AMERICAN EXPRESS CO
Form 10-Q
July 29, 2013
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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 June 30, 2013

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

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

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

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

Yes X No ___

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

Yes X No ___

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

Large accelerated filer x

Accelerated filer ¨

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

Smaller reporting company ¨

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

Yes ___ No X

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

Class	Outstanding at July 23, 2013
Common Shares (par value $.20 per share)	1,078,863,503 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Three Months Ended June 30 *(Millions, except per share amounts)*	**2013**	2012
Revenues		
Non-interest revenues		
Discount revenue	$ **4,729**	$ 4,482
Net card fees	**647**	615
Travel commissions and fees	**495**	521
Other commissions and fees	**605**	575
Other	**567**	651
Total non-interest revenues	**7,043**	6,844
Interest income		
Interest on loans	**1,622**	1,582
Interest and dividends on investment securities	**52**	67
Deposits with banks and other	**20**	22
Total interest income	**1,694**	1,671
Interest expense		
Deposits	**107**	115
Long-term debt and other	**385**	435
Total interest expense	**492**	550
Net interest income	**1,202**	1,121
Total revenues net of interest expense	**8,245**	7,965
Provisions for losses		
Charge card	**201**	163
Cardmember loans	**364**	277
Other	**28**	21
Total provisions for losses	**593**	461
Total revenues net of interest expense after provisions for losses	**7,652**	7,504
Expenses		
Marketing, promotion, rewards and cardmember services	**2,580**	2,415
Salaries and employee benefits	**1,543**	1,536

Other, net		**1,534**		1,674
Total expenses		**5,657**		5,625
Pretax income		**1,995**		1,879
Income tax provision		**590**		540
Net income	**$**	**1,405**	$	1,339
Earnings per Common Share (Note 12):[(a)]				
Basic	**$**	**1.28**	$	1.16
Diluted	**$**	**1.27**	$	1.15
Average common shares outstanding for earnings per common share:				
Basic		**1,090**		1,145
Diluted		**1,097**		1,152
Cash dividends declared per common share	**$**	**0.23**	$	0.20

(a) Represents net income less earnings allocated to participating share awards of $13 million and $14 million for the three months ended June 30, 2013 and 2012, respectively.

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Six Months Ended June 30 *(Millions, except per share amounts)*	**2013**	2012
Revenues		
Non-interest revenues		
Discount revenue	**$ 9,167**	$ 8,739
Net card fees	**1,300**	1,225
Travel commissions and fees	**932**	972
Other commissions and fees	**1,178**	1,158
Other	**1,104**	1,204
Total non-interest revenues	**13,681**	13,298
Interest income		
Interest on loans	**3,305**	3,193
Interest and dividends on investment securities	**105**	133
Deposits with banks and other	**46**	52
Total interest income	**3,456**	3,378
Interest expense		
Deposits	**221**	244
Long-term debt and other	**790**	880
Total interest expense	**1,011**	1,124
Net interest income	**2,445**	2,254
Total revenues net of interest expense	**16,126**	15,552
Provisions for losses		
Charge card	**396**	341
Cardmember loans	**639**	489
Other	**55**	43
Total provisions for losses	**1,090**	873
Total revenues net of interest expense after provisions for losses	**15,036**	14,679
Expenses		
Marketing, promotion, rewards and cardmember services	**4,910**	4,707
Salaries and employee benefits	**3,158**	3,171
Other, net	**3,064**	3,149
Total expenses	**11,132**	11,027

Pretax income		**3,904**		3,652
Income tax provision		**1,219**		1,057
Net income	**$**	**2,685**	$	2,595
Earnings per Common Share (Note 12):[(a)]				
Basic	**$**	**2.43**	$	2.23
Diluted	**$**	**2.42**	$	2.22
Average common shares outstanding for earnings per common share:				
Basic		**1,094**		1,151
Diluted		**1,101**		1,158
Cash dividends declared per common share	**$**	**0.43**	$	0.40

(a) Represents net income less earnings allocated to participating share awards of $24 million and $28 million for the six months ended June 30, 2013 and 2012, respectively.

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	**2013**	2012	**2013**	2012
Net income	**$ 1,405**	$ 1,339	**$ 2,685**	$ 2,595
Other comprehensive loss:				
Net unrealized securities (losses) gains, net of tax of: 2013, $(72) and $(90); 2012, $1 and $14	**(127)**	11	**(162)**	31
Net unrealized derivatives gains, net of tax of: 2013, nil and nil; 2012, nil and nil				1
Foreign currency translation adjustments, net of tax of: 2013, $142 and $131; 2012, $135 and $13	**(228)**	(199)	**(273)**	(127)
Net unrealized pension and other postretirement benefit gains, net of tax of: 2013, $10 and $31; 2012, $11 and $13	**27**	14	**54**	20
Other comprehensive loss	**(328)**	(174)	**(381)**	(75)
Comprehensive income	**$ 1,077**	$ 1,165	**$ 2,304**	$ 2,520

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Millions, except per share data)	**June 30, 2013**	December 31, 2012
Assets		
Cash and cash equivalents		
Cash and due from banks	**$ 3,873**	$ 2,020
Interest-bearing deposits in other banks (includes securities purchased under resale agreements: 2013, $177; 2012, $58)	**19,029**	19,892
Short-term investment securities	**227**	338
Total cash and cash equivalents	**23,129**	22,250
Accounts receivable		
Cardmember receivables (includes gross receivables available to settle obligations of consolidated variable interest entities: 2013, $7,117; 2012, $8,012), less reserves: 2013, $386; 2012, $428	**43,711**	42,338
Other receivables, less reserves: 2013, $84; 2012, $86	**3,204**	3,576
Loans		
Cardmember loans (includes gross loans available to settle obligations of a consolidated variable interest entity: 2013, $30,098; 2012, $32,731), less reserves: 2013, $1,342; 2012, $1,471	**61,732**	63,758
Other loans, less reserves: 2013, $16; 2012, $20	**532**	551
Investment securities	**5,262**	5,614
Premises and equipment, less accumulated depreciation and amortization: 2013, $5,711; 2012, $5,429	**3,716**	3,635
Other assets (includes restricted cash of consolidated variable interest entities: 2013, $63; 2012, $76)	**10,647**	11,418
Total assets	**$ 151,933**	$ 153,140
Liabilities and Shareholders Equity		
Liabilities		
Customer deposits	**$ 40,515**	$ 39,803
Travelers Cheques and other prepaid products	**4,125**	4,601
Accounts payable	**14,313**	10,006
Short-term borrowings	**2,961**	3,314
Long-term debt (includes debt issued by consolidated variable interest entities: 2013, $15,923; 2012, $19,277)	**52,675**	58,973
Other liabilities	**18,310**	17,557
Total liabilities	**132,899**	134,254
Contingencies (Note 14)		
Shareholders Equity		
Common shares, $0.20 par value, authorized 3.6 billion shares; issued and outstanding 1,084 million shares as of June 30, 2013 and 1,105 million shares as of December 31, 2012	**217**	221
Additional paid-in capital	**12,242**	12,067
Retained earnings	**7,883**	7,525
Accumulated other comprehensive (loss) income		
Net unrealized securities gains, net of tax of: 2013, $85; 2012, $175	**153**	315
Foreign currency translation adjustments, net of tax of: 2013, $(480); 2012, $(611)	**(1,027)**	(754)
Net unrealized pension and other postretirement benefit losses, net of tax of: 2013, $(202); 2012, $(233)	**(434)**	(488)
Total accumulated other comprehensive loss	**(1,308)**	(927)
Total shareholders equity	**19,034**	18,886

Total liabilities and shareholders equity	**$ 151,933**	$ 153,140

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Six Months Ended June 30 *(Millions)*	**2013**	2012
Cash Flows from Operating Activities		
Net income	**$ 2,685**	$ 2,595
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for losses	**1,090**	873
Depreciation and amortization	**497**	507
Deferred taxes and other	**(201)**	219
Stock-based compensation	**197**	164
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Other receivables	**190**	862
Other assets	**964**	880
Accounts payable and other liabilities	**5,247**	1,228
Travelers Cheques and other prepaid products	**(440)**	(586)
Net cash provided by operating activities	**10,229**	6,742
Cash Flows from Investing Activities		
Sale of investments	**131**	267
Maturity and redemption of investments	**601**	779
Purchase of investments	**(606)**	(164)
Net increase in cardmember loans/receivables	**(1,374)**	(634)
Purchase of premises and equipment, net of sales: 2013, $7; 2012, $2	**(475)**	(496)
Acquisitions/dispositions, net of cash acquired/sold	**(191)**	(457)
Net increase in restricted cash	**(16)**	(1,066)
Net cash used in investing activities	**(1,930)**	(1,771)
Cash Flows from Financing Activities		
Net increase (decrease) in customer deposits	**347**	(1,503)
Net decrease in short-term borrowings	**(219)**	(748)
Issuance of long-term debt	**3,109**	4,194
Principal payments on long-term debt	**(8,427)**	(7,703)
Issuance of American Express common shares	**501**	369
Repurchase of American Express common shares	**(2,142)**	(1,949)
Dividends paid	**(443)**	(446)
Net cash used in financing activities	**(7,274)**	(7,786)
Effect of exchange rate changes on cash	**(146)**	(6)
Net increase (decrease) in cash and cash equivalents	**879**	(2,821)
Cash and cash equivalents at beginning of period	**22,250**	24,893
Cash and cash equivalents at end of period	**$ 23,129**	$ 22,072

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The Company

American Express Company (the Company) is a global services company that provides customers with access to products, insights and experiences that enrich lives and build business success. The Company s principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world. The Company also focuses 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 Company s Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K).

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. These accounting estimates reflect the best judgment of management, but actual results could differ.

Certain reclassifications of prior period amounts have been made to conform to the current period presentation. These 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 that the entity can access.

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

- Quoted prices for similar assets or liabilities in active markets;

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

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

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

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(Unaudited)

Level 3 Inputs that are unobservable and reflect the Company s own estimates about the estimates 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 significant unobservable inputs (Level 3) during the six months ended June 30, 2013 or during the year ended December 31, 2012, 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 discloses the fair value measurement at the beginning of the reporting period during which the transfer occurred.

Financial Assets and Financial Liabilities Carried at Fair Value

The following table summarizes the Company s financial assets and financial liabilities measured at fair value on a recurring basis, categorized by GAAP s valuation hierarchy (as described in the preceding paragraphs), as of June 30, 2013 and December 31, 2012:

	2013			2012		
(Millions)	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets:						
Investment securities:[a]						
Equity securities	**$ 189**	**$ 189**	**$**	$ 296	$ 296	$
Debt securities and other	**5,073**	**285**	**4,788**	5,318	338	4,980
Derivatives[a]	**1,028**		**1,028**	942		942
Total assets	**$ 6,290**	**$ 474**	**$ 5,816**	$ 6,556	$ 634	$ 5,922
Liabilities:						
Derivatives[a]	**$ 150**	**$**	**$ 150**	$ 329	$	$ 329
Total liabilities	**$ 150**	**$**	**$ 150**	$ 329	$	$ 329

(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, on a further disaggregated basis.

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 estimate fair value. Such investment securities are classified within Level 1 of the fair value hierarchy.

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

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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 third-party valuation services that use 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 services 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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Financial Assets and Financial Liabilities Carried at Other Than Fair Value

The following table discloses the estimated fair value for the Company s financial assets and financial liabilities that are not required to be carried at fair value on a recurring basis, as of June 30, 2013 and December 31, 2012:

2013 *(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	**$ 23**	**$ 23**	**$ 22**	**$ 1[(a)]**	**$**
Other financial assets[(b)]	**$ 48**	**$ 48**	**$**	**$ 48**	**$**
Financial assets carried at other than fair value					
Loans, net	**$ 62**	**$ 63[(c)]**	**$**	**$**	**$ 63**
Financial Liabilities:					
Financial liabilities for which carrying values equal or approximate fair value	**$ 61**	**$ 61**	**$**	**$ 61**	**$**
Financial liabilities carried at other than fair value					
Certificates of deposit[(d)]	**$ 9**	**$ 9**	**$**	**$ 9**	**$**
Long-term debt	**$ 53**	**$ 55[(c)]**	**$**	**$ 55**	**$**

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	$ 22	$ 22	$ 21	$ 1[(a)]	$
Other financial assets[(b)]	$ 47	$ 47	$	$ 47	$
Financial assets carried at other than fair value					
Loans, net	$ 64	$ 65[(c)]	$	$	$ 65
Financial Liabilities:					
Financial liabilities for which carrying values equal or approximate fair value	$ 55	$ 55	$	$ 55	$
Financial liabilities carried at other than fair value					
Certificates of deposit[(d)]	$ 10	$ 10	$	$ 10	$
Long-term debt	$ 59	$ 62[(c)]	$	$ 62	$

(a) Reflects time deposits.

(b) Includes accounts receivables (including fair values of cardmember receivables of $7.1 billion and $8.0 billion held by consolidated variable interest entities (VIEs) as of June 30, 2013 and December 31, 2012, respectively), restricted cash and other miscellaneous assets.

(c) Includes fair values of loans of $29.8 billion and $32.4 billion, and long-term debt of $16.1 billion and $19.5 billion, held by consolidated VIEs as of June 30, 2013 and December 31, 2012, respectively.

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

The fair values of these financial instruments are estimates based upon the market conditions and perceived risks as of June 30, 2013 and December 31, 2012, and require management judgment. These figures may not be indicative of future fair values. The fair value of the Company cannot be reliably estimated by aggregating the amounts presented.

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AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

For the financial assets and liabilities that are not required to be carried 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 the lack of observable pricing inputs thereof, the Company uses various inputs derived from an equivalent securitization market to estimate fair value. Such inputs include projected income (inclusive of future interest payments and late fee revenue), estimated pay-down rates, discount rates and relevant credit costs.

Financial Liabilities for Which Carrying Values Equal or Approximate Fair Value

Financial liabilities for which carrying values equal or approximate fair value include accrued interest, customer deposits (excluding certificates of deposit, which are described further below), Travelers Cheques and other prepaid products 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 and current translation rates for foreign-denominated debt. 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.

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AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Nonrecurring Fair Value Measurements

The Company has certain assets that are subject to measurement at fair value on a nonrecurring basis. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable if determined to be impaired. During the six months ended June 30, 2013 and during the year ended December 31, 2012, the Company did not have any material assets that were measured at fair value due to impairment.

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

Charge card customers generally must pay the full amount billed each month. Cardmember receivable balances are presented on the Consolidated Balance Sheets net of reserves for losses (refer to Note 4), and include principal and any related accrued fees.

Accounts receivable as of June 30, 2013 and December 31, 2012 consisted of:

(Millions)		**2013**		2012
U.S. Card Services[(a)]	**$**	**20,861**	$	21,124
International Card Services		**7,153**		7,778
Global Commercial Services[(b)]		**15,893**		13,671
Global Network & Merchant Services[(c)]		**190**		193
Cardmember receivables[(d)]		**44,097**		42,766
Less: Reserve for losses		**386**		428
Cardmember receivables, net	**$**	**43,711**	$	42,338
Other receivables, net[(e)]	**$**	**3,204**	$	3,576

(a) Includes $6.7 billion and $7.5 billion of gross cardmember receivables available to settle obligations of a consolidated VIE as of June 30, 2013 and December 31, 2012, respectively.

(b) Includes $468 million and $476 million of gross cardmember receivables available to settle obligations of a consolidated VIE as of June 30, 2013 and December 31, 2012, respectively. Also includes $851 million and $913 million due from airlines, of which Delta Air Lines (Delta) comprises $658 million and $676 million as of June 30, 2013 and December 31, 2012, respectively.

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

(d) Includes approximately $13.7 billion of cardmember receivables outside the United States as of both June 30, 2013 and December 31, 2012.

(e) Other receivables primarily represent amounts related to (i) purchased joint venture receivables, (ii) certain merchants for billed discount revenue, and (iii) Global Network Services (GNS) partner banks for items such as royalty and franchise fees. Other receivables are presented net of reserves for losses of $84 million and $86 million as of June 30, 2013 and December 31, 2012, respectively.

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Cardmember and Other Loans

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

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

Loans as of June 30, 2013 and December 31, 2012 consisted of:

(Millions)		**2013**		2012
U.S. Card Services[(a)]	**$**	**54,645**	$	55,953
International Card Services		**8,384**		9,236
Global Commercial Services		**45**		40
Cardmember loans		**63,074**		65,229
Less: Reserve for losses		**1,342**		1,471
Cardmember loans, net	**$**	**61,732**	$	63,758
Other loans, net[(b)]	**$**	**532**	$	551

(a) Includes approximately $30.1 billion and $32.7 billion of gross cardmember loans available to settle obligations of a consolidated VIE as of June 30, 2013 and December 31, 2012, respectively.

(b) Other loans primarily represent loans to merchants and a store card loan portfolio whose billed business is not processed on the Company s network. Other loans are presented net of reserves for losses of $16 million and $20 million as of June 30, 2013 and December 31, 2012, respectively.

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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 June 30, 2013 and December 31, 2012:

2013 *(Millions)*	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Cardmember Loans:					
U.S. Card Services	**$ 54,063**	**$ 170**	**$ 120**	**$ 292**	**$ 54,645**
International Card Services	**8,251**	**45**	**28**	**60**	**8,384**
Cardmember Receivables:					
U.S. Card Services	**$ 20,520**	**$ 117**	**$ 68**	**$ 156**	**$ 20,861**
International Card Services[(a)]	**(b)**	**(b)**	**(b)**	**79**	**7,153**
Global Commercial Services[(a)]	**(b)**	**(b)**	**(b)**	**116**	**15,893**

2012 *(Millions)*	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Cardmember Loans:					
U.S. Card Services	$ 55,281	$ 200	$ 147	$ 325	$ 55,953
International Card Services	9,099	47	30	60	9,236
Cardmember Receivables:					
U.S. Card Services	$ 20,748	$ 116	$ 76	$ 184	$ 21,124
International Card Services[(a)]	(b)	(b)	(b)	74	7,778
Global Commercial Services[(a)]	(b)	(b)	(b)	112	13,671

(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) 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 six months ended June 30:

	2013			2012		
	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	**2.0%**	**2.2%**	**1.1%**	2.3%	2.5%	1.2%
International Card Services	**1.9%**	**2.3%**	**1.6%**	2.1%	2.6%	1.7%
Cardmember Receivables:						
U.S. Card Services	**2.0%**	**2.1%**	**1.6%**	2.2%	2.3%	1.7%

	2013		2012	
	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	**0.19%**	**1.1%**	0.16%	1.0%
Global Commercial Services	**0.08%**	**0.7%**	0.07%	0.6%

(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. In addition, because the Company s practice is to include uncollectible interest and/or fees as part of its total provision for losses, a net write-off rate including principal, interest and/or fees is also presented.

Refer to Note 4 for additional indicators, including external environmental qualitative factors, 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 cardmember 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 revert back to the original contractual terms (including the contractual interest rate) when the cardmember exits the modification program, which is either (i) when all payments have been made in accordance with the modification agreement or (ii) when the cardmember defaults out of the modification program. In either case, the Company establishes a reserve for cardmember

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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 as 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 are included in the provision for losses in the Consolidated Sta