

AMERICAN EXPRESS CO
Form 10-K
February 22, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 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 No. 1-7657

American Express Company

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of

incorporation or organization)

World Financial Center

200 Vesey Street

New York, New York
(Address of principal executive offices)

13-492250
(I.R.S. Employer

Identification No.)

10285
(Zip Code)

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

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

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

Name of each exchange on which registered
New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 a shorter period that the registrant was required to submit and post such files). Yes No

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

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

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2012, the aggregate market value of the registrant's voting shares held by non-affiliates of the registrant was approximately \$66.1 billion based on the closing sale price as reported on the New York Stock Exchange.

As of February 15, 2013, there were 1,104,651,022 common shares of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts I, II and IV: Portions of Registrant's 2012 Annual Report to Shareholders.

Part III: Portions of Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Shareholders to be held on April 29, 2013.

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PART I*

ITEM 1. BUSINESS

INTRODUCTION

Overview

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

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

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

We are principally engaged in businesses comprising four reportable operating segments: U.S. Card Services, International Card Services, Global Commercial Services and Global Network & Merchant Services, all of which we describe below. Corporate functions and auxiliary businesses, including the Company s Enterprise Growth Group, publishing business and other company operations, are included in Corporate & Other.

We compete 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, we are facing increasing competition from non-traditional players, such as online networks, telecom providers and software-as-a-service providers, that leverage new technologies and customers existing card accounts and bank relationships to create payment or other fee-based solutions. We are transforming our existing businesses and creating new products and services for the digital marketplace as we increase our share of online spend, enhance our customers digital experiences and develop platforms for online and mobile commerce.

Securities Exchange Act Reports and Additional Information

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

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

* Some of the statements in this report constitute forward-looking statements. You can identify forward-looking statements by words such as believe, expect, anticipate, optimistic, intend, plan, aim, will, may, should, could, would, likely, estimate, predict, or similar expressions. We discuss certain factors that affect our business and operations and that may cause our actual results to differ materially from these forward-looking statements under Risk Factors below. You are cautioned not to place undue reliance on these forward-looking

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statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

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

2012 Highlights

Compared with 2011, we delivered:

Total revenues net of interest expense of \$31.6 billion, up 5 percent from \$30.0 billion

Net income of \$4.5 billion, down 9 percent from \$4.9 billion

Diluted earnings per share based on net income attributable to common shareholders of \$3.89, down 6 percent from \$4.12

Return on average equity of 23.1 percent, compared with 27.7 percent

Our results for 2012 continued to reflect strong spending growth and credit performance in both the United States and internationally. The rate of growth was, however, slower than in the prior year, reflecting in part the impact of a challenging global economic environment. We also saw our average loans continue to grow modestly year over year, leading to a 6 percent growth in net interest income while lending loss rates are near all-time lows. Results for 2012 were impacted by three charges taken in the fourth quarter of 2012 related to restructuring of \$400 million, Membership Rewards estimation process enhancements of \$342 million and cardmember reimbursements of \$153 million in addition to amounts incurred in prior quarters during the year.

For a complete discussion of our 2012 financial results, including financial information regarding each of our reportable operating segments, see pages 16-114 of our 2012 Annual Report to Shareholders, which is incorporated herein by reference. For a discussion of our principal sources of revenue, see pages 65-66 of our 2012 Annual Report to Shareholders.

Products and Services

Our range of products and services includes:

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

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

Fee services, including fraud prevention services and the design of customized customer loyalty and rewards programs
Our various products and services are sold globally to diverse customer groups, including consumers, small businesses, mid-sized companies and large corporations. These products and services are sold through various channels, including direct mail, online applications, in-house and third-party sales forces and direct response advertising.

Our products and services generate the following types of revenue:

Discount revenue, our largest revenue source, which represents fees generally charged to merchants when cardmembers (Cardmembers) use their cards to purchase goods and services at merchants on our network

Net card fees, which represent revenue earned for annual card memberships

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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

Interest on loans, which principally represent interest income earned on outstanding balances

Our general-purpose card network, card-issuing and merchant-acquiring and processing businesses are global in scope. We are a world leader in providing charge and credit cards to consumers, small businesses and corporations. These cards include cards issued by American Express as well as cards issued by third-party banks and other institutions that are accepted by merchants on the American Express network (collectively, Cards). American Express Cards permit Cardmembers to charge purchases of goods and services in most countries around the world at the millions of merchants that accept Cards bearing our logo. At December 31, 2012, we had total worldwide Cards-in-force of 102.4 million (including Cards issued by third parties). In 2012, our worldwide billed business (spending on American Express® Cards, including Cards issued by third parties) was \$888.4 billion.

Our business as a whole has not experienced significant seasonal fluctuations, although travel sales generally tend to be highest in the second and fourth quarters. Travelers Cheque sales tend to be greatest each year in the summer months, peaking in the third quarter. American Express® Gift Card sales are highest in the months of November and December; and Card billed business tends to be moderately higher in the fourth quarter than in other quarters.

Competitive Advantages of our Closed-Loop Network and Spend-Centric Model

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

Wherever we manage both the acquiring relationship with merchants and the Card-issuing side of the business, there is a closed-loop, which distinguishes our network from the bankcard networks, in that we have access to information at both ends of the Card transaction. We maintain direct relationships with both our Cardmembers (as a card issuer) and our merchants (as an acquirer), and we handle all key aspects of those relationships. This allows us to analyze information on Cardmember spending and build algorithms and other analytical tools that enable us to provide targeted marketing and other information services for merchants and special offers and services to Cardmembers through a variety of channels. At the same time, we protect the confidentiality of Cardmember data, including information on Cardmember spending, in compliance with our privacy, data protection, information security and firewall policies; applicable privacy, data protection and information security laws, rules and regulations (hereinafter, Privacy, Data Protection and Information Security Laws); and antitrust and other applicable legal requirements.

Our spend-centric business model focuses on generating revenues primarily by driving spending on our Cards and secondarily by finance charges and fees. Spending on our Cards, which is higher on average on a per-card basis versus our competitors, offers greater value to merchants in the form of loyal customers and higher sales. This enables us to earn discount revenue that allows us to invest more in greater value-added services for merchants and Cardmembers. Because of the revenues generated from higher-spending Cardmembers, we have the flexibility to invest in more attractive rewards and other benefits to Cardmembers, as well as targeted marketing and other programs and investments for merchants, all of which in turn create incentives for Cardmembers to spend more on their Cards. The significant investments we make in rewards and other compelling value propositions for Cardmembers incent Card usage at merchants and Cardmember loyalty.

The American Express Brand

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

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We believe our brand and its attributes are critical to our success, and we invest heavily in managing, marketing and promoting it. In addition, we place significant importance on trademarks, service marks and patents, and diligently protect our intellectual property rights around the world.

GLOBAL NETWORK & MERCHANT SERVICES

The Global Network & Merchant Services (GNMS) segment operates a global payments network that processes and settles proprietary and non-proprietary card transactions. GNMS acquires merchants and provides point-of-sale products and services, multi-channel marketing programs and capabilities, services and data, leveraging our global closed-loop network. It enters into partnership agreements with third-party card issuers and acquirers, licensing the American Express brand and extending the reach of the global network.

The majority of Cards bearing our logo are issued by our principal operating subsidiary, TRS, by the Company's U.S. banking subsidiaries, American Express Centurion Bank (Centurion Bank) and American Express Bank, FSB (AEBFSB), and by other operating and banking subsidiaries outside the United States. In addition, our GNS business establishes and maintains relationships with banks and other institutions around the world that issue Cards and, in certain countries, acquire local merchants on the American Express network. GNS is key to our strategy of broadening the Cardmember and merchant base for our network worldwide. Cards bearing our logo are accepted at all merchant locations worldwide that accept American Express-branded Cards and, depending on the product, they are generally accepted at ATM locations worldwide that accept cards.

Our Global Merchant Services (GMS) business provides us with access to rich transaction data through our closed-loop network, which encompasses relationships with both the Cardmember and the merchant. This capability helps us acquire new merchants, deepen relationships with existing merchants, process transactions, and provide targeted marketing, analytical and other value-added services to merchants on our network. In addition, it allows us to analyze trends and spending patterns among various segments of our customer base.

Global Network Services

We continue to pursue a strategy, through our GNS business, of inviting U.S. and foreign banks and other institutions to issue Cards and, in some countries, act as merchant acquirers on the American Express network. By leveraging our global infrastructure and the appeal of the American Express brand, we broaden our Cardmember and merchant base for our network worldwide. This strategy also enables us to enhance our presence in countries where we already do business and expand our presence into new geographic areas at economic scale and cost levels that would be difficult for us to achieve on our own. The GNS business has established 148 Card-issuing and/or merchant-acquiring arrangements with banks and other institutions in 160 countries. In assessing whether we should pursue a proprietary or GNS strategy in a given country, or some combination thereof, we consider a wide range of country-specific factors, including the stability and attractiveness of financial returns, the size of the affluent segment, the strength of available marketing and credit data, the size of co-brand opportunities and how we can best create strong merchant value.

In 2012, GNS signed 12 new partners to issue Cards and/or acquire merchants on the American Express network, including new card-issuing partnerships with Scotiabank in Canada, China Mingsheng Banking Corp., Ltd in China, Uralsib in Russia and a new partnership with G-Xchange, Inc. to develop an online payment solution in the Philippines. GNS also supported existing partners in launching approximately 84 new products during 2012, with the total number of American Express-branded GNS partner products standing at over 1,000. New products launched in 2012 include the Centurion® Card from American Express issued by Industrial and Commercial Bank of China and by China Merchants Bank in China; the JAL American Express® Card issued by Mitsubishi UFJ Nicos in Japan; Blue from American Express® issued by Russian Standard Bank in Russia; the EASY Card issued by Garanti Bank in Turkey; the EZ Link Imagine American Express® Prepaid Card issued by EZ Link Pte Ltd in Singapore; and American Express® Virtual Pay issued by Tenpay in China. GNS also continues to expand the airline co-brand products issued through GNS relationships, launching 4 new airline co-brands in 2012 bringing the total to 61 airline co-brand GNS products.

GNS focuses on partnering with qualified third-party banks and other institutions that choose to issue Cards accepted on our global network and/or acquire merchants on our network. Although we customize our network arrangements to the particular country and each partner's requirements, as well as to our strategic plans in that marketplace, all GNS

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arrangements are designed to help issuers develop products for their highest-spending and most affluent customers and to support the value of American Express Card acceptance to merchants. We choose to partner with institutions that share a core set of attributes compatible with the American Express brand, such as commitment to high quality standards and strong marketing expertise, and we require adherence to our product, brand and service standards.**

With over 1,000 different Card products launched on our network so far by our partners, GNS is an increasingly important business that is strengthening our brand visibility around the world, driving more transaction volume onto our merchant network and increasing the number of merchants choosing to accept the American Express Card. GNS enables us to expand our network's global presence generally without assuming additional Cardmember credit risk or having to invest a large amount of resources, as our GNS partners already have established attractive customer bases to whom they can target American Express-branded products, and are responsible for managing the credit risk associated with the Cards they issue. Since 1999, Cards-in-force issued by GNS partners have grown at a compound annual growth rate of 22%, and totaled over 37 million Cards at the end of 2012. Outside the United States, approximately 78% of new Cards issued in 2012 were Cards issued by GNS partners. Spending on GNS Cards has grown at a compound annual rate of 24% since 1999. Year-over-year spending growth on these Cards in 2012 was 10%, with total spending equal to \$129 billion.

GNS Arrangements

Although the structures and details of each of the GNS arrangements vary, all of them generate revenues for us from the Card transaction volumes they drive on the American Express network. Gross revenues we receive per dollar spent on a Card issued by a GNS partner are generally lower than those from our proprietary Card-issuing business. However, because the GNS partner is responsible for most of the operating costs and risk of its Card-issuing business, our operating expenses and credit losses are generally lower than those in our proprietary Card-issuing business. The GNS business model generates an attractive earnings stream and risk profile that requires a lower level of capital support. The return on equity in our GNS business can thus be significantly higher than that of our proprietary Card-issuing business. In addition, since the majority of GNS costs are fixed, the GNS business is highly scalable. GNS partners benefit from their association with the American Express brand and their ability to gain attractive revenue streams and expand and differentiate their product offerings with innovative marketing programs.

Our GNS arrangements fall into the following three main categories: Independent Operator Arrangements, Network Card License Arrangements and Joint Venture Arrangements.

Independent Operator Arrangements. The first type of GNS arrangement is known as an independent operator (IO) arrangement. As of the end of 2012, we had 67 of these arrangements around the world. We pursue these arrangements to expand the presence of the American Express network in countries in which we do not offer a proprietary local currency Card. The partner's local presence and relationships help us enhance the impact of our brand in the country, reach merchant coverage goals more quickly, and operate at economic scale and cost levels that would be difficult for us to achieve on our own. Subject to meeting our standards, IO partners are licensed to issue local currency Cards in their countries, including the American Express classic Green, Gold and Platinum Card®. In addition, most of these partners serve as the merchant acquirer and processor for local merchants. American Express retains the relationship with multinational merchants. Our IO partners own the customer relationships and credit risk for the Cards they issue, and make the decisions about which customers will be issued Cards. GNS generates revenues in IO arrangements from Card licensing fees, royalties on Cardmember billings, foreign exchange conversion revenue, royalties on charge volume at merchants, share of discount revenue and, in some partnerships, royalties on net spread revenue or royalties on Cards-in-force. Our IO partners are responsible for transaction authorization, billing and pricing, Cardmember and merchant servicing, and funding Card receivables for their Cards and payables for their merchants.

We bear the credit risk arising from the IO partner's potential failure to meet its settlement obligations to us. We mitigate this risk by partnering with institutions that we believe are financially sound and will meet their obligations, and by monitoring their financial health, their compliance with the terms of their relationship with us and the political, economic and regulatory environment in which they operate. In addition, depending on an IO partner's credit rating and other indicators of financial health, we may require an IO partner to post a letter of credit, bank guarantee or other collateral to reduce this risk.

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

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Examples of countries where we have entered into IO arrangements include Brazil, Russia, Indonesia, Turkey, Ecuador, Colombia, South Korea, Malaysia, Croatia, Peru, Portugal and Vietnam. Through our IO partnerships, we believe we can accelerate growth in Cardmember spending, Cards-in-force and merchant acceptance in these countries.

Network Card License Arrangements. The second type of GNS arrangement is known as a network Card license (NCL). At the end of 2012, we had 77 of these arrangements in place worldwide. We pursue these arrangements to increase our brand presence and gain share in countries in which we have a proprietary Card-issuing and/or merchant acquiring business and, in a few cases, those in which we have IO partners. In an NCL arrangement, we grant the third-party institution a license to issue American Express-branded Cards. The NCL issuer owns the customer relationships for all Cards it issues, provides customer service to its Cardmembers, authorizes transactions, manages billing and credit, is responsible for marketing the Cards, and designs Card product features (including rewards and other incentives for Cardmembers), subject to meeting certain standards. We operate the merchant network, route and process Card transactions from the merchant's point of sale through submission to the issuer, and settle with issuers. The NCL is the type of arrangement we have implemented with banks in the United States, United Kingdom, Australia and Japan.

GNS revenues in NCL arrangements are driven by a variety of factors, including the level of Cardmember spending, royalties, currency conversions and licensing fees paid by the NCL issuer and fees charged to the NCL issuer based on charge volume, plus our provision of value-added services such as Cardmember insurance products and other Card features and benefits for the NCL issuer's Cards. As indicated above, the NCL issuer bears the credit risk for the issued Cards, as well as the Card marketing and acquisition costs, Cardmember fraud risks and costs of rewards and other loyalty initiatives. We bear the risk arising from the NCL issuer's potential failure to meet its settlement obligations to us. We mitigate this risk by partnering with institutions that we believe are financially sound and will meet their obligations, and by monitoring their financial health, their compliance with the terms of their relationship with us and the political, economic and regulatory environment in which they operate. In addition, depending on an NCL issuer's credit rating and other indicators of financial health, we may require an NCL issuer to post a letter of credit, bank guarantee or other collateral to reduce this risk.

Examples of NCL arrangements include our relationships with Bank of America in the United States, Lloyds TSB Bank in the United Kingdom and Westpac Banking Corporation in Australia.

Joint Venture Arrangements. The third type of GNS arrangement is a joint venture (JV) arrangement. We have utilized this type of arrangement in Switzerland and Belgium, as well as in other countries. In these countries, we join with a third party to establish a separate business in which we have a significant ownership stake. The JV typically signs new merchants to accept Cards on the American Express network and issues local and U.S. dollar-denominated currency Cards that carry our logo. In a JV arrangement, the JV is responsible for the Cardmember credit risk and bears the operating and marketing costs. Unlike the other two types of GNS arrangements, we share management, risk, and profit and loss responsibility with our JV partners. Income is generated by discount revenues, Card fees and net spread revenues. The economics of the JV are similar to those of our proprietary Card-issuing business, which we discuss under U.S. Card Services, and we receive a portion of the JV's income depending on, among other things, the level of our ownership interest. Our subsidiary, American Express Overseas Credit Corporation Limited, purchases Card receivables from certain of the GNS JVs from time to time.

Global Merchant Services

Our GMS business builds and maintains relationships with merchants, processes Card transactions and settles with merchants that choose to accept Cards for Card purchases (Charges). We sign merchants to accept Cards and provide marketing information and other programs and services to merchants, leveraging the capabilities provided by our closed-loop network. We also offer point-of-sale products and services, support for Card acceptance, fraud prevention and other value-added services. Continued investments in the GMS business were a key priority in 2012 and will remain so in 2013.

Our objective is for Cardmembers to be able to use the Card wherever and however they desire, and to increase merchant acceptance in key geographic areas and industries that have not traditionally accepted the Card. We add new merchants to our network through a number of sales channels: an in-house sales force; third-party sales and service agents; strategic alliances with banks and processors; the Internet; telemarketing; and inbound Want to Honor calls (i.e., where merchants desiring to accept the Card contact us directly). As discussed in the Global Network Services section, our IO partners and JVs also add new local merchants to the American Express network.

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During 2012, we continued expanding our integrated American Express OnePoint® program by adding third-party agents to service many of our small- and medium-sized merchants in the United States. Under this program, third-party service agents identify potential new merchants and provide payment processing services to merchants on our behalf for Card transactions, while we retain the acceptance contract with participating merchants, manage the merchant pricing process, and receive the same transactional information we always have received through our closed-loop network. This program simplifies Card processing for small- and medium-sized merchants by providing them with a single source for statements, settlement and customer service. We have similar arrangements in Spain with La Caixa and in Mexico with Elavon.

GMS continues to expand the number of merchants that accept our Cards as well as the kinds of businesses that accept the Card in order to address Cardmember needs. Over the last several years, we have focused our efforts on increasing the use of our Cards for everyday spending. In 1990, 64% of our U.S. billings came from the travel and entertainment sectors and 36% came from retail and other sectors. In 2012, only 27% of U.S. billings came from the travel and entertainment sectors. This shift resulted, in part, from the growth, over time, in the types of merchants that began to accept payment cards in response to consumers' increased desire to use these cards for more of their purchases, our focus on expanding Card acceptance to meet Cardmembers' needs, and increased competition for travel and entertainment sector spending.

During 2012, we continued our efforts to bring Card acceptance to industries where cash or checks are the predominant form of payment. For example, we have made headway in promoting Card acceptance in industries such as pharmaceuticals, construction, industrial supply and insurance. We also continued our drive to expand Card acceptance for retail, everyday and business-to-business spending categories.

Globally, acceptance of general-purpose cards continues to increase. As in prior years, during 2012, we continued to grow merchant acceptance of Cards around the world and to refine our approach to calculating merchant coverage in accordance with changes in the marketplace. We estimate that, as of the end of 2012, our merchant network in the United States accommodated more than 90% of our Cardmembers' general-purpose card spending. Our international spend coverage is more limited, although we continue to expand our merchant network in locations outside the United States. We estimate that our international merchant network as a whole accommodated more than 80% of our Cardmembers' general-purpose card spending. These percentages are based on comparing our Cardmembers' spending on our network currently with our estimate of what our Cardmembers would spend on our network if all merchants that accept general-purpose credit and charge cards accepted American Express Cards.

Discount Revenue

We earn discount revenue from fees charged to merchants for accepting Cards as payment for goods or services sold. The merchant discount, or discount rate, is a fee charged to the merchant for accepting Cards and is generally expressed as a percentage of the Charge amount. In some instances, an additional flat transaction fee is assessed as part of the merchant discount. The merchant discount is generally deducted from the amount of the payment that the merchant acquirer (in most cases, TRS or one of its subsidiaries) pays to a merchant for Charges submitted. A merchant acquirer is the entity that contracts for Card acceptance with the merchant, accepts transactions from the merchant, pays the merchant for these transactions and submits the transactions to the American Express network, which submits the transactions to the appropriate Card issuer. When a Cardmember presents the Card for payment, the merchant creates a record of charge for the transaction and submits it to the merchant acquirer for payment. To the extent that TRS or one of its subsidiaries is the merchant acquirer, the merchant discount is recorded by us as discount revenue at the time the transaction is received by us from the merchant. We may also charge additional fees to merchants, such as a variable fee for non-swiped Card transactions or for transactions using Cards issued outside the United States and used at merchants located in the United States.

Where we act as the merchant acquirer and the Card presented at a merchant is issued by a third-party bank or financial institution, such as in the case of our GNS partners, we will make financial settlement to the merchant and receive the discount revenue. In our role as the operator of the Card network, we will also receive financial settlement from the GNS Card issuer, who receives an issuer rate (i.e., the individually negotiated amount that GNS Card issuers receive for transactions charged on our network with Cards they issue, which is usually expressed as a percentage of the Charge amount). The difference between the discount revenue (received by us in the form of the merchant discount) and the issuer rate received by the GNS Card issuer generates a return to us. In cases where American Express is the Card issuer and the merchant acquirer is a third-party bank or financial institution (which can be the case in a country in which the IO is the local merchant acquirer), we receive an individually negotiated network rate in our settlement with the merchant acquirer, which is

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recorded by us as discount revenue. By contrast with networks such as those operated by Visa Inc. (Visa) and MasterCard International, Inc. (MasterCard), there is no collectively set interchange rate on the American Express network and no fees are agreed or due between third-party banks or financial institutions on the network.

The following diagrams depict the relationships among the parties in a point-of-sale transaction effected on the American Express network where we act as both the Card issuer and merchant acquirer (the 3-Party Model) and under an NCL arrangement where third-party financial institutions act as Card issuers (the NCL Model):

The merchant discount we charge reflects the value we deliver to the merchant and the investments we make in providing that value. We deliver greater value to merchants in a variety of ways, including through higher spending by our Cardmembers relative to users of cards issued on competing card networks, our product and network features and functionality, our marketing expertise and programs, information services, fraud prevention services, our dedicated client management group, and other investments that enhance the merchant value propositions associated with acceptance of the Card.

The merchant discount varies with, among other factors, the industry in which the merchant does business, the merchant's Charge volume, the timing and method of payment to the merchant, the method of submission of Charges and, in certain instances, the geographic scope of the Card acceptance agreement signed with us (e.g., local or global) and the Charge amount. In the United States and Canada, we charge a different discount rate for our prepaid cards.

In recent years, we experienced some reduction in our global weighted average merchant discount rate. The average discount rate was 2.52 percent and 2.54 percent for 2012 and 2011, respectively. Over time, certain repricing initiatives, changes in the mix of spending by location and industry, an increase in the amount of prepaid products, volume-related pricing discounts and strategic investments will likely result in further erosion of the average discount rate. In addition, differentiated payment models from non-traditional players in the alternative payments space (such as PayPal and Square) could pose challenges to our traditional payment model and adversely impact our average discount rate or our ability to access transaction data through our closed-loop network.

While we believe merchants that accept our Cards understand our merchant discount pricing in relation to the value provided, we do encounter merchants that accept our Cards, but tell their customers that they prefer to accept another type of

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payment or otherwise seek to suppress use of the Card. Our Cardmembers value the ability to use their Cards where and when they want to, and we, therefore, take steps to meet our Cardmembers' expectations and to protect the American Express brand, subject to local legal requirements, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) in the United States. We make efforts to limit Card suppression by focusing on acquiring merchants where Cardmembers want to use the Card; continuing to enhance the value we provide to merchants through marketing programs such as our Small Business Saturday® event targeted to encourage Cardmembers to shop at small merchants; providing earlier and more frequent communication of our value proposition; and have the right, when appropriate, to terminate Card acceptance agreements with merchants who seek to suppress the use of our Card products. We have a client management organization dedicated to growing our merchants' business and finding ways to enhance effectiveness of our relationship with these key business partners. Most importantly, we recognize that it is the merchant's choice whether or not to accept American Express Cards and that all merchants have numerous options given the intense competition from new and traditional forms of payment. Therefore, we dedicate substantial resources to delivering superior and differentiated value to attract and retain our merchants.

The laws of ten states in the United States and certain countries outside the United States prohibit the surcharging of credit card purchases. Conversely, there are certain countries in which surcharging is specifically permitted, such as Australia and certain countries in the European Union. In addition, the settlement by MasterCard and Visa in a U.S. merchant class litigation (which has been given preliminary, but not final, approval by the trial court) requires, among other things, MasterCard and Visa to permit U.S. merchants, subject to certain conditions, to surcharge credit cards, while allowing them to continue to prohibit surcharges on debit card transactions. Our Card acceptance agreements with merchants generally do not prohibit merchants from surcharging our Cardmembers. However, where permitted by local law, our Card acceptance agreements generally include a provision under which the merchant agrees not to discriminate against the Card, such as by surcharging higher amounts on purchases with the Card than on purchases with any other cards the merchant accepts or by imposing a surcharge only on Card purchases, but not on purchases made with other cards. American Express does not prohibit merchants from offering discounts to customers who pay with cash, check or inter-bank transfers (i.e., Automated Clearing House or ACH). In addition, American Express does not prohibit U.S. merchants from offering discounts or in-kind incentives to customers who pay with particular forms of payment in accordance with the provisions of Dodd-Frank. For information on the potential impacts of surcharging on our business, see *An increasing prevalence of surcharging by merchants could materially adversely affect our business and results of operations* in Risk Factors below.

Enhancing Merchant Satisfaction

GMS is focused on understanding and addressing factors that influence merchant satisfaction, including developing and executing programs that increase Card usage at merchants, using technology resources and innovative marketing tools such as social media and applying our closed-loop capabilities and deep marketing expertise. In the United States, we also offer our merchants a full range of point-of-sale solutions, including integrated point-of-sale terminals, software, online solutions and direct links that allow merchants to accept American Express Cards (as well as credit and debit cards issued on other networks and checks). Virtually all proprietary point-of-sale solutions support direct processing (i.e., direct connectivity) to American Express, which can lower a merchant's cost of Card acceptance and enhance payment efficiency.

In 2012, we continued to connect merchants and Cardmembers via our Card Sync platform and Smart Offer APIs, launching Sync, Tweet, Save with Twitter for U.S. Cardmembers and Sync, Unlock, Score with the online entertainment service from Microsoft, Xbox LIVE, for Cardmembers in the United States and the United Kingdom. We also launched offers via foursquare in the United Kingdom and My Offers in the United States, a mobile offer engine that recommends and ranks relevant merchant offers in real time for U.S. Cardmembers based on their individual spend graphs. A pilot of My Offers on the American Express iPhone app made available local offers for Cardmembers in Los Angeles and New York City and certain offers for Cardmembers nationwide.

We offer fraud prevention services to merchants for transactions on the American Express network, and our subsidiary, Accertify Inc., which we acquired in November 2010, is a leading provider of solutions that help merchants combat fraudulent online and other card-not-present transactions. Accertify provides a hosted software application that offers an extra level of security for transactions on any of the major payment networks, including American Express, Visa, MasterCard, Discover and PayPal, or using any other alternative payment method. Accertify also offers merchants the option to outsource their end-to-end fraud management process to Accertify and provides other value-added services.

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We also offer Merchant Financing, a set of financing products that provides qualified merchants with access to a convenient source of financing for their business needs through their relationship with American Express. The financing offered is a commercial loan, which is repaid automatically through the merchant's daily Charge submissions and accompanied by low fixed fees.

Our closed-loop network and relationships allow us to analyze merchant data and information on Cardmember spending. This enables us to offer a range of targeted marketing services, network capabilities and special offers for the benefit of merchants and Cardmembers through a variety of channels. At the same time, we protect the confidentiality of Cardmember information, including information on Cardmember spending, in compliance with our privacy, data protection, information security and firewall policies, applicable Privacy, Data Protection and Information Security Laws, and antitrust and other applicable legal requirements. We also work closely with our Card-issuing and merchant-acquiring partners to maintain the information that supports key elements of this closed loop, providing value to Cardmembers and merchants.

We continue to focus our efforts in areas that make use and acceptance of the Card more secure and convenient for merchants and Cardmembers. We participate in standard-setting bodies, such as EMVCo, GlobalPlatform and PCI Security Standards Council, LLC, designed to help drive secure and interoperable payments globally. Our goal is to make it easier for merchants to accept our Cards, for Cardmembers to have seamless experiences at the point of sale, and for issuers and acquirers that have more than one network relationship to have a uniform technology standard across their card products and platforms, respectively. These efforts are particularly important as emerging technologies such as contactless cards and mobile phones move the payment industry increasingly away from mag-stripe transactions. For example, we offer a contactless payment feature embedded in certain Cards, to provide a fast, easy-to-use alternative to cash, check, debit or other payment forms, particularly for making everyday purchases at merchants where speed and convenience are important.

Billing Disputes

As the merchant acquirer, we have certain exposures that arise if a billing dispute between a Cardmember and a merchant is settled in favor of the Cardmember. Drivers of this liability are returns in the normal course of business, disputes over fraudulent Charges, the quality or non-delivery of goods and services, and billing errors. Typically, we offset the amount due to the Cardmember against payments for the merchant's current or future Charge submissions. We can realize losses when a merchant's offsetting Charge submissions cease, such as when the merchant decides to no longer accept the Card or goes out of business. We actively monitor our merchant base to assess the risk of this exposure. When appropriate, we will take action to reduce the net exposure to a given merchant by establishing reserves of Charge payable holdbacks from a merchant, lengthening the time between when the merchant submits a Charge for payment and when we pay the merchant, requiring the merchant to secure a letter of credit or a parent company guarantee, or implementing other appropriate risk management tools. We also establish reserves on our balance sheet for these contingencies in accordance with relevant accounting rules.

Global Network & Merchant Services Competition

Our global card network competes in the global payments industry with other card networks, including, among others, Visa, MasterCard, Diners Club International (which is owned by Discover Financial Services), Discover (primarily in the United States) and JCB and China UnionPay (primarily in Asia). We are the fourth largest general-purpose card network on a global basis based on purchase volume, behind Visa, MasterCard and China UnionPay. In addition to such networks, a range of companies globally, including merchant acquirers and processors and companies such as PayPal, carry out some activities similar to those performed by our GMS and GNS businesses. No other single entity engages on a global basis in the full range of activities that are encompassed by our closed-loop business model.

The principal competitive factors that affect the network and merchant service businesses include:

The number of Cards-in-force and amount of spending on these Cards

The quantity and quality of the establishments where the Cards can be used

The economic attractiveness to Card issuers and merchants of participating in the network

The success of marketing and promotional campaigns

Reputation and brand recognition

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The innovation and investment in systems, technology, product and service offerings, particularly in online and mobile commerce, including through partnerships with leading companies in the digital space

The quality of customer service

The payments industry expertise and capabilities that can be provided to partners in areas such as customer servicing, loyalty and data analytics

The security of Cardmember and merchant information

The impact of existing litigation, legislation and government regulation

The cost of Card acceptance relative to the value provided

Another aspect of network competition is the recent emergence and rapid growth of alternative payment mechanisms and systems, which include aggregators (such as PayPal, Square and Amazon), wireless payment technologies (including using mobile telephone networks to carry out transactions), electronic wallet providers, prepaid systems and systems linked to payment cards, and bank transfer models.

New technologies, together with the portability provided by smartphones and tablets and evolving consumer behavior with social media and networking, are rapidly changing the way people interact with each other and transact business all around the world. Traditional and non-traditional competitors such as mobile telecommunications companies and aggregators are working to deliver digital and mobile payment services for both consumers and merchants. Although we estimate that we have the largest volume of online spending of any major card issuer, competition remains fierce for capturing and maintaining online spend in the ever-increasing digital world, and alternative business models present a significant challenge. For example, unlike us, aggregators like PayPal have the ability to provide payment services to merchants for multiple payment networks. In addition, new entrants to the digital payments space such as online, social media, telecommunications and technology companies represent additional competitive and potentially disintermediating factors in the card payment industry given the scale of their customer relationships and large cash reserves and other resources available to develop new platforms and technologies, and their strategies to use payments as a tool to support other sources of revenue.

To the extent alternative payment mechanisms and systems, such as aggregators, continue to expand successfully, discount revenues and potentially other revenues, as well as our ability to access transaction data through our closed-loop network, could be negatively impacted. In the United States, alternative payment vehicles that seek to redirect customers to payment systems based on ACH continue to emerge and grow, merchants with recurring billing models actively seek to switch customers to payment through direct debits from bank accounts, and existing debit networks also continue to expand both on- and off-line and are making efforts to develop online PIN functionality, which could further reduce the relative use of charge and credit cards online. For a further discussion of the competitive environment in the emerging payments area, see *Enterprise Growth Group Online and Mobile Payments Competition* under *Corporate & Other* below.

Some of our competitors have attempted to replicate our closed-loop functionality. Efforts by some card networks, payment providers and non-traditional competitors to replicate the closed loop reflect its continued value and the intensely competitive environment in which we operate.

In some markets outside the United States, particularly in Asia, third-party processors and some acquirers offer merchants the capability of converting payment card transactions from the local currency to the currency of the cardholder's residence (i.e., the cardholder's billing currency) at the point-of-sale, and submitting the transaction in the cardholder's billing currency, thus bypassing the traditional foreign currency conversion process of the card network. This practice, known as dynamic currency conversion, reduces or eliminates revenue for card issuers and card networks relating to the conversion of foreign charges to the cardholder's billing currency. This practice is still not widespread, and it remains uncertain whether its use will expand over time. Our policy generally requires merchants to submit Charges and be paid in the currency of the country in which the transaction occurs, and we convert the transaction to the Cardmember's billing currency.

In addition to the discussion in this section, see *Our operating results may suffer because of substantial and increasingly intense competition worldwide in the payments industry* in *Risk Factors* below for further discussion of the potential impact of competition on our business.

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Global Network & Merchant Services Regulation

Local regulations governing the issuance of charge and credit cards have not been a significant factor impacting GNS arrangements with banks and qualifying financial institutions, because such banks and institutions generally are already authorized to issue general-purpose cards and, in the case of our IO arrangements, to operate merchant-acquiring businesses. Accordingly, our GNS partners have generally not had difficulty obtaining appropriate government authorization in the countries in which we have chosen to enter into GNS arrangements. As a service provider to regulated U.S. banks, our GNS business is subject to review by certain federal bank regulators, including the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC).

As the operator of a general-purpose card network, we are also subject to certain provisions of the Currency and Foreign Transactions Reporting Act and the accompanying regulations issued by the U.S. Department of the Treasury (collectively referred to as the Bank Secrecy Act), as amended by the USA PATRIOT Act of 2001 (the Patriot Act). We conduct due diligence on our GNS partners to ensure that they have implemented and maintain sufficient anti-money laundering (AML) controls to prevent our network from being used for money laundering or terrorist financing purposes. As aggregators add merchants to the American Express network, we have expanded our due diligence to review aggregators AML and know your customer policies and controls, and retain the right to require termination of merchants Card acceptance under appropriate circumstances. As a result of American Express Company and TRS each being bank holding companies, our business is also subject to further regulation and regulatory oversight by the Federal Reserve. For additional information about our regulatory status, see Supervision and Regulation below.

Over the last decade, regulators in several countries outside the United States have focused on the fees involved in the operation of card networks, including interchange fees paid to card issuers on certain card networks and the fees merchants are charged for card acceptance. Regulators in the United Kingdom, Canada, New Zealand, Poland, Italy, Switzerland, Hungary, the European Union, Australia, Brazil, Mexico and Venezuela, among others, have conducted investigations that are either ongoing, concluded or on appeal.

The interchange fee, which is the collectively set fee paid by the merchant acquirer to the card issuing bank in four-party payment networks, like Visa and MasterCard, is generally the largest component of the merchant service charge payable by merchants for debit and credit card acceptance in these systems. By contrast, the American Express network does not have such interchange fees. For this reason, as well as the fact that Visa and MasterCard are the dominant card networks, the regulators focus has primarily been on these networks. For example, in December 2007 the European Commission (EC) ruled that MasterCard s multilateral interchange fees (MIF) for cross-border payment card transactions violate EC Treaty rules on restrictive business practices, which was upheld by the European General Court in 2012. In 2008, the EC opened formal antitrust proceedings against Visa Europe Limited in relation to Visa s MIFs for cross-border consumer card transactions within Europe, and in 2010, the EC accepted Visa Europe s pledge to cut its cross-border debit card MIF to 20 basis points for four years. While American Express was not a party to the MasterCard and Visa proceedings, antitrust actions and government regulation relating to merchant pricing could ultimately affect all networks. Among other things, lower interchange and/or merchant discount revenue may lead card issuers to look for other sources of revenue from consumers such as higher annual card fees or interest charges, as well as to reduce costs by scaling back or eliminating rewards programs.

In the United States, Dodd-Frank gave the Federal Reserve the authority to establish rules regarding interchange fees charged by payment card issuers for electronic debit transactions (which include transactions using a debit card or general-use prepaid card) and to enforce a statutory requirement that such fees be reasonable and proportional to the cost of a transaction to the issuer, with specific allowances for the costs of fraud prevention, as well as to prohibit exclusive network routing restrictions for electronic debit transactions. Reloadable general-use prepaid cards (but not those marketed or labeled as gift cards or gift certificates) are exempt from the interchange fee limitations provided they meet certain requirements, although all prepaid cards are subject to the exclusive network routing restrictions for electronic debit transactions. The Federal Reserve s rule 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 is therefore not a payment card network as that term is defined and used for the specific purposes of the rule. As a result, American Express is not subject to this rule with regard to the prepaid cards it issues. In addition to the discussion in this section, see *The Dodd-Frank Wall Street Reform and Consumer Protection Act may continue to have a significant adverse impact on our business, results of operations and financial condition* in Risk Factors below for further discussion of the potential impact resulting from the implementation of the Federal Reserve s rule.

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Additionally, Dodd-Frank prohibits payment card networks from restricting merchants from offering discounts or incentives to encourage customers to pay with particular forms of payment such as cash, check, credit or debit card, provided that such offers do not discriminate on the basis of the network or issuer. Further, to the extent required by federal law or applicable state law, the discount or incentive must be offered to all prospective buyers and must be clearly and conspicuously disclosed. Dodd-Frank also permits U.S. merchants to establish minimum purchase amounts of no more than \$10 for credit card purchases, provided that the merchants do not discriminate between networks or issuers. Federal government agencies and institutions of higher learning are also permitted to establish maximum amounts for credit card purchases provided they do not discriminate between networks or issuers. As a result of Dodd-Frank, customers may be incentivized by merchants to move away from the use of charge and credit card products to other forms of payment with lower costs and interchange fees, such as debit cards, which could adversely affect our revenues and profitability.

In certain countries where antitrust actions or regulations have led our competitors to lower their fees, we have made adjustments to our pricing to merchants to reflect local competitive trends. For example, reductions in bankcard interchange mandated by the Reserve Bank of Australia in 2003 resulted in lower merchant discount rates for Visa and MasterCard acceptance. As a result of these regulation-driven changes in the marketplace, we reduced our own merchant discount rates in Australia over time, although we have been able to increase billed business and the number of merchants accepting our Cards. We have seen selective, but increasing, merchant surcharging on our Cards in Australia in certain industries and, in some cases, on a basis that is greater than that applied to cards issued on the bankcard networks. In June 2012, the Reserve Bank of Australia announced changes to the Australian surcharging standards that will come into force on March 18, 2013, which will allow us 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 recent years, national parliaments in Hungary, Italy and France have sought to enact caps on interchange fees or point-of-sale service charges without government sponsorship for these measures. Although such legislation has been or may be either repealed or struck down on procedural grounds, it is possible there may be further attempts to enact regulation of merchant fees or interchange with direct or indirect impacts on American Express.

In January 2012, the EC published a Green Paper (a document to stimulate debate and begin a process of consultation) entitled "Towards an Integrated European Market for Card, Internet and Mobile Payments." The area of focus covers a range of issues affecting the payments industry, including interchange fees, non-discrimination and honor-all-cards rules and contract provisions, surcharging, separation of processing from card network management, perceived barriers to cross-border acquiring, mobile payments and technical standardization. The EC has completed a consultation period and is expected to issue its preliminary conclusions in early 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 the last few years, the Member States of the European Economic Area implemented a new legislative framework for electronic payment services, including cards, called the European Directive 2007/64/EC on payment services. This directive, commonly referred to as the Payment Services Directive (PSD), prescribes common rules for licensing and supervision of payment services providers, including card issuers and merchant acquirers, and for their conduct of business with customers. The objective of the PSD is to facilitate the operation of a single internal payments market in the EU through harmonization of EU Member State laws governing payment services. One provision of the PSD permits merchants to surcharge, subject to disclosure requirements, but also allows individual Member States to override this rule by prohibiting or limiting surcharging. To date, the Member States of the European Economic Area are split on whether they prohibit or permit surcharging, with countries such as the United Kingdom (which for a number of years has permitted it for credit card purchases), the Netherlands and Spain permitting it, in some cases within limits, and other countries such as France, Italy and Sweden prohibiting it. All Member States permit merchants to offer discounts for particular forms of payment. In 2012, the EC commenced a review of the PSD, and its recommendations are expected in early 2013 together with the outcome of the Green Paper consultation discussed above. The PSD complements another European initiative, the Single Euro Payments Area (SEPA), which is an industry-led initiative with support from EU institutions. Among other changes, SEPA involves the adoption of new, pan-European technical standards for cards and card transactions. Compliance with the PSD, SEPA and related requirements has involved significant costs to implement and maintain. In addition, 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 in those Member States that permit surcharging pursuant to the PSD. The Consumer Rights Directive provides no guidance to merchants on how to assess the cost of acceptance or take into account the relative value of different payment methods. A cost-based limit on surcharging could result in merchants

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imposing higher surcharges on American Express transactions if, in the absence of clear guidance, merchants take the position that the cost of American Express acceptance is higher than other payment cards. The Member States have until the end of 2013 to adopt this legislation.

In 2010, the Canadian Competition Bureau commenced a proceeding against Visa and MasterCard under the price maintenance provisions of the Canadian Competition Act seeking a remedial order prohibiting Visa and MasterCard from entering into, enforcing or imposing terms that restrain merchants from certain business practices, including encouraging use of lower cost methods of payment and discouraging use of credit cards with higher card acceptance fees, declining acceptance of certain credit cards and surcharging customers who use Visa and MasterCard credit cards. Hearings were held in June 2012 and a decision of the Canadian Competition Tribunal is pending. While the Competition Bureau did not name American Express in its proceeding, this action evidences the strong regulatory and judicial focus on this area, which could have indirect implications for American Express.

Governments in some countries provide resources or protection to select domestic payment card networks. Such support could keep us from entering these countries, to force us to leave or to restrict substantially our activities there, which could adversely affect our ability to maintain or increase our revenues and extend our global network. For example, the government of China continues to maintain regulations that substantially favor China UnionPay, the dominant retail payments network in the Chinese domestic market. A recent decision of the World Trade Organization on this issue may lead to the further opening of the payments systems in China, although there can be no assurance as to the extent or pace of change.

In some countries in Asia, governments have established regulatory regimes that require international card networks to be locally licensed and/or to localize aspects of their operations. For example, card network operators in India must obtain authorization from the Reserve Bank of India, which has broad power under the Payment and Settlement Systems Act 2007 to regulate the membership and operations of card networks. In Indonesia, bank regulations require participants in a card payment and settlement business to obtain a license and establish a local legal entity. Requirements to process transactions locally have been proposed in Thailand and introduced in Taiwan. The development and enforcement of official regulatory policy under these and other similar laws and regulations in international markets may adversely affect our ability to maintain or increase our revenues and extend our global network.

U.S. CARD SERVICES

As a significant part of our proprietary Card-issuing business, our U.S. banking subsidiaries, Centurion Bank and AEBFSB, issue a wide range of Card products and services to consumers and small businesses in the United States. Our consumer travel business, which provides travel services to Cardmembers and other consumers, complements our core Card business, as does our Global Payment Options business, which is described under **Corporate & Other** below.

The proprietary Card business offers a broad set of Card products to attract our target customer base. As we continue to focus on premium products, the Company's priority will be to drive billed business and average spend per card rather than achieve broad growth in Cards-in-force. Core elements of our strategy are:

Focusing on acquiring and retaining high-spending, creditworthy Cardmembers

Designing Card products with features that appeal to traditional and newer customer segments

Using strong incentives to drive spending on our various Card products and generate loyal customers, including our Membership Rewards® program and other rewards features

Using loyalty programs such as Delta SkyMiles, sponsored by our co-brand and other partners, to drive spending

Developing and nurturing wide-ranging relationships with co-brand and other partners

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Promoting and using incentives for Cardmembers to use their Cards in new and expanded merchant categories, including everyday spend and traditional cash and check categories

Providing solutions to support the everyday business operations of our small business customers

Providing exceptional customer service

Providing opportunities to drive spending and loyalty programs in digital channels

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In August 2012, J.D. Power and Associates released its annual nationwide credit card satisfaction study and ranked American Express #1 in overall customer satisfaction among the top 10 largest card issuers in the United States, for the sixth consecutive year.

Consumer and Small Business Services

We offer individual consumer charge Cards such as the American Express® Card, the American Express® Gold Card, the Platinum Card® and the Centurion® Card, as well as small business charge Cards. We also offer revolving credit Cards such as Blue from American Express®, the Blue Cash® Everyday Card from American Express, Blue Sky from American Express® and, for small businesses, Blue for Business® Credit Card and SimplyCash® Business Card. In addition, we offer a variety of Cards sponsored by and co-branded with other corporations and institutions for consumers and small businesses, such as the Delta SkyMiles® Credit Card from American Express, TrueEarnings® Card exclusively for Costco members, Starwood Preferred Guest® Credit Card, JetBlue Card from American Express and Lowe's Business Rewards Card. For the year ended December 31, 2012, billed business from charge Cards comprised 58% of total U.S. Card Services billed business. We also offer deposit products directly to consumers through American Express Personal Savings.

Centurion Bank and AEBFSB as Issuers of Certain Cards and Deposit Products

We have two U.S. banking subsidiaries, Centurion Bank and AEBFSB, which are both FDIC-insured depository institutions and wholly owned subsidiaries of TRS. Centurion Bank and AEBFSB are regulated, supervised and examined by their respective banking regulators, identified in the table below. In addition, Centurion Bank, AEBFSB and their affiliates, including the Company and TRS, are subject to supervision, examination and enforcement by the Consumer Financial Protection Bureau (the CFPB) with respect to our marketing and sale of consumer financial products and our compliance with certain federal consumer financial laws, including, among other laws, the Consumer Financial Protection Act of 2010 (the CFPA) and the Truth in Lending Act (TILA). Both banks take steps to maintain compliance programs to address the various safety and soundness, internal control and compliance requirements, including AML requirements and consumer protection laws that apply to them. A further discussion of the AML initiatives affecting us can be found under Supervision and Regulation below.

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Certain additional information regarding each bank is set forth in the table below:

	Centurion Bank	AEBFSB
Type of Bank	Utah-chartered industrial bank	Federal savings bank
Regulatory Supervision	Regulated, supervised and regularly examined by the Utah Department of Financial Institutions (UDFI) and the FDIC	Regulated, supervised and regularly examined by the OCC, an independent bureau of the U.S. Department of the Treasury
Types of cards issued	<p>Subject to supervision, examination and enforcement by the CFPB with respect to marketing and sale of consumer financial products and compliance with federal consumer financial laws</p> <p>Consumer credit Cards</p> <p>Consumer charge Cards (including co-brand charge Cards)</p>	<p>Subject to supervision, examination and enforcement by the CFPB with respect to marketing and sale of consumer financial products and compliance with federal consumer financial laws</p> <p>Consumer credit Cards (including all co-brand credit Cards)</p> <p>Consumer charge Cards (including co-brand charge Cards)</p>
Card marketing methods	Primarily direct mail, online and other remote marketing channels	All OPEN credit Cards and charge Cards Direct mail, online and other remote marketing channels
Deposit Programs	Deposits obtained only through third-party brokerage channels	In-person marketing, including by third-party co-brand partners Deposits obtained through third-party brokerage channels and accepted directly from consumers
Risk-based capital adequacy requirements, based on Tier 1 risk-based capital, total risk-based capital and Tier 1 leverage ratios at December 31, 2012*	Well capitalized	Well capitalized

* The risk-based capital standards for both the FDIC and OCC are substantively identical. Currently, a bank generally is deemed to be well capitalized if it maintains a Tier 1 risk-based capital ratio of at least 6%, a total risk-based capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%. For further discussion regarding capital adequacy, including changes to capital adequacy rules, see Financial Holding Company Status and Activities Capital Adequacy under Supervision and Regulation below.

Charge Cards

Our charge Cards, which generally carry no preset spending limits, are primarily designed as a method of payment and not as a means of financing purchases of goods or services. Charges are approved based on a variety of factors including a Cardmember's current spending patterns, payment history, credit record and financial resources. Cardmembers generally must pay the full amount billed each month. Charge Card accounts that are past due are subject, in most cases, to a delinquency assessment and, if not brought to current status, may be cancelled. The no-preset spending limit and pay-in-full nature of these products attract high-spending Cardmembers.

The charge Cards also offer several ways for eligible U.S. Cardmembers to pay off certain of their purchases over time. The Sign & Travel® feature permits eligible U.S. Cardmembers to extend payment for airline tickets, cruise ship tickets and other travel items purchased with our

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charge Cards. The Extended Payment Option provides eligible U.S. Cardmembers the ability to extend payment for eligible Charges above a certain dollar amount.

Revolving Credit Cards

We offer a variety of revolving credit Cards. These Cards have a range of different payment terms, interest rate and fee structures, rewards programs, and Cardmember benefits. Revolving credit Card products, such as Blue from American Express®, the Blue Cash Everyday® Card from American Express, Blue Sky from American Express® and Blue for Business® Card, provide Cardmembers with the flexibility to pay their bill in full each month or carry a monthly balance on their Cards to finance the purchase of goods or services. Along with charge Cards and co-brand Cards, these revolving credit Cards attract affluent Cardmembers and promote increased relevance for our expanding merchant network.

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Co-brand Cards

We issue Cards under co-brand agreements with selected commercial firms in the United States. The competition among card issuers and networks for attractive co-brand card partnerships is quite intense because these partnerships can generate high-spending loyal cardholders. The duration of our co-brand arrangements generally ranges from four to ten years. Cardmembers earn rewards provided by the partners' respective loyalty programs based upon their spending on the co-brand Cards, such as frequent flyer miles, hotel loyalty points and cash back. We make payments to our co-brand partners, which can be significant, based primarily on the amount of Cardmember spending and corresponding rewards earned on such spending and, under certain arrangements, on the number of accounts acquired and retained. We expense amounts due under co-brand arrangements in the month earned. Payment terms vary by arrangement, but are monthly or quarterly. In some cases, the partner is solely liable for providing rewards to the Cardmember under the co-brand partner's own loyalty program. As the issuer of the co-brand Card, we retain all the credit risk with the Cardmember and bear the receivables funding and operating expenses for such Cards. The co-brand partner retains the risk associated with the miles points, or other currency earned by the Cardmember under the partner's loyalty program.

During 2012, we launched two new co-branded Cards: The Morgan Stanley Credit Card from American Express and The Platinum Card® from American Express exclusively for Morgan Stanley. The new Cards offer exclusive benefits for Morgan Stanley clients with eligible brokerage accounts.

Card Pricing and Account Management

On certain Cards we charge an annual fee that varies based on the type of Card and the number of Cards for each account. We also offer many revolving credit Cards on which we assess finance charges for revolving balances. Depending on the product, we may also charge Cardmembers an annual program fee to participate in the Membership Rewards programs and fees for account performance (e.g., late fees) or for certain optional services (e.g., Travel Insurance). We apply standards and criteria for creditworthiness to each Cardmember through a variety of means both at the time of initial solicitation or application and on an ongoing basis during the Card relationship. We use sophisticated credit models and techniques in our risk management operations. For a further description of our risk management policies, see Risk Management beginning on page 37 of our 2012 Annual Report to Shareholders, which information is incorporated herein by reference.

Membership Rewards® Program

The Membership Rewards program from American Express allows Cardmembers to earn one point for virtually every dollar charged on eligible, enrolled American Express Cards, and then redeem points for a wide array of rewards, including travel, retail merchandise, dining and entertainment, financial services and even donations to benefit charities. A significant portion of our Cards by their terms allow Cardmembers to earn bonus points for purchases at merchants in particular industry categories. Points generally have no expiration date and there is no limit on the number of points one can earn. A large majority of spending by eligible Cardmembers earns points under this program.

The U.S. Membership Rewards program has over 150 redemption partners and access to thousands of merchandise brands. Membership Rewards program tiers are aligned with specific Card products to better meet Cardmember lifestyle and reward program usage needs. American Express Cardmembers participate in one of three Membership Rewards program tiers based on the credit or charge Card they have in their wallet. For those Cardmembers with American Express Cards, such as Blue from American Express and Blue for Business, we have the Membership Rewards Express® program. American Express charge Cardmembers with American Express Green and Gold Cards have the Membership Rewards program. Platinum Card® members and Centurion® Cardmembers are enrolled in the Membership Rewards First® program.

We believe our Membership Rewards point bank is a substantial asset and a competitive advantage. We continue to evolve Membership Rewards as a virtual currency. For example, Cardmembers increasingly use our Pay with Points program including to make purchases at Amazon.com and for airline tickets and other travel categories, as well as to pay for their annual membership fee.

During 2012, we launched a number of new redemption partnerships, including a new points transfer partnership with Asia Miles, through which Cardmembers can redeem for flight awards on 21 airlines, including Cathay Pacific Airways, and

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a new rewards partnership with One Kings Lane, allowing Cardmembers to redeem their points for gift cards to purchase furniture, accessories, gifts and other items for the home on the daily deal site. Additionally, we broadened our Facebook rewards partnership, allowing Cardmembers to redeem their Membership Rewards points across a wide range of Facebook gaming applications. We also launched Mobile Gift Cards, which allows Cardmembers to use Membership Rewards points for mobile phone-enabled gift cards of select retailers and use them instantly via smartphone at the point-of-sale.

When a Cardmember enrolled in the Membership Rewards program uses the Card, we establish reserves to cover the cost of estimated future reward redemptions for points earned to date. When a Membership Rewards program enrollee redeems a reward using Membership Rewards points, we make a payment to the Membership Rewards program partner providing the reward pursuant to contractual arrangements. Membership Rewards expense is driven by Cardmember Charge volume, customer participation in the program and contractual arrangements with redemption partners. For more information on our Membership Rewards program, see *Critical Accounting Estimates* *Liability for Membership Rewards Expense* appearing on page 18 of our 2012 Annual Report to Shareholders, which information is incorporated herein by reference.

Membership Rewards continues to be an important driver of Cardmember spending and loyalty. We believe, based on historical experience, Cardmembers enrolled in rewards programs yield higher spend, stronger credit performance and greater profit for us. By offering a broader range of redemption choices, we have given our Cardmembers more flexibility in the use of their rewards points and favorably affected our average cost per point. We continually seek to optimize the overall economics of the program and make changes to enhance its value to Cardmembers and to merchants. Our program is also valuable to merchants that become redemption partners as we bring them high-spending Cardmembers and new marketing channels to reach these Cardmembers.

Cardmember Special Services and Programs

Throughout the world, our Cardmembers have access to a variety of fee-free and fee-based special services and programs, depending on the type of Cards they have. Examples of these special services and programs include:

Membership Rewards® program	Event Ticket Protection Plan
Global Assist® Hotline	Automatic Flight Insurance
Car Rental Loss and Damage Insurance	Premium Baggage Protection
Extended Warranty	American Express® Travel Insurance
Purchase Protection	CreditSecure®
Return Protection	Roadside Assistance
Emergency Card Replacement	Advance Ticket Sales
Manage Your Card Account Online	Exclusive Access to Cardmember Events
Online Year-End Summary	Business Platinum Office Program

As part of our effort to deliver additional value for existing Cardmembers and to attract new high-spending customers to American Express, we added the EMV chip and signature functionality to the Platinum Card® and Centurion® Card in 2012 to provide our consumer and OPEN® Cardmembers with improved convenience while traveling abroad. We also continued to roll out digital innovations in 2012, with the launch of My Offers, the mobile offer engine discussed in *Global Merchant Services* under *Global Network & Merchant Services* above.

OPEN

In addition to our U.S. Consumer Card business, through AEBFSB we are also a leading payment card issuer for small businesses (generally, firms with fewer than 100 employees and/or annual sales up to \$10 million). American Express OPEN (OPEN) offers small business owners a wide range of tools, services and savings designed to meet their evolving payment and business needs, including:

charge and credit Cards

rewards on eligible spend and business-relevant rewards redemption options

travel and concierge services

business, retail and travel protections such as employee card misuse protection, purchase protection and baggage insurance

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up to 10% discounts at select suppliers of travel, business services and products through OPEN Savings®

expense management tools and reporting

online account management capabilities

proprietary and third-party business solutions to support everyday business operations such as business travel and international payments

resources to help grow and manage a business through the award-winning community-driven Web site, OPEN Forum®

client managers for our top-spending clients to support business growth

In 2012, we continued to enhance our small business offerings by launching an enhanced Plum Card® that provides more payment flexibility for small businesses.

In addition to the products and services outlined above, OPEN engages in advocacy efforts on behalf of U.S. small businesses. These advocacy efforts include our Victory in Procurement program to help small businesses obtain government contracts, programs designed to help women entrepreneurs create, grow and sustain businesses, and our efforts to increase awareness of the importance of small businesses in our communities generally. For example, in 2012, we led the third Small Business Saturday®, a day to increase consumer awareness and patronage of local businesses and their role in the economy and local neighborhoods.

Card-Issuing Business Competition

Our proprietary Card business encounters substantial and intense competition in the United States and internationally. As a card issuer, we compete in the United States with financial institutions that issue general-purpose charge and revolving credit cards (such as Bank of America, Capital One Financial, Citibank and JPMorgan Chase) and Discover Financial Services, which issues the Discover card on the Discover network. We also encounter competition from businesses that issue their own cards or otherwise extend credit to their customers, such as retailers and airline associations, although these cards are generally accepted only at limited locations. In recent years, we have faced increasingly intense competition in the small business sector, as competitors have targeted OPEN's customer base and our leadership position in providing financial services and other fee-based solutions to small businesses.

The largest competing issuers have continued to grow, in several cases by acquiring card portfolios, and also by cross-selling through their retail branch networks. Competing card issuers offer a variety of products and services to attract cardholders, including premium cards with enhanced services or lines of credit, airline frequent flyer program mileage credits, cash rebates and other reward or rebate programs, services for small business owners, teaser promotional interest rates for both credit card acquisition and balance transfers, and co-branded arrangements with partners that offer benefits to cardholders.

Most financial institutions that offer demand deposit accounts also issue debit cards to permit depositors to access their funds. Use of debit cards for point-of-sale purchases has grown as most financial institutions have replaced ATM cards with general-purpose debit cards bearing either the Visa or MasterCard logo. Debit cards were historically marketed as replacements for cash and checks, and transactions made with debit cards have typically been for smaller dollar amounts. However, debit cards are increasingly perceived as an alternative to credit or charge cards and used in that manner. Additionally, overdraft accounts can be used by our competitors to extend credit to customers when transaction values exceed monies available in a linked demand deposit account.

As the payments industry continues to evolve, we are also facing increasing competition from non-traditional players, such as online networks, telecom providers and software-as-a-service providers, that leverage new technologies and customers' existing charge and credit card accounts and bank relationships to create payment or other fee-based solutions. In addition, the evolution of payment products in emerging markets may be different than it has been in developed markets. Instead of migrating from cash to checks to plastic, technology and consumer behaviors in these markets may result in the skipping of one or more steps to alternative payment mechanisms such as mobile payments. For a further discussion of the evolving competitive landscape in the payments industry, see *Global Network & Merchant Services Competition* under *Global*

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Network & Merchant Services above and Enterprise Growth Group Online and Mobile Payments Competition under Corporate & Other below.

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The principal competitive factors that affect the card-issuing business include:

The features and quality of the services, including customer care, rewards programs and digital resources, provided to Cardmembers

The number, spending characteristics and credit performance of Cardmembers

The quantity, diversity and quality of the establishments that accept Cards

The cost of Cards and Cardmember services

The pricing, payment and other Card account terms and conditions

The number and quality of other payment cards and other forms of payment, such as debit cards and electronic wallets, available to Cardmembers

Reputation and brand recognition

The level and effectiveness of advertising investments and marketing and promotional campaigns

The nature and quality of expense management data capture and reporting capability, particularly for small businesses

The ability to manage credit and interest rate risk throughout the economic cycle and implement operational and cost efficiencies
In addition to the discussion in this section, see *Our operating results may suffer because of substantial and increasingly intense competition worldwide in the payments industry* in Risk Factors below for further discussion of the potential impact of competition on our business.

Financing Activities

The Company meets its financing needs through a variety of sources, including cash or assets that are readily convertible into cash, direct and third-party sourced deposits, unsecured medium- and long-term notes, asset securitizations, securitized borrowings through a secured financing facility, and long-term committed bank borrowing facilities in certain non-U.S. markets.

American Express Credit Corporation, a wholly owned subsidiary of TRS, along with its subsidiaries (collectively, Credco) acquires or finances the majority of charge Card receivables arising from the use of corporate Cards issued in the United States and consumer and corporate Cards issued in certain currencies outside the United States. Credco funds the acquisition or financing of receivables principally through the sale of medium- and long-term notes. Centurion Bank and AEBFSB finance their revolving credit receivables and consumer and small business charge card receivables, in part, through the sale of medium-term notes and by accepting consumer deposits in the United States. TRS, Centurion Bank and AEBFSB also fund receivables through asset securitization programs. The cost of funding Cardmember receivables and loans is a major expense of Card operations.

There is a discussion of our securitization and other financing activities on pages 31-35 under the caption Financial Review, and Note 7 on page 80 of our 2012 Annual Report to Shareholders, which portions we incorporate herein by reference. In addition, see *Difficult conditions in the*

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business and economic environment, as well as political conditions in the United States and elsewhere, may materially adversely affect our business and results of operations and *Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, access to capital and cost of capital* in Risk Factors below.

Deposit Programs

Centurion Bank and AEBFSB accept deposits from individuals through third-party brokerage networks, and AEBFSB accepts deposits directly from consumers through American Express Personal Savings, a set of deposit products, including High-Yield Savings and Certificate of Deposit accounts. As of December 31, 2012, we had approximately \$39.7 billion in total U.S. retail deposits. Our deposit-taking activities compete with those of other deposit-taking organizations that source deposits through telephone, Internet and other electronic delivery channels, brokerage networks and/or branch locations. We compete primarily in the deposit sector on the basis of rates and our brand and its attributes.

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Our ability to obtain deposit funding and offer competitive interest rates on deposits is dependent on the capital levels of our U.S. banking subsidiaries. The Federal Deposit Insurance Act (FDIA) generally prohibits a bank, including Centurion Bank and AEBFSB, from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in its normal market area or nationally (depending upon where the deposits are solicited), unless (1) it is well capitalized or (2) it is adequately capitalized and receives a waiver from the FDIC. A bank that is less than well capitalized generally may not pay an interest rate on any deposit, including direct-to-consumer deposits, in excess of 75 basis points over the national rate published by the FDIC unless the FDIC determines that the bank is operating in a high-rate area. An adequately capitalized insured depository institution may not accept, renew or roll over any brokered deposit unless it has applied for and been granted a waiver of this prohibition by the FDIC. Undercapitalized depository institutions may not solicit deposits by offering interest rates that are significantly higher than the prevailing rates of interest on insured deposits in such institution's normal market areas or in the market area in which such deposits would otherwise be accepted. There are no such restrictions on a bank that is well capitalized (provided such bank is not subject to a capital maintenance provision within a written agreement, consent order, order to cease and desist, capital directive, or prompt corrective action directive issued by its federal regulator). If a depository institution's federal regulator determines that the institution is in an unsafe or unsound condition or is engaging in unsafe or unsound banking practices, the regulator may reclassify a well capitalized institution as adequately capitalized, require an adequately capitalized institution to comply with certain restrictions as if it were undercapitalized, or require an undercapitalized institution to take certain actions applicable to significantly undercapitalized institutions, all of which would adversely impact the institution's ability to accept brokered deposits.

Card-Issuing Business and Deposit Programs Regulation

Our charge card, consumer lending and deposit operations are subject to extensive regulation. In the United States, we are subject to a number of federal laws and regulations, including:

The Equal Credit Opportunity Act (which generally prohibits discrimination in the granting and handling of credit)

The Fair Credit Reporting Act (FCRA), as amended by the Fair and Accurate Credit Transactions Act (FACT Act) (which, among other things, regulates use by creditors of consumer credit reports and credit prescreening practices and requires certain disclosures when an application for credit is rejected)

The Truth in Lending Act (which, among other things, requires extensive disclosure of the terms upon which credit is granted), including the amendments to TILA that were adopted through the enactment of the Fair Credit and Charge Card Disclosure Act (which mandates certain disclosures on credit and charge card applications)

The Fair Credit Billing Act (which, among other things, regulates the manner in which billing inquiries are handled and specifies certain billing requirements)

The Truth in Savings Act (which requires certain disclosures about rates paid and other terms of deposit accounts)

The Electronic Funds Transfer Act (which, among other things, governs disclosures and settlement of transactions for electronic funds transfers and customer rights and liability arising from the use of ATMs and other electronic banking services and, after the enactment of Dodd-Frank, imposes a cap on debit card interchange fees and prohibits exclusivity arrangements for payment card networks)

The Credit Card Accountability Responsibility and Disclosure Act of 2009 (the CARD Act) (which prohibits certain acts and practices in connection with consumer credit card accounts)

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The CFPA (Title X of Dodd-Frank)

The Telephone Consumer Protection Act (which prohibits contacting customers on their cellular telephones without their express consent, and provides for significant statutory damages)

Regulation Z (which implements TILA and was recently amended by the Federal Reserve to extensively revise the open end consumer credit disclosure requirements and implement the requirements of the CARD Act)

Federal and state laws and regulations that generally prohibit engaging in unfair, deceptive and abusive acts and practices (UDAAP) in offering consumer financial products and services

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In the United States, certain applicable federal and state Privacy, Data Protection and Information Security Laws govern the collection, use, sharing and safeguarding of customer information by financial institutions, including certain requirements related to security breach notification. Other countries in which we operate, including those in the European Union, also have certain applicable Privacy, Data Protection and Information Security Laws that govern the collection, use, sharing and safeguarding of customer information by financial institutions, in some cases more stringent than the requirements in the United States. U.S. federal legislation also regulates abusive debt collection practices. In addition, a number of U.S. states, the European Union, and many foreign countries in which we operate have significant consumer credit protection and disclosure laws (in certain cases more stringent than the laws of the United States). Bankruptcy and debtor relief laws affect us to the extent that such laws result in amounts owed being classified as delinquent and/or charged off as uncollectible. As stated above, financial institutions, card issuers and card networks are subject to certain provisions of the Bank Secrecy Act, as amended by the Patriot Act, with regard to maintaining effective AML programs. For a discussion of these and other regulations and legislation that impact our business, see [Supervision and Regulation](#) below.

American Express Company and its subsidiaries, including in particular our U.S. banking subsidiaries, Centurion Bank and AEBFSB, and our other banking subsidiaries, are subject to a variety of laws and regulations applicable to financial institutions. Changes in such laws and regulations or in the regulatory application or judicial interpretation thereof could impact the manner in which we conduct our business and the costs of compliance. We regularly review and, as appropriate, refine our business practices in light of existing and anticipated developments in laws, regulations and industry trends so we can continue to manage our business prudently and consistent with regulatory requirements and expectations.

The regulatory environment in which we operate has become increasingly complex and robust, and supervisory efforts to apply relevant laws, regulations and policies have become more intense. 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 may result in additional regulatory actions which could include civil money penalties. In July 2012, the CFPB issued an industry 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. We are cooperating with regulators in their ongoing regulatory examinations of credit card add-on products. For information about ongoing reviews by several bank regulators, including the CFPB, relating to certain aspects of the Company's U.S. consumer card practices, see [Consumer Financial Protection Act of 2010](#) within [Supervision and Regulation](#) below.

In August 2010, AEBFSB entered into a public, written supervisory agreement with the Office of Thrift Supervision (OTS), which was then its primary federal banking regulator, requiring AEBFSB to make certain enhancements to its compliance program and to complete certain corrective actions relating to compliance. This supervisory agreement continues to remain in effect following the transfer of supervision of AEBFSB from the OTS to the OCC. In October 2012, we announced that we reached settlements with several bank regulators, including the Federal Reserve, FDIC, OCC, UDFI and CFPB, to resolve reviews of certain aspects of our U.S. consumer card practices for compliance with certain consumer protection laws and regulations. Similar settlements were reached with several of our subsidiaries, including Centurion Bank, AEBFSB and TRS. The American Express entities agreed to pay civil money penalties totaling \$27.5 million, and we, through our subsidiaries, established a restricted fund pool totaling \$85 million for customer refunds (subject to adjustment depending on the ultimate amount of the refunds). The majority of those refunds is related to debt collection practices and late fee charges. For a further description of the settlements reached in October 2012, see [Legal Proceedings](#) below.

In January 2003, the Federal Financial Institutions Examination Council, an interagency body composed of the principal U.S. federal entities that regulate banks and other financial institutions, issued guidance to the industry on credit card account management and loss allowance practices (the [Guidance](#)). The Guidance covers five areas: (1) credit line management; (2) over-limit practices; (3) minimum payment and negative amortization practices; (4) workout and forbearance practices; and (5) certain income (fee) recognition and loss allowance practices. Centurion Bank and AEBFSB evaluate and discuss the Guidance with their respective regulators on an ongoing basis as part of their regulatory examination processes, and, as a result, may refine their practices from time to time based on regulatory input. The Guidance has not had, nor do we expect it to have, any material impact on our businesses or practices.

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American Express U.S. Consumer Travel Network

The American Express U.S. Consumer Travel Network provides travel, financial and Cardmember services to consumers through American Express-owned travel service offices, call centers, the Consumer Travel Web site, and the American Express Representative Network (which consists of independently-owned travel agency locations that operate under the American Express brand). American Express U.S. Consumer Travel Network has distinguished itself in the luxury space through its Platinum Travel Services and Centurion® Travel Services, which service the needs of our premium Cardmembers and support the exclusive travel benefits that we provide for them. These exclusive travel benefits include the International Airline Program, which offers an international first- and/or business-class companion ticket offer on qualifying tickets with 26 world-class airlines, and the Fine Hotels & Resorts program, which is a luxury hotel program offering value-added amenities.

In addition, we operate a wholesale tour operator business in the United States through Travel Impressions, a wholly-owned subsidiary of TRS. As a tour operator, Travel Impressions secures inventory from suppliers such as airlines, hotels, auto rental companies and ground operators, which it then packages and sells to consumers through travel agencies and travel agent consortia in the United States. Travel Impressions also manages and operates American Express Vacations, selling tour packages direct to consumers through the AmericanExpressVacations.com Web site, which can be accessed through the Consumer Travel Web site and internationally through travel agents who work for the American Express international travel business. Travel Impressions is consistently recognized by its customers for outstanding services, including being named Travel Weekly's Best Tour Operator, Sales and Service, for eight years in a row.

Our Consumer Travel Web site, amextravel.com, which is powered by Orbitz Worldwide, was redesigned and enhanced during 2012. The Web site offers a full range of travel rates and discounts on airfares, hotels, car rentals, cruises and full vacation packages, with customer service for the Web site offered 24/7. The Web site also provides travel planning resources and, for American Express Cardmembers, benefits such as earning one extra Membership Rewards® point when booking travel using a Card enrolled in the Membership Rewards program. In addition, Cardmembers are able to Pay with Points by redeeming Membership Rewards points for some categories of travel through our Consumer Travel Web site, as well as through our call centers and American Express-owned travel service offices.

American Express U.S. Consumer Travel Network Competition

The American Express U.S. Consumer Travel Network competes with a variety of different competitors including traditional brick and mortar travel agents, credit card issuers offering products with significant travel benefits, online travel agents and travel suppliers that distribute their products directly via the Internet or telephone-based customer service centers. In recent years we have experienced an increasing presence of niche players that are seeking to capitalize on the growth in the luxury travel segment by combining luxury travel offers with concierge-type services. The travel business is broad with much overlap between consumer and business travel. For more information about the competitive environment in the travel business, see Global Business Travel Competition under Global Commercial Services below.

American Express U.S. Consumer Travel Network Regulation

The American Express U.S. Consumer Travel Network is subject to domestic and international laws applicable to the provision of travel services, including: licensure requirements; laws and regulations regarding passenger protections such as the Enhancing Airline Passenger Protections rule issued by the U.S. Department of Transportation; and laws and regulations regarding passenger screening and registration such as the Secure Flight Rule issued by the U.S. Transportation Security Administration. Additionally, the American Express U.S. Consumer Travel Network is subject to certain applicable U.S. state and federal Privacy, Data Protection, and Information Security Laws, including certain requirements related to breach notification, and, as a result of American Express Company and TRS each being bank holding companies, our business is also subject to certain activity restrictions under the BHC Act and certain provisions of the Bank Secrecy Act, as amended by the Patriot Act, with regard to maintaining effective AML programs. For more information about the applicable activity restrictions under the BHC Act, see Supervision and Regulation below.

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INTERNATIONAL CARD SERVICES

We issue our charge and credit Cards in numerous countries around the globe. Our geographic scope is widespread and we focus primarily on those countries that we believe offer us the greatest financial opportunity. For a discussion of Cards issued internationally through our GNS partner relationships, see Global Network Services above.

The Company continued to bolster its international proprietary Card business through the launch of numerous new or enhanced Card products during 2012. These are Cards that we issue, either on our own or as co-brands with partnering institutions. In 2012, among other new proprietary products, we announced or launched several new co-branded products, including Aerolineas Argentinas in Argentina and Jet Airways in India. We offer many of the same programs and services in our international proprietary Card-issuing business as we do in our U.S. proprietary issuing business. Also, as in the United States, we issue Cards internationally under distribution agreements with financial services institutions. Another example of our distribution partnerships is affinity cards with fraternal, professional, educational and other organizations. For instance, we have been successful in penetrating the affinity card segment in Australia, where we issue Cards with some of the largest professional associations in that country. In Australia, affinity cards are a substantial part of our consumer lending portfolio.

As in the United States, the Membership Rewards[®] program is a strong driver of Cardmember spending in the international consumer business. We have more than 1,300 redemption partners across our international business, with an average of approximately 58 partners in each country; approximately 25% of these partners are in the travel industry. Cardmembers can redeem their points with more than 30 airlines and 13 global hotel chains. Our redemption options include travel, retail merchandise, entertainment, shopping and recreation gift certificates, experiences, financial services and charity rewards. In 2012, we continued to enhance our rewards programs in several countries, providing more flexibility in the way Cardmembers can use their rewards points and upgrading digital capabilities to give Cardmembers access to rewards through mobile and online channels.

We continue to build on our strengths and look for further opportunities to increase our presence internationally. In 2011, we acquired a controlling interest in Loyalty Partner, a leading marketing services company known for the loyalty programs it operates in Germany and Poland, and more recently in India and Mexico. This acquisition has furthered our strategy to grow fee-based revenue, deepened our merchant relationships in select countries, added approximately 50 million consumers to our international customer base and expanded our range of rewards and loyalty marketing services. Loyalty Partner builds merchant coalitions, such as its Payback[®] program, and offers loyalty cards good for discounts and rewards at participating coalition partners. Merchants fund the consumer offers and are responsible for the accumulated loyalty points, and Loyalty Partner earns revenue from operating the loyalty platform and by providing marketing support. In 2012, we launched, through Loyalty Partner, the Payback program in Mexico, which utilizes digital offers and coupons, and is the first time Loyalty Partner has launched with an integrated American Express card product. Loyalty Partner also provides market analysis, operating platforms and consulting services that help merchants grow their businesses. Using these services, merchants are able to run targeted and tailored campaigns across all available channels.

Membership Travel Services International provides premium travel and concierge services to our Platinum and Centurion Cardmembers, through 25 exclusively dedicated call centers in 23 international countries. We deliver exclusively negotiated travel and lifestyle benefits to premium Cardmembers including the Fine Hotels & Resorts Program, American Express[®] Vacations and American Express International Airline Program. In addition, we provide exclusive access to events and airport lounge access to our premium Cardmembers.

We offer the flexibility of payment for travel and concierge services by allowing International Consumer Cardmembers to use their Membership Rewards points to pay for their travel purchases in 15 countries outside the United States.

International Proprietary Consumer Card Competition

Compared with the United States, consumers outside the United States use general-purpose charge and credit cards for a smaller percentage of their total payments, with some large emerging market countries only just beginning to transition to card usage in any meaningful way. Although our geographic scope is widespread, we generally do not have significant share in the countries in which we operate internationally. Our proprietary Card-issuing business is subject to competition from multinational banks, such as Banco Santander, Citibank and HSBC, as well as many local banks and financial institutions. We view Banco Santander and Citibank as our strongest competitors on a global basis, as they currently offer card products in a large number of countries.

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International Proprietary Consumer Card Regulation

As discussed elsewhere in this report, regulators continued to propose and enact a variety of new regulatory changes to the payments industry during the course of 2012.

In Europe, the EU continued in its efforts to work towards greater harmonization on a number of fronts, in particular in relation to payments, the AML regime and data protection. The EU continues to sponsor initiatives in relation to the cross border issuing of credit, recurring transactions and the merger of the PSD and the E-Money Directive. These pan-European initiatives have been supplemented by a broad range of consumer protection and transparency initiatives at an individual Member State level.

In countries outside Europe, we have seen regulators initiate new regulations in relation to a number of key themes, particularly responsible lending (such as Canada, New Zealand and Singapore), privacy and data protection (such as Australia, Canada, Mexico and Singapore) and financial crime.

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

We expect this activity to continue in 2013. We continue to evaluate our business planning in light of changing market circumstances and the evolving political, economic, regulatory and media environment.

GLOBAL COMMERCIAL SERVICES

In our Global Commercial Services (GCS) segment, we provide expense management and travel services to companies and organizations worldwide through our Global Corporate Payments and Global Business Travel businesses. American Express is a leading provider of corporate payment solutions and a leading travel management company for businesses worldwide. During 2012, we added or retained several major Global Corporate Payments clients in the United States and internationally, including AXA, DuPont, Sanofi, Beats Electronics, Phillips-Van Heusen and DeVry. Additionally, in 2012, we added or retained several Global Business Travel clients in the United States and internationally, including LVMH, General Motors, EMC Corporation, Tyco and Air Products.

GCS offers a wide range of expense management and travel-related products and services to companies worldwide, including:

A comprehensive offering of Corporate Card Programs, such as:

Corporate Cards: issued to individuals through a corporate account established by their employer and that many business Cardmembers use to manage travel and entertainment spending

Corporate Meeting Cards: provided primarily to corporate meeting planners as a tool to help companies control their meetings and events expenses

Business Travel Accounts (BTAs): centrally billed to and paid directly by corporate clients, BTAs are used by companies to pay for their employees' travel expenses

A suite of Business-to-Business (B2B) Payment Solutions, including:

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Corporate Purchasing Card: an account established by companies to pay for everyday and large-ticket business expenses such as office and computer supplies

vPayment: offers companies single-use virtual account numbers for business-related purchases and permits the processing of transactions with fraud controls

Buyer-Initiated Payments (BIP): an electronic solution for companies looking to automate their accounts payable processes

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A variety of business travel-related products, services and solutions, including:

Travel Services: online, offline and on-the-go travel offerings tailored to client needs

Meetings & Events: a suite of solutions and tools to help organizations of all sizes gain control of and insight into their meetings spend and help mitigate risk

Advisory Services: a leading practice line offering to