AMERICAN EXPRESS CO
Form 10-K
February 24, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 1-7657

American Express Company

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Name of each exchange on which registered
Common Shares (par value $0.20 per Share)	**New York Stock Exchange**

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

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

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

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 þ 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 shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

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

Large accelerated filer þ	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 Act). Yes ¨ No þ

As of June 30, 2011, the aggregate market value of the registrant s voting shares held by non-affiliates of the registrant was approximately $61.7 billion based on the closing sale price as reported on the New York Stock Exchange.

As of February 22, 2012, there were 1,201,902,244 common shares of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts I, II and IV: Portions of Registrant s 2011 Annual Report to Shareholders.

Part III: Portions of Registrant s Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Shareholders to be held on April 30, 2012.

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PART I*

ITEM 1. BUSINESS

INTRODUCTION

Overview

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

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

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

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

Securities Exchange Act Reports and Additional Information

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

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

This report includes trademarks, such as American Express®, which are protected under applicable intellectual property laws and are the property of American Express Company. This report also contains trademarks, service marks, copyrights and trade names of other companies, which are the property of their

* Some of the statements in this report constitute forward-looking statements. You can identify forward-looking statements by words such as believe, expect, anticipate, optimistic, intend, plan, aim, will, may, should, could, would, likely, estimate, pre similar expressions. We discuss certain factors that affect our business and operations and that may cause our actual results to differ materially from these forward-looking statements under Risk Factors below. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

respective owners. Solely for convenience, our trademarks and tradenames referred to in this report may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and tradenames.

2011 Highlights

Compared with 2010, we delivered:

- Total revenues net of interest expense of $30.0 billion, up 9% from $27.6 billion
- Net income of $4.9 billion, up 22% from $4.1 billion
- Diluted earnings per share based on net income attributable to common shareholders of $4.12, up 23% from $3.35
- Return on average equity of 27.7%, compared with 27.5%

Our results for 2011 continued to reflect strong spending growth and improved credit performance, as well as a planned slowdown in the growth of operating expenses in the fourth quarter of the year. During the year cardmember spending volumes grew both in the United States and internationally, and across all of our businesses, despite both a challenging economic environment and comparisons to relatively strong performance in the prior year. Improving credit trends contributed to a reduction in loan write-offs and in overall loss reserve levels over the course of 2011 when compared to 2010. Going forward, we expect the benefits to our results from reserve releases to diminish as credit metrics are at historically low levels.

Despite our continued momentum, competition remains extremely intense across all of our businesses. In addition, the global economic environment remains uncertain. The current instability in Europe in particular and concerns about sovereign defaults and the creditworthiness and liquidity of the European banking systems could adversely affect global economic conditions, including potentially negatively affecting consumer and corporate confidence and spending, disrupting the debt and equity markets and impacting foreign exchange rates. European billed business accounted for approximately 12 percent of our total billed business for the year ended December 31, 2011. We also received the last settlement payments from MasterCard International, Inc. (MasterCard) and Visa Inc. (Visa) in 2011 and face more difficult year-over-year comparisons in light of strong 2010 and 2011 volume and credit performance. Due to these factors, we are continuing to implement our plan to slow the growth of operating expenses over the next few years.

In 2012, we will continue our focus on several initiatives designed to help us accomplish our long-term growth goals: increasing our share of online spending across all of our products while transforming our customers digital experience; delivering greater value to merchants; accelerating our growth outside the United States; making significant progress within the Enterprise Growth Group; and broadening and deepening our customer base through the addition of more women, minorities and younger adults. We continue to focus our investments on both driving near-term metrics and building capabilities that will benefit our medium- to long-term success.

For a complete discussion of our 2011 financial results, including financial information regarding each of our reportable operating segments, see pages 14-106 of our 2011 Annual Report to Shareholders, which is incorporated herein by reference. For a discussion of our principal sources of revenue, see pages 59-60 of our 2011 Annual Report to Shareholders.

Products and Services

Our range of products and services includes:

- Charge and credit card products

Expense management products and services

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- Consumer and business travel services

- Stored value products such as Travelers Cheques and other prepaid products

- Network services

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

- Fee services, including market and trend analyses and related consulting services, fraud prevention services, and the design of customized customer loyalty and rewards programs

We have also recently focused on generating alternative sources of revenue on a global basis in areas such as online and mobile payments and fee-based services. Our various products and services are sold globally to diverse customer groups, including consumers, small businesses, mid-sized companies and large corporations. These products and services are sold through various channels, including direct mail, online applications, in-house and third-party sales forces and direct response advertising.

Our products and services generate the following types of revenue:

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

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

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

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

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

- Interest and fees on loans, which principally represent interest income earned on outstanding balances and card fees related to the cardmember loans portfolio

Our general-purpose card network, card-issuing and merchant-acquiring and processing businesses are global in scope. We are a world leader in providing charge and credit cards to consumers, small businesses and corporations. These cards include cards issued by American Express as well as cards issued by third-party banks and other institutions that are accepted by merchants on the American Express network (collectively, Cards). American Express Cards permit cardmembers (Cardmembers) to charge purchases of goods and services in most countries around the world at the millions of merchants that accept Cards bearing our logo. At December 31, 2011, we had total worldwide Cards-in-force of 97.4 million (including Cards issued by third parties). In 2011, our worldwide billed business (spending on American Express® Cards, including Cards issued by third parties) was $822 billion.

To put us in a better position to grow within new revenue categories, we created an Enterprise Growth Group to focus on generating alternative sources of revenue on a global basis in areas such as online and mobile payments and fee-based services. For a discussion concerning our Enterprise Growth Group, see Corporate & Other below. In addition to the Enterprise Growth Group, we are seeking to transform all of our businesses for the digital marketplace, including by increasing our share of online spend billings across all products and enhancing customers digital experience, both organically and through strategic investments.

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

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

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

Wherever we manage both the acquiring relationship with merchants and the Card-issuing side of the business, there is a closed-loop, which distinguishes our network from the bankcard networks, in that we have access to information at both ends of the Card transaction. We maintain direct relationships with both our Cardmembers and our merchants, and we handle all key aspects of those relationships. This allows us to analyze information on Cardmember spending and build algorithms and other analytical tools that enable us to provide targeted marketing and other information services for merchants and special offers and services to Cardmembers through a variety of channels. At the same time, we protect the confidentiality of information on Cardmember spending, and comply with our privacy, data protection and firewall and antitrust policies and applicable legal requirements.

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

The American Express Brand

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

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

GLOBAL NETWORK & MERCHANT SERVICES

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

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

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

Global Network Services

We continue to pursue a strategy, through our GNS business, of inviting U.S. and foreign banks and other institutions to issue Cards and, in some countries, act as merchant acquirers on the American Express network. By leveraging our global infrastructure and the appeal of the American Express brand, we broaden our Cardmember and merchant base for our network worldwide. This strategy also enables us to enhance our presence in countries where we already do business and expand our presence into new geographic areas at economic scale and cost levels that would be difficult for us to achieve on our own. The GNS business has established 139 Card-issuing and/or merchant-acquiring arrangements with banks and other institutions in 155 countries. In assessing whether we should pursue a proprietary or GNS strategy in a given country, or some combination thereof, we consider a wide range of country-specific factors, including the stability and attractiveness of returns, the size of the affluent segment, the strength of available marketing and credit data, the size of co-brand opportunities and how we can best create strong merchant value.

In 2011, GNS signed 11 new partners to issue Cards and/or acquire merchants on the American Express network, including new card-issuing partnerships with the Bank of China, the Korea Exchange Bank, the First National Bank of Omaha and a card-issuing subsidiary of Isetan Mitsukoshi Group. GNS also supported existing partners in launching approximately 69 new products during 2011, bringing the total number of American Express-branded GNS partner products to over 1,000. New products launched in 2011 include the first American Express-branded contactless credit Cards in the United Kingdom from MBNA Europe Bank Ltd.; the Diamond Awards American Express® Card from Commonwealth Bank of Australia; the Maybankard 2 American Express® Credit Card with Maybank in Malaysia; the ICBC Platinum American Express® Card with the Industrial and Commercial Bank of China; The Platinum Card® and the Costco Samsung American Express® Card, both launched by Samsung Card in Korea; and the Bradesco American Express® Card and the American Express® Business Card with Banco Bradesco in Brazil. GNS also continues to expand the airline co-brand products issued through GNS relationships, launching four new airline co-brands in 2011 bringing the total to 57 airline co-brand products.

GNS focuses on partnering with qualified third-party banks and other institutions that choose to issue Cards accepted on our global network and/or acquire merchants on our network. Although we customize our network arrangements to the particular country and each partner s requirements, as well as to our strategic plans in that marketplace, all GNS arrangements are designed to help issuers develop products for their highest-spending and most affluent customers and to support the value of American Express Card acceptance to merchants. We choose to partner with institutions that share a core set of attributes compatible with the American Express brand, such as commitment to high quality standards and strong marketing expertise, and we require adherence to our product, brand and service standards.**

With over 1,000 different Card products launched on our network so far by our partners, GNS is an increasingly important business that is strengthening our brand visibility around the world, driving more

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

transaction volume onto our merchant network and increasing the number of merchants accepting the American Express Card. GNS enables us to expand our network s global presence generally without assuming additional Cardmember credit risk or having to invest a large amount of resources, as our GNS partners already have established attractive customer bases to whom they can target American Express-branded products, and are responsible for managing the credit risk associated with the Cards they issue. Since 1999, Cards-in-force issued by GNS partners have grown at a compound annual growth rate of 23%, and totaled over 34 million Cards at the end of 2011. Outside the United States, 77% of new Cards issued in 2011 were Cards issued by GNS partners. Spending on GNS Cards has grown at a compound annual rate of 25% since 1999. Year-over-year spending growth on these Cards in 2011 was 27%, with total spending equal to $117 billion.

GNS Arrangements

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

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

Independent Operator Arrangements

The first type of GNS arrangement is known as an independent operator (IO) arrangement. As of the end of 2011, we had 67 of these arrangements around the world. We pursue these arrangements to expand the presence of the American Express network in countries in which we do not offer a proprietary local currency Card. The partner s local presence and relationships help us enhance the impact of our brand in the country, reach merchant coverage goals more quickly, and operate at economic scale and cost levels that would be difficult for us to achieve on our own. Subject to meeting our standards, IO bank partners are licensed to issue local currency Cards in their countries, including the American Express classic Green, Gold and Platinum Card®. In addition, the majority of these partners serve as the merchant acquirer and processor for local merchants. American Express retains the relationship with multinational merchants. Our IO partners own the customer relationships and credit risk for the Cards they issue, and make the decisions about which customers will be issued Cards. GNS generates revenues in IO arrangements from Card licensing fees, royalties on Cardmember billings, foreign exchange conversion revenue, royalties on charge volume at merchants, share of discount revenue and, in some partnerships, royalties on net spread revenue or royalties on Cards-in-force. Our IO partners are responsible for transaction authorization, billing and pricing, Cardmember and merchant servicing, and funding Card receivables for their Cards and payables for their merchants.

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

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

Network Card License Arrangements

The second type of GNS arrangement is known as a network Card license (NCL). At the end of 2011, we had 68 of these arrangements in place worldwide. We pursue these arrangements to increase our brand presence and gain share in countries in which we have a proprietary Card-issuing and/or merchant acquiring business and, in a few cases, those in which we have IO partners. In an NCL arrangement, we grant the third-party institution a license to issue American Express-branded Cards. The NCL issuer owns the customer relationships for all Cards it issues, provides customer service to its Cardmembers, authorizes transactions, manages billing and credit, is responsible for marketing the Cards, and designs Card product features (including rewards and other incentives for Cardmembers), subject to meeting certain standards. We operate the merchant network, route and process Card transactions from the merchant s point of sale through submission to the issuer, and settle with issuers. The NCL is the type of arrangement we have implemented with banks in the United States, United Kingdom, Australia and Japan.

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

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

Joint Venture Arrangements

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

Global Merchant Services

We operate a GMS business, which includes signing merchants to accept Cards, accepting and processing Card transactions, and settling with merchants that accept Cards for purchases made by Cardmembers with Cards (Charges). We also provide marketing information and other programs and services to merchants, leveraging the capabilities provided by our investments in our closed-loop structure, as well as point-of-sale products, servicing and fraud prevention and other value-added services. Continued investments in the GMS business were a key priority in 2011 and will remain so in 2012.

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

During 2011, we continued expanding our integrated American Express OnePoint® program by adding third-party agents to service our small- and medium-sized merchants in the United States. Under this program, third-party service agents provide payment processing services to merchants on our behalf for Card transactions, while we retain the acceptance contract with participating merchants, manage the merchant pricing process, and receive the same transactional information we always have received through our closed-loop network. This program simplifies Card processing for small- and medium-sized merchants by providing them with a single source for statements, settlement and customer service. We are now following a similar strategy in Spain through an arrangement with La Caixa and in Mexico through arrangements with Banco Santander and Elavon Inc.

In June 2011, we announced the U.S.-wide rollout of our partnership with foursquare that allows Cardmembers to access special merchant offers through the popular location-based mobile platform. Merchants can offer tailored deals that may be redeemed automatically at the point of sale when the registered Card is used for the purchase without coupons, offer codes or sales staff training. Merchant offers initially included retailers H&M and Sports Authority and some restaurants owned by the Union Square Hospitality Group (such as Union Square Cafe, Blue Smoke and The Modern). Since the launch of the partnership, additional merchants such as Diane von Furstenberg and Dunkin Donuts have offered deals via the American Express-foursquare partnership.

In July 2011, we also used our couponless fulfillment capabilities to launch the Link, Like, Love℠ application on Facebook, providing Cardmembers with deals, access and experiences based on the likes, interests and social connections of Cardmembers and their Facebook friends. Cardmembers can receive statement credits as they shop online or in stores, without the need for coupons or special codes.

In 2011, we completed the integration of Accertify Inc., a leading provider of solutions that help merchants combat fraudulent online and other card-not-present transactions, which we acquired in November of 2010. Launched in 2007, Accertify provides a hosted software application that offers an extra level of security for transactions over any of the major payment networks, including American Express, Visa, MasterCard, Discover and PayPal, or any other alternative payment method. Accertify also offers merchants the option to outsource their end-to-end fraud management process and other value-added services. With the acquisition of Accertify, American Express is able to broaden its fraud prevention services to merchants for transactions that take place on all networks. Accertify s capabilities are incremental and complementary to American Express fraud solutions already offered to merchants for transactions on the American Express network.

GMS continues to significantly expand the number of merchants that accept our Card products as well as the kinds of businesses that accept the Card in order to address Cardmember needs. Over the last several years, we have focused our efforts on increasing the use of our Cards for everyday spending. In 1990, 64% of our U.S. billings came from the travel and entertainment sectors and 36% came from retail and other sectors. That proportion has now been more than reversed. In 2011, only 28% of U.S. billings came from the travel and entertainment sectors. This shift resulted, in part, from the growth, over time, in the types of merchants that began to accept charge and credit cards in response to consumers increased desire to use these cards for more of their purchases, our focus on expanding Card acceptance to meet Cardmembers needs, and increased competition for travel and entertainment sector spending.

During 2011, we continued our efforts to bring Card acceptance to industries where cash or checks are the predominant form of payment. For example, we have made headway in promoting Card acceptance in industries such as pharmaceuticals, construction, industrial supply, insurance and advertising. We also continued our drive to expand Card acceptance for retail and everyday spending categories outside the United States.

Globally, acceptance of general-purpose charge and credit cards continues to increase. As in prior years, during 2011, we continued to grow merchant acceptance of Cards around the world and to refine our approach to calculating merchant coverage in accordance with changes in the marketplace. We estimate that, as of the end of 2011, our merchant network in the United States accommodated more than 90% of our Cardmembers general-purpose charge and credit card spending. Our international spend coverage is more limited, although we continue to expand our merchant network in locations outside the United States. We estimate that our international merchant network as a whole accommodated more than 80% of our Cardmembers general-purpose charge and credit card spending. These percentages are based on comparing our Cardmembers spending on our network currently with our estimate of what our Cardmembers would spend on our network if all merchants that accept general-purpose credit and charge cards accepted American Express Cards.

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

Where we act as the merchant acquirer and the Card presented at a merchant is issued by a third-party bank or financial institution, such as in the case of our GNS partners, we will make financial settlement to the merchant and receive the discount revenue. In our role as the operator of the Card network, we will also receive financial settlement from the Card issuer, who receives an issuer rate (i.e., the individually negotiated amount that Card issuers receive for transactions charged on our network with Cards they issue, which is usually expressed as a percentage of the Charge amount). The difference between the discount revenue (received by us in the form of the merchant discount) and the issuer rate received by the Card issuer generates a return to us. In cases where American Express is the Card issuer and the merchant acquirer is a third-party bank or financial institution (which can be the case in a country in which the IO is the local merchant acquirer), we receive an individually negotiated issuer rate in our settlement with the merchant acquirer, which is recorded by us as discount revenue. By contrast with networks such as those operated by Visa and MasterCard, there is no collectively set interchange rate on the American Express network.

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

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

The merchant discount varies with, among other factors, the industry in which the merchant does business, the merchant s Charge volume, the timing and method of payment to the merchant, the method of submission of Charges and, in certain instances, the geographic scope of the Card acceptance agreement signed with us (local or global) and the Charge amount.

In prior years, we experienced some reduction in our global weighted average merchant discount rate. The average discount rate was 2.54 percent and 2.55 percent for 2011 and 2010, respectively. Over time, certain repricing initiatives, changes in the mix of business and volume-related pricing discounts and investments will likely result in some erosion of the average discount rate.

While merchants that accept our Cards understand our merchant discount pricing in relation to the value provided, we do encounter merchants that accept our Cards, but tell their customers that they prefer to accept another type of payment or otherwise seek to suppress use of the Card. Our Cardmembers value the ability to use their Cards where and when they want to, and we, therefore, take steps to seek to serve our Cardmembers desires and to protect the American Express brand, subject to local legal requirements, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) in the United States. We make efforts to limit

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Card suppression by focusing on acquiring merchants where Cardmembers want to use the Card; continuing to enhance the value we provide to merchants through programs such as American Express Selects®, which enable merchants of any size to gain valuable exposure and additional sales by providing exclusive offers and experiences to American Express Cardmembers; developing and providing new and innovative business insights, marketing programs (such as the foursquare program described above and our Small Business Saturday® event described below) and fraud prevention tools using information available through our closed-loop network; providing better and earlier communication of our value proposition; and, when appropriate, exercising our right to terminate Card acceptance agreements with merchants who seek to suppress the use of our Card products. We have a client management organization which is dedicated to growing our merchant customers business and finding ways to enhance effectiveness of our relationship with these key business partners. Most importantly, we recognize that it is the merchant s choice whether or not to accept American Express Cards and that all merchants have numerous options given the intense competition from new and traditional forms of payment. Therefore, we dedicate substantial resources to delivering superior and differentiated value to attract and retain our merchant customers.

The laws of a number of states in the United States and certain countries outside the United States prohibit the surcharging of credit card purchases. Conversely, there are certain countries in which surcharging is specifically permitted, such as Australia and certain countries in the European Union. American Express Card acceptance agreements with merchants generally do not prohibit surcharging so long as it is permitted by law and a merchant does not discriminate against the Card by surcharging higher amounts on purchases with the Card than on purchases with other cards, or by imposing a surcharge only on Card purchases, but not on purchases made with other cards. American Express also does not prohibit merchants from offering discounts to customers who pay with cash, check or inter-bank transfers (i.e., Automated Clearing House or ACH). In addition, American Express does not prohibit U.S. merchants from offering discounts or in-kind incentives to customers who pay with particular forms of payment in accordance with the provisions of Dodd-Frank. For information concerning the proceeding against us brought by the U.S. Department of Justice (DOJ) and certain state attorneys general alleging violation of the U.S. antitrust laws with regard to certain provisions of our merchant agreements that are designed to protect our Cardmembers and our brand against discrimination at the point of sale, see Corporate Matters within Legal Proceedings below.

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

We continue to focus our efforts in areas that make use and acceptance of the Card more secure and convenient for merchants and Cardmembers. We participate in standard-setting bodies, such as EMVCo, GlobalPlatform and PCI Security Standards Council, LLC (PCI SSC), to help drive secure and interoperable payments globally, making it easier for merchants to accept our Cards, for Cardmembers to have a more seamless experience at the point of sale, and for issuers that have more than one network relationship to have a standard across their card products. These efforts are particularly important as emerging technologies such as contactless cards and mobile phones move the payment card industry increasingly away from mag-stripe transactions. For example, we offer a contactless payment feature embedded in certain Cards, to provide a fast, easy-to-use alternative to cash, check, debit or other payment forms, particularly for making everyday purchases at merchants where speed and convenience is important. In the United States, certain quick-service restaurants, movie theaters, drug and convenience stores and major retail chains accept American Express contactless payments.

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Our closed-loop network and relationships allow us to analyze information on Cardmember spending. This enables us to provide targeted marketing and other information services for merchants and special offers and services to Cardmembers through a variety of channels. We have created a business within GMS called American Express® Business Insights, which offers products and services derived from our strong business model and closed-loop network. Business Insights combines aggregated, non-personally identifiable data and trend analysis to provide specialized business planning and marketing expertise to our merchant and other customers. At the same time, we protect the confidentiality of information on Cardmember spending, and comply with our privacy, data protection and firewall and antitrust policies and applicable legal requirements. In 2011, we expanded Business Insights to businesses in the United Kingdom and France. We also launched a new product called Insights Online that delivers streamlined business intelligence in a dynamic, web-based format and is targeted at small- and medium-sized businesses.

We work closely with our Card-issuing and merchant-acquiring bank partners to maintain key elements of this closed loop, which permits them to customize marketing efforts and deliver greater value to their Cardmembers, as well as help us to direct increased business to merchants who accept the Card.

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

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

Global Network & Merchant Services Competition

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

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

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

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

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

The success of marketing and promotional campaigns

Reputation and brand recognition

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

The quality of customer service

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

The security of Cardmember and merchant information

The impact of existing litigation, legislation and government regulation

The cost of Card acceptance relative to the value provided

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

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

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

Some of our competitors have attempted to replicate our closed-loop functionality, such as Visa, with its Visa Incentive Network, and MasterCard, with its MasterCard Advisors. Efforts by Visa, MasterCard and other card networks and payment providers to replicate the closed loop support its continued value and the intensely competitive environment in which we operate.

Global Network & Merchant Services Regulation

Local regulations governing the issuance of charge and credit cards have not been a significant factor impacting GNS arrangements with banks and qualifying financial institutions, because such banks and

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

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

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

The interchange fee, which is the collectively set fee paid by the bankcard merchant acquirer to the card issuing bank in four-party payment networks, like Visa and MasterCard, is generally the largest component of the merchant service charge payable by merchants for debit and credit card acceptance in these systems. By contrast, the American Express network does not have such interchange fees. Although the regulators focus has primarily been on Visa and MasterCard as the dominant card networks, antitrust actions and government regulation relating to merchant pricing could ultimately affect all networks. Lower interchange and/or merchant discount revenue may lead card issuers to look for other sources of revenue from consumers such as higher annual card fees or interest charges, as well as to reduce costs by scaling back or eliminating rewards programs.

In the United States, Dodd-Frank gave the Federal Reserve the authority to establish rules regarding interchange fees charged by payment card issuers for transactions in which a person uses a debit or general-use prepaid card, and to enforce a new statutory requirement that such fees be reasonable and proportional to the cost of a transaction to the issuer, with specific allowances for the costs of fraud prevention, as well as to prohibit exclusive network routing restrictions for electronic debit transactions. Reloadable general-use prepaid cards (but not those marketed or labeled as gift cards or gift certificates) are exempt from the interchange fee limitations, although all prepaid cards are subject to the exclusive network routing restrictions for electronic debit transactions. The Federal Reserve issued its final rule on June 29, 2011, which provides that the regulations on interchange and routing do not apply to a three-party network like American Express when it acts as both the issuer and the network for its prepaid cards, and is therefore not a payment card network as that term is defined and used for the specific purposes of this final rule.

Additionally, Dodd-Frank prohibits payment card networks from restricting merchants from offering discounts or incentives to encourage customers to pay with particular forms of payment such as cash, check, credit or debit card, provided that such offers do not discriminate on the basis of the network or issuer. Further, to the extent required by federal law or applicable state law, the discount or incentive must be offered to all prospective buyers and must be clearly and conspicuously disclosed. Dodd-Frank also permits U.S. merchants to establish minimum purchase amounts of no more than $10 for credit card purchases, provided that the merchants do not discriminate between networks or issuers. Federal government agencies and institutions of higher learning are also permitted to establish maximum amounts for credit card purchases provided they do not discriminate

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between networks or issuers. As a result of these new laws, customers may be incentivized by merchants to move away from the use of charge and credit card products to other forms of payment, such as debit, which could adversely affect our revenues and profitability.

During the last five years, a number of bills were proposed in individual state legislatures seeking to impose caps on credit card interchange fees or to prohibit credit card companies from charging a merchant discount on the sales tax portion of credit card purchases. Other proposals were aimed at increasing the transparency of card network rules for merchants. In addition, a number of bills were proposed to establish merchant liability for the costs of a data security breach of a merchant s system or require merchants to adopt technical safeguards to protect sensitive cardholder payment information. In 2010, Vermont enacted legislation that permits merchants to set a minimum dollar value of no more than $10 for acceptance of any form of payment; permits merchants to provide discounts or other benefits based on the form of payment (i.e., card, cash, check, debit card, stored-value card, charge card or credit card); and permits merchants to accept the cards of a payment system at one or more of its locations but not at others. In the event that additional legislative or regulatory activity to limit interchange or merchant fees continues or increases, or state privacy or data security-related legislation is adopted, our revenues and profitability could be adversely affected.

In certain countries where antitrust actions or regulations have led our competitors to lower their fees, we have made adjustments to our pricing to merchants to reflect local competitive trends. For example, reductions in bankcard interchange mandated by the Reserve Bank of Australia in 2003 resulted in lower merchant discount rates for Visa and MasterCard acceptance. As a result of changes in the marketplace, we reduced our own merchant discount rates in Australia over time, although we have been able to increase billed business and the number of merchants accepting our Cards. In December 2007, the European Commission ruled that MasterCard s multilateral interchange fees (MIF) for cross-border payment card transactions violate EC Treaty rules on restrictive business practices. The European Commission s decision applies to cross-border consumer credit, charge and debit card transactions within the European Union and to domestic transactions to which MasterCard has chosen to apply the cross-border MIF. The ruling does not prevent MasterCard and its issuer banks from adopting an alternative MIF arrangement that can be proven to comply with EU competition rules. Although the European Commission s investigation included commercial cards, it has reserved judgment for the time being on the legality of MasterCard s cross-border MIF for commercial card transactions. MasterCard lodged an appeal against the European Commission s findings, which is pending. An interim settlement, pending the appeal, was agreed to in 2009 between the European Commission and MasterCard, capping MIF at 30 basis points for consumer card transactions and 20 basis points for debit card transactions. In 2008, the European Commission opened formal antitrust proceedings against Visa Europe Limited in relation to Visa s MIFs for cross-border consumer card transactions within Europe, and in 2010, the European Commission accepted Visa Europe s pledge to cut its cross-border debit card MIF to 20 basis points for four years. The European Commission s investigation into Visa Europe s credit and deferred debit card MIF for cross-border transactions remains ongoing. Developments at the EU level may affect how the competition authorities in the Member States of the EU view domestic interchange and the progress of ongoing investigations. For example, the Office of Fair Trading in the United Kingdom indicated that it was delaying further consideration of its cases against MasterCard and Visa pending the outcome of the appeal of the European Commission s decision against MasterCard.

Within the past few years, national parliaments in Hungary, Italy and France have sought to enact caps on interchange fees or point of sale service charges without government sponsorship for these measures. Although such legislation has been or may be either repealed or struck down on procedural grounds, it is possible there may be further attempts to enact regulation of merchant fees or interchange with direct or indirect impacts on American Express.

In January 2012, the European Commission published a Green Paper (a document to stimulate debate and begin a process of consultation) entitled Towards an Integrated European Market for Card, Internet and Mobile Payments. The area of focus covers a range of issues affecting the payments industry, including: multilateral

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interchange fees; scheme rules; separating scheme management from processing; cross-border acquiring; surcharging; co-badging cards across different schemes; mobile payments; technical standardization; and governance of industry-led changes aimed at supporting the integration of Europe in the area of payments. Regulatory action is a possible outcome of this consultation. The European Commission has set a three-month consultation period, ending early April 2012. Further rounds of consultation on any emerging proposals would then be expected before any action is pursued.

Regulators have also considered network rules that prohibit merchants from surcharging card purchases. In Australia, we have seen selective, but increasing, merchant surcharging on our Cards in certain industries and, in some cases, on a basis that is greater than that applied to cards issued on the bankcard networks. The Reserve Bank of Australia conducted a review during 2011 and has proposed amendments to the surcharging regulations that would allow a scheme s rules to limit surcharges to a reasonable cost of acceptance of cards of that scheme. The form of the proposed amendments to the regulations is subject to a further round of consultation in early 2012.

In the last few years, the member states of the European Economic Area have now implemented a relatively new legislative framework for electronic payment services, including cards, called the European Directive 2007/64/EC on payment services. This directive, commonly referred to as the Payment Services Directive (PSD), prescribes common rules for licensing and supervision of payment services providers, including card issuers and merchant acquirers, and for their conduct of business with customers. The objective of the PSD is to facilitate the operation of a single internal payments market in the EU through harmonization of EU Member State laws governing payment services. One provision of the PSD permits merchants to surcharge, subject to disclosure requirements, but also allows individual Member States to override this rule by prohibiting or limiting surcharging. To date, the member states of the European Economic Area are split on whether they prohibit or permit surcharging, with countries such as the United Kingdom (which for a number of years has permitted it for credit card purchases), the Netherlands and Spain permitting it, in some cases within limits, and other countries such as France, Italy and Sweden prohibiting it. All Member States permit discounts for forms of payment that are cheaper for merchants to process. The PSD complements another European initiative, the Single Euro Payments Area (SEPA), which is an industry-led initiative with support from EU institutions. Among other changes, SEPA involves the adoption of new, pan-European technical standards for cards and card transactions. All of the foregoing requires significant costs to implement and maintain. In addition, the European Union s Consumer Rights Directive, which was adopted by the EU Council of Ministers in October 2011, will prohibit merchants from surcharging card purchases more than the merchants cost of acceptance. The Member States have two years to adopt this legislation.

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

U.S. CARD SERVICES

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

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

- Focusing on acquiring and retaining high-spending, creditworthy Cardmembers
- Designing Card products with features that appeal to traditional and newer customer segments
- Using strong incentives to drive spending on our various Card products and generate loyal customers, including our Membership Rewards® program and other rewards features
- Using loyalty programs such as Delta SkyMiles, sponsored by our co-brand and other partners to drive spending
- Developing and nurturing wide-ranging relationships with co-brand and other partners
- Promoting and using incentives for Cardmembers to use their Cards in new and expanded merchant categories, including everyday spend and traditional cash and check categories
- Providing exceptional customer service
- Providing opportunities to drive spending and loyalty programs in digital channels

In August 2011, J.D. Power and Associates released its annual nationwide credit card satisfaction study and ranked American Express #1 in overall customer satisfaction among the top 10 largest card issuers in the United States, for the fifth consecutive year.

Consumer and Small Business Services

We offer individual consumer charge Cards such as the American Express® Card, the American Express® Gold Card, the Platinum Card® and the Centurion® Card, as well as ZYNC® from American Express. We also offer revolving credit Cards such as Blue from American Express®, the Blue Cash® Everyday Card from American Express® and Blue Sky from American Express®. In addition, we offer a variety of Cards sponsored by and co-branded with other corporations and institutions, such as the Delta SkyMiles® Credit Card from American Express, TrueEarnings® Card exclusively for Costco members, Starwood Preferred Guest® Credit Card and JetBlue Card from American Express. For the year ended December 31, 2011, billed business from charge Cards comprised 59% of total U.S. Card Services billed business. We also offer deposit products directly to consumers through Personal Savings from American Express.

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

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

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

	Centurion Bank	AEBFSB
Type of Bank	Utah-chartered industrial bank	Federal savings bank
Regulatory Supervision	Regulated, supervised and regularly examined by the Utah Department of Financial Institutions and the FDIC Subject to supervision, examination and enforcement by the CFPB with respect to marketing and sale of consumer financial products and compliance with federal consumer financial laws	Regulated, supervised and regularly examined by the OCC, an independent bureau of the U.S. Department of the Treasury Subject to supervision, examination and enforcement by the CFPB with respect to marketing and sale of consumer financial products and compliance with federal consumer financial laws
Types of cards issued	Consumer credit Cards Consumer charge Cards (including co-brand charge Cards)	Consumer credit Cards (including all co-brand credit Cards) Consumer charge Cards (including co-brand charge Cards) All OPEN® credit Cards and charge Cards
Card marketing methods	Primarily direct mail and other remote marketing channels	Direct mail and other remote marketing channels In-person selling and third-party co-brand partners
Deposit Programs	Deposits obtained only through third-party brokerage channels	Deposits obtained through third-party brokerage channels and accepted directly from consumers
Risk-based capital adequacy requirements*, based on Tier One risk-based capital, total risk-based capital and Tier One core capital ratios at December 31, 2011	Well capitalized	Well capitalized

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

Charge Cards

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

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

Revolving Credit Cards

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

In 2011, we launched two new products in the Blue Cash card family: Blue Cash Everyday® and Blue Cash Preferred®. Both Cards offer cash-back features and Blue Cash Preferred® has an annual fee, which supports the diversification of revenue streams in this portfolio. We also launched a new rewards program for the Blue Cash card family that allows Cardmembers to earn rewards that can be redeemed anytime for cash back in the form of a statement credit, gift cards and merchandise.

Co-brand Cards

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

During 2011, we launched two new co-branded Card products designed for Mercedes-Benz drivers and enthusiasts: the Mercedes-Benz Credit Card from American Express and the Platinum Card® from American Express Exclusively for Mercedes-Benz. In 2011, we also introduced several new features on our existing co-branded Card products. For example, we introduced the Delta Priority Boarding benefit, which allows Gold, Platinum or Reserve Delta SkyMiles Credit Card Cardmembers to priority board on Delta flights, as well as savings on eligible in-flight purchases on Delta Air Lines-operated flights.

Card Pricing and Account Management

On certain Cards we charge an annual fee that varies based on the type of Card and the number of Cards for each account. We also offer many revolving credit Cards on which we assess finance charges for revolving balances. Depending on the product, we may also charge Cardmembers an annual program fee to participate in the Membership Rewards programs and fees for account performance (e.g., late fees) or for certain services (e.g., Automatic Flight Insurance). We apply standards and criteria for creditworthiness to each Cardmember through a variety of means both at the time of initial solicitation or application and on an ongoing basis during the Card relationship. We use sophisticated credit models and techniques in our risk management operations. For a further description of our risk management policies, see Risk Management appearing on page 35 of our 2011 Annual Report to Shareholders, which information is incorporated herein by reference.

Membership Rewards® Program

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

The U.S. Membership Rewards program has over 150 redemption partners and features over 500 merchandise brands. Membership Rewards program tiers are aligned with specific Card products to better meet Cardmember lifestyle and reward program usage needs. American Express Cardmembers participate in one of three Membership Rewards program tiers based on the credit or charge Card they have in their wallet. For those Cardmembers with American Express Cards, such as Blue from American Express and ZYNC from American Express, we have the Membership Rewards Express® program. American Express charge Cardmembers with American Express Green and Gold Cards have the Membership Rewards program. Platinum Card® members and Centurion® Cardmembers are enrolled in the Membership Rewards First® program.

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

During 2011, we added a number of new redemption partners across several popular categories such as dining and entertainment (OpenTable), retail (Recreational Equipment, Inc.) and travel (Four Seasons Hotels & Resorts). Cardmembers can also now use their points to purchase advertising credits for Facebook, gift cards for Seamless.com and gift certificates at vente-privee USA, a members-only premium shopping site developed in partnership with American Express.

When a Cardmember enrolled in the Membership Rewards program uses the Card, we establish reserves to cover the cost of estimated future reward redemptions for points earned to date. When a Membership Rewards program enrollee redeems a reward using Membership Rewards points, we make a payment to the Membership Rewards program partner providing the reward pursuant to contractual arrangements. Membership Rewards expense is driven by Cardmember Charge volume, customer participation in the program and contractual arrangements with redemption partners. At year-end, we estimated that current Cardmembers will ultimately redeem approximately 92% of their points. For more information on our Membership Rewards program, see Critical Accounting Estimates Reserves for Membership Rewards Costs appearing on page 16 of our 2011 Annual Report to Shareholders, which information is incorporated herein by reference.

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

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Cardmember Special Services and Programs

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

- Membership Rewards® program
- Global Assist® Hotline
- Car Rental Loss and Damage Insurance
- Extended Warranty
- Purchase Protection
- Return Protection
- Emergency Card Replacement
- Manage Your Card Account Online
- Online Year-End Summary
- Roadside Assistance
- Advance Ticket Sales
- Event Ticket Protection Plan
- Automatic Flight Insurance
- Premium Baggage Protection
- American Express Travel Insurance
- CreditSecure®
- Account Protector
- Fraud Protection Guarantee
- My Credit Score and Report
- Identity Theft Assistance
- ID Protect from American Express
- Platinum Office Program
- Online Money Manager
- Exclusive Access to Cardmember Events

As part of our effort to deliver additional value for existing Cardmembers and to attract new high-spending customers to American Express, we introduced several new benefits to the Platinum Card® and Centurion® Card in 2011 that will provide our consumer and OPEN® Cardmembers with improved value and service while traveling, such as greater access to international airport lounges, the elimination of foreign currency translation fees and a credit for the Global Entry program that allows expedited clearance when returning from traveling abroad. We also continued to roll out digital innovations in 2011, including an application that can be downloaded onto most smartphones and tablet devices enabling Cardmembers to check and pay their bills, redeem their Membership Rewards points, learn about key Card benefits and take advantage of upcoming events and offers.

OPEN

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

- charge and credit Cards
- rewards on eligible spend and business-relevant rewards redemption options
- travel and concierge services
- business, retail and travel protections such as employee card misuse protection, purchase protection and baggage insurance
- 3% 10% discounts at select suppliers of travel, business services and products through OPEN Savings®
- expense management tools and reporting
- online account management capabilities
- proprietary and third-party business solutions to support everyday business operations such as social media management, business travel and international payments
- resources to help grow and manage a business through the award-winning community-driven Web site, OPEN Forum®

As part of our commitment to support small businesses, in 2011 we sponsored the second Small Business Saturday®, a day to increase consumer awareness and patronage of local businesses and their role in the economy and local neighborhoods. We also developed new tools to help small businesses succeed, such as the Shop

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Small® Digital Toolkit, a suite of free tools designed to help small business owners develop their digital presence to drive sales, and American Express OPEN s Marketing Suite, which features third-party software-as-a-service solutions designed to help small business owners develop and manage their online marketing efforts. We also continued to enhance and expand our small business offerings: we launched a new OPEN® Business Gold Rewards Card and expanded the OPEN Savings® program through new partnerships with Iron Mountain, FedEx Freight, Dun & Bradstreet Credibility Corp. and the Microsoft Store.

Card-Issuing Business Competition

Our proprietary Card business encounters substantial and intense competition in the United States and internationally. As a card issuer, we compete in the United States with financial institutions (such as Citibank, Bank of America, JPMorgan Chase and Capital One Financial) that issue general-purpose charge and revolving credit cards, and Discover Financial Services, which issues the Discover card on the Discover network. We also encounter competition from businesses that issue their own cards or otherwise extend credit to their customers, such as retailers and airline associations, although these cards are generally accepted only at limited locations. Because of continuing consolidations among banking and financial services companies and credit card portfolio acquisitions by major card issuers, there are now a smaller number of significant issuers. The largest competing issuers have continued to grow, in several cases by acquiring card portfolios, and also by cross-selling through their retail branch networks.

In recent years, we have encountered increasingly intense competition in the small business sector, as competitors have targeted OPEN s customer base and our leadership position in providing financial services and other fee-based solutions to small businesses. Competing card issuers offer a variety of products and services to attract cardholders, including premium cards with enhanced services or lines of credit, airline frequent flyer program mileage credits, cash rebates and other reward or rebate programs, services for small business owners, teaser promotional interest rates for both credit card acquisition and balance transfers, and co-branded arrangements with partners that offer benefits to cardholders.

Most financial institutions that offer demand deposit accounts also issue debit cards to permit depositors to access their funds. Use of debit cards for point-of-sale purchases has grown as most financial institutions have replaced ATM cards with general-purpose debit cards bearing either the Visa or MasterCard logo. As a result, the purchase volume and number of transactions made with debit cards in the United States has grown more rapidly than credit and charge card transactions. Debit cards were historically marketed as replacements for cash and checks, and transactions made with debit cards have typically been for smaller dollar amounts. There is no credit extended when a debit card is used and the consumer must have sufficient funds in his or her demand deposit account to pay for the purchase at the time of the transaction as opposed to charge cards where payment is due at the end of the billing period or credit cards where payment can be extended over a period of time. However, debit cards are also perceived as an alternative to credit or charge cards and used in that manner. Additionally, overdraft accounts can be used by our competitors to extend credit to customers when transaction values exceed monies available in a linked demand deposit account.

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

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

- The features and quality of the services, including rewards programs and digital resources, provided to Cardmembers
- The number, spending characteristics, and credit performance of Cardmembers
- The quantity, diversity and quality of the establishments that accept Cards
- The cost of Cards and Cardmember services
- The pricing, payment and other Card account terms and conditions
- The number and quality of other payment cards and other forms of payment, such as debit cards, available to Cardmembers
- The nature and quality of expense management data capture and reporting capability
- The success of targeted marketing and promotional campaigns
- The reputation and brand recognition
- The ability of issuers to manage credit and interest rate risk throughout the economic cycle
- The ability of issuers to implement operational and cost efficiencies
- The quality of customer service
- The level and effectiveness of advertising investments

Financing Activities

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

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

AEBFSB also fund receivables through asset securitization programs. The cost of funding Cardmember receivables and loans is a major expense of Card operations.

There is a discussion of our securitization and other financing activities on pages 29-33 under the caption Financial Review, and Note 7 on page 74 of our 2011 Annual Report to Shareholders, which portions we incorporate herein by reference. In addition, see *Difficult conditions in the global capital markets and economy generally, as well as political conditions in the United States and elsewhere, may materially adversely affect our business and results of operations* and *Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, access to capital and cost of capital* in Risk Factors below.

Deposit Programs

Centurion Bank and AEBFSB accept deposits from individuals through third-party brokerage networks, and AEBFSB accepts deposits directly from consumers. As of December 31, 2011, we had approximately

$37.3 billion in total U.S. retail deposits. The majority of the Company s outstanding U.S. retail deposits has been raised through third-party brokerage networks. As part of our funding strategy, a majority of the deposits raised during 2011 were accepted directly from consumers through Personal Savings from American Express, a suite of deposit products offered by AEBFSB. Our deposit-taking activities compete with those of other deposit-taking organizations that source deposits through telephone, Internet and other electronic delivery channels, brokerage networks and/or branch locations. We compete primarily in the deposit sector on the basis of rates and our brand reputation for safety and service.

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

Card-Issuing Business and Deposit Programs Regulation

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

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

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

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

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

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

- The Electronic Funds Transfer Act (which governs disclosures and settlement of transactions for electronic funds transfers and customer rights and liability arising from the use of ATMs and other electronic banking services)

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- The CARD Act (which prohibits certain acts and practices in connection with consumer credit card accounts)
- The Consumer Financial Protection Act of 2010 (Title X of Dodd-Frank)
- The Telephone Consumer Protection Act (which prohibits contacting customers on their cellular telephones without their express consent, and provides for significant statutory damages)
- Regulation Z (which implements TILA and was recently amended by the Federal Reserve to extensively revise the open end consumer credit disclosure requirements and implement the requirements of the CARD Act)
- Federal and state laws and regulations that generally prohibit engaging in unfair, deceptive and abusive acts and practices in offering consumer financial products and services

Certain federal and state privacy-related laws and regulations govern the collection and use of customer information by financial institutions. Federal legislation also regulates abusive debt collection practices. In addition, a number of states, the European Union, and many foreign countries in which we operate have significant consumer credit protection and disclosure and data protection-related laws (in certain cases more stringent than the laws of the United States). Bankruptcy and debtor relief laws affect us to the extent that such laws result in amounts owed being classified as delinquent and/or charged off as uncollectible. As stated above, financial institutions, card issuers and card networks are subject to certain provisions of the Bank Secrecy Act as amended by the Patriot Act, with regard to maintaining effective AML programs. For a discussion of these and other regulations and legislation that impact our business, see Supervision and Regulation General below.

American Express Company and its subsidiaries, including in particular our U.S. banking subsidiaries, Centurion Bank and AEBFSB, and our other banking subsidiaries, are subject to a variety of laws and regulations applicable to financial institutions. Changes in such laws and regulations or in the regulatory application or judicial interpretation thereof could impact the manner in which we conduct our business and the costs of compliance. The regulatory environment in which we operate has become increasingly complex and robust, and following the financial crisis of 2008, supervisory efforts to apply relevant laws, regulations and policies have become more intense. The U.S. Congress and regulators, as well as various consumer advocacy groups, have continued to focus their attention on certain practices of credit card issuers, such as unfair and deceptive business practices, increases in annual percentage rates (APRs), changes in the terms of the account, and the types and levels of fees and financial charges charged by card issuers for, among other things, late payments, returned checks, payments by telephone, copies of statements and the like. In August 2010, AEBFSB entered into a public, written supervisory agreement with the Office of Thrift Supervision (OTS), which was then its primary federal banking regulator, requiring AEBFSB to make certain enhancements to its compliance program and to complete certain corrective actions relating to compliance. We regularly review and, as appropriate, refine our business practices in light of existing and anticipated developments in laws, regulations and industry trends so we can continue to manage our business prudently and consistent with regulatory requirements and expectations. For information about the recently enacted CARD Act, see Privacy, Fair Credit Reporting within Supervision and Regulation General below. For information regarding Centurion Bank s receipt of a notice from the FDIC regarding its plan to take formal enforcement action against Centurion Bank in connection with a review by the FDIC and the Utah Department of Financial Institutions (DFI) of Centurion Bank s card practices for compliance with certain consumer protection laws and regulations, see Legal Proceedings below.

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

American Express U.S. Consumer Travel Network

The American Express U.S. Consumer Travel Network provides travel, financial and Cardmember services to consumers through American Express-owned travel service offices, call centers, participating American Express Representatives (independently owned travel agency locations that operate under the American Express brand) and the Consumer Travel Web site. American Express U.S. Consumer Travel Network has distinguished itself in the luxury space through its Platinum Travel Services and Centurion Travel Services, which service the needs of our premium Cardmembers and support the exclusive travel benefits that we provide for them. These exclusive travel benefits include the International Airline Program, which offers an international first- and/or business-class companion ticket offer on qualifying tickets with 23 world-class airlines, and the Fine Hotels & Resorts program, which is a luxury hotel program offering room upgrades and value-added amenities.

In addition, the Consumer Travel business operates a wholesale travel business in the United States through our Travel Impressions subsidiary. (A wholesaler secures allotments, such as hotel rooms, from suppliers and then offers the services to customers at retail prices that the wholesaler determines.) Our wholesale travel business manages and operates American Express Vacations, sold exclusively through the American Express Consumer Travel Network in the United States and our Membership Travel Services International Group internationally. Travel Impressions also distributes travel packages through other retail travel agents and private label brands for third parties in the United States. Travel Impressions is consistently recognized by its customers for outstanding services, including being named *Travel Weekly* s Best Tour Operator, Sales and Service, for seven years in a row.

Our Consumer Travel Web site, americanexpress.com/travel, offers a full range of travel rates and discounts on airfares, hotels, car rentals, last-minute deals, cruises and full vacation packages. The Web site offers unique American Express Cardmember benefits such as double Membership Rewards® points, an American Express Travel Office locator, Travel Specialist finder tools and travel planning resources and destination content. In addition, Cardmembers are able to Pay with Points by redeeming Membership Rewards points for some categories of travel through our Web site, as well as through our call centers and Travel Offices. During 2011, we signed an agreement with Orbitz Worldwide, LLC, a wholly owned subsidiary of Orbitz Worldwide, Inc., whereby Orbitz will provide private label services through our Consumer Travel Web site.

American Express U.S. Consumer Travel Network Competition

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

American Express U.S. Consumer Travel Network Regulation

The American Express U.S. Consumer Travel Network is subject to domestic and international laws applicable to the provision of travel services, including: licensure requirements; laws and regulations regarding passenger protections such as the Enhancing Airline Passenger Protections rule issued by the U.S. Department of Transportation; and laws and regulations regarding passenger screening and registration such as the Secure Flight Rule issued by the U.S. Transportation Security Administration. Additionally, the American Express U.S. Consumer Travel Network is subject to U.S. state and federal laws and regulations related to privacy, data security and breach notification.

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INTERNATIONAL CARD SERVICES

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

The Company continued to bolster its international proprietary Card business through the launch of numerous new or enhanced Card products during 2011. These are Cards that we issue, either on our own or as co-brands with partnering institutions. As we have renewed many of our co-brand and financial institution deals, we have been focused on adding new products, new channels, and increasingly, new countries to the agreements. In 2011, among other new proprietary products, we announced or launched several new co-branded products, including a suite of co-brand Cards in partnership with Virgin Australia, a new Costco credit Card in the United Kingdom and a new Delta Air Lines co-brand credit Card in Japan. We offer many of the same programs and services in our international proprietary Card-issuing business as we do in our U.S. proprietary issuing business. For example, as in the United States, we offer various flexible payment options similar to our Sign & Travel® program and our Extended Payment Option to Cardmembers in several countries outside the United States. Also, as in the United States, we issue Cards internationally under distribution agreements with financial services institutions. Another example of our distribution partnerships is affinity cards with fraternal, professional, educational and other organizations. For instance, we have been successful in penetrating the affinity card segment in Australia, where we issue Cards with more than 30 of the largest professional associations in that country. In Australia, affinity cards are a substantial part of our total revolving portfolio and contribute to our proprietary consumer lending activities.

As in the United States, the Membership Rewards® program is a strong driver of Cardmember spending in the international consumer business. We have more than 1,300 redemption partners across our international business, with an average of approximately 75 partners in each country; approximately 25% of these partners are in the travel industry. Cardmembers can redeem their points with more than 35 airlines and over 175 hotels. Our redemption options include travel, retail merchandise, entertainment, shopping and recreation gift certificates, experiences, financial services and charity rewards. In 2011, we continued to enhance our rewards programs in several countries, offering more flexible choices that enable Cardmembers to redeem Membership Rewards points more quickly.

We continue to build on our strengths and look for further opportunities to increase our presence internationally. During 2011, we completed the acquisition of a controlling interest in Loyalty Partner, a leading marketing services company known for the loyalty programs it operates in Germany, Poland and India. This acquisition has furthered our strategy to grow fee-based revenue, deepened our merchant relationships in select countries, added more than 36 million consumers to our international customer base and expanded our range of rewards and loyalty marketing services. Loyalty Partner builds merchant coalitions, such as its Payback program, and offers loyalty cards good for discounts and rewards at participating coalition partners. Merchants fund the consumer offers and are responsible for the accumulated loyalty points, and Loyalty Partner earns revenue from operating the loyalty platform and by providing marketing support. In 2011, we launched, through Loyalty Partner, the Payback program in India. The Future Group, one of India s largest retailers, became the first Payback partner in India and added 1,600 new points-of-sale to the Payback network, doubling its size. Loyalty Partner also provides market analysis, operating platforms and consulting services that help merchants grow their businesses. Using these services, merchants are able to run targeted and tailored campaigns across all available channels.

Membership Travel Services International provides premium travel and concierge services to our Platinum and Centurion Customers, through 25 exclusively dedicated call centers in 23 international countries. Additionally, Membership Travel Services operates 16 proprietary Travel Service Offices in Mexico, Italy and Argentina to provide all Cardmembers with travel and general card service assistance. We deliver exclusively

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negotiated travel and lifestyle benefits to premium Cardmembers including the Fine Hotels & Resorts Program, American Express Vacations and American Express International Airline Program. In addition, we provide exclusive access to events and airport lounge access to our premium Cardmembers.

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

International Proprietary Consumer Card Competition

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

International Proprietary Consumer Card Regulation

As discussed elsewhere in this report, regulators in 2011 continued to propose and enact a variety of regulatory changes to the payments landscape in many of our key countries. Regulators have been active in almost all jurisdictions in which we operate and their scope has been very broad. Privacy, data protection, AML and consumer credit have been key themes in both regulations and examinations. For example, in the European Economic Area we have seen both local and regional initiatives as the European Commission looks to introduce more harmonization measures, such as the European Directive 2008/48/EC on credit agreements for consumers (commonly referred to as the Consumer Credit Directive), which harmonizes the provision of credit to customers. Outside Europe, regulations in Mexico, Australia, Canada, Hong Kong and India have been a focus. Some jurisdictions, such as Mexico, Hong Kong and India, are enacting legislation mandating the migration to the EMV standard for card issuing and acceptance, following the approach taken in the European Economic Area. The EMV standard is a global standard for credit and debit payment cards based on chip card technology and is managed and maintained by EMVCo, a standards body in which we are an owner-member.

We expect this activity to continue in 2012. We continue to evaluate our business planning in light of changing market circumstances and the evolving political, economic, regulatory and media environment.

GLOBAL COMMERCIAL SERVICES

In our Global Commercial Services (GCS) segment, we provide expense management services to companies and organizations worldwide through our Global Corporate Payments and Global Business Travel businesses. American Express is a leading provider of corporate payment solutions and a leading global travel management company for businesses. During 2011, we added or retained several major Corporate Payments and Business Travel clients in the United States and internationally, including among others Accenture, AstraZeneca, Boston Scientific, British Telecom, Chrysler, Hewlett-Packard, Lord & Taylor, Microsoft, Siemens and Yahoo!.

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

- A comprehensive offering of Corporate Card Programs, such as:
  - *Corporate Cards*: issued to individuals through a corporate account established by their employer and that many business customers use to manage travel and entertainment spending
  - *Corporate Meeting Cards*: provided primarily to corporate meeting planners as a tool to help companies control their meeting and event expenses

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

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

- *Corporate Purchasing Card*: an account established by companies to pay for everyday and large-ticket business expenses such as office and computer supplies
- *vPayment*: provides fast and efficient payment for business-related purchases and permits the processing of transactions with effective fraud controls
- *Buyer-Initiated Payments*: an electronic solution for companies looking to automate their payment processes

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

- *Travel Services*: online, offline and on-the-go travel offerings tailored to client needs
- *Supplier Relations*: preferred partnerships with airline, hotel, car and limousine suppliers
- *Meetings & Events*: a suite of solutions and tools to help organizations of all sizes gain control of and insight into their meetings spend and help mitigate against risk
- *Advisory Services*: a leading practice line offering tools and consulting to help companies maximize their travel program through compliance and solution optimization

Global Corporate Payments

Global Corporate Payments (GCP) offers a range of expense management solutions to companies worldwide through our Corporate Card Programs and Business-to-Business Payment Solutions.

Corporate Card Programs

The American Express® Corporate Card is a charge card that individuals may obtain through a corporate account established by their employer for business purposes. Through our Corporate Card Program, companies can manage their travel and entertainment spending and everyday business expenses and negotiate more effectively with suppliers, among other benefits. We use our direct relationships with merchants to offer Corporate Card clients superior data about company spending, as well as streamlined dispute resolution. We issue local currency Corporate Cards in 44 countries and international dollar/euro Corporate Cards in 120 countries. We also offer Corporate Cards issued through our GNS partner relationships in an additional 30 countries. In 2011, we introduced international dollar/euro Corporate Cards in an additional 12 countries and recently launched a European Enhanced Business Travel Accounts product for our global and multinational clients, providing enhanced visibility into travel expenses.

With the heightened focus on cost containment, many companies are increasingly interested in our Corporate Meeting Card program, which helps businesses control meeting-related expenses. It allows clients to capture meeting spending, simplify the payment process and gain access to data to support negotiations with suppliers.

American Express also partners with many other companies around the world to offer a number of co-brand Corporate Cards in various countries. To date, American Express has 14 Corporate Card co-brand partnerships worldwide. These products, typically suited for mid-sized companies (defined in the United States as firms with annual revenues of $10 million to $1 billion worldwide), provide savings on everyday business spending and/or air travel. GCP is focused on continuing to expand its business with mid-sized companies, which represent significant growth opportunities. Businesses of this size often do not have a corporate card program. However, once enrolled, mid-sized companies typically put a significant portion of their business spending on the Corporate Card because they can gain control, savings and employee benefits.

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GCP offers the Savings at Work® Program to mid-sized companies in the United States, as well as similar programs globally, which provides companies with cash back and/or discounted pricing on everyday business products and services, such as car rentals, hotels, restaurants and courier services. Corporate Cardmembers can also take advantage of our Membership Rewards program to earn points that can be redeemed for air travel and hotel stays, as well as retail, home and recreation items. Membership Rewards is a powerful tool for encouraging Corporate Card usage, leading to greater expense control and savings.

Business-to-Business Payment Solutions

We also offer a series of Business-to-Business Payment Solutions to help companies manage B2B spending. This type of spending by companies helps to diversify our spend mix. These solutions provide a variety of benefits to companies, including cost savings, process efficiency, improved cash flow and increased visibility, and control and security over business expenses. The Corporate Purchasing Card helps large corporations and mid-sized companies manage their everyday spending. It is used to pay for everyday goods and business expenses, such as office supplies, industrial supplies and business equipment in 27 countries around the world.

vPayment, which offers companies single-use virtual account numbers, allows GCP customers to make payments with enhanced controls, data capture and reconciliation capabilities. Charges are authorized for a specified amount during a designated amount of time. The solution automates reconciliation, eliminates manual check requests, interfaces easily with a customer s enterprise resource planning (ERP), procurement and accounts payable systems, and can be used at one or more stages of the procurement-to-payables process.

Buyer Initiated Payments (BIP) allows American Express to pay B2B suppliers electronically on behalf of our clients, permitting our clients to have more control over their payments, extend their own days payable outstanding (or float), and increase their cash on hand. This solution is best suited for mid- to large-sized companies that want to transition rapidly to electronic payments, reduce supplier inquiries, convert from paper to electronic payments, and optimize cash flow. BIP is currently available to companies in the United States and Canada. In 2011, we launched BIP Express, a Web-hosted version of BIP that is easy to implement and enables customers to process transactions in a matter of days.

Online Capabilities

GCP offers companies and individual Cardmembers the ability to manage their Corporate Card Programs, and offers companies the ability to manage their Business-to-Business Payment Solutions, on a 24/7 basis through a suite of secure Web-based online tools. American Express @ Work® provides clients authorized users online access to global management information to help them gain visibility into their spending patterns, as well as the ability to make changes to their Corporate Card, Corporate Purchasing Card, BTA and Corporate Meeting Card accounts. Cardmembers can use the online Manage Your Card Account tool to manage their individual Card account. Business-to-Business Payment Solutions also offers clients the option to use online access to manage their vPayment and Buyer Initiated Payments solutions.

Global Corporate Payments Competition

The corporate payments sector is dynamic and highly competitive, with competition increasingly intense at both the network and payment provider levels. At the network level, we have experienced increasing competition including intense price competition, aggressive expansion into new and emerging segments, efforts to transition B2B spend from cash and check to cards and electronic invoicing and payment vehicles, and expanding marketing and advertising budgets for commercial services. Both Visa and MasterCard continue to support card issuers such as U.S. Bank, JPMorgan Chase and Citibank to build and support data collection and reporting necessary to satisfy customer requirements. Moreover, in the current economic environment, the interest in expense management tools is particularly strong, as clients aim to capture data, analyze trends and make decisions that enhance their cash flow and profitability.

At the payment provider level, we are seeing increased competition, particularly for mid-sized companies, from both regional banks and national banks, such as Citibank and JPMorgan. Payment providers have increasingly acquired technology offerings to enhance data capture capabilities and reporting functionality. In addition, many providers attempt to leverage their banking relationships and capabilities to secure and retain card business. Global servicing, data quality, technological functionality and simplicity, customer experience, and price and other financial terms are among the key competitive factors in the corporate payments business.

Global Corporate Payments Regulation

The Global Corporate Payments business, which engages in the extension of commercial credit, is subject to more limited regulation than our consumer lending business. In the United States, we are subject to certain of the federal and state laws applicable to our consumer lending business, including the Equal Credit Opportunity Act, the FCRA (as amended by the FACT Act), as well as laws that generally prohibit engaging in unfair and deceptive business practices. We are also subject to certain state laws that regulate fees and charges on our products. Additionally, as a global business, we are subject to U.S. state data security and breach notification laws and regulations, as well as significant data protection laws in the European Union and many foreign countries in which we operate. We are also subject to bankruptcy and debtor relief laws that can affect our ability to collect amounts owed to us. As discussed above, along with the rest of our business, we are subject to certain provisions of the Bank Secrecy Act as amended by the Patriot Act, with regard to maintaining effective AML programs. For a discussion of this legislation and its effect on our business, see Supervision and Regulation General below. In some countries, regulation of card practices and consumer protection legislation may apply to some corporate payments relationships.

Global Business Travel

American Express Global Business Travel provides globally integrated solutions, both online and offline, as well as through mobile applications, to help organizations manage and optimize their travel investments and service their traveling employees. With clients ranging from small businesses to multinational and global corporations, these solutions include: travel reservation advice and transaction processing through a global network that is available 24 hours per day; travel expense management policy consultation; meeting management, supplier negotiation and consultation; advisory services, management information reporting, business intelligence, data analysis, research and benchmarking; group and incentive travel services; policy control advice; and mobile applications to help travelers be more efficient when traveling on business.

We continue to evaluate our economic model and invest in new products, services and technologies to enhance the value that we deliver to our customers and address ongoing travel industry challenges and opportunities. For example, we have substantially reduced our reliance on commission revenues from suppliers (such as airlines or hotels) and now generate revenues primarily from customers who pay for the services that we provide.

We launched several new programs to support our corporate clients in 2011. These programs include solutions designed to provide our clients with savings, control, services and traveler care. For example, we enhanced our hotel offering by providing additional rates and including additional properties that do not load content in various travel booking engines. We made enhancements to our mobile travel solution, MOBILEXTEND®, which provides travelers with various mobile support services, including a new feature that enables travel managers to manage and locate travelers around the globe in case of travel emergencies or disruption. We also launched OPEN Business Travel, an online travel booking tool designed specifically for OPEN small business Cardmembers.

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Global Business Travel Competition

American Express Global Business Travel continues to face intense competition in the United States and internationally from numerous traditional and online travel management companies, as well as from direct sales by airlines, other travel suppliers and new entrants. Competition among travel management companies is mainly based on price, service, value creation, convenience, global capabilities and proximity to the customer. Competition also comes from corporate customers themselves, as some companies have become accredited as in-house corporate travel agents. New entrants could also represent additional competition along the end-to-end travel value chain, which could impact competition in the medium to long term.

For many years, travel management companies have faced pressure on revenues from airlines, as most carriers have stopped paying base commissions to travel agents for tickets sold and significantly reduced other forms of travel agent compensation. Carriers have also made efforts to increase the number of transactions they book directly through their Web sites and other means. These trends have reduced the revenue opportunities for travel management companies because they do not receive distribution revenue from directly booked transactions. In recent years, the airline industry has undergone bankruptcies, restructurings, consolidations and other similar events including expanded grants of antitrust immunity to airline alliances. This immunity enables airlines to closely coordinate their international operations and to launch highly integrated joint ventures in transatlantic and other markets. These types of structural changes may result in additional challenges to travel management companies. For additional information concerning these issues, see Risk Factors below.

Overall, intense competition among travel management companies, the ongoing trends of increasing direct sales by airlines, the rise of low-cost carriers, and ongoing reductions in or elimination of airline commissions and fees, continue to put pressure on revenue and profitability for travel agents.

Over the last few years we have evolved our business model to permit us to charge customers for the services we provide and the value we create, and restructured our expense base through the rationalization of our call center locations and the transitioning of many of our services online. We continue to look for new ways to enhance the value we deliver for our customers both online and offline. Additionally, we are focusing on developing new and innovative products, services and technologies, which enhance the value we deliver to our customers and suppliers and address ongoing travel industry challenges and opportunities.

As noted above, the travel business is broad with much overlap between consumer and business travel. See American Express U.S. Consumer Travel Network Competition under U.S. Card Services above for additional information on the competitive environment in the travel business.

Global Business Travel Regulation

The Global Business Travel business is subject to domestic and international laws applicable to the provision of travel services, including licensure requirements, as well as laws and regulations regarding passenger screening and registration such as the Secure Flight Rule issued by the U.S. Transportation Security Administration. Additionally, we are subject to U.S. state and federal laws and regulations related to privacy, data security and breach notification, as well as significant data protection laws in the European Union and many foreign countries in which we operate. We are also subject to bankruptcy and debtor relief laws that can affect our ability to collect amounts owed to us.

CORPORATE & OTHER

Corporate & Other consists of corporate functions and auxiliary businesses, including the Company s Enterprise Growth Group, the Company s publishing business, as well as other company operations. We also discuss information relevant to the Company as a whole in this section.

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As discussed in Consolidated Capital Resources and Liquidity on page 32 of our 2011 Annual Report to Shareholders, our corporate liquidity objective is to maintain access to cash, readily-marketable securities and contingent sources of liquidity, such that we can continuously meet expected future financing obligations and business requirements for at least a twelve-month period. A large portion of the interest expense in Corporate & Other includes the interest expense related to maintaining this excess liquidity pool since all of our businesses benefit from the liquidity.

Enterprise Growth Group

The Enterprise Growth Group was established to pursue new forms of payments and digital commerce that open American Express to new customer segments, new geographies across the world, and new products and services. Specifically, this includes growing a digital services platform for the Company, expanding alternative mobile and online payment services, forming new partnerships and building new revenue streams beyond the traditional Card and travel businesses. Enterprise Growth seeks to leverage our assets and capabilities and build or acquire the talent, businesses and platforms required to deliver new forms of growth in the digital economy. The group consists of three core business units: Online and Mobile, Fee Based Services and Global Payment Options (formerly known as Global Prepaid). Starting in the first quarter of 2011, certain business activities such as LoyaltyEdge and Foreign Exchange Services (formerly known as Global Foreign Exchange Services) that were previously managed and reported in the USCS and GCS operating segments, respectively, are now managed by Enterprise Growth. The group also includes the corporate development function (the Company s mergers & acquisitions group), as well as Serve Virtual Enterprises, Inc. or Serve (formerly known as Revolution Money).

Online and Mobile Payments

The Online and Mobile business unit is responsible for developing new online and mobile payment capabilities and associated services that can expand the role we play in the digital economy. In 2011, we launched Serve® in the United States as a first step toward delivering more alternative payment options. Serve is a new digital software-based platform where consumers can spend, send and receive money, and make person-to-person payments online at serve.com, via mobile phones and at merchants that accept American Express Cards. Serve unifies multiple payment options into a single account that can be funded from a bank account, debit, credit or charge card, or by receiving money from another Serve account. Since acquiring Serve, we have been working to transition it into an enterprise-wide platform to support future digital initiatives.

Following the launch of Serve, we established business relationships in the mobile, e-commerce, not-for-profit and gaming space to build capabilities and drive distribution of the Serve platform. We are focused on working with partners that have large customer bases that would benefit from embedding Serve directly into their purchase path and rolling out easy-to-use digital payment solutions for consumers, businesses and sellers. We also made strategic investments and acquisitions in 2011 to obtain capabilities that are intended to enhance the Serve platform and drive customer growth, including the acquisition of Sometrics, a virtual currency platform and in-game payments provider.

The team is also responsible for expanding our presence in emerging markets, such as India and China. The team is identifying market strategies that include introducing new payment forms outside our charge and credit products and services, embracing new online and mobile payment technologies, and formulating strategic relationships to generate new, international revenue streams. For example, in 2011 we announced a strategic investment in the Lianlian Group, which includes a mobile top-up company in China, and an operating agreement to use Serve in products and services Lianlian develops for its consumer and business customers in China.

Online and Mobile Payments Competition

The online and mobile payments sector is dynamic and highly competitive, with a variety of different competitors that offer or are developing payment systems in e-commerce and across mobile devices, including traditional financial institutions, such as credit card issuers and networks, and alternative payment providers, such as PayPal and Google Wallet, and other non-traditional competitors, such as mobile operators, handset manufacturers, technology companies and others. Among other services, these competitors provide or are seeking to develop digital payment services that can be used to buy and sell goods online, and services that support payments to and from deposit accounts or proprietary accounts for digital, mobile commerce and other applications. A number of competitors rely principally on the Internet and potential wireless communication networks to support their services, and may enjoy lower costs than we do. Other competitors working to deliver digital and mobile payment services may have and may deploy substantially greater financial and other resources than we have or may offer a wider range of services and capabilities than we offer. Consumer and merchant adoption is a key competitive factor and our competitors may develop platforms or technologies that become more widely adopted than ours. Micro-payments on social networks are relatively small today but have the potential to grow rapidly, representing the potential for competition from a new payment form. Competition will remain fierce as payment services and technologies continue to evolve.

Fee Based Services

The Fee Based Services team within Enterprise Growth is tasked with identifying ways to capitalize on the existing assets of American Express by creating business models that can generate new, non-payment, e-commerce revenue streams. The Fee Based Services team is responsible for supporting our LoyaltyEdge offering, a new business line that assists partners, like Delta Air Lines, with developing, operating and improving their own loyalty programs. In 2011, we launched the exclusive online retail site, www.venteprivee.com, a joint venture between American Express and vente-privee.com, Europe s leader in online private sales of luxury goods. The site features member-only sales events with premium European and American brands.

Global Payment Options (formerly known as Global Prepaid)

Global Payment Options (GPO) offers a wide range of prepaid and foreign exchange services and products across the globe, including both reloadable and non-reloadable prepaid payment products.

The American Express® Gift Card is available in over 100,000 locations in the United States and Canada. Sales of gift cards continued to rise in 2011. GPO also offers in the United States a variety of prepaid Cards, including rebate, incentive and reward products, as well as prepaid reloadable Cards marketed through various channels and to various segments. For example, PASS from American Express®, a prepaid reloadable Card, is sold and marketed to parents as a payment tool for teens and young adults that is an alternative to checks, cash or debit cards. As another example, we launched the American Express® Prepaid Card in 2011, a reloadable prepaid card with no activation or maintenance fees. With this everyday payment card we hope to serve new customer segments that do not rely on traditional charge and credit cards to manage day-to-day finances. We also launched the American Express for Target Card, a reloadable prepaid card, in more than 1,000 U.S. Target stores. Other examples of products we have launched with reloadable prepaid card functionality if activated include a pilot university student ID card and a AAA membership card.

In addition, we have been in the business of issuing and selling Travelers Cheques since 1891. We sell the American Express® Travelers Cheque (Travelers Cheque or Cheque) as a safe and convenient alternative to cash. Travelers Cheques are currently available in U.S. dollars and four foreign currencies, including euros. We also issue and sell other forms of paper Travelers Cheques, including American Express® Gift Cheques (Gift Cheques), which are available in U.S. and Canadian dollars. Sales of Travelers Cheques continued to decline in 2011. We also issue general purpose reloadable prepaid travel cards in different denominations in Australia, Brazil and South Africa.

We sell American Express prepaid products through a variety of channels globally, including sales directly to customers via the Internet. Travelers Cheques and Gift Cheques are sold primarily through a broad network of selling outlets across multiple countries, including American Express travel offices, third-party financial

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institutions and select independent agents. Gift cards are available at americanexpress.com, in malls and retail locations and in bank branches. Reloadable prepaid products are available in certain retail channels as well as online in the United States.

The Foreign Exchange Services division (FES) of GPO consists of retail and wholesale foreign exchange services and the FX International Payments service. Other than in Australia and Singapore, where we operate foreign exchange offices in city locations and through selected partner locations, we concentrate our retail foreign exchange business in key international airports, such as multiple airport locations in Europe (London Heathrow, Edinburgh, Glasgow, Madrid, Vienna, Geneva and Nice). In 2011, we announced the expansion of our airport portfolio to include Birmingham (U.K.), Copenhagen and Boston Logan international airports. Our online FX International Payments service allows companies and financial institutions (and consumers, in the case of Australia) to make cross-border payments in foreign currencies quickly and efficiently.

Global Payment Options Competition

Our products compete with a wide variety of financial payment products including cash, foreign currency, checks, other brands of travelers checks, debit, prepaid and ATM cards, store branded gift cards, other network branded cards and other payment cards.

The principal competitive factors affecting the prepaid sector vary depending on the type of product, but some are:

- Number and location of merchants accepting the form of payment
- Availability to the consumer of other forms of payment
- Amount of fees charged to the consumer
- Compensation paid to, and frequency of settlement by, selling outlets
- Accessibility of sales and refunds for the products
- Success of marketing and promotional campaigns
- Ability to service the customer satisfactorily, including for lost or stolen instruments

Global Payment Options Regulation

As an issuer of Travelers Cheques and prepaid Cards and a provider of foreign exchange services, we are regulated in the United States under the money transmitter or sale of check laws in effect in most states. These laws require travelers check (and, where applicable, prepaid card) issuers, as well as providers of foreign exchange services, to obtain licenses, to meet certain safety and soundness criteria, to hold outstanding proceeds of sale in highly rated and secure investments, and to provide detailed reports. We invest the proceeds from sales of our Travelers Cheques and prepaid Cards in accordance with applicable law, predominantly in highly rated debt securities consisting primarily of intermediate- and long-term federal, state and municipal obligations. Many states examine licensees annually.

In addition, federal AML regulations require, among other things, the registration of travelers check issuers and the providers of foreign exchange services as Money Service Businesses and compliance with applicable AML recordkeeping and reporting requirements. Outside the United States, there are varying licensing and AML requirements, including some that are similar to those in the United States.

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Travelers check and prepaid card issuers are required by the laws of many states to comply with state unclaimed and abandoned property laws, under which such issuers must pay to states the face amount of any travelers check or prepaid card that is uncashed or unredeemed after a period of time depending on the type of product. In recent years, a number of states have passed legislation establishing shorter periods for travelers checks and/or prepaid cards, often with retroactive application. We have challenged, and intend to continue to challenge, what we believe are significant defects in these laws, which can have a significant impact on our Travelers Cheques and prepaid Cards business in the states in which they are enacted.

In May 2009, the CARD Act amended provisions of the Electronic Funds Transfer Act to impose new restrictions on the terms of gift cards and certain other prepaid cards, including restrictions on the fees that may be charged, expiration dates, and consumer disclosures. The Federal Reserve issued final regulations to implement the CARD Act gift card provisions that became effective in August 2010. Congress thereafter passed legislation that extended the August 2010 effective date of the CARD Act gift card provisions to January 2011 for gift cards produced prior to April 1, 2010, provided certain conditions are met. We continue to monitor state legislative activity restricting the terms of gift cards. In certain states where regulation continues to restrict fees and has made it unprofitable for us to offer gift cards, we have limited or withdrawn from selling these cards.

In July 2011, the Financial Crimes Enforcement Network (FinCen), an enforcement agency of the U.S. Department of the Treasury, issued the Prepaid Access Final Rule, which imposes new AML requirements on the prepaid industry. The regulation becomes effective March 31, 2012; however, we have taken actions to become compliant with the new requirements as soon as practicable. In general, the regulation will require issuers of prepaid access (formerly referred to as stored value) products to identify customers and retain information with regard to the customer identification and identify and report suspicious activity. The regulation does not impose significant new obligations on American Express as a provider of prepaid access because our existing AML program already requires the identification and reporting of suspicious transactions, customer identification and retention of customer identification and transactional records.

See Global Network & Merchant Services Regulation for a discussion of the Federal Reserve s rules under Dodd-Frank that establish, among other things, interchange fee limitation rules for debit and prepaid card transactions, and that prohibit exclusive network routing restrictions for electronic debit transactions (which applies to all debit and prepaid cards).

American Express Publishing

Through American Express Publishing, we produce: luxury lifestyle magazine brands such as *Travel + Leisure*®, *Food & Wine*®, *Departures*® and *Executive Travel*; a variety of travel, cooking, wine, time management and financial books and products; international editions of our titles; digital and mobile content; luxury-marketing events; and custom print and online programs for clients. We seek to deliver lifestyle expertise that informs choices, enriches perspective and empowers affluent and accomplished people and the businesses that serve them to make decisions and lead extraordinary lives. We have a management services agreement with Time Inc. pursuant to which we share certain profits relating to this business.

The Global Services Group

The Global Services Group (Global Services) was created to heighten the Company s focus on customer service and to ensure all business operations are managed as effectively and efficiently as possible. We have organized support functions by process rather than business unit, which the Company expects will streamline costs, reduce duplication of work, better integrate skills and expertise, and improve customer service.

Global Services comprised principally the following divisions:

World Service

Our U.S. and international service organizations have been consolidated under World Service. Our customer service units have worked over a number of years to ensure outstanding service to customers, while at the same

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time improving operating margins. As mentioned above, J.D. Power and Associates released its annual nationwide credit card satisfaction study and ranked American Express highest in overall satisfaction among 10 of the largest card issuers in the United States for the fifth consecutive year.

Global Business Services

The Global Business Services division comprised principally procurement, real estate, human resources processing, and financial processing. These internal process-driven activities have been consolidated to simplify and standardize processes for increased quality, efficiency and cost savings.

Global Credit Administration

Global Credit Administration (GCA) is responsible for the end-to-end management of our credit, collections and fraud operations around the world. GCA aims to strike the right balance between helping Cardmembers in need through a range of workout programs, and taking actions to prevent spending that will not be paid back to American Express.

Technologies

We continue to make significant investments in our systems and infrastructure to allow faster introduction and greater customization of products, while maintaining the security of customer data. We also are using technology to develop and improve our service capabilities to continue to deliver a high quality customer experience. For example, we maintain a service delivery platform that our employees use in the Card business to support a variety of customer servicing and account management activities such as account maintenance, updating of Cardmember information, the addition of new Cards to an account and resolving customer satisfaction issues. In international markets, we are enhancing our global platforms and capabilities, such as in revolving credit.

We continue to devote substantial resources to our technology platform to ensure the highest level of data integrity, information security, data protection and privacy. Our internal IT organization retains our key technology competencies, such as information technology strategy and information security, while outsourcing most of our technology infrastructure management and application development and maintenance to third-party service providers. This enables us to benefit from third-party expertise and lower information technology costs per transaction. We continue our efforts to safeguard the data entrusted to us in accordance with applicable laws, rules and regulations, and our internal policies, as described under Supervision and Regulation General Privacy, Fair Credit Reporting below.

We continue to leverage the Internet to lower costs, improve service quality and enhance our business model. As of the end of 2011, customers had enrolled approximately 30 million Cards globally in our online account management capability known as the Manage Your Card Account service. This service enables Cardmembers to review all of their card transactions online, pay their American Express bills electronically, view and service their Membership Rewards program accounts and conduct various other functions quickly and securely online. We now have an online presence in 27 countries around the world, including the United Kingdom, Australia, Italy, France, Mexico and Japan.

SUPERVISION AND REGULATION GENERAL

Overview

Federal and state banking laws, regulations and policies extensively regulate the Company, TRS, Centurion Bank and AEBFSB, including prescribing standards relating to capital, earnings, liquidity, dividends, the repurchase or redemption of shares, loans or extension of credit to affiliates and insiders, internal controls, information systems, risk management, internal audit systems, loan documentation, credit underwriting, asset growth and impaired assets, among other things. Such laws and regulations are intended primarily for the protection of depositors, other customers and the federal deposit insurance funds, as well as to minimize systemic risk, and not for the protection of our shareholders or creditors. Following the financial crisis of 2008, supervisory efforts to apply these laws, regulations and policies have become more intense, and new laws and regulations have been promulgated.

American Express Company and TRS are bank holding companies under the Bank Holding Company Act of 1956 and have elected to be treated as financial holding companies under the BHC Act. As a bank holding company under the BHC Act, the Company is subject to supervision and examination by the Federal Reserve. Under the system of functional regulation established under the BHC Act, the Federal Reserve supervises the Company, including all of its non-bank subsidiaries, as an umbrella regulator of the consolidated organization and generally defers to the primary U.S. regulators of the Company s U.S. depository institution subsidiaries, as applicable. Bank regulatory agencies have broad examination and enforcement power over bank holding companies and their subsidiaries, including the power to impose substantial fines, limit dividends, restrict operations and acquisitions, and require divestitures. Bank holding companies and banks, as well as subsidiaries of both, are prohibited by law from engaging in practices that the relevant regulatory authority deems unsafe or unsound. The Company and its subsidiaries, including Centurion Bank and AEBFSB, also are subject to supervision, examination and enforcement by the CFPB with respect to marketing and sale of consumer financial products and compliance with certain federal consumer financial laws, including, among other laws, the Consumer Financial Protection Act and the Truth in Lending Act, as discussed further below under Consumer Financial Protection Act of 2010.

Many aspects of our business also are subject to rigorous regulation by other U.S. federal and state regulatory agencies and securities exchanges and by non-U.S. government agencies or regulatory bodies and securities exchanges. Certain of our public disclosure, internal control environment and corporate governance principles are subject to the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and related regulations and rules of the SEC and the New York Stock Exchange, Inc. As a global financial institution, to the extent that different regulatory systems impose overlapping or inconsistent requirements on the conduct of our business, we face complexity and additional costs in our compliance efforts.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

Dodd-Frank, which was enacted in July 2010, significantly restructures the financial regulatory regime in the United States. Dodd-Frank created a new systemic risk oversight body, the Financial Stability Oversight Council (the FSOC), which oversees and coordinates the efforts of the primary U.S. financial regulatory agencies (including the Federal Reserve, the SEC, the U.S. Commodity Futures Trading Commission, the OCC and the FDIC) in establishing regulations to address financial stability concerns. Dodd-Frank directs the FSOC to make recommendations to the Federal Reserve as to supervisory requirements and prudential standards applicable to bank holding companies with $50 billion or more in total consolidated assets, which includes the Company, and nonbank financial companies designated by the FSOC for supervision by the Federal Reserve. Dodd-Frank mandates that the requirements applicable to these institutions be more stringent than those applicable to other financial companies.

In addition to the framework for systemic risk oversight implemented through the FSOC, Dodd-Frank broadly affects the financial services industry in numerous respects, including by creating a special resolution authority, by requiring banks to pay increased fees to regulatory agencies, by requiring all publicly traded bank holding companies that have assets of at least $10 billion to establish a dedicated risk committee reporting directly to the company s board of directors (including independent directors) responsible for enterprise-wide risk management oversight and practices, and through numerous other provisions aimed at strengthening the sound operation of the financial services sector. Moreover, Title X of Dodd-Frank, known as the Consumer

Financial Protection Act of 2010 (the CFPA), provides for the creation of the Consumer Financial Protection Bureau, a new consumer financial services regulator, discussed below under Consumer Financial Protection Act of 2010. New laws or regulations or changes to existing laws and regulations (including changes in interpretation or enforcement) could materially adversely affect our financial condition or results of operations. As discussed further throughout this section, many aspects of Dodd-Frank are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us or across the industry. In addition to the discussion in this section, see *The Dodd-Frank Wall Street Reform and Consumer Protection Act may have a significant adverse impact on our business, results of operations and financial condition* and *Banks, card issuers and card network operators generally are the subject of increasing global regulatory focus, which may impose costly new compliance burdens and lead to decreased transaction volumes and revenues through our network* in Risk Factors below for a further discussion of some of the potential impact legislative and regulatory changes may have on our results of operations and financial condition.

Consumer Financial Protection Act of 2010

As mentioned above, the CFPA provides for the creation of the CFPB, a new consumer financial services regulator. As of July 21, 2011, our marketing and sale of consumer financial products and our compliance with certain federal consumer financial laws, including the CFPA and the TILA, became subject to supervision and examination by the CFPB. On July 21, 2011, the CFPB assumed responsibility from our current banking regulators for supervision, examination and enforcement of Centurion Bank, AEBFSB and their affiliates, including the Company, with respect to such federal consumer financial laws and then-existing regulations implementing those laws. The CFPB has authority to take enforcement actions against us for violation of those laws. See Legal Proceedings below.

Dodd-Frank also transferred to the CFPB exclusive rulemaking authority for such federal consumer financial laws and authorized the CFPB to prohibit unfair, deceptive or abusive acts and practices and to ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent and competitive. On January 4, 2012, the President announced the recess appointment of a Director of the CFPB.

Financial Holding Company Status and Activities

The BHC Act limits the nonbanking activities of bank holding companies. Unless a bank holding company has qualified as a financial holding company, its nonbanking activities are restricted to those that the Federal Reserve has determined are so closely related to banking as to be a proper incident thereto. An eligible bank holding company may elect to be a financial holding company, which is authorized to engage in a broader range of financial activities. A financial holding company may engage in any activity that has been determined by rule or order to be financial in nature, incidental to such financial activity, or (with prior Federal Reserve approval) complementary to a financial activity and that does not pose a substantial risk to the safety or soundness of a depository institution or to the financial system generally. As a financial holding company, American Express engages in various activities permissible only for a bank holding company that has elected to be treated as a financial holding company including, in particular, providing travel agency services, acting as a finder and engaging in certain insurance underwriting and agency services.

For a bank holding company to be eligible for financial holding company status, the bank holding company and each of its subsidiary U.S. depository institutions must be well capitalized and well managed, and each of its subsidiary U.S. depository institutions must have received at least a satisfactory rating on its most recent assessment under the Community Reinvestment Act of 1977 (the CRA). If the bank holding company fails to meet applicable standards for financial holding company status, it could be barred from engaging in new types of financial activities or making certain types of acquisitions or investments in reliance on its status as a financial holding company, and could be required to either discontinue the broader range of activities permitted to financial holding companies or divest its subsidiary U.S. depository institutions.

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See *Our business is subject to significant and extensive government regulation and supervision, which could adversely affect our results of operations and financial condition* in Risk Factors below.

Heightened Prudential Requirements for Large Bank Holding Companies

As discussed above, Dodd-Frank created a new systemic risk oversight body, the FSOC, to identify, monitor and address potential threats to U.S. financial stability. Additionally, Dodd-Frank imposes heightened prudential requirements on bank holding companies with at least $50 billion in total consolidated assets, including the Company, and requires the Federal Reserve to establish prudential standards for such large bank holding companies that are more stringent than those applicable to other bank holding companies, including standards for risk-based capital requirements and leverage limits, liquidity, risk management requirements, resolution plans (referred to as living wills), stress tests, early redemption, credit exposure reporting and concentration. The Federal Reserve has discretionary authority to establish additional prudential standards on its own or at the FSOC s recommendation regarding contingent capital, enhanced public disclosures, short-term debt limits and otherwise as it deems appropriate. Because the Federal Reserve may, on its own volition or in response to a recommendation by the FSOC, tailor the application of these enhanced prudential standards to specific companies, including the Company, the ultimate impact of these enhanced standards on the Company is not certain.

In December 2011, the Federal Reserve issued a notice of proposed rulemaking to implement many of the heightened prudential requirements, which would require the following:

Stress Testing: The Federal Reserve must conduct annual analyses of bank holding companies with at least $50 billion in total consolidated assets to evaluate whether the companies have sufficient capital on a total consolidated basis necessary to absorb losses as a result of adverse economic conditions (so-called stress tests). Under the proposed rule, the stress tests would use a minimum of three economic and financial scenarios generated by the Federal Reserve (baseline, adverse and severely adverse), and be based on methodologies and data that have not yet been made available. A summary of results of individual stress tests would be made public by the Federal Reserve on a company-specific basis. The Company would also be required to conduct a similar stress test on a semiannual basis, and a summary of the results of these tests also would be subject to public disclosure. The Company also will be required to comply with the capital planning requirements discussed in *Capital Planning* below. Dodd-Frank requires the other federal bank regulators to issue regulations that are consistent with the stress test regulations issued by the Federal Reserve, which would ultimately apply to Centurion Bank and AEBFSB. In January 2012, the FDIC and the OCC published proposed rules to implement the stress testing requirements that would be applicable to Centurion Bank and AEBFSB, respectively.

Enhanced Capital and Leverage Requirements: See Basel III below.

Enhanced Liquidity Standards: The Federal Reserve s notice of proposed rulemaking states that the enhanced liquidity standards will be addressed in stages. As the first stage of this undertaking, the proposed rules focus on prudential steps to manage liquidity risk, which comprehensively detail liquidity risk management responsibilities for boards of directors and senior management, and would require:

- maintenance of a liquidity buffer, consisting of assets meeting certain standards, that is sufficient to meet projected net cash outflows and projected loss or impairment of existing funding sources for 30 days over a range of liquidity stress scenarios;
- production of comprehensive cash flow projections and identification and quantification of discrete and cumulative cash flow mismatches;
- regular stress testing of cash flow projections over various time horizons and assuming prescribed assumptions;

establishment and maintenance of a contingency funding plan that sets out strategies for addressing liquidity needs during liquidity stress events;

establishment and maintenance of limits on potential sources of liquidity risk, including concentrations of funding, maturity of specified liabilities within various time horizons, and off-balance sheet exposures that could create funding needs during liquidity stress events; and

a variety of monitoring requirements.

The Federal Reserve noted that it would implement the second stage of a regulatory liquidity framework for bank holding companies with at least $50 billion in consolidated assets through future proposals that would require such bank holding companies or a subset thereof to satisfy specific liquidity requirements derived from or consistent with the international liquidity standards incorporated into the Basel III framework (discussed below).

Single Party Concentration Limits: Under the proposed rule, beginning October 1, 2013, bank holding companies with $50 billion or more in consolidated assets generally would be subject to a 25% limit on aggregate net credit exposure with any single unaffiliated counterparty.

Enhanced Risk Management Requirements: Under the proposed rule, bank holding companies with $50 billion or more in consolidated assets would be required to establish a dedicated risk committee reporting directly to the company s board of directors, comprised of members of the bank holding company s board of directors, which would document, review and approve the enterprise-wide risk management practices of the company. The risk committee would be required to oversee the operation of an enterprise-wide risk management framework commensurate with the company s capital structure, risk profile, complexity, activities, size and other appropriate risk-related factors, and would be subject to certain governance provisions set forth in the proposed rule. Such bank holding companies, including the Company, would also be required to appoint a Chief Risk Officer.

Because the proposed rule is not final, the ultimate impact of these measures on us is not certain.

Dodd-Frank also mandates that certain expenses of the Office of Financial Research, which include, among other things, the operating expenses of the FSOC and certain expenses of the FDIC, be funded through assessments on bank holding companies with $50 billion or more in consolidated assets and certain other non-bank financial companies supervised by the Federal Reserve. In December 2011, the U.S. Treasury published a proposed rule setting forth the manner in which these assessments would be made.

Living Wills

As noted above, we will be required to prepare and provide to regulators a resolution plan that must ensure that our depository institution subsidiaries are adequately protected from risks arising from our other subsidiaries. The plan must also include, among other things, a strategic analysis of key assumptions and strategies, and a description of the interconnections and interdependencies among the Company and its material entities. Pursuant to a rule that took effect in November 2011, the first such resolution plan for us is required to be submitted by December 31, 2013 and annual updates will be required thereafter. The establishment and maintenance of this resolution plan may, as a practical matter, present additional constraints on transactions and business arrangements between our bank and non-bank subsidiaries.

Activities and Acquisitions

As a bank holding company with insured depository institution subsidiaries, we are subject to banking laws and regulations that limit our activities, investments and acquisitions. In addition, certain acquisitions and investments are subject to the prior review and approval of certain of our regulators, including the Federal Reserve, the OCC and the FDIC. The banking agencies have broad discretion in evaluating proposed acquisitions

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and investments. In deciding whether to approve an acquisition, federal banking agencies may consider, among other factors, effects of the acquisition on competition and financial and managerial resources; future prospects, including current and projected capital ratios and levels; the competence and expertise of management and our record of compliance with laws and regulations; public benefits; the convenience and needs of the community and our depository institution subsidiaries record of compliance with the CRA; risks to the stability of the U.S. banking or financial system; and our effectiveness in combating money laundering.

Among other things, the BHC Act requires a bank holding company to obtain the prior approval of the Federal Reserve before: (1) it may acquire direct or indirect ownership or control of any voting shares of any bank or savings and loan association, if after such acquisition, the bank holding company will directly or indirectly own or control more than 5% of any class of the voting securities of the institution; (2) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank or savings and loan association; (the Bank Merger Act requires regulatory approval before a bank subsidiary may make such an acquisition); or (3) it may merge or consolidate with any other bank holding company.

The Federal Reserve must approve certain additional capital contributions to an existing non-U.S. investment and certain direct and indirect acquisitions by the Company of an interest in a non-U.S. company, including in a foreign bank. Dodd-Frank requires bank holding companies with total consolidated assets equal to or greater than $50 billion to provide the Federal Reserve with written notice (which is largely tantamount to an approval process) prior to acquiring direct or indirect ownership or control of any voting shares of any company (other than an insured depository institution) that is engaged in financial activities described in section 4(k) of the BHC Act and that has total consolidated assets of $10 billion or more, subject to certain exceptions. Dodd-Frank also requires financial holding companies to obtain Federal Reserve approval prior to acquiring any nonbank company with total consolidated assets in excess of $10 billion.

The Change in Bank Control Act prohibits a person, entity, or group of persons or entities acting in concert, from acquiring control of a bank holding company such as the Company unless the Federal Reserve has been given prior notice and has not objected to the transaction. Under Federal Reserve regulations, the acquisition of 10% or more of a class of voting stock of the Company would generally create a rebuttable presumption of acquisition of control of the Company.

In addition, under the BHC Act, any person or company is required to obtain the approval of the Federal Reserve before acquiring control of the Company, which, among other things, includes the acquisition of ownership of or control over 25% or more of any class of voting securities of the Company or the power to exercise a controlling influence over the Company. In the case of an acquirer that is a bank or bank holding company, the BHC Act requires approval of the Federal Reserve for the acquisition of ownership or control of any voting securities of the Company, if the acquisition results in the bank or bank holding company controlling more than 5% of the outstanding shares of any class of voting securities of the Company.

Source of Strength

Bank holding companies are required by statute to act as a source of strength to all of their insured depository institution subsidiaries and to commit capital and financial resources to support those subsidiaries. Therefore, the Company is required to act as a source of strength to Centurion Bank and AEBFSB and to commit capital and financial resources to support both institutions. Such support may be required at times when, absent this requirement, we otherwise might determine not to provide it.

Capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulator to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

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Capital Adequacy

The Company, TRS, Centurion Bank and AEBFSB are required to comply with the applicable capital adequacy guidelines established by the federal banking regulators. There are two risk-based measures of capital adequacy for bank holding companies that have been promulgated by the Federal Reserve, as well as a leverage measure.

The Company currently calculates its risk-based capital ratios under guidelines adopted by the Federal Reserve, based on the 1998 Capital Accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). The U.S. bank regulatory agencies have adopted new risk-based capital guidelines for core institutions and their bank subsidiaries, including the Company and its bank subsidiaries, based upon the Revised Framework for the International Convergence of Capital Measurement and Capital Standards (Basel II) issued by the Basel Committee in June 2004 and updated in November 2005. The Company, Centurion Bank and AEBFSB are required to commence calculating their risk-based capital ratios under the Basel II-based guidelines, while continuing to calculate risk-based capital ratios under the Basel I-based guidelines as a floor, no later than January 1, 2015, unless further extended by their respective regulators. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, known as Basel III. Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital than prior requirements, with a greater emphasis on common equity. Several provisions of Dodd-Frank also impact the Company s regulatory capital. Each Basel framework is discussed below.

The risk-based capital guidelines are designed to make regulatory capital requirements sensitive to differences in credit and market risk profiles among banks and financial holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items. As a supervisory matter, federal bank regulatory agencies expect most bank holding companies, and in particular larger bank holding companies such as the Company, to maintain regulatory capital ratios that, at a minimum, qualify a bank holding company and its depository institution subsidiaries as well capitalized. The required ratios to qualify as well capitalized are a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6% and, for depository institutions, a leverage ratio of at least 5%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Following the recent financial crisis, the federal bank regulatory agencies have encouraged larger bank holding companies to maintain capital ratios appreciably above the well capitalized standard. Moreover, the Federal Reserve is focusing more on the regulatory requirement that common equity be the predominant element of Tier 1 capital. Furthermore, the Federal Reserve has indicated that it will consider a tangible Tier 1 capital leverage ratio (deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activities.

For additional information regarding our capital ratios, see Consolidated Capital Resources and Liquidity on pages 27-29 of our 2011 Annual Report to Shareholders, which information is incorporated herein by reference.

Basel I

The Company, Centurion Bank and AEBFSB currently calculate regulatory capital ratios under Basel I, as adopted by the applicable federal bank regulatory agencies. Under Basel I, as adopted, the minimum guideline for the ratio of total capital to risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is 8%. At least half of the total capital must be composed of Tier 1 capital, which includes common equity, undivided profits, minority interests in the equity accounts of consolidated subsidiaries, and non-cumulative perpetual preferred stock (and, under existing standards, a limited amount of qualifying trust preferred securities and qualifying cumulative perpetual preferred stock at the holding company level), less goodwill and certain other intangible assets. Tier 2 capital may consist of, among other things, qualifying subordinated debt, mandatorily convertible debt securities, other preferred stock and trust preferred securities and a limited amount of the allowance for loan losses. Dodd-Frank applies to bank holding companies such as the Company the same risk-based capital and leverage requirements that apply to insured depository institutions. Going forward this will preclude a bank holding company from including in Tier 1 capital trust preferred securities or cumulative preferred stock, if any, issued on or after May 19, 2010 and, over a three-year period beginning January 1, 2013, to phase out all trust preferred securities and cumulative preferred stock from inclusion in the Company s Tier 1 capital. The minimum guideline for the ratio of Tier 1 capital to risk-weighted assets is 4%.

The risk-based capital rules state that the capital guidelines are minimum standards based primarily on broad credit-risk considerations and do not take into account the other types of risk a banking organization may be exposed to (e.g., interest rate, market, liquidity and operational risks). The Federal Reserve may, therefore, set higher capital requirements for categories of banks (e.g., systemically important firms), or for an individual bank, as situations warrant. As discussed above, the Federal Reserve in fact expects large bank holding companies, such as the Company, and their depository institution subsidiaries to maintain regulatory capital ratios well in excess of these minimums.

Basel II

The U.S. Basel II final rule became effective on April 1, 2008. The Company, Centurion Bank and AEBFSB are required to commence calculating their risk-based capital ratios under the Basel II-based guidelines, while continuing to calculate risk-based capital ratios under the Basel I-based guidelines as a floor, by January 1, 2015, unless further extended by their respective regulators. The U.S. Basel II-based rules initially provided that core institutions like the Company would calculate their capital requirements only under the new Basel II-based requirements after completion of three transitional floor periods, which themselves commence after a satisfactory parallel-run period of no less than four consecutive calendar quarters during which the institution is required to confidentially report regulatory capital under both the Basel I- and Basel II-based regulations. We are required to commence the first transitional period no later than January 1, 2014, unless this time is further extended by the Federal Reserve, the FDIC and the OCC.

In response to a Dodd-Frank requirement, the U.S. banking agencies have amended their capital rules to provide that minimum capital as required under the Basel I-based rules will act as a floor for minimum capital requirements calculated in accordance with the U.S. Basel II-based rules. Accordingly, the transition for core institutions to calculations only under the U.S. Basel II-based rules is being eliminated.

Leverage Requirement

Basel I and Basel II do not include a leverage requirement as an international standard. However, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies (and, as further discussed below, Basel III will impose a leverage requirement as an international standard). The Federal Reserve s existing guidelines provide for a minimum ratio of Tier 1 capital to average total assets, less goodwill and certain other intangible assets (the Leverage Ratio), of 3% for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies generally are required to maintain a Leverage Ratio of at least 4%.

Basel III

The Basel III final capital framework, among other things:

Introduces as a new capital measure Common Equity Tier 1 (CET1), specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting specified requirements, defines

CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expands the scope of the adjustments as compared to existing regulations

When fully phased in on January 1, 2019, requires banks to maintain:

- as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% (there is no comparable CET1 requirement under Basel I or II)

- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer, which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation (the current requirement is 6.00% for a well capitalized bank)

- a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer, which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation (the current requirement is 10% for a well capitalized bank)

- as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter)

Provides for a countercyclical capital buffer, generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, which would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%)

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The implementation of the Basel III final framework will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios:

3.5% CET1 to risk-weighted assets

4.5% Tier 1 capital to risk-weighted assets

8.0% Total capital to risk-weighted assets

The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include the requirement that deferred tax assets dependent upon future taxable income, among others, be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. The amount of these assets that is not deducted from CET1 will be risk weighted at 250%.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014 and will be phased in over a five-year period (20% per year). The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

In November 2011, the Basel Committee supplemented Basel III by issuing final provisions applying a new CET1 surcharge to certain global systemically important banks (G-SIBs). In a companion release addressing progress on a variety of financial regulatory reforms relating to global systemically important financial institutions, the Financial Stability Board released a list of 29 such institutions and indicated that it used the G-SIB surcharge methodology in creating the list. The Company was not included on the list and does not believe it would be considered a G-SIB.

As noted above, Dodd-Frank requires the federal banking agencies to adopt regulations affecting U.S. banking institutions capital requirements in a number of respects and mandates that the Federal Reserve adopt prudential requirements applicable to bank holding companies with $50 billion or more in consolidated assets that are more stringent than those applicable to other financial companies. As mentioned above, the Federal Reserve issued a notice of proposed rulemaking to implement many of the enhanced prudential standards for large bank holding companies, including those regarding risk-based capital requirements and leverage requirements. This notice indicated the Federal Reserve intends to address the enhanced risk-based capital and leverage standards through a two-part effort, the first part of which would require compliance with the capital plan provisions applicable to bank holding companies with $50 billion or more in consolidated assets discussed below under *Capital Planning.* The release noted that the second part will involve a quantitative risk-based capital surcharge for such large bank holding companies, or a subset thereof, and that the final capital surcharge will be consistent with the Basel Committee s G-SIB surcharge proposal published in November 2011. However, the Federal Reserve has not yet issued a detailed proposal for implementation of a risk-based capital surcharge and has not indicated which banking organizations in the United States will be subject to the Basel III framework. Thus, the implications for the Company s regulatory capital requirements of the amendments to Basel III announced in November 2011 are uncertain at this time. The regulations ultimately applicable to us may be substantially different from the Basel III final framework as published in December 2010.

Liquidity Ratios under Basel III

Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, both in the United States and internationally, without required formulaic measures. The Basel III framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio (LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio (NSFR), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

The Basel III liquidity framework contemplates that the LCR will be subject to an observation period continuing through mid-2013 and, subject to any revisions resulting from the analyses conducted and data collected through the observation period, implemented as a minimum standard on January 1, 2015. Similarly, it contemplates that the NSFR will be subject to an observation period through mid-2016 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard by January 1, 2018.

The Federal Reserve s proposed heightened prudential requirements for bank holding companies with $50 billion or more of consolidated total assets also include enhanced liquidity standards, as discussed above under *Heightened Prudential Requirements for Large Bank Holding Companies*.

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Prompt Corrective Action

The FDIA requires, among other things, that federal banking regulators take prompt corrective action in respect of FDIC-insured depository institutions (such as Centurion Bank and AEBFSB) that do not meet minimum capital requirements. The FDIA specifies five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution s capital tier depends upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation. A bank may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating. Once an institution becomes undercapitalized, the FDIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the capital category in which an institution is classified. A depository institution that is not well capitalized is also subject to restrictions on the acceptance of brokered deposits including Certificate of Deposit Account Registry Service deposits. The majority of the Company s outstanding U.S. retail deposits has been raised through third-party channels, and such deposits are considered brokered deposits for bank regulatory purposes. As part of our funding strategy, a majority of the deposits raised during 2011 were accepted directly from consumers through American Express Personal Savings, a suite of deposit products offered by AEBFSB. For a description of our deposit programs, see Deposit Programs under U.S. Card Services Consumer and Small Business Services above and Deposit Programs on page 31 of our 2011 Annual Report to Shareholders, which information is incorporated herein by reference.

The FDIA generally prohibits an FDIC-insured depository institution from making any capital distribution (including payment of dividends) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve and to growth limitations, and are required to submit a capital restoration plan. For a capital restoration plan to be acceptable, any holding company must guarantee the capital plan up to an amount equal to the lesser of 5% of the depository institution s assets at the time it became undercapitalized and the amount of the capital deficiency at the time it fails to comply with the plan. In the event of the holding company s bankruptcy, such guarantee would take priority over claims of its general unsecured creditors. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions are subject to appointment of a receiver or conservator.

Early Remediation Regime

Dodd-Frank requires the establishment of an early remediation regime for bank holding companies with $50 billion or more in consolidated assets, including the Company. In December 2011, the Federal Reserve issued a notice of proposed rulemaking that included a proposed early remediation system based in part on the prompt corrective action regime that currently applies to insured depository institutions under the FDIA. The proposed rule establishes increasingly severe remediation requirements with forward-looking triggers based on capital and leverage, stress test requirements, risk management, liquidity and publicly available market data. Because these rules are not yet final, their ultimate impact on us is not certain.

Capital Planning

Pursuant to a final rule published by the Federal Reserve in November 2011, beginning in 2012, bank holding companies with $50 billion or more in total consolidated assets, including the Company, are required to develop and maintain a so-called capital plan, and to submit the capital plan to the Federal Reserve for review.

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The capital plan must cover a planning horizon of at least nine quarters (beginning with the quarter preceding the submission of the plan) and include the following components:

- an assessment of the bank holding company s expected uses and sources of capital over the planning horizon that accounts for the bank holding company s size, complexity, risk profile and scope of operations, and under expected and stressful conditions according to scenarios developed by the bank holding company and the Federal Reserve;

- a detailed description of the bank holding company s process for assessing capital adequacy, including how it will, under expected and stressful conditions, maintain capital commensurate with its risks, above the minimum regulatory ratios, and to serve as a source of strength to its subsidiary depository institutions, and sufficient to continue operations by maintaining steady access to funding, meeting obligations to creditors and other counterparties and continuing to serve as a credit intermediary;

- the bank holding company s capital policy; and

- a discussion of any expected changes to the bank holding company s business.

Each capital plan must consider a minimum of four planning scenarios, including separate baseline and stressed scenarios developed by the bank holding company and the Federal Reserve. The stressed scenario developed by the Federal Reserve for the 2012 process is designed to represent an outcome that, in the opinion of the Federal Reserve, is unlikely, but could occur if the U.S. economy were to experience a deep recession while at the same time economic activity in other major economies were also to contract significantly. This scenario assumes, among other things, unemployment will rise to 13% in 2013, housing prices will decline by a further 20%, and the U.S. equity markets will decline by more than 50% as compared to levels in the third quarter of 2011.

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

In its review of the capital plan, the Federal Reserve will consider the plan s comprehensiveness, the reasonableness of its assumptions and analysis, and the bank holding company s methodologies for reviewing the robustness of the capital adequacy process and ability to maintain capital above minimum regulatory ratios under expected and stressful conditions throughout the planning horizon. Based on its review, the Federal Reserve will either object or not object to the capital plan. The Federal Reserve has broad authority to object to capital plans, and to require bank holding companies to revise and resubmit their capital plans for approval. Bank holding companies are also subject to an ongoing requirement to revise and resubmit their capital plans upon the occurrence of certain events specified by rule, or when required by the Federal Reserve.

The Federal Reserve has indicated that it intends to publish the results of its review of the portion of each bank holding company s capital plan that relates to the stress scenario developed by the Federal Reserve. The information to be released will include, among other things, company-specific information about projected post-stress capital ratios and the minimum value of these ratios over the planning horizon.

Dividends

The Company and TRS, as well as Centurion Bank and AEBFSB, are limited by banking statutes, regulations and supervisory policy in their ability to pay dividends. In general, federal and applicable state banking laws prohibit, without first obtaining regulatory approval, insured depository institutions, such as Centurion Bank and AEBFSB, from making dividend distributions if such distributions are not paid out of available recent earnings or would cause the institution to fail to meet capital adequacy standards. In addition to

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specific limitations on the dividends that subsidiary banks can pay to their holding companies, federal regulators could prohibit a dividend that would constitute an unsafe or unsound banking practice in light of the financial condition of the banking organization.

Dividend payments by the Company and TRS to shareholders are subject to the oversight of the Federal Reserve. It is Federal Reserve policy that bank holding companies generally should pay dividends on common stock to common shareholders only out of net income available to common shareholders over the past year and only if the prospective rate of earnings retention appears consistent with the organization&#1