AMERICAN EXPRESS CO
Form 10-Q
August 02, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2012

or

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

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ______ to ______

Commission file number 1-7657

AMERICAN EXPRESS COMPANY

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes X No ____

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

Yes X   No ____

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

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

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

Yes ___   No X

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

Class	Outstanding at July 31, 2012
Common Shares (par value $.20 per share)	1,133,648,755 shares

Table of Contents

AMERICAN EXPRESS COMPANY

FORM 10-Q

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Three Months Ended June 30 *(Millions, except per share amounts)*	**2012**	2011
Revenues		
Non-interest revenues		
Discount revenue	**$ 4,482**	$ 4,278
Net card fees	**615**	613
Travel commissions and fees	**521**	523
Other commissions and fees	**575**	584
Other	**651**	537
Total non-interest revenues	**6,844**	6,535
Interest income		
Interest on loans	**1,582**	1,543
Interest and dividends on investment securities	**67**	99
Deposits with banks and other	**22**	18
Total interest income	**1,671**	1,660
Interest expense		
Deposits	**115**	131
Short-term borrowings	**6**	1
Long-term debt and other	**429**	445
Total interest expense	**550**	577
Net interest income	**1,121**	1,083
Total revenues net of interest expense	**7,965**	7,618
Provisions for losses		
Charge card	**163**	161
Cardmember loans	**277**	176
Other	**21**	20
Total provisions for losses	**461**	357
Total revenues net of interest expense after provisions for losses	**7,504**	7,261
Expenses		
Marketing, promotion, rewards and cardmember services	**2,415**	2,581
Salaries and employee benefits	**1,536**	1,595

Professional services		**711**		745
Other, net		**963**		575
Total		**5,625**		5,496
Pretax income from continuing operations		**1,879**		1,765
Income tax provision		**540**		470
Income from continuing operations		**1,339**		1,295
Income from discontinued operations, net of tax				36
Net income	**$**	**1,339**	$	1,331
Earnings per Common Share Basic (Note 11):				
Income from continuing operations attributable to common shareholders[a]	**$**	**1.16**	$	1.08
Income from discontinued operations				0.03
Net income attributable to common shareholders[a]	**$**	**1.16**	$	1.11
Earnings per Common Share Diluted (Note 11):				
Income from continuing operations attributable to common shareholders[a]	**$**	**1.15**	$	1.07
Income from discontinued operations				0.03
Net income attributable to common shareholders[a]	**$**	**1.15**	$	1.10
Average common shares outstanding for earnings per common share:				
Basic		**1,145**		1,190
Diluted		**1,152**		1,197
Cash dividends declared per common share	**$**	**0.20**	$	0.18

(a) Represents income from continuing operations or net income, as applicable, less earnings allocated to participating share awards of $14 million and $15 million for the three months ended June 30, 2012 and 2011, respectively.

See Notes to Consolidated Financial Statements.

1

Table of Contents

AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Six Months Ended June 30 *(Millions, except per share amounts)*	**2012**	2011
Revenues		
Non-interest revenues		
Discount revenue	**$ 8,739**	$ 8,180
Net card fees	**1,225**	1,214
Travel commissions and fees	**972**	977
Other commissions and fees	**1,158**	1,113
Other	**1,231**	1,012
Total non-interest revenues	**13,325**	12,496
Interest income		
Interest on loans	**3,193**	3,098
Interest and dividends on investment securities	**133**	187
Deposits with banks and other	**52**	38
Total interest income	**3,378**	3,323
Interest expense		
Deposits	**244**	268
Short-term borrowings	**11**	1
Long-term debt and other	**869**	901
Total interest expense	**1,124**	1,170
Net interest income	**2,254**	2,153
Total revenues net of interest expense	**15,579**	14,649
Provisions for losses		
Charge card	**341**	359
Cardmember loans	**489**	56
Other	**43**	39
Total provisions for losses	**873**	454
Total revenues net of interest expense after provisions for losses	**14,706**	14,195
Expenses		
Marketing, promotion, rewards and cardmember services	**4,734**	5,031
Salaries and employee benefits	**3,171**	3,117
Professional services	**1,402**	1,408
Other, net	**1,747**	1,142
Total	**11,054**	10,698

Pretax income from continuing operations		**3,652**		3,497
Income tax provision		**1,057**		1,025
Income from continuing operations		**2,595**		2,472
Income from discontinued operations, net of tax				36
Net income	**$**	**2,595**	$	2,508
Earnings per Common Share Basic (Note 11):				
Income from continuing operations attributable to common shareholders[a]	**$**	**2.23**	$	2.05
Income from discontinued operations				0.03
Net income attributable to common shareholders[a]	**$**	**2.23**	$	2.08
Earnings per Common Share Diluted (Note 11):				
Income from continuing operations attributable to common shareholders[a]	**$**	**2.22**	$	2.04
Income from discontinued operations				0.03
Net income attributable to common shareholders[a]	**$**	**2.22**	$	2.07
Average common shares outstanding for earnings per common share:				
Basic		**1,151**		1,190
Diluted		**1,158**		1,197
Cash dividends declared per common share	**$**	**0.40**	$	0.36

(a) Represents income from continuing operations or net income, as applicable, less earnings allocated to participating share awards of $28 million and $30 million for the six months ended June 30, 2012 and 2011, respectively.

See Notes to Consolidated Financial Statements.

Table of Contents

AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	**2012**	2011	**2012**	2011
Net income	**$ 1,339**	$ 1,331	**$ 2,595**	$ 2,508
Other comprehensive income (loss):				
Net unrealized securities gains, net of tax of: 2012, $1 and $14; 2011, $57 and $54	**11**	91	**31**	92
Net unrealized derivatives gains, net of tax of: 2012, nil and nil; 2011, $2 and $3		3	**1**	7
Foreign currency translation adjustments, net of tax of: 2012, $135 and $13; 2011, $(52) and $(172)	**(199)**	(4)	**(127)**	62
Net unrealized pension and other postretirement benefit gains, net of tax of: 2012, $11 and $13; 2011, $4 and $(2)	**14**	8	**20**	5
Other comprehensive (loss) income	**(174)**	98	**(75)**	166
Comprehensive income	**$ 1,165**	$ 1,429	**$ 2,520**	$ 2,674

See Notes to Consolidated Financial Statements.

3

Table of Contents

AMERICAN EXPRESS COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Millions, except per share data)		**June 30, 2012**		December 31, 2011
Assets				
Cash and cash equivalents				
Cash and due from banks	**$**	**3,053**	$	3,514
Interest-bearing deposits in other banks (includes securities purchased under resale agreements: 2012, $65; 2011, $470)		**18,949**		20,572
Short-term investment securities		**70**		807
Total		**22,072**		24,893
Accounts receivable				
Cardmember receivables (includes gross receivables available to settle obligations of a consolidated variable interest entity: 2012, $7,235; 2011, $8,027), less reserves: 2012, $392; 2011, $438		**41,148**		40,452
Other receivables, less reserves: 2012, $85; 2011, $102		**2,771**		3,657
Loans				
Cardmember loans (includes gross loans available to settle obligations of a consolidated variable interest entity: 2012, $31,522; 2011, $33,834), less reserves: 2012, $1,547; 2011, $1,874		**59,432**		60,747
Other loans, less reserves: 2012, $18; 2011, $18		**478**		419
Investment securities		**6,326**		7,147
Premises and equipment, less accumulated depreciation: 2012, $5,105; 2011, $4,747		**3,442**		3,367
Other assets (includes restricted cash of consolidated variable interest entities: 2012, $1,196; 2011, $207)		**12,459**		12,655
Total assets	**$**	**148,128**	$	153,337
Liabilities and Shareholders Equity				
Liabilities				
Customer deposits	**$**	**35,961**	$	37,898
Travelers Cheques outstanding		**4,507**		5,123
Accounts payable		**11,768**		10,458
Short-term borrowings		**3,553**		4,337
Long-term debt (includes debt issued by consolidated variable interest entities: 2012, $15,976; 2011, $20,856)		**55,953**		59,570
Other liabilities		**17,119**		17,157
Total liabilities		**128,861**		134,543
Contingencies (Note 13)				
Shareholders Equity				
Common shares, $0.20 par value, authorized 3.6 billion shares; issued and outstanding 1,139 million shares as of June 30, 2012 and 1,164 million shares as of December 31, 2011		**228**		232
Additional paid-in capital		**12,273**		12,217

Retained earnings		**7,717**		7,221
Accumulated other comprehensive (loss) income				
Net unrealized securities gains, net of tax of: 2012, $182; 2011, $168		**319**		288
Net unrealized derivatives losses, net of tax of: 2012, $(1); 2011, $(1)				(1)
Foreign currency translation adjustments, net of tax of: 2012, $(446); 2011, $(459)		**(809)**		(682)
Net unrealized pension and other postretirement benefit losses, net of tax of: 2012, $(220); 2011, $(233)		**(461)**		(481)
Total accumulated other comprehensive loss		**(951)**		(876)
Total shareholders equity		**19,267**		18,794
Total liabilities and shareholders equity	**$**	**148,128**	$	153,337

See Notes to Consolidated Financial Statements.

4

Table of Contents

AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Six Months Ended June 30 *(Millions)*	**2012**	2011
Cash Flows from Operating Activities		
Net income	**$ 2,595**	$ 2,508
Income from discontinuing operations, net of tax		(36)
Income from continuing operations	**2,595**	2,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for losses	**873**	454
Depreciation and amortization	**507**	505
Deferred taxes and other	**219**	380
Stock-based compensation	**164**	156
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Other receivables	**862**	(86)
Other assets	**880**	(572)
Accounts payable and other liabilities	**1,228**	1,113
Travelers Cheques outstanding	**(586)**	(446)
Net cash provided by operating activities	**6,742**	3,976
Cash Flows from Investing Activities		
Sale of investments	**267**	893
Maturity and redemption of investments	**779**	4,497
Purchase of investments	**(164)**	(650)
Net increase in cardmember loans/receivables	**(634)**	(1,569)
Purchase of premises and equipment, net of sales: 2012, $2; 2011, $3	**(496)**	(558)
Acquisitions/dispositions, net of cash acquired/sold	**(457)**	(582)
Net (increase) decrease in restricted cash	**(1,066)**	3,476
Net cash (used in) provided by investing activities	**(1,771)**	5,507
Cash Flows from Financing Activities		
Net (decrease) increase in customer deposits	**(1,503)**	2,545
Net (decrease) increase in short-term borrowings	**(748)**	617
Issuance of long-term debt	**4,194**	3,328
Principal payments on long-term debt	**(7,703)**	(8,597)
Issuance of American Express common shares	**369**	430
Repurchase of American Express common shares	**(1,949)**	(750)
Dividends paid	**(446)**	(433)
Net cash used in financing activities	**(7,786)**	(2,860)
Effect of exchange rate changes on cash	**(6)**	103
Net (decrease) increase in cash and cash equivalents	**(2,821)**	6,726
Cash and cash equivalents at beginning of period	**24,893**	16,356

Cash and cash equivalents at end of period	**$**	**22,072**	$	23,082

See Notes to Consolidated Financial Statements

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The Company

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

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

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

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

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

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

2. Fair Values

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

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

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

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

Financial Assets and Financial Liabilities Carried at Fair Value

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

		2012			2011	
(Millions)	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets:						
Investment securities:[(a)]						
Equity securities	**$ 290**	**$ 290**	**$**	$ 360	$ 360	$
Debt securities and other[(b)]	**6,036**	**339**	**5,697**	6,787	340	6,447
Derivatives[(a)]	**1,362**		**1,362**	1,516		1,516

Total assets	**$**	**7,688**	**$**	**629**	**$**	**7,059**	$	8,663	$	700	$	7,963
Liabilities:												
Derivatives[(a)]	**$**	**98**	**$**		**$**	**98**	$	108	$		$	108
Total liabilities	**$**	**98**	**$**		**$**	**98**	$	108	$		$	108

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

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

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Investment Securities

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

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

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

Derivative Financial Instruments

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

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

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

8

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Financial Assets and Financial Liabilities Carried at Other Than Fair Value

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

	Carrying	Corresponding Fair Value Amount			
(Billions)	**Value**	Total	Level 1	Level 2	Level 3
Financial Assets:					
Financial assets for which carrying values equal or approximate fair value					
Cash and cash equivalents	**$ 22**	**$ 22**	**$ 21**	**$ 1 [(a)]**	**$**
Other financial assets[(b)]	**$ 46**	**$ 46**	**$**	**$ 46**	**$**
Financial assets carried at other than fair value					
Loans, net	**$ 60**	**$ 61[(c)]**	**$**	**$**	**$ 61**
Financial Liabilities:					
Financial liabilities for which carrying values equal or approximate fair value	**$ 53**	**$ 53**	**$**	**$ 53**	**$**
Financial liabilities carried at other than fair value					
Certificates of deposit[(d)]	**$ 10**	**$ 10**	**$**	**$ 10**	**$**
Long-term debt	**$ 56**	**$ 59[(c)]**	**$**	**$ 59**	**$**

(a) Reflects time deposits.

(b) Includes accounts receivables (including fair values of cardmember receivables of $7.2 billion held by consolidated variable interest entities (VIEs) as of June 30, 2012), restricted cash and other miscellaneous assets.

(c) Includes fair values of loans and long-term debt of $31.1 billion and $16.2 billion, respectively, held by consolidated VIEs as of June 30, 2012.

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

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

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Financial Assets for Which Carrying Values Equal or Approximate Fair Value

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

Financial Assets Carried at Other Than Fair Value

Loans

Loans are recorded at historical cost, less reserves, on the Consolidated Balance Sheets. In estimating the fair value for the Company s loans the Company uses a discounted cash flow model. Due to the lack of a comparable whole loan sales market for similar credit card receivables and a lack of observable pricing inputs thereof, the Company uses various inputs derived from an equivalent securitization market to estimate fair value. Such inputs include projected income (inclusive of future interest payments and late fee revenue), estimated pay-down rates, discount rates and relevant credit costs.

Financial Liabilities for Which Carrying Values Equal or Approximate Fair Value

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

Financial Liabilities Carried at Other Than Fair Value

Certificates of Deposit

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

Long-term Debt

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

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Nonrecurring Fair Value Measurements

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

3. Accounts Receivable and Loans

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

Cardmember and Other Receivables

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

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

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

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

(Millions)	**2012**	2011
U.S. Card Services[(a)]	**$ 19,588**	$ 20,645
International Card Services	**6,804**	7,222
Global Commercial Services[(b)]	**14,985**	12,829
Global Network & Merchant Services[(c)]	**163**	194
Cardmember receivables[(d)]	**41,540**	40,890
Less: Reserve for losses	**392**	438
Cardmember receivables, net	**$ 41,148**	$ 40,452
Other receivables, net[(e)]	**$ 2,771**	$ 3,657

(a) Includes $6.7 billion and $7.5 billion of gross cardmember receivables available to settle obligations of a consolidated VIE as of June 30, 2012 and December 31, 2011, respectively.

(b) Includes $492 million and $459 million of gross cardmember receivables available to settle obligations of a consolidated VIE as of June 30, 2012 and December 31, 2011, respectively. Also includes $746 million and $563 million due from airlines, of which Delta Air Lines (Delta) comprises $527 million and $340 million as of June 30, 2012 and December 31, 2011, respectively.

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

(d) Includes approximately $12.9 billion and $12.8 billion of cardmember receivables outside the United States as of June 30, 2012 and December 31, 2011, respectively.

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

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Cardmember and Other Loans

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

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

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

(Millions)	**2012**	2011
U.S. Card Services[(a)]	**$ 52,496**	$ 53,686
International Card Services	**8,448**	8,901
Global Commercial Services	**35**	34
Cardmember loans	**60,979**	62,621
Less: Reserve for losses	**1,547**	1,874
Cardmember loans, net	**$ 59,432**	$ 60,747
Other loans, net[(b)]	**$ 478**	$ 419

(a) Includes approximately $31.5 billion and $33.8 billion of gross cardmember loans available to settle obligations of a consolidated VIE as of June 30, 2012 and December 31, 2011, respectively.

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

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Cardmember Loans and Cardmember Receivables Aging

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

2012 *(Millions)*	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Cardmember Loans:					
U.S. Card Services	**$ 51,868**	**$ 184**	**$ 134**	**$ 310**	**$ 52,496**
International Card Services	**8,309**	**47**	**29**	**63**	**8,448**
Cardmember Receivables:					
U.S. Card Services	**$ 19,255**	**$ 108**	**$ 65**	**$ 160**	**$ 19,588**
International Card Services[a]	**(b)**	**(b)**	**(b)**	**67**	**6,804**
Global Commercial Services[a]	**(b)**	**(b)**	**(b)**	**88**	**14,985**

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

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

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

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Credit Quality Indicators for Cardmember Loans and Receivables

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

	2012			2011		
	Net Write-Off Rate			Net Write-Off Rate		
	Principal Only[a]	Principal, Interest, & Fees[a]	30 Days Past Due as a % of Total	Principal Only[a]	Principal, Interest, & Fees[a]	30 Days Past Due as a % of Total
Cardmember Loans:						
U.S. Card Services	**2.3%**	**2.5%**	**1.2%**	3.4%	3.8%	1.5%
International Card Services	**2.1%**	**2.6%**	**1.7%**	3.1%	3.7%	2.1%
Cardmember Receivables:						
U.S. Card Services	**2.2%**	**2.3%**	**1.7%**	1.6%	1.7%	1.7%

	2012		2011	
	Net Loss Ratio as a % of Charge Volume	90 Days Past Billing as a % of Receivables	Net Loss Ratio as a % of Charge Volume	90 Days Past Billing as a % of Receivables
Cardmember Receivables:				
International Card Services	**0.16%**	**1.0%**	0.15%	1.0%
Global Commercial Services	**0.07%**	**0.6%**	0.06%	0.7%

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

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

Impaired Cardmember Loans and Receivables

Impaired loans and receivables are defined by GAAP as individual larger balance or homogeneous pools of smaller balance restructured loans and receivables for which it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the loan and receivable agreement. The Company considers impaired loans and receivables to include: (i) loans over 90 days past due still accruing interest, (ii) non-accrual loans and (iii) loans and receivables modified as troubled debt restructurings (TDRs).

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

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

2012 *(Millions)*	Loans over 90 Days Past Due & Accruing Interest[a]	Non-Accrual Loans[b]	Loans & Receivables Modified as a TDR[c]	Total Impaired Loans & Receivables	Unpaid Principal Balance[d]	Allowance for TDRs[e]
Cardmember Loans:						
U.S. Card Services	**$ 56**	**$ 452**	**$ 692**	**$ 1,200**	**$ 1,146**	**$ 164**
International Card Services	**61**	**5**	**7**	**73**	**71**	**1**
Cardmember Receivables:						
U.S. Card Services			**121**	**121**	**114**	**98**
Total	**$ 117**	**$ 457**	**$ 820**	**$ 1,394**	**$ 1,331**	**$ 263**

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

U.S. Card Services			174	174	165	118
Total	$ 131	$ 535	$ 918	$ 1,584	$ 1,513	$ 294

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

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

(c) Total loans and receivables modified as a TDR includes $351 million and $410 million that are non-accrual and $4 million and $4 million that are past due 90 days and still accruing interest as of June 30, 2012 and December 31, 2011, respectively.

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

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

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
(Millions)	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance
Cardmember Loans:				
U.S. Card Services	**$ 14**	**$ 1,242**	**$ 30**	**$ 1,271**
International Card Services	**4**	**76**	**8**	**78**
Cardmember Receivables:				
U.S. Card Services		**133**		**147**
Total	**$ 18**	**$ 1,451**	**$ 38**	**$ 1,496**

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
(Millions)	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance
Cardmember Loans:				
U.S. Card Services	$ 17	$ 1,500	$ 35	$ 1,598
International Card Services	8	101	17	106
Cardmember Receivables:				
U.S. Card Services		137		130
Total	$ 25	$ 1,738	$ 52	$ 1,834

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Cardmember Loans and Receivables Modified as TDRs

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

(Accounts in thousands, Dollars in millions)	Three Months Ended June 30, 2012 Number of Accounts	Aggregated Pre-Modification Outstanding Balances[a]	Aggregated Post-Modification Outstanding Balances[a]	Six Months Ended June 30, 2012 Number of Accounts	Aggregated Pre-Modification Outstanding Balances[a]	Aggregated Post-Modification Outstanding Balances[a]
Troubled Debt Restructurings:						
U.S. Card Services Cardmember Loans	**24**	**$ 178**	**$ 173**	**56**	**$ 407**	**$ 396**
U.S. Card Services Cardmember Receivables	**8**	**94**	**93**	**19**	**222**	**218**
Total[b]	**32**	**$ 272**	**$ 266**	**75**	**$ 629**	**$ 614**

(Accounts in thousands, Dollars in millions)	Three Months Ended June 30, 2011 Number of Accounts	Aggregated Pre-Modification Outstanding Balances[a]	Aggregated Post-Modification Outstanding Balances[a]	Six Months Ended June 30, 2011 Number of Accounts	Aggregated Pre-Modification Outstanding Balances[a]	Aggregated Post-Modification Outstanding Balances
Troubled Debt Restructurings:						
U.S. Card Services Cardmember Loans	36	$ 267	$ 256	79	$ 587	$ 562
U.S. Card Services Cardmember Receivables	11	87	84	22	180	174
Total[b]	47	$ 354	$ 340	101	$ 767	$ 736

(a) Includes principal and accrued interest.

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

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

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

Interest Rate Reduction: For the three months ended June 30, 2012 and 2011, the average interest rate reduction was 13 percentage points and 12 percentage points, respectively. For the six months ended June 30, 2012 and 2011, the average interest rate reduction was 13 percentage points and 11 percentage points, respectively. None of these interest rate reductions had a significant impact on interest on loans in the Consolidated Statements of Income. The Company does not offer interest rate reduction programs for U.S. Card Services (USCS) cardmember receivables as these receivables are non-interest bearing.

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

Payment Term Extension: For both the three and six months ended June 30, 2012, the average payment term extension was approximately 13 months for USCS cardmember receivables. For both the three and

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

six months ended June 30, 2011, the average payment term extension was approximately 15 months for USCS cardmember receivables. For USCS cardmember loans, there have been no payment term extensions.

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

(Accounts in thousands, Dollars in millions)	Three Months Ended June 30, 2012 Number of Accounts	Three Months Ended June 30, 2012 Aggregated Outstanding Balances Upon Default[a]	Six Months Ended June 30, 2012 Number of Accounts	Six Months Ended June 30, 2012 Aggregated Outstanding Balances Upon Default[a]
Troubled Debt Restructurings That Subsequently Defaulted:				
U.S. Card Services Cardmember Loans	**6**	**$ 47**	**15**	**$ 110**
U.S. Card Services Cardmember Receivables	**1**	**8**	**2**	**20**
Total	**7**	**$ 55**	**17**	**$ 130**

(Accounts in thousands, Dollars in millions)	Three Months Ended June 30, 2011 Number of Accounts	Three Months Ended June 30, 2011 Aggregated Outstanding Balances Upon Default[a]	Six Months Ended June 30, 2011 Number of Accounts	Six Months Ended June 30, 2011 Aggregated Outstanding Balances Upon Default[a]
Troubled Debt Restructurings That Subsequently Defaulted:				
U.S. Card Services Cardmember Loans	13	$ 96	27	$ 205
U.S. Card Services Cardmember Receivables	2	12	4	25
Total	15	$ 108	31	$ 230

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

4. Reserves for Losses

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

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Reserves for losses are primarily based upon statistical models that analyze portfolio performance and reflect management s judgment regarding overall reserve adequacy. The models take into account several factors, including loss migration rates and average losses and recoveries over an appropriate historical period. Management considers whether to adjust the models for specific factors such as increased risk in certain portfolios, impact of risk management initiatives on portfolio performance and concentration of credit risk based on factors such as vintage, industry or geographic regions. In addition, management may increase or decrease the reserves for losses on cardmember loans for other external environmental factors, including various indicators related to employment, spend, sentiment, housing and credit, as well as the legal and regulatory environment. Generally, due to the short-term nature of cardmember receivables, the impact of additional external factors on the losses inherent within the cardmember receivables portfolio is not significant. As part of this evaluation process, management also considers various reserve coverage metrics, such as reserves as a percentage of past due amounts, reserves as a percentage of cardmember receivables or loans and net write-off coverage.

Cardmember loans and receivables balances are written-off when management considers amounts to be uncollectible, which is generally determined by the number of days past due and is typically no later than 180 days. Cardmember loans and receivables in bankruptcy or owed by deceased individuals are written off upon notification and recoveries are recognized as they are collected.

Changes in Cardmember Receivables Reserve for Losses

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

(Millions)		**2012**		2011
Balance, January 1	**$**	**438**	$	386
Additions:				
Provisions[(a)]		**283**		279
Other[(b)]		**58**		80
Total provision		**341**		359
Deductions:				
Net write-offs[(c)]		**(346)**		(260)
Other[(d)]		**(41)**		(70)
Balance, June 30	**$**	**392**	$	415

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

(b) Provisions for unauthorized transactions.

(c) Consists of principal (resulting from authorized transactions) and fee components, less recoveries of $193 million and $171 million for the six months ended June 30, 2012 and 2011, respectively.

(d) Includes net write-offs resulting from unauthorized transactions of $(63) million and $(77) million for the six months ended June 30, 2012 and 2011, respectively; foreign currency translation adjustments of $(2) million and $5 million for the six months ended June 30, 2012 and 2011, respectively; cardmember bankruptcy reserves of $18 million and nil for the six months ended June 30, 2012 and 2011, respectively; and other items of $6 million and $2 million for the six months ended June 30, 2012 and 2011, respectively. Cardmember bankruptcy reserves were classified as other liabilities in prior periods.

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Cardmember Receivables Evaluated Individually and Collectively for Impairment

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

(Millions)		**2012**		2011
Cardmember receivables evaluated individually for impairment[(a)]	**$**	**121**	$	174
Related reserves[(a)]	**$**	**98**	$	118
Cardmember receivables evaluated collectively for impairment	**$**	**41,419**	$	40,716
Related reserves	**$**	**294**	$	320

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

Changes in Cardmember Loans Reserve for Losses

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

(Millions)		**2012**		2011
Balance, January 1	**$**	**1,874**	$	3,646
Additions:				
Provisions[(a)]		**438**		7
Other[(b)]		**51**		49
Total provision		**489**		56
Deductions:				
Net write-offs:				
Principal[(c)]		**(678)**		(992)
Interest and fees[(c)]		**(85)**		(115)
Other[(d)]		**(53)**		(35)
Balance, June 30	**$**	**1,547**	$	2,560

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

(b) Provisions for unauthorized transactions.

(c) Consists of principal write-offs (resulting from authorized transactions), less recoveries of $258 million and $300 million for the six months ended June 30, 2012 and 2011, respectively. Recoveries of interest and fees were de minimis.

(d) Includes net write-offs for unauthorized transactions of $(53) million and $(47) million for the six months ended June 30, 2012 and 2011, respectively; foreign currency translation adjustments of $(1) million and $13 million for the six months ended June 30, 2012 and 2011, respectively; cardmember bankruptcy reserves of $4 million and nil for the six months ended June 30, 2012 and 2011, respectively; and other items of $(3) million and $(1) million for the six months ended June 30, 2012 and 2011, respectively. Cardmember bankruptcy reserves were classified as other liabilities in prior periods.

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Cardmember Loans Evaluated Individually and Collectively for Impairment

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

(Millions)		**2012**		2011
Cardmember loans evaluated individually for impairment[(a)]	**$**	**699**	$	744
Related reserves[(a)]	**$**	**165**	$	176
Cardmember loans evaluated collectively for impairment[(b)]	**$**	**60,280**	$	61,877
Related reserves[(b)]	**$**	**1,382**	$	1,698

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

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

5. Investment Securities

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

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

	2012				2011			
(Millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value

State and municipal obligations	**$**	**4,643**	**$**	**157**	**$**	**(21)**	**$**	**4,779**	$	4,968	$	103	$	(72)	$	4,999
U.S. Government agency obligations		**3**						**3**		352		2				354
U.S. Government treasury obligations		**330**		**9**				**339**		330		10				340
Corporate debt securities[(a)]		**471**		**5**		**(2)**		**474**		626		9		(3)		632
Mortgage-backed securities[(b)]		**241**		**17**				**258**		261		17				278
Equity securities[(c)]		**81**		**209**				**290**		95		265				360
Foreign government bonds and obligations		**118**		**12**				**130**		120		10				130
Other[(d)]		**52**		**1**				**53**		54						54
Total	**$**	**5,939**	**$**	**410**	**$**	**(23)**	**$**	**6,326**	$	6,806	$	416	$	(75)	$	7,147

(a) The June 30, 2012 and December 31, 2011 balances include, on a cost basis, $400 million and $550 million, respectively, of corporate debt obligations issued under the Temporary Liquidity Guarantee Program that are guaranteed by the Federal Deposit Insurance Corporation (FDIC).

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

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

(d) Other comprises investments in various mutual funds.

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	2012				2011			
	Less than 12 months		12 months or more		Less than 12 months		12 months or more	
Description of Securities *(Millions)*	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
State and municipal obligations	**$ 96**	**$ (1)**	**$ 351**	**$ (20)**	$	$	$ 1,094	$ (72)
Corporate debt securities	**15**	**(1)**	**3**	**(1)**	15	(2)	2	(1)
Total	**$ 111**	**$ (2)**	**$ 354**	**$ (21)**	$ 15	$ (2)	$ 1,096	$ (73)

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

	Less than 12 months			12 months or more			Total		
air Value to d Cost *(Dollars in millions)*	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses
%	**15**	**$ 111**	**$ (2)**	**31**	**$ 281**	**$ (8)**	**46**	**$ 392**	**$ (10)**
90%				**6**	**73**	**(13)**	**6**	**73**	**(13)**
f June 30, 2012	**15**	**$ 111**	**$ (2)**	**37**	**$ 354**	**$ (21)**	**52**	**$ 465**	**$ (23)**
%		$	$	114	$ 884	$ (35)	114	$ 884	$ (35)
90%	1	15	(2)	22	212	(38)	23	227	(40)
f December 31, 2011	1	$ 15	$ (2)	136	$ 1,096	$ (73)	137	$ 1,111	$ (75)

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

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

Supplemental Information

Gross realized gains on sales of investment securities, included in other non-interest revenues for the three and six months ended June 30, 2012, were $26 million and $52 million, respectively (there were no gross realized gains for the three and six months ended June 30, 2011). Gross realized losses on sales of investment securities, included in other non-interest revenues for both the three and six months ended June 30, 2012, were $1 million (there were no gross realized losses for the three and six months ended June 30, 2011).

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Millions)		Cost		Estimated Fair Value
Due within 1 year	$	**545**	$	**549**
Due after 1 year but within 5 years		**358**		**366**
Due after 5 years but within 10 years		**176**		**187**
Due after 10 years		**4,727**		**4,881**
Total	$	**5,806**	$	**5,983**

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

6. Asset Securitizations

Charge Trust and Lending Trust

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

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

TRS, in its role as servicer of the Charge Trust and the Lending Trust, has the power to direct the most significant activity of the trusts, which is the collection of the underlying cardmember receivables and loans in the trusts. In addition, TRS owns approximately $0.8 billion of subordinated securities issued by the Lending Trust as of June 30, 2012. These subordinated securities have the obligation to absorb losses of the Lending Trust and provide the right to receive benefits from the Lending Trust, both of which are significant to the VIE. TRS role as servicer for the Charge Trust does not provide it with a significant obligation to absorb losses or a significant right to receive benefits. However, TRS position as the parent company of the entities that transferred the receivables to the Charge Trust makes it the party most closely related to the Charge Trust. Based on these considerations, TRS is the primary beneficiary of both the Charge Trust and the Lending Trust.

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

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

There was approximately $75 million and $15 million of restricted cash held by the Charge Trust as of June 30, 2012 and December 31, 2011, respectively, and approximately $1.1 billion and $192 million of restricted cash held by the Lending Trust as of June 30, 2012 and December 31, 2011, respectively, included in other assets on the Company s Consolidated Balance Sheets. These amounts relate to collections of cardmember receivables and loans to be used by the trusts to fund future expenses and obligations, including interest paid on investor certificates, credit losses and upcoming debt maturities.

Charge Trust and Lending Trust Triggering Events

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

7. Customer Deposits

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

(Millions)		**2012**		2011
U.S.:				
Interest-bearing	**$**	**35,805**	$	37,271
Non-interest-bearing		**8**		4
Non-U.S.:				
Interest-bearing		**139**		612
Non-interest-bearing		**9**		11
Total customer deposits	**$**	**35,961**	$	37,898

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

(Millions)		**2012**		2011
U.S. retail deposits:				
Savings accounts Direct	**$**	**15,611**	$	14,649
Certificates of deposit:				
Direct		**817**		893
Third-party		**9,127**		10,781
Sweep accounts Third-party		**10,250**		10,948
Other deposits		**156**		627

Total customer deposits	**$ 35,961**	$ 37,898

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

(Millions)	U.S.	Non-U.S.	Total
2012	**$ 1,379**	**$ 2**	**$ 1,381**
2013	**4,865**	**1**	**4,866**
2014	**2,583**		**2,583**
2015	**284**		**284**
2016	**609**		**609**
After 5 years	**224**		**224**
Total	**$ 9,944**	**$ 3**	**$ 9,947**

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Millions)		**2012**		2011
U.S.	**$**	**534**	$	580
Non-U.S.		**2**		304
Total	**$**	**536**	$	884

8. Derivatives and Hedging Activities

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

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

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

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

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

The Company s market exposures are in large part byproducts of the delivery of its products and services. Interest rate risk arises through the funding of cardmember receivables and fixed-rate loans with variable-rate borrowings as well as through the risk to net interest margin from changes in the relationship between benchmark rates such as Prime and LIBOR.

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

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

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

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Derivatives may give rise to counterparty credit risk, which is the risk that a derivative counterparty will default on, or otherwise be unable to perform pursuant to, an uncollateralized derivative exposure. The Company manages this risk by considering the current exposure, which is the replacement cost of contracts on the measurement date, as well as estimating the maximum potential value of the contracts over the next 12 months, considering such factors as the volatility of the underlying or reference index. To mitigate derivative credit risk, counterparties are required to be pre-approved by the Company and rated as investment grade. Counterparty risk exposures are centrally monitored by the Company. Additionally, in order to mitigate the bilateral counterparty credit risk associated with derivatives, the Company has in certain instances entered into master netting agreements with its derivative counterparties, which provide a right of offset for certain exposures between the parties. To further mitigate bilateral counterparty credit risk, the Company exercises its rights under executed credit support agreements with certain of its derivative counterparties. These agreements require that, in the event the fair value change in the net derivatives position between the two parties exceeds certain dollar thresholds, the party in the net liability position posts collateral to its counterparty.

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

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

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

	Other Assets Fair Value		Other Liabilities Fair Value	
(Millions)	**2012**	2011	**2012**	2011
Derivatives designated as hedging instruments:				
Interest rate contracts				
Fair value hedges	**$ 963**	$ 999	**$**	$
Cash flow hedges				1
Total return contract				
Fair value hedge	**28**	13		
Foreign exchange contracts				
Net investment hedges	**219**	344	**32**	54
Total derivatives designated as hedging instruments	**$ 1,210**	$ 1,356	**$ 32**	$ 55
Derivatives not designated as hedging instruments:				
Interest rate contracts	**$**	$ 1	**$**	$
Foreign exchange contracts, including certain embedded derivatives[(a)]	**152**	159	**64**	50
Equity-linked embedded derivative[(b)]			**2**	3
Total derivatives not designated as hedging instruments	**152**	160	**66**	53

Total derivatives, gross	**$**	**1,362**	$	1,516	**$**	**98**	$	108
Cash collateral netting[(c)]		**(630)**		(587)				
Derivative asset and derivative liability netting[(c)]		**(19)**		(14)		**(19)**		(14)
Total derivatives, net	**$**	**713**	$	915	**$**	**79**	$	94

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

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

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

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Derivative Financial Instruments that Qualify for Hedge Accounting

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

Fair Value Hedges

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

Interest Rate Contracts

The Company is exposed to interest rate risk associated with its fixed-rate long-term debt. The Company uses interest rate swaps to economically convert certain fixed-rate long-term debt obligations to floating-rate obligations at the time of issuance. As of June 30, 2012 and December 31, 2011, the Company hedged $19.9 billion and $17.1 billion, respectively, of its fixed-rate debt to floating-rate debt using interest rate swaps.

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

Total Return Contract

The Company hedges its exposure to changes in the fair value of its equity investment in ICBC in local currency. The Company uses a TRC to transfer this exposure to its derivative counterparty. As of June 30, 2012 and December 31, 2011, the fair value of the equity investment in ICBC was $290 million (523.7 million shares) and $359 million (605.4 million shares), respectively. To the extent the hedge is effective, the gain or loss on the TRC offsets the loss or gain on the investment in ICBC. Any difference between the changes in the fair value of the derivative and the hedged item results in hedge ineffectiveness and is recognized in other expenses in the Consolidated Statements of Income.

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

	Gains (losses) recognized in income							
	Derivative contract			Hedged item			Net hedge	
Derivative	Income Statement	Amount		Income Statement	Amount		ineffectiveness	
relationship	Line Item	**2012**	2011	Line Item	**2012**	2011	**2012**	2011
Interest rate contracts	Other, net expenses	**$ 47**	$ 142	Other, net expenses	**$ (42)**	$ (138)	**$ 5**	$ 4
Total return contract	Other non-interest revenues	**53**		Other non-interest revenues	**(53)**			

For the Six Months Ended June 30: *(Millions)*

	Gains (losses) recognized in income							
	Derivative contract			Hedged item			Net hedge	
Derivative	Income Statement	Amount		Income Statement	Amount		ineffectiveness	
relationship	Line Item	**2012**	2011	Line Item	**2012**	2011	**2012**	2011
Interest rate contracts	Other, net expenses	**$ (36)**	$ (16)	Other, net expenses	**$ 27**	$ 1	**$ (9)**	$ (15)
Total return contract	Other non-interest revenues	**21**		Other non-interest revenues	**(21)**			

The Company also recognized a net reduction in interest expense on long-term debt of $127 million and $126 million for the three months ended June 30, 2012 and 2011, respectively, primarily related to the net settlements (interest accruals) on the Company s interest rate derivatives designated as fair value hedges. For the six months ended June 30, 2012 and 2011, the impact on interest expense was a net reduction in interest expense on long-term debt of $250 million and $251 million, respectively.

Cash Flow Hedges

A cash flow hedge involves a derivative designated to hedge the Company s exposure to variable future cash flows attributable to a particular risk. Such exposures may relate to either an existing recognized asset or liability or a forecasted transaction. The Company hedges existing long-term variable-rate debt, the rollover of short-term borrowings and the anticipated forecasted issuance of additional funding through the use of derivatives, primarily interest rate swaps. These derivative instruments economically convert floating-rate debt obligations to fixed-rate obligations for the duration of the instrument. As of June 30, 2012 and December 31, 2011, the Company hedged $301 million and $305 million, respectively, of its floating-rate debt using interest rate swaps.

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

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

Net Investment Hedges

A net investment hedge is used to hedge future changes in currency exposure of a net investment in a foreign operation. The Company primarily designates foreign currency derivatives, typically foreign exchange forwards, and on occasion foreign currency denominated debt, as hedges of net investments in certain foreign operations. These instruments reduce exposure to changes in currency exchange rates on the Company s investments in non-

28

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

U.S. subsidiaries. The effective portion of the gain or (loss) on net investment hedges, net of taxes, recorded in AOCI as part of the cumulative translation adjustment, was $276 million and $(70) million for the three months ended June 30, 2012 and 2011, respectively, and was $26 million and $(292) million for the six months ended June 30, 2012 and 2011, respectively. Any ineffective portion of the gain or loss on net investment hedges is recognized in other expenses during the period of change.

The following table summarizes the impact of cash flow hedges and net investment hedges on the Consolidated Statements of Income:

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

		Gains (losses) recognized in income				
		Amount reclassified from AOCI into income			Net hedge ineffectiveness	
Description	Income Statement Line Item	**2012**	2011	Income Statement Line Item	**2012**	2011
Cash flow hedges:[a]						
Interest rate contracts	Interest expense	**$**	$ (5)	Other, net expenses	**$**	$
Net investment hedges:						
Foreign exchange contracts	Other, net expenses	**$**	$	Other, net expenses	**$**	$

For the Six Months Ended June 30: *(Millions)*

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

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

Derivatives Not Designated as Hedges

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

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

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

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

		Pretax gains (losses)			
		Amount			
Description	Income Statement Line Item		**2012**		2011
Interest rate contracts	Other, net expenses	**$**		$	
Foreign exchange contracts[(a)]	Interest and dividends on investment securities				3
	Interest expense on short-term borrowings				2
	Interest expense on long-term debt and other				31
	Other, net expenses		**139**		(62)
Equity-linked contract	Other non-interest revenues		**1**		(1)
Total		$	140	$	(27)

For the Six Months Ended June 30: *(Millions)*

		Pretax gains (losses)			
		Amount			
Description	Income Statement Line Item		**2012**		2011
Interest rate contracts	Other, net expenses	**$**	**(1)**	$	2
Foreign exchange contracts[(a)]	Interest and dividends on investment securities				5
	Interest expense on short-term borrowings				3
	Interest expense on long-term debt and other				61
	Other, net expenses		**44**		(38)
Equity-linked contract	Other non-interest revenues		**2**		
Total		**$**	**45**	$	33

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

9. Guarantees

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

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

Table of Contents

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

	Maximum potential undiscounted future payments[a] (Billions)		Related liability[b] (Millions)	
Type of Guarantee	**2012**	2011	**2012**	2011
Card and travel operations[c]	**$ 44**	$ 51	**$ 94**	$ 96
Other[d]	**1**	1	**92**	98
Total	**$ 45**	$ 52	**$ 186**	$ 194

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

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

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

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

10. Income Taxes

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

The Company believes it is reasonably possible that its unrecognized tax benefits could decrease within the next 12 months by as much as $846 million principally as a result of potential resolutions of prior years tax items with various taxing authorities. The prior years tax items include unrecognized tax benefits relating to the deductibility of certain expenses or losses and the attribution of taxable income to a particular jurisdiction or jurisdictions. Of the $846 million of unrecognized tax benefits, approximately $621 million relates to amounts that if recognized would be recorded to shareholders equity and would not impact the effective tax rate. With respect to the remaining $225 million, it is not possible to quantify the impact that the decrease could have on the effective tax rate and net income due to the inherent complexities and the number of tax years open for examination in multiple jurisdictions. Resolution of the prior years items that comprise this remaining amount could have an impact on the effective tax rate and on net income, either favorably (principally as a result of settlements that are less than the liability for unrecognized tax benefits) or unfavorably (if such settlements exceed the liability for unrecognized tax benefits).

The effective tax rate from continuing operations was 28.7 percent and 28.9 percent for the three and six months ended June 30, 2012, respectively. The tax rate for the three and six months ended June 30, 2012 include tax benefits of $81 million and $131 million, respectively, related to the realization of certain foreign tax credits. In addition, the tax rates in both periods reflect the level of pretax income in relation to recurring permanent tax benefits.

The effective tax rate from continuing operations was 26.6 percent and 29.3 percent for the three and six months ended June 30, 2011, respectively. The tax rate for the three and six months ended June 30, 2011 includes a tax benefit of $102 million related to the favorable resolution of certain prior years tax items. In addition, the tax rates in both periods reflect the level of pretax income in relation to recurring permanent tax benefits.

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

11. Earnings Per Common Share (EPS)

The computations of basic and diluted EPS were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions, except per share amounts)	**2012**	2011	**2012**	2011
Numerator:				
Basic and diluted:				
Income from continuing operations	**$ 1,339**	$ 1,295	**$ 2,595**	$ 2,472
Earnings allocated to participating share awards[(a)]	**(14)**	(15)	**(28)**	(30)
Income from discontinued operations, net of tax		36		36
Net income attributable to common shareholders	**$ 1,325**	$ 1,316	**$ 2,567**	$ 2,478
Denominator:[(a)]				
Basic: Weighted-average common stock	**1,145**	1,190	**1,151**	1,190
Add: Weighted-average stock options[(b)]	**7**	7	**7**	7
Diluted	**1,152**	1,197	**1,158**	1,197
Basic EPS:				
Income from continuing operations attributable to common shareholders	**$ 1.16**	$ 1.08	**$ 2.23**	$ 2.05
Income from discontinued operations		0.03		0.03
Net income attributable to common shareholders	**$ 1.16**	$ 1.11	**$ 2.23**	$ 2.08
Diluted EPS:				
Income from continuing operations attributable to common shareholders	**$ 1.15**	$ 1.07	**$ 2.22**	$ 2.04
Income from discontinued operations		0.03		0.03
Net income attributable to common shareholders	**$ 1.15**	$ 1.10	**$ 2.22**	$ 2.07

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

(b)

For both the three and six months ended June 30, 2012, the dilutive effect of unexercised stock options excludes 8 million options, from the computation of EPS because inclusion of the options would have been anti-dilutive. For the three and six months ended June 30, 2011, the dilutive effect of unexercised stock options excludes 19 million and 20 million options, respectively, from the computation of EPS because inclusion of the options would have been anti-dilutive.

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

12. Details of Certain Consolidated Statements of Income Line Items

The following is a detail of other commissions and fees:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	**2012**	2011	**2012**	2011
Foreign currency conversion revenue	**$ 216**	$ 213	**$ 423**	$ 426
Delinquency fees	**158**	142	**320**	285
Service fees	**89**	89	**182**	176
Other	**112**	140	**233**	226
Total other commissions and fees	**$ 575**	$ 584	**$ 1,158**	$ 1,113

Table of Contents

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following is a detail of other revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	**2012**	2011	**2012**	2011
Global Network Services partner revenues	**$ 166**	$ 156	**$ 317**	$ 302
Travelers Cheques related revenues	**104**	67	**160**	95
Net gain on investment securities	**25**		**51**	
Other	**356**	314	**703**	615
Total other revenues	**$ 651**	$ 537	**$ 1,231**	$ 1,012

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

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

	Three Months Ended June 30,	Six Months Ended June 30,
(Millions)	**2012**	