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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2012

or

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

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ______ to ______

Commission file number 1-7657

AMERICAN EXPRESS COMPANY

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes _X_ No ___

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

Yes X No ___

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

Large accelerated filer x Accelerated filer ¨

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

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

Yes ___ No X

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

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

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

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

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

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

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

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

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

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

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

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

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The Company

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

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

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

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

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

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

2. Fair Values

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

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

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

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

- Quoted prices for similar assets or liabilities in active markets

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(Unaudited)

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

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

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

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

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

Financial Assets and Financial Liabilities Carried at Fair Value

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

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

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

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

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

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

Investment Securities

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

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

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

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

Derivative Financial Instruments

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

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

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

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

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

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(Unaudited)

Financial Assets and Financial Liabilities Carried at Other Than Fair Value

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

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

(a) Reflects time deposits.

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

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

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

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

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

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

Financial Assets for Which Carrying Values Equal or Approximate Fair Value

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

Financial Assets Carried at Other Than Fair Value

Loans

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

AMERICAN EXPRESS COMPANY

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(Unaudited)

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

Financial Liabilities for Which Carrying Values Equal or Approximate Fair Value

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

Financial Liabilities Carried at Other Than Fair Value

Certificates of Deposit

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

Long-term Debt

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

Nonrecurring Fair Value Measurements

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

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Accounts Receivable and Loans

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

Cardmember and Other Receivables

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

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

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

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

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

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

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

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

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

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

Cardmember and Other Loans

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

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

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

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

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

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

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Cardmember Loans and Cardmember Receivables Aging

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

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

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

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

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

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Credit Quality Indicators for Cardmember Loans and Receivables

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

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

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

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

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

Impaired Cardmember Loans and Receivables

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Cardmember Loans and Receivables Modified as TDRs

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

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

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

(a) Includes principal and accrued interest.

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

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

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

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

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

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

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

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

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

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

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

4. Reserves for Losses

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

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

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

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

Changes in Cardmember Receivables Reserve for Losses

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

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

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

(b) Provisions for unauthorized transactions.

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

(d)

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

Cardmember Receivables Evaluated Individually and Collectively for Impairment

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

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

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

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Changes in Cardmember Loans Reserve for Losses

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

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

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

(b) Provisions for unauthorized transactions.

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

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

Cardmember Loans Evaluated Individually and Collectively for Impairment

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

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

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

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

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5. Investment Securities

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

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

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

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

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

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

(d) Other comprises investments in various mutual funds.

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

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

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

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

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

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

Supplemental Information

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

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

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

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

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6. Asset Securitizations

Charge Trust and Lending Trust

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

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

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

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

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

Charge Trust and Lending Trust Triggering Events

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

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7. Customer Deposits

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

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

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

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

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

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

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

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

8. Derivatives and Hedging Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derivative Financial Instruments that Qualify for Hedge Accounting

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

Fair Value Hedges

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

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Interest Rate Contracts

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

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

Total Return Contract

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

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

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

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