing concerns about the potential impact of the fiscal cliff arising from scheduled federal spending cuts and tax increases set for the end of 2012. Also, the failure of the U.S. Congress to renew legislation regarding the Company s active financing income could increase its effective tax rate and have an adverse impact on net income in 2013 and beyond. The current instability in Europe could further adversely affect global economic conditions, including continued pressure on consumer and corporate confidence and spending, and disruptions of the debt, equity and foreign exchange markets. Europe accounted for approximately 11 percent of the Company s total billed business for the quarter ended September 30, 2012.

As described in the Critical Accounting Estimates section of the Company s 2011 Annual Report, the Company continually evaluates its Membership Rewards reserve methodology and assumptions taking into consideration developments in redemption patterns, costs per point redeemed, contract changes and other factors. The Company is currently reviewing the ultimate redemption rate (URR) estimation process for its U.S. Membership Rewards program, which is expected to result in a refinement to the URR models used to estimate future redemption rates. This review is expected to be completed by the end of 2012 and will likely lead to an increase in the balance sheet reserve for Membership Rewards and a corresponding increase in cardmember rewards expenses in the fourth quarter. The amount of the expected increase in the reserve has not yet been determined. As disclosed in our 2011 Annual Report, a 100 basis points increase in the global URR assumption would have an immediate impact on the balance sheet reserve and a corresponding increase in cardmember rewards expenses of approximately $330 million for points previously earned but not yet redeemed by cardmembers. In addition, based on the current Membership Rewards program and level of cardmember spend, a 100 basis point increase in the global URR assumption would result in an increase in annual cardmember rewards expenses of approximately $40 million.

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American Express Company

Selected Statistical Information

Refer to Glossary of Selected Terminology for the definitions of certain key terms and related information appearing in the tables below.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	**2012**	2011	Change
Card billed business: *(billions)*						
United States	**$ 146.9**	$ 136.4	8 %	**$ 435.2**	$ 397.3	10%
Outside the United States	**73.2**	71.3	3 %	**217.7**	205.9	6%
Total	**$ 220.1**	$ 207.7	6 %	**$ 652.9**	$ 603.2	8%
Total cards-in-force: *(millions)*						
United States	**51.8**	50.2	3 %	**51.8**	50.2	3%
Outside the United States	**49.6**	45.6	9 %	**49.6**	45.6	9%
Total	**101.4**	95.8	6 %	**101.4**	95.8	6%
Basic cards-in-force: *(millions)*						
United States	**40.2**	38.9	3 %	**40.2**	38.9	3%
Outside the United States	**39.8**	36.4	9 %	**39.8**	36.4	9%
Total	**80.0**	75.3	6 %	**80.0**	75.3	6%
Average discount rate	**2.53%**	2.54%		**2.53%**	2.54%	
Average basic cardmember spending *(dollars)*[(a)]	**$ 3,885**	$ 3,739	4 %	**$ 11,606**	$ 10,947	6%
Average fee per card *(dollars)*[(a)]	**$ 39**	$ 40	(3)%	**$ 39**	$ 39	%
Average fee per card adjusted *(dollars)*[(a)]	**$ 44**	$ 43	2 %	**$ 43**	$ 43	%

(a) Average basic cardmember spending and average fee per card are computed from proprietary card activities only. Average fee per card is computed based on net card fees, including the amortization of deferred direct acquisition costs divided by average worldwide proprietary cards-in-force. The adjusted average fee per card, which is a non-GAAP measure, is computed in the same manner, but excludes amortization of deferred direct acquisition costs. The amount of amortization excluded was $65 million and $52 million for the three months ended September 30, 2012 and 2011, respectively, and $194 million and $162 million for the nine months ended September 30, 2012 and 2011, respectively. The Company presents adjusted average fee per card because the Company believes this metric presents a useful indicator of card fee pricing across a range of its proprietary card products.

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American Express Company

Selected Statistical Information

(continued)

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Billions, except percentages and where indicated)	**2012**	2011	Change	**2012**	2011	Change
Worldwide cardmember receivables						
Total receivables	**$ 42.3**	$ 39.8	6 %	**$ 42.3**	$ 39.8	6 %
Loss reserves *(millions)*						
Beginning balance	**$ 392**	$ 415	(6)%	**$ 438**	$ 386	13 %
Provisions[a]	**151**	125	21 %	**434**	404	7 %
Other additions[b]	**39**	49	(20)%	**97**	129	(25)%
Net write-offs[c]	**(141)**	(146)	(3)%	**(487)**	(406)	20 %
Other deductions[d]	**(32)**	(55)	(42)%	**(73)**	(125)	(42)%
Ending balance	**$ 409**	$ 388	5 %	**$ 409**	$ 388	5 %
% of receivables	**1.0%**	1.0%		**1.0%**	1.0%	
Net write-off rate principal USCS[e]	**1.6%**	1.8%		**2.0%**	1.7%	
Net write-off rate principal and fees USCS[e]	**1.7%**	1.9%		**2.1%**	1.8%	
30 days past due as a % of total USCS	**1.8%**	2.0%		**1.8%**	2.0%	
Net loss ratio as a % of charge volume ICS/GCS	**0.10%**	0.10%		**0.10%**	0.09%	
90 days past billing as a % of total ICS/GCS	**0.7%**	0.8%		**0.7%**	0.8%	
Worldwide cardmember loans						
Total loans	**$ 61.8**	$ 58.2	6 %	**$ 61.8**	$ 58.2	6 %
Loss reserves *(millions)*						
Beginning balance	**$ 1,547**	$ 2,560	(40)%	**$ 1,874**	$ 3,646	(49)%
Provisions[a]	**231**	16	# %	**669**	23	# %
Other additions[b]	**33**	32	3 %	**84**	81	4 %
Net write-offs principal[e]	**(292)**	(383)	(24)%	**(970)**	(1,375)	(29)%
Net write-offs interest and fees[e]	**(36)**	(44)	(18)%	**(121)**	(159)	(24)%
Other deductions[d]	**(24)**	(42)	(43)%	**(77)**	(77)	%
Ending balance	**$ 1,459**	$ 2,139	(32)%	**$ 1,459**	$ 2,139	(32)%
Ending Reserves principal	**$ 1,411**	$ 2,080	(32)%	**$ 1,411**	$ 2,080	(32)%
Ending Reserves interest and fees	**$ 48**	$ 59	(18)%	**$ 48**	$ 59	(18)%
% of loans	**2.4%**	3.7%		**2.4%**	3.7%	
% of past due	**182%**	238%		**182%**	238%	
Average loans	**$ 61.4**	$ 58.9	4 %	**$ 61.0**	$ 58.7	4 %
Net write-off rate principal only[e]	**1.9%**	2.6%		**2.1%**	3.1%	
Net write-off rate principal, interest and fees[e]	**2.1%**	2.9%		**2.4%**	3.5%	
30 days past due as a % of total	**1.3%**	1.5%		**1.3%**	1.5%	
Net interest income divided by average loans[f]	**7.7%**	7.5%		**7.5%**	7.4%	
Net interest yield on cardmember loans[f]	**9.3%**	9.1%		**9.2%**	9.1%	

# denotes a variance greater than 100 percent.

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American Express Company

Selected Statistical Information

(continued)

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

(b) Provisions for unauthorized transactions.

(c) Consists of principal (resulting from authorized transactions) interest and/or fees, less recoveries.

(d) For cardmember receivables, includes net write-offs resulting from unauthorized transactions of $(37) million and $(46) million for the three months ended September 30, 2012 and 2011, respectively; foreign currency translation adjustments of $6 million and $(5) million for the three months ended September 30, 2012 and 2011, respectively; and other adjustments of $(1) million and $(4) million for the three months ended September 30, 2012 and 2011, respectively. For cardmember loans, includes net write-offs for unauthorized transactions of $(31) million and $(29) million for the three months ended September 30, 2012 and 2011, respectively; foreign currency translation adjustments of $10 million and $(14) million for the three months ended September 30, 2012 and 2011, respectively; and other adjustments of $(3) million and $1 million for the three months ended September 30, 2012 and 2011, respectively. Refer to Note 4 to the Consolidated Financial Statements for the components of other deductions for the nine months ended September 30, 2012 and 2011.

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

(f) Refer to the following table for calculation of net interest yield on cardmember loans, a non-GAAP measure, net interest income divided by average loans, a GAAP measure, and the Company s rationale for presenting net interest yield on cardmember loans.

Calculation of Net Interest Yield on Cardmember Loans

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions, except percentages and where indicated)	**2012**	2011	**2012**	2011
Net interest income	**$ 1,181**	$ 1,113	**$ 3,435**	$ 3,266
Exclude:				
Interest expense not attributable to the Company s cardmember loan portfolio	**338**	356	**1,043**	1,094
Interest income not attributable to the Company s cardmember loan portfolio	**(97)**	(113)	**(310)**	(365)
Adjusted net interest income[(a)]	**$ 1,422**	$ 1,356	**$ 4,168**	$ 3,995
Average loans *(billions)*	**$ 61.4**	$ 58.9	**$ 61.0**	$ 58.7
Exclude:				
	(0.2)	(0.1)	**(0.2)**	(0.3)

Unamortized deferred card fees, net of direct acquisition costs of cardmember loans, and other *(billions)*				
Adjusted average loans *(billions)*[(a)]	**$ 61.2**	$ 58.8	**$ 60.8**	$ 58.4
Net interest income divided by average loans	**7.7%**	7.5%	**7.5%**	7.4%
Net interest yield on cardmember loans[(a)]	**9.3%**	9.1%	**9.2%**	9.1%

(a) Net interest yield on cardmember loans, adjusted net interest income, and adjusted average loans are non-GAAP measures. Refer to Glossary of Selected Terminology for the definitions of these terms. The Company believes adjusted net interest income and adjusted average loans are useful to investors because they are components of net interest yield on cardmember loans, which provides a measure of profitability of the Company s cardmember loan portfolio.

Consolidated Results of Operations for the Three Months Ended September 30, 2012 and 2011

The Company s consolidated net income for the three months ended September 30, 2012 increased $15 million or 1 percent and diluted EPS increased $0.06, as compared to the same period in the prior year.

The Company s total revenues net of interest expense increased 4 percent, total expenses decreased 2 percent and total provisions for losses increased 92 percent for the three months ended September 30, 2012, as compared to the same period in the prior year.

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Total Revenues Net of Interest Expense

Consolidated total revenues net of interest expense for the three months ended September 30, 2012 increased $291 million or 4 percent from 2011, reflecting increases of 6 percent in U.S. Card Services (USCS), 2 percent in Global Commercial Services (GCS) and 5 percent in Global Network and Merchant Services (GNMS), partially offset by a decline of 3 percent in International Card Services (ICS). The increase in total revenues net of interest expense primarily reflects higher discount revenues, higher other revenues and increased net interest income.

Discount revenue for the three months ended September 30, 2012 increased $207 million or 5 percent as compared to 2011 as a result of 6 percent growth in billed business volumes, partially offset by a slight decline in the average discount rate and higher contra-revenue items, including cash rebate rewards. The average discount rate was 2.53 percent and 2.54 percent for the three months ended September 30, 2012 and 2011, respectively. As indicated in prior quarters, certain pricing initiatives, changes in the mix of spending by location and industry, volume-related pricing discounts and strategic investments will likely result in some erosion of the average discount rate over time.

U.S. billed business and billed business outside the United States increased 8 percent and 3 percent, respectively, for the three months ended September 30, 2012 as compared to the same period in the prior year. The increase in billed business in the United States reflects an increase in average spending per proprietary basic card and an increase in basic cards-in-force. The increase in billed business outside the United States reflects an increase in basic cards-in-force.

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The table below summarizes selected statistics for billed business and average spend during the three months ended September 30, 2012 compared to the same period in the prior year.

	2012	
	Percentage Increase (Decrease)	Percentage Increase Assuming No Changes in Foreign Exchange Rates[(a)]
Worldwide[(b)]		
Billed business	**6%**	**8%**
Proprietary billed business	**6**	**7**
GNS billed business[(c)]	**6**	**11**
Airline-related volume (9% of worldwide billed business)		**2**
United States[(b)]		
Billed business	**8**	
Proprietary consumer card billed business[(d)]	**7**	
Proprietary small business billed business[(d)]	**10**	
Proprietary corporate services billed business[(e)]	**9**	
T&E-related volume (27% of U.S. billed business)	**4**	
Non-T&E-related volume (73% of U.S. billed business)	**9**	
Airline-related volume (8% of U.S. billed business)	**2**	
Outside the United States[(b)]		
Billed business	**3**	**8**
Japan, Asia Pacific & Australia (JAPA) billed business	**8**	**9**
Latin America & Canada (LACC) billed business	**5**	**11**
Europe, the Middle East & Africa (EMEA) billed business	**(4)**	**3**
Proprietary consumer and small business billed business[(f)]	**1**	**5**
JAPA billed business	**3**	**4**
LACC billed business	**5**	**8**
EMEA billed business	**(4)**	**3**
Proprietary Corporate Services billed business[(e)]	**(2)**	**3**

(a) The foreign currency adjusted information assumes a constant exchange rate between the periods being compared for purposes of currency translation into U.S. dollars (i.e., assumes the foreign exchange rates used to determine results for the three or nine months ended September 30, 2012 apply to the period(s) against which such results are being compared). The Company believes the presentation of information on a foreign currency adjusted basis is helpful to investors by making it easier to compare the Company s performance in one period to that of another period without the variability caused by fluctuations in currency exchange rates.

(b) Captions in the table above not designated as proprietary or GNS include both proprietary and GNS data.

(c) Included in the GNMS segment.

(d) Included in the USCS segment.

(e) Included in the GCS segment.

(f) Included in the ICS segment.

Total cards-in-force increased 6 percent worldwide for the three months ended September 30, 2012 due to a 13 percent increase in GNS, a 3 percent increase in USCS and a 2 percent increase in ICS as compared to the same period in the prior year. During the three months ended September 30, 2012, total cards-in-force increased 600,000 in the United States and 700,000 outside the United States compared to the second quarter of 2012.

Travel commissions and fees decreased $15 million or 3 percent for the three months ended September 30, 2012, as compared to the same period in the prior year, primarily due to a 6 percent decline in worldwide travel sales. Business travel sales declined 9 percent, while U.S. consumer travel sales increased 8 percent.

Other commissions and fees decreased $23 million or 4 percent for the three months ended September 30, 2012, as compared to the same period in the prior year. Assuming no changes in foreign exchange rates,

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other commissions and fees decreased less than 1 percent for the three months ended September 30, 2012 as compared to the same period in the prior year.[1]

Other revenues increased $43 million or 8 percent for the three months ended September 30, 2012 as compared to the same period in the prior year, primarily reflecting a $30 million gain on the sale of investment securities.

Interest income increased $51 million or 3 percent for the three months ended September 30, 2012 compared to the same period in the prior year. Interest on loans increased $71 million or 4 percent, driven by a 4 percent increase in average cardmember loans. Interest and dividends on investment securities decreased $8 million or 12 percent, primarily reflecting decreased levels of investment securities. Interest on deposits with banks and other decreased $12 million or 36 percent, primarily due to lower average interest-bearing deposit balances as compared to the same period in the prior year.

Interest expense decreased $17 million or 3 percent for the three months ended September 30, 2012 compared to the same period in the prior year. Interest on deposits decreased $9 million or 7 percent, as an increase in customer deposit balances was more than offset by lower costs of funds. Interest on long-term debt and other decreased $8 million or 2 percent, reflecting lower average long-term debt balances.

Provisions for Losses

Provisions for losses for the three months ended September 30, 2012 increased $230 million or 92 percent compared to the same period in 2011. Charge card provisions for losses increased $16 million or 9 percent, due to higher receivable balances and an increase year over year in the GCS charge card provisions, driven by a change in estimate for certain credit reserves that resulted in a reserve release in the GCS segment in the prior year. These increases were partially offset by lower net write-offs in USCS due to improved credit performance in the current year. Cardmember loan provisions for losses increased $216 million or more than 100 percent, primarily reflecting lower reserve releases of $88 million in the third quarter of 2012 as compared to reserve releases of $421 million in the same period in the prior year, partially offset by lower write-offs due to improving credit performance. Other provisions for losses decreased $2 million or 7 percent for the three months ended September 30, 2012.

Expenses

Consolidated expenses for the three months ended September 30, 2012 decreased $98 million or 2 percent from 2011. The decrease primarily reflects lower salaries and employee benefits expense, as well as lower cardmember rewards expense.

Marketing and promotion expense increased $7 million or 1 percent for the three months ended September 30, 2012 as compared to the same period in the prior year, reflecting significant levels of investment in the business.

Cardmember rewards expense decreased $69 million or 4 percent for the three months ended September 30, 2012 as compared to the same period in the prior year, reflecting higher Membership Rewards-related and co-brand spending volumes in 2012, which was more than offset by a greater increase in rewards expense in 2011 resulting from changes in the Membership Rewards URR and weighted average cost per point (WAC) assumptions. For the three months ended September 30, 2012, Membership Rewards expense included approximately $38 million from an increase in the URR assumption, net of a decrease in the WAC

[1] The foreign currency adjusted information, a non-GAAP measure, assumes a constant exchange rate between the periods being compared for purposes of currency translation into U.S. dollars (i.e., assumes the foreign exchange rates used to determine results for the three or nine months ended September 30, 2012 apply to the period(s) against which such results are being compared). The Company believes the presentation of information on a foreign currency adjusted basis is helpful to investors by making it easier to compare the Company s performance in one period to that of another period without the variability caused by fluctuations in currency exchange rates.

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assumption, while for the three months ended September 30, 2011, Membership Rewards expense included approximately $164 million for increases in both the URR and WAC assumptions. In both 2012 and 2011, higher redemption rates led to an increase in the URR assumption, while a shift in the redemption mix drove the changes in the WAC assumption between those periods. The Company s Membership Rewards URR for current participants was 93 percent (*rounded down*) and 93 percent (*rounded up*) for September 30, 2012 and June 30, 2012, respectively.

Cardmember services expense increased $12 million or 6 percent for the three months ended September, 30 2012, as compared to the same period in the prior year, reflecting increased costs associated with enhanced benefits to U.S. cardmembers.

Salaries and employee benefits expense decreased $82 million or 5 percent for the three months ended September 30, 2012 as compared to the same period in the prior year, reflecting higher reengineering activities a year ago, primarily in the ICS segment and Corporate & Other.

Other, net for the three months ended September 30, 2012 increased $34 million or 2 percent compared to the same period in 2011, primarily reflecting the Visa settlement payment received in the third quarter of 2011 and an expense related to hedging the Company s fixed-rate debt exposures in the third quarter of 2012 as compared to a benefit in the third quarter of 2011. These increases were partially offset by expenses related to legal exposures in the prior year in Corporate & Other and the reclassification of cross currency funding hedge-related income from interest expense to other expense beginning in the first quarter of 2012. Other, net includes occupancy and equipment expense, which also increased, reflecting higher data processing and rent expenses.

Income Taxes

The effective tax rate was 33.2 percent for the three months ended September 30, 2012 compared to 27.8 percent for the same period in 2011. The tax rates in both quarters reflect the level of pre-tax income in relation to recurring permanent tax benefits and geographic mix of business. The tax rate for the three months ended September 30, 2011 included a $77 million tax benefit related to the realization of certain foreign tax credits.

Consolidated Results of Operations for the Nine Months Ended September 30, 2012 and 2011

The Company s consolidated net income for the nine months ended September 30, 2012 increased $102 million or 3 percent, and diluted EPS, including discontinued operations, increased $0.20 or 6 percent.

The Company s total revenues net of interest expense, total expenses and total provisions for losses increased approximately 5 percent, 2 percent and 92 percent, respectively, for the nine months ended September 30, 2012 as compared to the same period in the prior year.

Total Revenues Net of Interest Expense

Consolidated total revenues net of interest expense for the nine months ended September 30, 2012 increased $1.2 billion or 5 percent from the same period in 2011, reflecting increases of 7 percent in both USCS and GNMS and 3 percent in GCS, while ICS remained flat. The increase in total revenues net of interest expense primarily reflects higher discount revenues, higher other revenues and higher interest and fees on loans, partially offset by lower interest and dividends on investment securities.

Discount revenue for the nine months ended September 30, 2012 increased $766 million or 6 percent as compared to the same period in the prior year as a result of an 8 percent increase in worldwide billed business, partially offset by a slight decline in the average discount rate and higher contra-revenue items, including cash rebate awards. The average discount rate was 2.53 percent and 2.54 percent for the nine months ended September 30, 2012 and 2011, respectively.

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U.S. billed business and billed business outside the United States increased 10 percent and 6 percent, respectively, for the nine months ended September 30, 2012 as compared to the same period in the prior year, reflecting increases in average spending per proprietary basic card and basic cards-in-force.

The table below summarizes selected statistics for billed business and average spend during the nine months ended September 30, 2012 compared to the same period in the prior year:

	2012	
	Percentage Increase (Decrease)	Percentage Increase Assuming No Changes in Foreign Exchange Rates [(a)]
Worldwide[(b)]		
Billed business	**8%**	**10%**
Proprietary billed business	**8**	**9**
GNS billed business[(c)]	**10**	**14**
Airline-related volume (10% of worldwide billed business)	**3**	**5**
United States[(b)]		
Billed business	**10**	
Proprietary consumer card billed business[(d)]	**8**	
Proprietary small business billed business[(d)]	**12**	
Proprietary Corporate Services billed business[(e)]	**12**	
T&E-related volume (27% of U.S. billed business)	**6**	
Non-T&E-related volume (73% of U.S. billed business)	**11**	
Airline-related volume (9% of U.S. billed business)	**5**	
Outside the United States[(b)]		
Billed business	**6**	**10**
JAPA billed business	**13**	**14**
LACC billed business	**6**	**12**
EMEA billed business	**(2)**	**5**
Proprietary consumer and small business billed business[(f)]	**3**	**7**
JAPA billed business	**8**	**8**
LACC billed business	**4**	**8**
EMEA billed business	**(3)**	**3**
Proprietary Corporate Services billed business[(e)]	**3**	**8**

(a) Refer to the Consolidated Selected Statistical Information footnote (a) on page 44 relating to changes in foreign exchange rates.

(b) Captions in the table above not designated as proprietary or GNS include both proprietary and GNS data.

(c) Included in the GNMS segment.

(d) Included in the USCS segment.

(e) Included in the GCS segment.

(f) Included in the ICS segment.

Total cards-in-force increased 6 percent worldwide for the nine months ended September 30, 2012 due to a 13 percent increase in GNS, a 3 percent increase in USCS and a 2 percent increase in ICS as compared to the same period in the prior year. During the nine months ended September 30, 2012, total cards-in-force increased 1,600,000 in the United States and increased 4,000,000 outside the United States as compared to the same period in the prior year.

Travel commissions and fees decreased $20 million or 1 percent for the nine months ended September 30, 2012 as compared to the same period in the prior year, primarily due to a 1 percent decline in worldwide travel sales. Business travel sales declined 4 percent, while U.S. consumer travel sales increased 13 percent.

Other commissions and fees increased $22 million or 1 percent for the nine months ended September 30, 2012 as compared to the same period in the prior year, driven primarily by higher revenues related to the Loyalty Partner operations. Assuming no changes in foreign exchange rates, other commissions and fees increased 5 percent for the nine months ended September 30, 2012, as compared to the same period in the prior year.[2]

Other revenues increased $262 million or 17 percent for the nine months ended September 30, 2012 as compared to the same period in the prior year, primarily attributed to gains on the sale of investment securities, the favorable effects of revised estimates in the liability for uncashed Travelers Cheques in the international markets, and higher royalties from GNS partners.

Interest income increased $106 million or 2 percent for the nine months ended September 30, 2012 as compared to the same period in the prior year. Interest on loans increased $166 million or 4 percent, primarily reflecting higher average cardmember loans, partially offset by a lower net yield. Interest and dividends on investment securities decreased $62 million or 24 percent, primarily reflecting decreased levels of investment securities. Interest on deposits with banks and other increased $2 million or 3 percent, primarily due to higher average deposit balances.

Interest expense decreased $63 million or 4 percent for the nine months ended September 30, 2012 as compared to the same period in the prior year. Interest on deposits decreased $33 million or 8 percent, as a result of lower costs of funds, partially offset by an increase in average customer deposit balances. Interest on long-term debt and other decreased $30 million or 2 percent, reflecting a lower average long-term debt balance.

Provisions for Losses

Provisions for losses for the nine months ended September 30, 2012 increased $649 million or 92 percent compared to the same period in 2011. Cardmember loan provisions for losses increased $649 million or over 100 percent, primarily driven by lower reserve releases in 2012 and a benefit related to changes in estimates for specific credit reserves in 2011, partially offset by lower net write-offs.

Expenses

Consolidated expenses for the nine months ended September 30, 2012 increased $258 million or 2 percent from the same period in 2011. The increase reflects higher other expenses, occupancy and equipment expenses and cardmember services expenses, partially offset by lower cardmember rewards costs and marketing and promotion expenses.

Marketing and promotion expense decreased $93 million or 4 percent for the nine months ended September 30, 2012, primarily reflecting lower loyalty and brand spending.

Cardmember rewards expense decreased $330 million or 7 percent for the nine months ended September 30, 2012 as compared to the same period in the prior year, reflecting higher Membership Rewards-related and co-brand spending volumes in 2012, which was more than offset by a greater increase in rewards expense in 2011 resulting from changes in the Membership Rewards URR and WAC assumptions. For the nine months ended September 30, 2012, Membership Rewards expense included approximately $112 million from an increase in the URR assumption, net of a decrease in the WAC assumption, while for the nine months ended September 30, 2011, Membership Rewards expense included approximately $561 million as a result of increases in both the URR and WAC assumptions in addition to $188 million for a change in the U.S. Membership Rewards URR assumption process, which increased the Membership Rewards liability. In both 2012 and 2011, higher redemption rates led to an increase in the URR assumption, while a shift in the redemption mix drove the changes in the WAC assumption in these periods. The Company s Membership Rewards URR for current participants was 93 percent (*rounded down*) and 93 percent (*rounded up*) for September 30, 2012 and June 30, 2012, respectively.

[2] Refer to footnote 1 on page 45 relating to changes in foreign exchange rates.

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Cardmember services expense increased $76 million or 14 percent for the nine months ended September 30, 2012 as compared to the same period in the prior year, driven by an increase in the costs associated with enhanced benefits to U.S. cardmembers.

Salaries and employee benefits expense decreased $28 million or 1 percent for the nine months ended September 30, 2012 as compared to the same period in the prior year, reflecting lower restructuring charges and employee incentive costs, partially offset by higher payroll costs. Assuming no changes in foreign exchange rates, salaries and employee benefits expense increased 1 percent for the nine months ended September 30, 2012 as compared to the same period in the prior year.[3]

Other, net increased $633 million or 16 percent for the nine months ended September 30, 2012 as compared to the same period in the prior year, primarily reflecting the benefits of the Visa and Mastercard litigation settlement payments received in 2011 that no longer continued in 2012. In addition, the increase includes higher other operating expenses related to refunds to customers as a result of internal and regulatory reviews of the Company s U.S. banking subsidiaries, as well as investment impairments. Other, net includes occupancy and equipment expense, which also increased, reflecting higher data processing and rent expenses.

Income Taxes

The effective tax rate from continuing operations was 30.4 percent for the nine months ended September 30, 2012 compared to 28.8 percent for the same period in 2011. The tax rates in both periods reflect the level of pretax income in relation to recurring permanent tax benefits and geographic mix of business. The tax rate for the nine months ended September 30, 2012 and 2011 includes a $146 million and $77 million tax benefit related to the realization of certain foreign tax credits, respectively. The tax rate for the nine months ended September 30, 2011 also included a $102 million tax benefit related to the favorable resolution of certain prior years tax items.

Consolidated Capital Resources and Liquidity

The Company s balance sheet management objectives are to maintain:

- A solid and flexible equity capital profile;
- A broad, deep and diverse set of funding sources to finance its assets and meet operating requirements; and
- Liquidity programs that enable the Company to continuously meet expected future financing obligations and business requirements for at least a 12-month period, even in the event it is unable to continue to raise new funds under its traditional funding programs.

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. The Company believes capital allocated to growing businesses with a return on risk-adjusted equity in excess of its costs will generate shareholder value.

The level and composition of the Company s consolidated capital position are determined through the Company s internal capital adequacy assessment process, which reflects its business activities, as well as marketplace conditions and credit rating agency requirements. The Company s consolidated capital position is also influenced by subsidiary capital requirements. The Company, as a bank holding company, is also subject to regulatory requirements administered by the U.S. federal banking agencies. The Federal Reserve has established specific capital adequacy guidelines that involve quantitative measures of assets,

[3] Refer to footnote 1 on page 45 relating to changes in foreign exchange rates.

liabilities and certain off-balance sheet items.

The Company currently calculates and reports its capital ratios under the standards commonly referred to as Basel I. In June 2004, the Basel Committee on Banking Supervision (commonly referred to as Basel) published new international guidelines for determining regulatory capital (Basel II). In December 2007, the U.S. bank regulatory agencies jointly adopted a final rule based on Basel II. The Company has adopted Basel II in certain non-U.S. jurisdictions and is currently taking steps toward Basel II implementation in the United States.

The Dodd-Frank Wall Street Reform and Consumer Protection Act and a series of international capital and liquidity standards known as Basel III published by Basel on December 16, 2010 will in the future change the current quantitative measures. In general, these changes will involve, for the U.S. banking industry as a whole, a reduction in the types of instruments deemed to be capital along with an increase in the amount of capital that assets, liabilities and certain off-balance sheet items require. These changes will generally serve to reduce reported capital ratios compared to current capital guidelines. On June 7, 2012, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation issued three joint notices of proposed rulemaking, collectively referred to as Basel III, which presents details of the proposed new U.S. regulatory capital standards. The proposed U.S. rules are generally in line with the aforementioned capital standards published by Basel in 2010.

The following table presents the regulatory risk-based capital ratios and leverage ratio for the Company and its significant bank subsidiaries, as well as additional ratios widely utilized in the marketplace, as of September 30, 2012. As noted below, certain of these ratios are based on shareholders equity of $19.5 billion as of September 30, 2012.

	Well-Capitalized Ratio[(a)]	Ratios as of September 30, 2012
Risk-Based Capital		
Tier 1	6%	
American Express Company		**12.7%**
American Express Centurion Bank		**19.7%**
American Express Bank, FSB		**17.3%**
Total	10%	
American Express Company		**14.7%**
American Express Centurion Bank		**20.9%**
American Express Bank, FSB		**19.6%**
Tier 1 Leverage	5%	
American Express Company		**10.8%**
American Express Centurion Bank		**17.7%**
American Express Bank, FSB		**17.8%**
Common Equity to Risk-Weighted Assets		
American Express Company		**16.0%**
Tier 1 Common Risk-Based[(b)]		
American Express Company		**12.7%**
Tangible Common Equity to Risk-Weighted Assets[(b)]		
American Express Company		**12.6%**

(a) As defined by the Company s primary regulator.

(b) Refer to page 51 for a reconciliation of Tier 1 common equity and tangible common equity, both non-GAAP measures.

The following provides definitions for the Company s regulatory risk-based capital ratios and leverage ratio, which are calculated as per standard regulatory guidance, if applicable:

Risk-Weighted Assets Assets are weighted for risk according to a formula used by the Federal Reserve to conform to capital adequacy guidelines. On- and off-balance sheet items are weighted for risk, with off-

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balance sheet items converted to balance sheet equivalents, using risk conversion factors, before being allocated a risk-adjusted weight. The off-balance sheet items comprise a minimal part of the overall calculation. Risk-weighted assets as of September 30, 2012 were $121.4 billion.

Tier 1 Risk-Based Capital Ratio The Tier 1 capital ratio is calculated as Tier 1 capital divided by risk-weighted assets. Tier 1 capital is the sum of common shareholders equity, certain perpetual preferred stock (not applicable to the Company), and noncontrolling interests in consolidated subsidiaries, adjusted for ineligible goodwill and intangible 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. Tier 1 capital as of September 30, 2012 was $15.5 billion. This ratio is commonly used by regulatory agencies to assess a financial institution s financial strength and is the primary form of capital used to absorb losses beyond current loss accrual estimates.

Total Risk-Based Capital Ratio The total risk-based capital ratio is 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) and 45 percent of the unrealized gains on equity securities, plus a $750 million subordinated hybrid security, for which the Company received approval from the Federal Reserve for treatment as Tier 2 capital. Tier 2 capital as of September 30, 2012 was $2.3 billion.

Tier 1 Leverage Ratio The Tier 1 leverage ratio is calculated by dividing Tier 1 capital by the Company s average total consolidated assets for the most recent quarter. Average total consolidated assets as of September 30, 2012 were $143.2 billion.

The following provides definitions for capital ratios widely used in the marketplace, although they may be calculated differently by different companies:

Tier 1 Common Risk-Based Capital Ratio The Tier 1 common risk-based capital ratio is calculated as Tier 1 common equity, a non-GAAP measure, divided by risk-weighted assets. Tier 1 common equity is calculated by reference to total shareholders equity as shown below:

(Billions)		**September 30, 2012**
Total shareholders equity	**$**	**19.5**
Net effect of certain items in accumulated other comprehensive loss excluded from Tier 1 common equity		**0.1**
Less: Ineligible goodwill and intangible assets		**(3.9)**
Less: Ineligible deferred tax assets		**(0.2)**
Total Tier 1 common equity	**$**	**15.5**

The Company believes the Tier 1 common risk-based capital ratio may be useful because it can be used to assess and compare the quality and composition of the Company s capital with the capital of other financial services companies. Moreover, the proposed U.S. banking capital standards known as Basel III include measures that rely on the Tier 1 common risk-based capital ratio.

Common Equity and Tangible Common Equity to Risk-Weighted Assets Ratios Common equity equals the Company s shareholders equity of $19.5 billion as of September 30, 2012, and tangible common equity, a non-GAAP measure, equals common equity less goodwill and other intangibles of $4.2 billion as of September 30, 2012. The Company believes presenting the ratio of tangible common equity to risk-weighted assets is a useful measure of evaluating the strength of the Company s capital position.

The Company seeks to maintain capital levels and ratios in excess of the minimum regulatory requirements. Failure to maintain minimum capital levels could affect the Company s status as a financial holding

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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 its capital requirements. To the extent capital has exceeded business, regulatory and rating agency requirements, the Company has historically returned excess capital to shareholders through its regular common share dividend and share repurchase program.

The Company maintains certain flexibility to shift capital across its businesses as appropriate. For example, the Company may infuse additional capital into subsidiaries to maintain capital at targeted levels in consideration of debt ratings and regulatory requirements. These infused amounts can affect the capital profile and liquidity levels at the American Express parent company (Parent Company) level.

Basel III

Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital than prior requirements, with a greater emphasis on common equity. While final implementation of the rules related to capital ratios will be determined by the Federal Reserve, the Company estimates that had the new rules (as currently proposed) been in place during the third quarter of 2012, the reported Tier 1 risk-based capital and Tier 1 common risk-based ratios would have been 12.6 percent, the reported Tier 1 leverage ratio would have been 10.7 percent and the supplementary leverage ratio would have been 9.1 percent.[4] These ratios are calculated using the standardized approach as described in the proposed rules and are based on the Company s reported Basel I ratios, without taking into account the potential impact of Basel II implementation. As noted above, the Company is currently taking steps toward Basel II implementation in the United States.

The estimated impact of the Basel III rules will change over time based upon changes in the size and composition of the Company s balance sheet as well as based on the U.S. implementation of the Basel III rules; and the estimated impact for the third quarter of 2012 is not necessarily indicative of the impact in future periods.

The following provides definitions for capital ratios as defined by the proposed U.S. Basel III guidelines using the standardized approach. All calculations are non-GAAP measures.

Basel III Tier 1 Common Risk-Based Capital Ratio The Basel III Tier 1 common risk-based capital ratio is calculated as adjusted Tier 1 common equity divided by adjusted risk-weighted assets.

Basel III Tier 1 Risk-Based Capital Ratio The Basel III Tier 1 risk-based capital ratio is calculated as adjusted Tier 1 capital divided by adjusted risk-weighted assets.

[4] The proposed capital ratios are non-GAAP measures. The Company believes the presentation of the proposed capital ratios is helpful to investors by showing the impact of Basel III, assuming the proposed new rules as currently proposed are implemented by the Federal Reserve.

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The following table presents a comparison of the Company s Tier 1 and Tier 1 common risk-based capital under Basel I rules to its estimated Tier 1 and Tier 1 common risk-based capital under Basel III rules.

(Billions)		September 30, 2012
Risk-Based Capital under Basel I	$	**15.5**
Adjustments related to:		
AOCI for available for sale securities		**0.3**
Pension and other post-retirement benefit costs		**(0.5)**
Other		**0.1**
Estimated Risk-Based Capital under Basel III[(a)]	$	**15.4**

(a) Estimated Basel III Tier 1 capital and Tier 1 common equity reflects the Company s current interpretation of the Basel III rules. The estimated Basel III Tier 1 capital and Tier 1 common equity could change in the future as the U.S. regulatory agencies implement Basel III or if the Company s business changes.

Basel III Risk-Weighted Assets The Basel III risk-weighted assets reflect the Company s current interpretation of the Basel III rules on the Company s Basel I risk-weighted assets. Risk-weighted assets include adjustments relating to the impact of the incremental risk weighting applied to deferred tax assets and significant investments in unconsolidated financial institutions, as well as exposures to past due accounts, equities and sovereigns. Basel III risk-weighted assets as of September 30, 2012 were estimated to be $122.6 billion.

Basel III Tier 1 Leverage Ratio The Basel III Tier 1 leverage ratio is calculated by dividing Basel III Tier 1 capital by the Company s average total consolidated assets.

Basel III Supplementary Leverage Ratio The Basel III supplementary leverage ratio is calculated by dividing Basel III Tier 1 capital by the Company s estimated total assets for leverage capital purposes under Basel III. Estimated total assets for leverage capital purposes includes adjustments for Tier 1 capital deductions, off-balance sheet derivatives, undrawn unconditionally cancellable commitments and other off-balance sheet liabilities. Total assets for leverage capital purposes as of September 30, 2012 based on the Company s current interpretation of the Basel III rules were estimated to be $168.7 billion.

Share Repurchases and Dividends

The Company has a share repurchase program to return excess capital to shareholders. The share repurchases reduce shares outstanding and offset, in whole or part, the issuance of new shares as part of employee compensation plans.

During the three months and nine months ended September 30, 2012, the Company returned $1.2 billion and $3.7 billion, respectively, to its shareholders in the form of dividends ($226 million and $688 million, respectively) and share repurchases ($1.0 billion and $3.0 billion, respectively), which represents approximately 94 percent and 86 percent of total capital generated during the three and nine month periods, respectively.

During the third quarter of 2012, the Company continued share repurchase activities and repurchased 17 million common shares at an average price of $57.69. The Company repurchased approximately 52 million shares at an average price of $58.02 during the nine months ended September 30, 2012. The Company is executing its share repurchase program, subject to market conditions, pursuant to its capital plan to repurchase up to $4.0 billion of common shares in 2012.

Since the inception of the program in December 1994, the Company has distributed approximately 65 percent of capital generated through share repurchases and dividends on a cumulative basis.

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Funding Strategy

The Company s principal funding objective is to maintain broad and well-diversified funding sources to allow it to meet its maturing obligations, cost-effectively finance current and future asset growth in its global businesses as well as to maintain a strong liquidity profile. The diversity of funding sources by type of debt instrument, by maturity and by investor base, among other factors, provides additional insulation from the impact of disruptions in any one type of debt, maturity or investor. The mix of the Company s funding in any period will seek to achieve cost efficiency consistent with both maintaining diversified sources and achieving its liquidity objectives. The Company s funding strategy and activities are integrated into its asset-liability management activities. The Company has in place a Funding Policy covering American Express Company and all of its subsidiaries.

The Company s proprietary card businesses are the primary asset-generating businesses, with significant assets in both domestic and international cardmember receivable and lending activities. The Company s financing needs are in large part a consequence of its proprietary card-issuing businesses and the maintenance of a liquidity position to support all of its business activities, such as merchant payments. The Company generally pays merchants for card transactions prior to reimbursement by cardmembers and therefore funds the merchant payments during the period cardmember loans and receivables are outstanding. The Company also has additional financing needs associated with general corporate purposes, including acquisition activities.

The Company seeks to raise funds to meet all of its financing needs, including seasonal and other working capital needs, while also seeking to maintain sufficient cash and readily marketable securities that are easily convertible to cash, in order to meet the scheduled maturities of all long-term funding obligations on a consolidated basis for a 12-month period. Management does not expect to make any major funding or liquidity strategy changes in order to meet Basel III s Liquidity Coverage Ratio standard.

During the third quarter of 2012, the Company issued (i) an incremental $750 million of senior unsecured debt through its American Express Credit Corporation (Credco) subsidiary as part of a reopening of an existing $1.25 billion note that was issued during the second quarter of 2012 with a maturity of three years, and a coupon of 1.75 percent, (ii) $1.7 billion of asset-backed securities from the American Express Credit Account Master Trust (the Lending Trust) with a maturity of three years, which included $1.5 billion of Class A at 0.68 percent, $103 million of Class B at 0.99 percent and $112 million of Class C at 1.29 percent and (iii) $1.1 billion of asset-backed securities from the Lending Trust with a maturity of three years, which included $1.0 billion of Class A at one-month LIBOR plus 15 basis points and $73 million of Class B at one-month LIBOR plus 50 basis points.

The Company s equity capital and funding strategies are designed, among other things, to maintain appropriate and stable unsecured debt ratings from the major credit rating agencies: Moody s Investor Services (Moody s), Standard & Poor s (S&P), Fitch Ratings (Fitch) and Dominion Bond Rating Services (DBRS). Such ratings help support the Company s access to cost-effective unsecured funding as part of its overall funding strategy. The Company s asset-backed securitization (ABS) activities are rated separately.

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Unsecured Debt Ratings

Credit Agency	Entity Rated	Short-Term Ratings	Long-Term Ratings	Outlook
DBRS	All rated entities	R-1 (middle)	A (high)	Stable
Fitch	All rated entities	F1	A+	Stable
Moody s	TRS [(a)] and rated operating subsidiaries	Prime-1	A2	Stable
Moody s	American Express Company	Prime-2	A3	Stable
S&P	TRS and rated operating subsidiaries	A-2	A-	Stable
S&P	American Express Company	A-2	BBB+	Stable

(a) American Express Travel Related Services Company, Inc.

Downgrades in the ratings of the Company s unsecured debt or asset securitization program securities could result in higher funding costs, as well as higher fees related to borrowings under its unused lines of credit. Declines in credit ratings could also reduce the Company s borrowing capacity in the unsecured debt and asset securitization capital markets. The Company believes the change in its funding mix, which now includes an increasing proportion of U.S. retail deposits insured by the Federal Deposit Insurance Corporation (FDIC), should reduce the impact that credit rating downgrades would have on the Company s funding capacity and costs. Downgrades to certain of the Company s unsecured debt ratings in the last several years have not materially impacted the Company s borrowing costs or resulted in a reduction in its borrowing capacity.

Deposit Programs

The Company offers deposits within its American Express Centurion Bank and American Express Bank, FSB subsidiaries (together, the Banks). These funds are currently insured up to $250,000 per account through the FDIC. The Company s ability to obtain deposit funding and offer competitive interest rates is dependent on the Banks capital levels. The Company, through the FSB, has a direct retail deposit program, Personal Savings from American Express, to supplement its distribution of deposit products sourced through third-party distribution channels. The direct retail program makes FDIC-insured certificates of deposit (CDs) and high-yield savings account products available directly to consumers.

The Company held the following deposits as of:

(Billions)	**September 30, 2012**	December 31, 2011
U.S. retail deposits:		
Savings accounts Direct	**$ 17.0**	$ 14.6
Certificates of deposit:[(a)]		
Direct	**0.7**	0.9
Third-party	**9.0**	10.8
Sweep accounts Third-party	**10.3**	11.0
Other deposits	**0.2**	0.6

Total customer deposits	**$**	**37.2**	$	37.9

(a) The weighted average remaining maturity and weighted average rate at issuance on the total portfolio of U.S. retail CDs, issued through direct and third-party programs, were 18.3 months and 2.1 percent, respectively, as of September 30, 2012.

Asset Securitization Programs

The Company periodically securitizes cardmember receivables and loans arising from its card business, as the securitization market provides the Company with cost-effective funding. Securitization of cardmember receivables and loans is accomplished through the transfer of those assets to a trust, which in turn issues to third-party investors certificates or notes (securities) collateralized by the transferred assets. The proceeds from issuance are distributed to the Company, through its wholly owned subsidiaries, as consideration for the transferred assets.

The receivables and loans being securitized are reported as assets on the Company s Consolidated Balance Sheets and the related securities issued to third-party investors are reported as long-term debt.

Under the respective terms of the securitization trust agreements, the occurrence of certain triggering events related to trust asset performance could result in establishment of reserve funds or, in a worst-case scenario, early amortization of investor certificates. During the nine months ended September 30, 2012, no triggering events occurred that would have resulted in funding of reserve accounts or early amortization.

The ability of issuers of asset-backed securities to obtain necessary credit ratings for their issuances has historically been based, in part, on qualification under the FDIC s safe harbor rule for assets transferred in securitizations. In 2009 and 2010, the FDIC issued a series of changes to its safe harbor rule, including a final rule for securitization safe harbor, issued in 2010, requiring issuers to comply with a new set of requirements in order to qualify for the safe harbor. Issuances out of the Lending Trust are grandfathered under the new FDIC final rule. The trust for the Company s cardmember charge card receivable securitization (the American Express Issuance Trust, the Charge Trust) does not satisfy the criteria required to be covered by the FDIC s new safe harbor rule, nor did it meet the requirements to be covered by the safe harbor rule existing prior to 2009. It was structured and continues to be structured so that the financial assets transferred to the Charge Trust would not be deemed to be property of the originating banks in the event the FDIC is appointed as a receiver or conservator of the originating banks. The Company has received confirmation from Moody s, S&P and Fitch, which rate issuances from the Charge Trust, that they will continue to rate issuances from such trust in the same manner as they have historically, even though the Charge Trust does not satisfy the requirements to be covered by the FDIC s safe harbor rule. Nevertheless, one or more of the rating agencies may ultimately conclude that, in the absence of compliance with the safe harbor rule, the highest rating a Charge Trust security could receive would be based on the originating bank s unsecured debt rating. If one or more rating agencies come to this conclusion, it could adversely impact the Company s capacity and cost of using its Charge Trust as a source of funding for its business.

Liquidity Management

The Company s liquidity objective is to maintain access to a diverse set of cash, readily marketable securities and contingent sources of liquidity, so that the Company can continuously meet expected future financing obligations and business requirements for at least a 12-month period, even in the event it is unable to raise new funds under its regular funding programs. The Company has in place a Liquidity Risk Policy that sets out the Company s approach to managing liquidity risk on an enterprise-wide basis.

The Company incurs and accepts liquidity risk arising in the normal course of offering its products and services. The liquidity risks that the Company is exposed to can arise from a variety of sources, and thus its liquidity management strategy includes a variety of parameters, assessments and guidelines, including, but not limited to:

- Maintaining a diversified set of funding sources (refer to Funding Strategy section for more details);

- Maintaining unencumbered liquid assets and off-balance sheet liquidity sources; and

- Projecting cash inflows and outflows from a variety of sources and under a variety of scenarios, including contingent liquidity exposures such as unused cardmember lines of credit and collateral requirements for derivative transactions.

The Company s current liquidity target is to have adequate liquidity in the form of excess cash and readily marketable securities that are easily convertible into cash to satisfy all maturing long-term funding obligations for a 12-month period. In addition to its cash and readily marketable securities, the Company maintains a variety of contingent liquidity resources, such as access to undrawn amounts under its secured financing facility and the Federal Reserve discount window as well as committed bank credit facilities.

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As of September 30, 2012, the Company s excess cash and readily marketable securities available to fund long-term maturities were as follows:

(Billions)		Total
Cash	**$**	**18.4**[(a)]
Readily marketable securities		**0.3**[(b)]
Total Liquidity Portfolio		**18.7**
Less: Commercial paper outstanding		**(0.3)**
Cash and readily marketable securities available to fund maturities	**$**	**18.4**

(a) Includes $25.1 billion classified as cash and cash equivalents, less $7.9 billion of cash available to fund day-to-day operations. Cash as shown in the table above also includes $1.2 billion classified as other assets on the Company s Consolidated Balance Sheets, which is held against upcoming asset-backed securitization maturities. The $18.4 billion represents cash residing in the United States.

(b) Consists of certain available-for-sale investment securities (government-guaranteed debt) that are considered highly liquid.

The upcoming approximate maturities of the Company s long-term unsecured debt, debt issued in connection with asset-backed securitizations and long-term certificates of deposit are as follows:

(Billions)	Debt Maturities			
Quarter Ending:	Unsecured Debt	Asset-Backed Securitizations	Certificates of Deposit	Total
December 31, 2012	$ 1.5	$ 1.1	$ 0.9	$ 3.5
March 31, 2013			0.8	0.8
June 30, 2013	4.5	0.9	0.9	6.3
September 30, 2013	3.1	2.0	0.6	5.7
Total	$ 9.1	$ 4.0	$ 3.2	$ 16.3

The Company s financing needs for the next 12 months are expected to arise from these debt and deposit maturities as well as changes in business needs, including changes in outstanding cardmember loans and receivables and acquisition activities.

The Company considers various factors in determining the amount of liquidity it maintains, such as economic and financial market conditions, seasonality in business operations, growth in its businesses, potential acquisitions or dispositions, the cost and availability of alternative liquidity sources, and regulatory and credit rating agency considerations.

The yield the Company receives on its cash and readily marketable securities is, generally, less than the interest expense on the sources of funding for these balances. Thus, the Company incurs substantial net interest costs on these amounts. The level of net interest costs will be dependent on the size of the Company s cash and readily marketable securities holdings, as well as the difference between its cost of funding these amounts and their investment yields. Refer also to Business Segment Results Corporate & Other.

Securitized Borrowing Capacity

On August 3, 2012, the Company extended its $3.0 billion committed, revolving, secured financing facility, with an original maturity date in December 2013, to July 15, 2014. This secured financing facility gives the Company the right to sell up to $3.0 billion face amount of eligible AAA notes from the Charge Trust.

On October 3, 2012, the Company entered into a new three-year committed, revolving, secured financing facility that gives the Company the right to sell up to $2.0 billion face amount of eligible AAA certificates from the Lending Trust at any time with a repayment date of no later than September 15, 2015. The facility is sponsored by, and with a liquidity backup provided by, a syndicate of banks. The purchasers commitments to fund any unfunded amounts under this facility are subject to the terms and conditions of, among other things, a purchase agreement among certain subsidiaries, the note purchasers and certain other parties. The borrowing cost of the facility includes a fixed facility fee. In addition, the drawn balance incurs a weighted average cost of funds to the participating banks plus 25 basis points.

Both facilities are used in the ordinary course of business to fund seasonal working capital needs, as well as to further enhance the Company s contingent funding resources.

Federal Reserve Discount Window

As insured depository institutions, the Banks may borrow from the Federal Reserve Bank of San Francisco, subject to the amount of qualifying collateral that they may pledge. The Federal Reserve has indicated that both credit and charge card receivables are a form of qualifying collateral for secured borrowings made through the discount window. Whether specific assets will be considered qualifying collateral and the amount that may be borrowed against the collateral, remain at the discretion of the Federal Reserve.

The Company had approximately $40.4 billion as of September 30, 2012 in U.S. credit card loans and charge card receivables that could be sold over time through its existing securitization trusts, or pledged in return for secured borrowings to provide further liquidity, subject in each case to applicable market conditions and eligibility criteria.

Committed Bank Credit Facilities

In addition to the secured financing facilities described above, the Company maintained committed syndicated bank credit facilities as of September 30, 2012, as follows:

(Billions)		Credco
Committed	**$**	**7.7**
Outstanding	**$**	**4.7**

The Company s committed bank credit facilities expire as follows:

(Billions)		
2014	$	2.1
2015		3.0
2016		2.6
Total	$	7.7

Certain Other Off-Balance Sheet Arrangements

As of September 30, 2012, the Company had approximately $252 billion of unused credit available to cardmembers as part of established lending product agreements. Total unused credit available to cardmembers does not represent potential future cash requirements, as a significant portion of this unused credit will likely not be drawn. The Company s charge card products generally have no pre-set limit and, therefore, are not reflected in unused credit available to cardmembers.

Cash Flows

Cash Flows from Operating Activities

Cash flows from operating activities primarily include net income adjusted for (i) non-cash items included in net income, including provisions for losses, depreciation and amortization, deferred taxes, and stock-based compensation and (ii) changes in the balances of operating assets and liabilities, which can vary significantly in the normal course of business due to the amount and timing of various payments.

For the nine months ended September 30, 2012, net cash provided by operating activities of $10.6 billion increased $4.2 billion compared to $6.4 billion for the nine months ended September 30, 2011, primarily due to higher provisions for losses and higher changes in accounts payable and other liabilities, other assets, and other receivables, partially offset by lower deferred taxes and other.

Cash Flows from Investing Activities

The Company s investing activities primarily include funding cardmember loans and receivables and the Company s available-for-sale investment portfolio.

For the nine months ended September 30, 2012, net cash used in investing activities of $3.0 billion changed by $7.9 billion compared to net cash provided by investing activities of $4.9 billion for the nine months ended September 30, 2011, primarily due to an increase in restricted cash, a reduction in maturities, redemptions and sales of investments, and a net decrease in the cash flows related to cardmember loans and receivables, partially offset by lower purchases of investments and fewer acquisitions/dispositions in 2012 as compared to the same period in 2011.

Cash Flows from Financing Activities

The Company s financing activities primarily include issuing and repaying debt, taking customer deposits, issuing and repurchasing its common shares, and paying dividends.

For the nine months ended September 30, 2012, net cash used in financing activities of $7.5 billion increased $4.8 billion compared to $2.7 billion for the nine months ended September 30, 2011 due to a decrease in customer deposits, a decrease in short-term borrowings, an increase in the repurchase of common shares in 2012, and a decrease in the issuance of long-term debt, which more than offset a decrease in principal payments on long-term debt.

Certain Legislative, Regulatory and Other Developments

As a participant in the financial services industry, the Company is subject to a wide array of regulations applicable to its businesses. As a bank holding company and a financial holding company, the Company is subject to comprehensive examination and supervision by the Federal Reserve and to a range of laws and regulations that impact its business and operations. In addition, the extreme disruptions in global capital markets that commenced in mid-2007 and the resulting instability and failure and near failure of numerous financial institutions, as well as reports of widespread consumer abuse, led to a number of changes in the financial services industry, including more intense supervision, enhanced enforcement activity, significant additional regulation and the formation of additional regulatory bodies. In light of recent legislative initiatives and continuing regulatory reform implementation, compliance requirements and expenditures have risen for financial services firms, including the Company, and the Company expects compliance requirements and expenditures will continue to rise with continuing implementation of these reforms.

The CARD Act

The Company is subject to the provisions of the legislation known as the CARD Act, which was enacted in May 2009 to fundamentally reform credit card billing practices, pricing and disclosure requirements. The Company has made changes to its product terms and practices that are designed to comply with the CARD Act, including pricing-related actions, while mitigating the impact on Company revenue of the changes required by the CARD Act and the regulatory amendments. Although the Company believes its actions to mitigate the impact of the CARD Act have, to date, been largely effective, the impacts of certain other provisions of the CARD Act are still subject to some uncertainty such as the requirement to periodically reevaluate annual percentage rate (APR) increases.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which was enacted in July 2010, is comprehensive in scope and contains a wide array of provisions intended to govern the practices and oversight of financial institutions and other participants in the financial markets. Among other matters, the law creates a new independent Consumer Financial Protection Bureau (the CFPB), which has broad rulemaking authority over providers of credit, savings, payment and other consumer financial products and services with respect to certain federal consumer financial laws. Moreover, the CFPB has examination and enforcement authority with respect to certain federal consumer financial laws for some

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providers of consumer financial products and services, including the Company and its insured depository institution subsidiaries. The CFPB is directed to prohibit unfair, deceptive or abusive acts or practices, and to ensure that all consumers have access to fair, transparent and competitive markets for consumer financial products and services. The review of products and practices to prevent unfair, deceptive or abusive conduct will be a continuing focus of the CFPB and banking regulators more broadly, as well as by the Company itself. The ultimate impact of this heightened scrutiny is uncertain, but internal and regulatory reviews have resulted in, and are likely to continue to result in, changes to pricing, practices, products and procedures. Such reviews are also likely to continue to result in increased costs related to regulatory oversight, supervision and examination, additional restitution to cardmembers and possible additional regulatory actions which could include civil money penalties. In July 2012 the CFPB issued a bulletin regarding its review of marketing practices with respect to credit card add-on products, including debt cancellation, identity theft protection, credit reporting and monitoring, and other supplementary products. The Company is cooperating with regulators in their ongoing regulatory examination of these types of products. For a description of the settlements reached with, and ongoing reviews by, several bank regulators, including the CFPB, relating to certain aspects of the Company s U.S. consumer card practices, see Item 1. Legal Proceedings in Part II. Other Information below.

Dodd-Frank prohibits payment card networks from restricting merchants from offering discounts or incentives to customers to pay with particular forms of payment, such as cash, check, credit or debit card, or restricting merchants from setting certain minimum and maximum transaction amounts for credit cards, as long as any such discounts or incentives or any minimum or maximum transaction amounts do not discriminate on the basis of the issuer or network and comply with applicable federal or state disclosure requirements.

Under Dodd-Frank, the Federal Reserve is also authorized to regulate interchange fees paid to financial institutions on debit card and certain general-use prepaid card transactions to ensure that they are reasonable and proportional to the cost of processing individual transactions, and to prohibit payment card networks and issuers from requiring transactions to be processed on a single payment network or fewer than two unaffiliated networks. The Federal Reserve issued its final rule on June 29, 2011, which provides that the regulations on interchange and routing do not apply to a three-party network like American Express when it acts as both the issuer and the network for its prepaid cards, and the Company is therefore not a payment card network as that term is defined and used for the specific purposes of this final rule.

Dodd-Frank also authorizes the Federal Reserve to establish heightened capital, leverage and liquidity standards, risk management requirements, concentration limits on credit exposures, mandatory resolution plans (so-called living wills) and stress tests for, among others, large bank holding companies, such as the Company, that have greater than $50 billion in assets. In addition, certain derivative transactions will be required to be centrally cleared, which may create or increase collateral posting requirements for the Company.

Many provisions of Dodd-Frank require the adoption of rules for implementation. In addition, Dodd-Frank mandates multiple studies, which could result in additional legislative or regulatory action. These new rules and studies will be implemented and undertaken over a period of several years. Accordingly, the ultimate consequences of Dodd-Frank and its implementing regulations on the Company s business, results of operations and financial condition are uncertain at this time.

Department of Justice Litigation

The U.S. Department of Justice (DOJ) and certain states attorneys general have brought an action against the Company alleging that the provisions in the Company s card acceptance agreements with merchants that prohibit merchants from discriminating against the Company s card products at the point of sale violate the U.S. antitrust laws. Visa and MasterCard, which were also defendants in the DOJ and state action, entered into a settlement agreement and have been dismissed as parties pursuant to that agreement. The settlement enjoins Visa and MasterCard, with certain exceptions, from adopting or enforcing rules or entering into contracts that prohibit merchants from engaging in various actions to steer cardholders to other

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card products or payment forms at the point of sale. If similar conditions were imposed on American Express, it could have a material adverse effect on American Express business.

Other Legislative and Regulatory Initiatives

The payment card sector also faces continuing scrutiny in connection with the fees merchants pay to accept cards. Regulators and legislators outside the United States have focused on the way bankcard network members collectively set the interchange (that is, the fee paid by the bankcard merchant acquirer to the card-issuing bank in four-party payment networks, like Visa and MasterCard). Although, unlike the Visa and MasterCard networks, the American Express network does not collectively set fees, antitrust actions and government regulation relating to merchant pricing could affect all networks.

In January 2012, the European Commission (the Commission) published a Green Paper (a document to begin a process of consultation toward potential regulation) covering a range of issues affecting the payments industry, including interchange fees, non-discrimination and honor-all-cards rules, surcharging, separation of processing from card network management, cross-border acquiring, mobile payments and technical standardization. The Commission has completed a consultation period and is expected to issue its preliminary conclusions toward the end of 2012 or beginning of 2013. These conclusions may involve proposals for regulation or recommendations for self-regulation and could take up to 18-24 months to adopt and implement.

In certain countries, such as Australia, and in certain member states in Europe, 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 cardmembers, could have a material adverse effect on the Company if it becomes widespread. In the European Union (the EU), the Consumer Rights Directive, which was adopted by the EU Council of Ministers in October 2011, will prohibit merchants from surcharging card purchases more than the merchants cost of acceptance. The EU member states have until December 2013 to transpose the directive into national law. In June 2012, the Reserve Bank of Australia announced changes to the Australian surcharging standards beginning January 1, 2013 that will allow the Company and other networks to limit a merchant s right to surcharge to the reasonable cost of card acceptance. This could lead to an increase in higher surcharges on American Express cards.

In addition to the provisions of Dodd-Frank regarding merchants ability to offer discounts or incentives to encourage customers use of a particular form of payment, a number of U.S. states have either adopted or are considering legislation that would prohibit card networks from imposing similar conditions and restrictions on merchants.

Also, other countries in which the Company operates have been considering and in some cases adopting similar legislation and rules that would impose changes on certain practices of card issuers, merchant acquirers and payment networks.

Refer to Consolidated Capital Resources and Liquidity for a discussion of the series of international capital and liquidity standards published by the Basel Committee on Banking Supervision.

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Business Segment Results

Refer to Note 1 to the Consolidated Financial Statements for a discussion of a change in classification of card fees on lending products, which impacts the selected income statement and statistical data presented herein for the USCS and ICS segments. This change does not impact the net interest yield on cardmember loans statistic, a non-GAAP measure, for these segments.

U.S. Card Services

Selected Income Statement Data

	Three Months Ended September 30,				Nine Months Ended September 30,			
(Millions, except percentages)	**2012**	2011	Change		**2012**	2011	Change	
Revenues								
Discount revenue, net card fees and other	**$ 2,887**	$ 2,752	$ 135	5 %	**$ 8,566**	$ 8,008	$ 558	7 %
Interest income	**1,362**	1,287	75	6	**3,978**	3,770	208	6
Interest expense	**194**	201	(7)	(3)	**568**	604	(36)	(6)
Net interest income	**1,168**	1,086	82	8	**3,410**	3,166	244	8
Total revenues net of interest expense	**4,055**	3,838	217	6	**11,976**	11,174	802	7
Provisions for losses	**339**	143	196	#	**952**	418	534	#
Total revenues net of interest expense after provisions for losses	**3,716**	3,695	21	1	**11,024**	10,756	268	2
Expenses								
Marketing, promotion, rewards and cardmember services	**1,626**	1,646	(20)	(1)	**4,664**	5,053	(389)	(8)
Salaries and employee benefits and other operating expenses	**962**	898	64	7	**2,903**	2,742	161	6
Total	**2,588**	2,544	44	2	**7,567**	7,795	(228)	(3)
Pretax segment income	**1,128**	1,151	(23)	(2)	**3,457**	2,961	496	17
Income tax provision	**429**	418	11	3	**1,288**	1,008	280	28
Segment income	**$ 699**	$ 733	$ (34)	(5)%	**$ 2,169**	$ 1,953	$ 216	11 %
Effective tax rate	**38.0%**	36.3%			**37.3%**	34.0%		

\# denotes a variance greater than 100 percent.

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U.S. Card Services

Selected Statistical Information

(Billions, except percentages and where indicated)	Three Months Ended September 30, 2012	2011	Change	Nine Months Ended September 30, 2012	2011	Change
Card billed business	**$ 115.3**	$ 106.8	8%	**$ 339.0**	$ 309.7	9%
Total cards-in-force *(millions)*	**41.8**	40.7	3%	**41.8**	40.7	3%
Basic cards-in-force *(millions)*	**31.1**	30.2	3%	**31.1**	30.2	3%
Average basic cardmember spending *(dollars)**	**$ 3,725**	$ 3,542	5%	**$ 11,031**	$ 10,343	7%
U.S. Consumer Travel:						
Travel sales *(millions)*	**$ 989**	$ 920	8%	**$ 3,135**	$ 2,769	13%
Travel commissions and fees/sales	**7.6%**	8.5%		**7.6%**	8.3%	
Total segment assets	**$ 96.3**	$ 87.9	10%	**$ 96.3**	$ 87.9	10%
Segment capital *(millions)*	**$ 9,100**	$ 8,233	11%	**$ 9,100**	$ 8,233	11%
Return on average segment capital[a]	**32.5%**	34.2%		**32.5%**	34.2%	
Return on average tangible segment capital[a]	**34.0%**	36.2%		**34.0%**	36.2%	
Cardmember receivables:						
Total receivables	**$ 19.5**	$ 19.0	3%	**$ 19.5**	$ 19.0	3%
30 days past due as a % of total	**1.8%**	2.0%		**1.8%**	2.0%	
Average receivables	**$ 19.4**	$ 19.1	2%	**$ 19.6**	$ 18.5	6%
Net write-off rate principal only[b]	**1.6%**	1.8%		**2.0%**	1.7%	
Net write-off rate principal and fees[b]	**1.7%**	1.9%		**2.1%**	1.8%	
Cardmember loans:						
Total loans	**$ 52.9**	$ 49.9	6%	**$ 52.9**	$ 49.9	6%
30 days past due loans as a % of total	**1.3%**	1.5%		**1.3%**	1.5%	
Net write-off rate principal only[b]	**1.9%**	2.6%		**2.2%**	3.2%	
Net write-off rate principal, interest and fees[b]	**2.1%**	2.9%		**2.4%**	3.5%	
Calculation of Net Interest Yield on Cardmember Loans:						
Net interest income *(millions)*	**$ 1,168**	$ 1,086		**$ 3,410**	$ 3,166	
Exclude:						
Interest expense not attributable to the Company s cardmember loan portfolio *(millions)*	**51**	58		**153**	175	
Interest income not attributable to the Company s cardmember loan portfolio *(millions)*	**(3)**	(2)		**(7)**	(7)	
Adjusted net interest income *(millions)*[c]	**$ 1,216**	$ 1,142		**$ 3,556**	$ 3,334	
Average loans	**$ 52.8**	$ 50.2		**$ 52.3**	$ 49.9	
Exclude:						
Unamortized deferred card fees, net of direct acquisition costs of cardmember loans					(0.2)	
Adjusted average loans[c]	**$ 52.8**	$ 50.2		**$ 52.3**	$ 49.7	
Net interest income divided by average loans	**8.8%**	8.6%		**8.7%**	8.5%	

Net interest yield on cardmember loans[c]	**9.2%**	9.0%	**9.1%**	9.0%

* Proprietary cards only.

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U.S. Card Services

Selected Statistical Information

(continued)

(a) Return on average segment capital is calculated by dividing (i) one-year period segment income ($2.9 billion and $2.7 billion for the twelve months ended September 30, 2012 and 2011, respectively) by (ii) one-year average segment capital ($8.9 billion and $7.8 billion for the twelve months ended September 30, 2012 and 2011, respectively). Return on average tangible segment capital, a non-GAAP measure, is computed in the same manner as return on average segment capital except the computation of average tangible segment capital, a non-GAAP measure, excludes from average segment capital average goodwill and other intangibles of $391 million and $436 million as of September 30, 2012 and 2011, respectively. The Company believes that return on average tangible segment capital is a useful measure of the profitability of its business.

(b) Refer to Selected Statistical Information footnote (e) on page 42.

(c) Net interest yield on cardmember loans, adjusted net interest income, and adjusted average loans are non-GAAP measures. Refer to Glossary of Selected Terminology for the definitions of these terms. The Company believes adjusted net interest income and adjusted average loans are useful to investors because they are components of net interest yield on cardmember loans, which provides a measure of profitability of the Company s cardmember loan portfolio.

Results of Operations for the Three and Nine Months Ended September 30, 2012 and 2011

USCS segment income decreased $34 million or 5 percent for the three months ended September 30, 2012 as compared to the same period in the prior year. USCS segment income increased $216 million or 11 percent for the nine months ended September 30, 2012 as compared to the same period in the prior year.

Total revenues net of interest expense increased $217 million or 6 percent and $802 million or 7 percent for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in the prior year, primarily driven by higher discount revenue, increased net interest income and higher net card fees and other revenues.

Discount revenue, net card fees and other revenues increased $135 million or 5 percent and $558 million or 7 percent for the three and nine months ended September 30, 2012, respectively, primarily due to higher discount revenue resulting from billed business growth, partially offset by higher contra-revenues, primarily related to cash rebates tied to volume growth on cash-back rewards products. Billed business for the three and nine months ended September 30, 2012 increased 8 percent and 9 percent, respectively, primarily driven by a 5 percent and 7 percent higher average spending per proprietary basic cards-in-force, respectively, as compared to the same periods in the prior year.

Interest income increased $75 million or 6 percent and $208 million or 6 percent for the three and nine months ended September 30, 2012, respectively, primarily due to a 5 percent increase in average cardmember loans for both periods and a slight increase in net interest yield on cardmember loans for the three and nine months ended September 30, 2012 as compared to the same periods in the prior year.

Provisions for losses increased $196 million and $534 million or over 100 percent for both the three and nine months ended September 30, 2012, respectively, primarily reflecting significant cardmember lending reserve releases in 2011 in relation to smaller reserve releases in 2012. The provisions for losses increase was partially offset by lower net write-offs due to improved cardmember lending credit trends in the current periods. Refer to the USCS Selected Statistical Information table for the lending and charge write-off rates.

Expenses increased $44 million or 2 percent for the three months ended September 30, 2012 due to higher operating expenses, partially offset by lower marketing, promotion, rewards and cardmember services expenses. Expenses decreased $228 million or 3 percent for the nine months ended September 30, 2012, primarily due to lower marketing, promotion, rewards and cardmember services expenses, partially offset by higher salaries and employee benefits and other operating expenses.

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Marketing, promotion, rewards and cardmember services expenses decreased $20 million or 1 percent and $389 million or 8 percent for the three and nine months ended September 30, 2012, reflecting higher Membership Rewards-related and co-brand spending in 2012, which was more than offset by a greater increase in rewards expense in 2011 resulting from changes in the Membership Rewards URR and WAC assumptions. For the three and nine months ended September 30, 2012, Membership Rewards expense included approximately $36 million and $100 million, respectively, for an increase in the URR assumption, net of a decrease in the WAC assumption, while for the three and nine months ended September 30, 2011, Membership Rewards expense included approximately $146 million and $510 million as a result of increases in both the URR and WAC assumptions, respectively. For the nine months ended September 30, 2011, Membership Rewards expense also included $188 million for a change in the U.S. Membership Rewards URR assumption process.

Salaries and employee benefits and other operating expenses increased $64 million or 7 percent and $161 million or 6 percent for the three and nine months ended September 30, 2012, respectively, primarily driven by an increase in expenses related to hedge ineffectiveness and higher other operating expenses related to refunds to customers as a result of internal and regulatory reviews of the Company s U.S. banking subsidiaries.

International Card Services

Selected Income Statement Data