American Express
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Thanks Ken and good afternoon. I'm going to spend some time giving you an update on our operating expense plans in the context of our recent restructuring announcement.

Expense Balance

As Ken mentioned and as you can see on this chart, our total adjusted expense-to-managed-revenue ratio increased from 2008 to 2011, as we reinvested the benefits from lower provision and the Visa/MasterCard payments into business building initiatives. These investments helped us achieve top tier spending growth among major issuers and strengthened our position in digital commerce.

As we stated last year, our goal is to move our expense-to-revenue ratio towards historical levels over time, and we made progress on this goal in 2012. Since operating expense control is an important part of this objective, I'll talk about how we performed in 2012, and the rationale behind the restructuring charge we took in the fourth quarter.

Adjusted Total Operating Expenses[1]

The operating expense detail on this page is exactly as I showed it to you last February. As a reminder, it's been adjusted for the Visa/MasterCard settlement payments and reflects foreign exchange rates in effect at the end of 2011.

On this adjusted basis, our operating expenses grew at a compound annual growth rate – or CAGR – of 7%[2] between 2009 and 2011 as we restored some of the opex cuts we made during the recession and began investing more aggressively in growth initiatives.

We've now updated this chart for 2012, making the same adjustments, as well as removing the fourth quarter restructuring charge, which I'll cover in detail later. On this basis, total operating expenses grew 3%[2] in 2012, with Salaries & Benefits and Professional Services very well controlled.

While S&B expenses were up only 1% last year vs. 2011, they accounted for approximately half of our overall operating expense base and had grown at a CAGR of 9% between 2009 and 2011.[2] Given the size of this opex category, this is where we're targeting most of our restructuring efforts.

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[1] Refer to the Glossary of Selected Terminology in the accompanying presentation for a definition of certain key terms, including Operating Expenses.

[2] The growth rates of adjusted total operating expenses, salaries & benefits expense, investment opex, regulatory and control infrastructure expense, adjusted other opex, Global Services opex and technology development expense are non-GAAP measures. Refer to Annex 8 of the accompanying presentation for an explanation of the adjustments and the growth rates on a GAAP basis.

As we did last February, we've broken down total opex into the categories seen here. As previously stated, we do not intend to report on them on an ongoing basis, but thought that, given the restructuring charge, it was once again important to do so at this meeting.

As you can see on this chart, we've divided operating expenses into four categories – the Global Services group, technology development spending, adjusted other opex, and investment opex. S&B is embedded in every one of these categories.

A key point is that not all S&B expense is created equal. S&B that directly drives growth -- such as sales force and marketing -- has a different payback than S&B that provides support services to the business. Reducing S&B in support functions through process improvement, technology innovation, consolidation and globalization helps to improve service and creates operating leverage for the company.

We've updated this chart with 2012 data and I'll touch on each of these categories, starting with the bottom category, Investment Opex, which grew by a total of 14% last year on top of the 29% CAGR from 2009 to 2011.[3] As I discussed last February, our investment opex growth targets are flexible and are based on business opportunities, as well as regulatory requirements. Our 2012 investment expenses were driven by initiatives such as the expansion of Loyalty Partner in Mexico and India, sales force expansions, and continued investments in the online and mobile payments space.

Also in this category are regulatory and control infrastructure expenses, which include internal audit, operational risk, compliance, Global Banking, and Basel II expenses. These grew at 15% in 2012 on top of the 27% CAGR from 2009 to 2011.[3] So, as you can see, control and compliance remains a top priority for the company.

Adjusted Other Opex, which includes most of our business and staff group functions, grew at 3% in 2011 versus the 6% CAGR in the previous three years.[3]

The next category is Technology Development spending. As I mentioned last year, we've been investing aggressively in technology development over the past several years. As you can see, spending in this area increased at an 18%[3] CAGR between 2009 and 2011. In 2012, we slowed growth to 3%[3], even as we continued to invest in delivering new capabilities, such as BlueBird, the expansion of our digital closed loop with the Xbox and Twitter launches, and numerous internal platform enhancements. We continue to believe that, going forward, a more modest increase over our current levels of investment in technology development will be sufficient to power our future growth initiatives and to ensure our basic platforms are consistently enhanced.

The last category is Global Services opex which includes all other technology costs, such as data processing and telecommunications, as well as costs associated with customer service, collections and our business services unit. Expenses in this category went down 2%[3] in 2012 vs. 2011, which was better than our target of flat to 2% growth. We accomplished this by transforming key processes and

[3] See Note 2, Page 1.

infrastructure to become more efficient, while continuing to improve customer service. I'll speak more about this in a few minutes.

Operating Expense Growth Targets – Feb 2012

Here are the targets we set last February for each of the opex categories I just spoke to. As we've said, our overall objective is to move our total expense-to-revenue ratio towards historical levels. An important part of accomplishing this goal will be to manage opex so that it grows slower than revenues, and that is exactly what we committed to last February when we established targets for the various components of opex over a two-to-three-year horizon.

As you may recall, we did not take a one-size fits all approach across the board. We targeted slower growth in most areas, while allowing for higher growth in some areas based on business opportunities and regulatory requirements.

Now, let's recap how we performed against these targets in year one.

2012 Performance

While revenue growth in 2012 was 6%[4] on an f/x adjusted basis, total adjusted operating expense grew by 3%[5], which excludes the restructuring charge that I mentioned earlier.

As you can see, we met our overall objective of growing operating expenses slower than revenues. Global Services, Technology development and other opex all grew less than revenue; while growth in investment opex and control and compliance exceeded revenue growth.

Restructuring Overview

Next I'm going to cover our restructuring initiatives.

As you're aware, a few weeks ago we announced a $400 million restructuring charge, $287 million after-tax, taken in the fourth quarter of 2012.

The restructuring charge will consist largely of severance payments related to the elimination of an estimated 5,400 jobs. Overall staffing levels by year end are expected to be 4 to 6 percent less than last year as a result of new jobs the company expects to add.

Last February, we committed to operating expense growth that is slower than revenue growth, which, as you just saw, we delivered in 2012.

As part of our recent earnings announcements, we took it a step further and committed to an annual operating expense target of less than 3% growth for the next two years.

[4] FX adjusted information assumes a constant exchange rate between the periods being compared for purposes of currency translation into U.S. dollars (i.e., assumes foreign exchange rates used for 2012 applies to 2011). On a reported basis revenue grew 5%.

[5] On a reported basis operating expenses grew 19%. See Note 2, Page 1.

So, given that we made good progress within the first year to contain opex growth without a restructuring charge, why are we taking one now?

The rationale is two-fold.

First, it is the logical outcome of what we've been doing over the past few years to increase efficiency while improving our internal processes.

Second, it's in anticipation of how we will continue to evolve our businesses to adjust to changing customer expectations and behaviors that are driven by the ongoing digital transformation, as well as the future productivity improvements we expect to realize.

Most importantly, we're taking these actions from a position of strength and are doing so proactively. We're not waiting until we are forced to cut expenses but rather cutting them now and moving forward – on our terms – to the next era of growth.

While the decision to eliminate positions is never an easy one, the actions we're taking now will help us maintain and/or increase investment capacity to drive growth, as well as continue to improve process efficiency and absorb increasing volumes.

Now, let me provide a bit more detail as to what we're planning to do.

Restructuring Overview

A significant majority -- just over 80% -- of the impacts will take place in three areas – the Global Services Group; our travel businesses, both corporate and consumer; and within our staff group functions, such as finance and human resources.

While opex in these areas was well controlled in 2012, together, these groups make up approximately 60% of our overall S&B expense. Reducing these large expense areas will help us generate savings that we can use to fund investment opportunities or to improve the bottom line.

The remaining impacts – less than 20 percent – are spread across the other business units as a result of consolidating functions, optimizing our client management and sales teams, and increasing spans of control.

Overall, the reductions are spread in proportion across the U.S. and international markets, as well as seniority levels.

Now, I'll outline the restructuring initiatives in the three areas with the largest impacts, starting with Global Services.

Global Services

As I told you last February, the creation of Global Services, which is comprised of the groups you see here, has enabled us to reduce cost, absorb incremental business volumes and build new capabilities through increased investment.

Capitalizing on our global scale and leveraging best practices from around the world, we've globalized processes such as telephone servicing, fraud operations, collections and disputes.

Global Servicing Network

Operating a global servicing network is a powerful tool to drive efficiency and effectiveness. For example, we have created specific language hubs and now service after-hours calls from our Australian customers in Phoenix.

In addition, as more customers move to online servicing, we've responded by introducing several new digital capabilities. For instance, we accept cardmember dispute requests online and today nearly 30% of all disputes for our U.S. consumer and small business cardmembers are resolved online.

As a result of process globalization, as well as the increase in online servicing, we've been expanding some facilities and closing others in anticipation of our future needs, the largest of which was our Greensboro service center closed in 2011. We've reduced the number of locations supporting our key servicing functions by 19%, as we've created hubs for like-functions.

All of our efforts have led to improvements across key performance metrics in our telephone servicing function globally. Call handling time decreased by 13 seconds in the past year; with millions of calls, this adds up to significant savings.

Likewise, First Call Resolution increased to over 82% globally in 2012; reducing the amount of follow-up calls.

The restructuring actions we're taking now are a continuation of our journey of creating a global servicing and collections network that will meet our customers' needs in the future.

Global Services Productivity

The evolution of our servicing and collections network is just one of many examples of what we're doing in Global Services to help the company grow and become more efficient. We've undertaken similar initiatives in our Technology organization which have enabled us to lower our processing costs. We've also continued to reduce our overall real estate footprint and improve our procurement practices.

This chart gives you a sense of the business volume growth we've been able to absorb over the past three years.

While card transactions were 26%[6] higher, and cards in force were 16%[6] higher in 2012 vs. 2009, Global Services expenses were 5%[7] lower over the same time period.

But we don't measure success by cost reduction alone.

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[6] See Note 1, Page 1.
[7] See Note 2, Page 1.

Not only are we more efficient, but our customers are more satisfied. Customer satisfaction, as measured by our voice-of-the-customer metric, Recommend to a Friend[8], continues to improve. In fact, we reached a record level in the U.S. in 2012, which is 32% higher than in 2009. We also continue to be recognized as a service leader as evidenced by our sixth consecutive JD Power Award for Customer Satisfaction in the United States.

Travel Businesses

Let me next move on to our travel businesses. The travel industry as a whole has been transformed over the past several years as a result of a number of factors, including supplier consolidation, shifting customer preferences for online transactions and the entrance of new competitors. Across both our corporate and consumer travel businesses, we've been making investments in new capabilities over the past several years to better meet the changing needs of our customers, improve efficiency and reduce cost.

After a comprehensive review, we identified the need to restructure the business model in Global Business Travel to reduce its cost structure and continue to invest in capabilities.

Taking a page from the Global Services handbook, we want to be more aggressive in optimizing our global travel servicing network, improving our product offerings and servicing capabilities as well as realigning our sales and client management teams to better meet the needs of our clients.

To create an optimal travel servicing network, we must appropriately address the varying types, complexity and value of transactions. There are different types of travel transactions, from the initial booking, to itinerary changes to cancellations. The complexity and value of a trip can also vary greatly. Higher value, more complex itineraries typically require more personal service. However, for some types of transactions, our clients' preferences have shifted from high-touch personal service to automated servicing.

Similar efforts are underway in our consumer travel business. Here, too, we're investing in process efficiency and new technology, as well as identifying ways to transform the business model by globalizing our approach to travel servicing.

Together, these actions will enable us to serve clients better, while driving growth and efficiency in our travel businesses, and to do so with fewer people.

Staff Group Functions

The third area most heavily impacted by these restructuring efforts is our staff group functions such as finance, human resources, communications and legal.

Comprehensive reviews were conducted by their respective leadership teams to determine how to become more efficient without compromising our control environment. The reductions in these functions are being made as a result of three drivers.

[8] See Note 1, Page 1.

The first driver is the investments we're making in new standardized tools and processes. As in other areas of our business, we've been investing aggressively in technology development, which has enabled us to reduce the amount of manual touch points across a number of internal processes, enabling us to reduce staffing levels while strengthening controls.

Second, staff group leaders are reprioritizing their work to focus on those core activities that drive the highest value, while eliminating others.

Finally, we're implementing a number of structural efficiencies, such as increasing spans of control, consolidating similar functions, eliminating duplicative efforts and migrating roles into centers of excellence.

Operating Expense Growth Targets – Feb 2012

By our own admission, setting a target of having our operating expense growth be less than revenue growth was not a super ambitious one. However, our objective at that point was to set a target that would contain opex growth while providing flexibility for investments. Having said that, our adjusted opex performance in 2012 of 3% year over year growth was better than our target, and better than the 7% CAGR of the previous 3 years.[9]

Operating Expense Growth Target

We're now moving to a more ambitious annual opex growth target of less than 3% for the next two years. We believe that this target challenges us to exceed our opex performance in 2012 while still providing flexibility for investments.

Obviously, circumstances can change, and we will adapt, as necessary. That being said, we have a comprehensive, deliberate plan in place and a high level of confidence that we can achieve these opex targets in a number of macro-economic environments.

Even if we have a stronger growth environment over the next two years, we do not plan on exceeding 3% opex growth.

Conclusion

As a result of my remarks today, I hope you have a better understanding of why we are confident in our ability to achieve our operating expense targets while continuing to invest for growth.

Thank you.

[9] See Note 2, Page 1.