American Express
February 8, 2012 Financial Community Presentation
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Good afternoon. And welcome to our first Financial Community Meeting of 2012.

Here's today's agenda.

Agenda

I'll begin by covering our 2011 financial performance, including our strong metrics and the aspects of our business model that made it such a successful year.

I'll then spend time reviewing some outcomes of our multi-year investment strategy. I'll cover the performance of some of our key 2011 investments, with a particular emphasis on how we're capitalizing on opportunities in the digital space.

One area of focus for us – and certainly an area of interest for many of you – is expense margins.

Our P&L in 2012 will be marked by the reduction of two major benefits – the elimination of payments from Visa and Mastercard related to our 2007/2008 legal settlements and lower credit reserve releases. Now, we've known for some time that we'd face these reductions and we've been planning accordingly. We've proactively reviewed all of our expense categories over the last several years and have implemented appropriate actions to make our expense base more efficient and to improve our growth trajectory.

I'll start this topic off by addressing some of our overall margin and expense growth trends, and then Steve Squeri, Group President of Global Corporate Services, will provide a deeper drill into opex. Steve is directly responsible for several functions that represent a large portion of our expense base, including technology, customer service, credit and collections and shared services, as well as for our Global Corporate Payments and Business Travel businesses.

As you'll see, we've already taken a number of actions to reduce our expense growth, and have credible plans in place to do even more.

We'll then leave time, as always, for any questions you may have on these or any other topics.

So let me get right to our financial performance.

Financial Performance

For 2011 we generated $4.9 billion of net income, EPS growth of 22%, revenue growth of 9% and a Return on Equity of 28%.

Given the continuing softness and uncertainty across the global economy during the year, I'm very proud of our performance. Our profitability was strong and well above the net income peak we hit in 2007; our EPS growth far exceeded our on-average-and-over-time financial objective of 12% to 15%;

revenue growth remained strong, driven by the strength of our cardmember base and the performance of our investments; and return on equity reflected our strong capital position and the inherent strength of our spend based business model.

Metric Trends

In 2011 the advantages of our model were quite clear. Billed business, cards in force, and average cardmember spending all remained strong, and our billings growth clearly outperformed the pace of the economy overall. At $822 billion, billed business for the full year was our highest ever, as was our average spend of almost $15,000.

Cardmember loan growth moved into positive territory for the year, and was up 3% in the fourth quarter -- not a huge number but, as you'll see in a few slides, one that bucks the trend of many card issuing peers.

AXP Lending Net Write-off Rates versus Competitors

Our credit performance improved significantly on both an absolute and relative basis over the course of the year and remains best in class.

Let me give you a bit more detail on our billings performance, since this remains our key business driver.

Billed Business Growth by Region

I'll start with our billings trend by region. As you can see, the growth rate of each region trended down somewhat over the last 2 quarters as we came up against relatively high comparables in the latter half of 2010.

Europe has particularly weakened given debt and economic concerns, and we've seen slower growth in several markets such as Italy and France. While one month doesn't make a trend, our European billings growth in January did not weaken further, but was generally consistent with the fourth quarter on an FX adjusted basis, as were our January billings overall.

Billings Growth – U.S. Credit and Charge

Within the U.S. billings growth has held up well against the charge and credit volumes of Visa and Mastercard, though at a somewhat decreasing rate. We continued to outpace Mastercard in the 4th quarter, with 11% growth to their 6%, although including faster growing debit products our growth rates were just about equal.

Debit has been a good source of growth for the networks over the last decade, but its appeal for U.S. issuers and consumers will likely decrease as a result of recent regulation.

AXP Share of U.S. Purchase Volume

Through the third quarter these growth rates translated into an 80 basis point increase in our share of U.S. credit and charge purchase volume, which is on top of a 160 basis point gain last year. This outcome has been the result of a lot of hard work, along with our consistent investment in both cardmember and merchant value.

Billings Growth – Global Credit and Charge

On a global basis relative to Visa and Mastercard we were all at the same approximate growth level in the third quarter, though Mastercard did outpace us in the fourth. This was driven by their international growth, largely in Europe, where our growth decline exceeded theirs, likely because of the greater proportion of discretionary spending within our base.

While volume growth is an important metric for all of us, the strength of our business model really comes through when you look at profitability. As pure processors, the goal of both Visa and Mastercard is to keep putting more volume through their pipes, which they do. Our model is focused on volume growth, but also on expanding our customer and merchant value, which in turn expands our revenue base. This is why our profitability per dollar of volume is 6 times greater than either Visa or Mastercard.

Full Year 2011 Relative Performance

Relative to major U.S. issuers the strength of our performance is also quite clear.

Our total billings were almost two and half times the level of our nearest competitor, and our growth rate of 15% significantly outpaced all major issuers except for Cap One.

On the lending side, all of these competitors saw declines in average balances, while we reported 1% positive growth, driven by our continued focus on premium lending.

These metrics are important on their own but, when they're correlated against revenue, they show a key point relative to future growth potential.

AXP Revenue Drivers Versus Issuing Competitors

On our 15% billings growth we posted a 9% increase in revenues, strong growth for each category.

AXP Revenue Drivers Versus Issuing Competitors

When compared to other issuers, however, you can see a disconnect. Even with positive billings growth, everyone except Discover is reporting negative revenue growth. As you can see, in some cases the gap between the two metrics is quite substantial, with both B of A and Cap One reporting a difference that's greater than 20 percentage points.

So what does their revenue growth correlate to? What's their key driver?

AXP Revenue Drivers Versus Issuing Competitors

As you can see here, it's loan balances. Despite positive growth in billings, most of these bankcard issuers are still reporting negative revenue growth in their card business because they're still reporting negative growth in balances.

Their lend-centric card models pretty much dictate that material revenue growth can <u>only</u> come about by growing AR.

2011 Worldwide Revenue

Their dependency on spread revenue continues, despite their stated efforts over the last several years to put greater focus on transactors and premium customers.

Given the sheer size of spread revenues relative to the rest of their base, the challenge for these lend-centric issuers is the equivalent of turning an oil tanker at sea. It will take time and significant investment dollars before they can begin to make a turn in their mix. And current trends are not moving favorably for them.

U.S. Revolving Credit

Card AR across the industry has fallen substantially since the crisis. As of November, 2011, total U.S. card balances were down 18%[1] from peak levels in 2008, and there was no growth in industry AR from 2010 to 2011. Consumers have clearly de-leveraged and the growth of small business lending has also been soft. While there have been some signs that these trends may have bottomed out, I don't believe we'll be returning to pre-crisis lending growth rates anytime soon. This will put substantial pressure on bankcard revenue growth going forward, on their profitability once industry-wide credit benefits turn, and also on their ability to invest.

Competitive Advantage

I much prefer our position and spend-centric model.

As you've heard me say before, our spend-based model has major economic advantages. As we continue to add merchants and consumers to our franchise by providing them with premium value, and as we continue to incent existing cardmembers to put more spend on our network, our base of billings will grow, driving both revenues and income. As demand comes back in the small business and large corporate sectors for everything from travel and supplies to capital investments we would also expect to benefit from this spend.

At the same time, we'll continue to focus on profitable premium lending for consumers, largely through our major co-brand partnerships, and also on lending to specific segments of small businesses. These categories of lending remain very attractive to us and provide value for our customers.

I believe our spend-centric model is a competitive advantage. It puts us in a far better position relative to our lend-based issuing peers, particularly when it comes to generating sustainable, profitable growth.

Agenda

This leads into our next agenda topic – an update on some of the growth drivers and investment priorities we've shared at previous meetings.

As we've discussed before our investment approach is a balanced one. We're focused on investments that generate short to moderate term growth, as well as those with a longer time horizon to sustain growth over the moderate to long-term. Overlaying this balance we also have the objective of transforming all of our businesses for the digital marketplace, which is rapidly taking shape as offline

[1] Source: Federal Reserve

and online commerce converge. We gave you a review of our digital strategy at our August meeting, and I'll give you an update on some of our progress in a moment.

Let me start with the outcomes from two of our ongoing areas of investment: customer and merchant acquisition.

2011 Performance Customer Acquisition

We continue to see excellent results from our investments in new cardmembers. These investments tend to have short to moderate-term payback and we have pretty high confidence in their performance.

For 2011 new cards acquired across all of our proprietary products and geographies increased by 6%. We continue to see strong, steady growth in our core charge products. Co-brand acquisition has flattened out somewhat now that we have the full benefit of several major product launches in 2010. And, after significant reductions in proprietary lending acquisition during the financial crisis, we're now seeing an appropriate, planned rebound in this category.

But acquiring cards for the sake of cards-in-force is not what we're looking for. The goal of our investments is to drive profitable spending, and we continue to do so.

The cards we acquired this year are estimated to generate 21%[2] more in first year spend when compared to the cards we acquired in 2010. As you may remember, when we presented this slide at our August meeting we estimated that our growth rate would be 11%, a number we outperformed given our strong momentum in the second half of the year. This exceptional performance occurred across all card types and was the result of improvements in our targeting and segmentation capabilities, areas we've invested in over the last several years. This growth also came on top of strong results in 2010, when we saw spend growth on first year cards increase by 31%.

Our spend activation programs, our relevant rewards and the high, overall value we provide all serve to engage new members in our franchise and add to our base of billings and discount revenue.

At the same time, we're also driving card fee revenues. The vast majority of our consumer and small business acquisitions are fee based products. That has always been the case with our charge and co-brand portfolios, but we're now ramping up this strategy with our proprietary lending products. Much of the acquisition within this category for 2011 resulted from the relaunch of Blue Cash and the launch of Blue Cash Preferred, a premium product that comes with a $75 annual fee.

As I've reviewed with you before, finding the right creditworthy, high spending prospect and bringing them into the franchise is an effective use of our investment dollars. And it's in line with our strategy to focus less on our absolute number of cards and more on the quality and spend capacity of new cardmembers.

As these numbers show, our core acquisition investments are doing just that.

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[2] First Year Spend reflects the first 12 months of spending for a new card acquired. For cards acquired less than 12 months prior, internal estimates have been used for their expected spending over the 12 month period, i.e. a new card acquired on 8/1/11 includes 5 months of actual spend and 7 months of internally forecasted spend

2011 Performance: Merchant Services

The investments we're making in the expansion of our merchant base and in our value to merchants also continue to drive billings growth.

New merchant locations acquired in 2011 were up 5%, on top of a 23% growth the previous year.

One contributor to our growth in the U.S. is our OnePoint program. OnePoint uses outside sales agents to acquire small and medium merchants for us.

This acquisition channel, which we continue to invest in, generated excellent results last year. New signings through this channel grew by 32% in 2011, and generated new booked charge volume growth of 57%.

We added well over 1 million merchant locations to our base in each of the last 2 years. These new merchants clearly see the value of joining our network and welcoming our cardmembers. And our cardmembers gain the benefit of using our products in a growing number of locations and spend categories.

Those are just a couple of examples of the outcomes driven by our core investments in acquisition, investments that drive our base businesses and generate ongoing, strong returns. As I took you through in August, we've also got a number of investment priorities that are focused on driving growth over a longer timeframe.

These priorities cover a range of business areas that we consider critical to our moderate to long-term success, with particular emphasis on our digital transformation.

Progress Against Growth Priorities

Our five growth priorities are:

1. Increase our share of online spend billings across all products and enhance our customers' digital experience.

2. Drive greater value to our merchant base;

3. Accelerate our growth outside of the U.S. through proprietary consumer, small business and corporate products, GNS partners and new payment alternatives;

4. Make significant progress within Enterprise Growth;

5. Broaden our customer base.

Let me take you through each one. And let me remind you that many of our investments overlap more than one area. Programs that, say, drive online spend also serve to increase our merchant value. Investments in Enterprise Growth can also make great progress against our International priority. So I'll give you examples of some of our progress within each area, but in many cases the carryover benefit between the priorities is substantial.

Against our first growth priority of driving online spend and advancing our digital efforts, we made terrific progress.

Our overall goal is to be the payment provider of choice for customers' spending, whether that involves handing over a piece of plastic, clicking online or waving a mobile phone. As we evolve our business models and processes more fully for the digital environment, we have the advantage of starting from a very strong base. Our online presence is already well established, and the benefits and services included with many of our products give us advantages over other issuers.

Online Commerce – AXP Global Online Spend

For 2011 we conservatively estimate that online billings across our merchant base were over $130 billion.[3] We estimate this spend because some retail and airline merchants, largely outside of the U.S., don't segregate their online and offline charges. Against 2010, this represents growth in online spend of approximately 22%, outpacing our overall billings growth of 15%, a trend you'd expect given the increased shift to e-commerce. As a point of reference, ComScore has reported 12% growth in U.S. online consumer spend through the first 3 quarters of 2011, leading us to believe we'll likely gain share in e-commerce spend for the year.

From all of the numbers and analysis we've seen, we continue to believe we're the volume leader among issuers in online payments. We also remain larger than Paypal, certainly one of the major online payment providers, which reported $119 billion in merchant volume for the year.

I see this trend continuing because of the assets and capabilities we bring to online commerce: our affluent, engaged cardmember base; our rewards programs; and the attributes of our brand, particularly its association with trust, security and privacy, all of which resonate strongly with online users.

Enhance Digital Experience

We also had a strong year in terms of our customers' digital experience.

This is just a snapshot of some of the programs, products and services we launched during the year, and includes partnerships and programs with major digital leaders such as Facebook, foursquare and iTunes. We went into some detail on this timeline at our August meeting, and I believe we gave you a good sense of both our objectives and achievements.

Here are some examples of our more recent progress:

- In October we launched our apps for iPad and Android tablets, which allow our cardmembers to carry our transaction, service and reward capabilities with them wherever they go.

[3] Primarily includes spending at pure online merchants and spending through known online channels for merchants with both online and offline presence. Also includes an estimate of online spend for merchants in industries where external and internal benchmarks around online spend are available.

- We presented live global streaming of Coldplay's concert in Madrid as part of our American Express Unstaged series. The concert generated over 19 million streams on YouTube, the most streams ever for a live single artist event, with over 60% of viewers from outside of the U.S. It was a terrific experience for customers and prospects and gave us a 13% lift in brand favorability among those surveyed.
- In November we welcomed Groupon into our Membership Rewards program, a redemption option that we believe will be highly relevant to our cardmembers.
- And finally, we saw terrific response to our second Small Business Saturday. Estimates are that over 100 million Americans shopped small on the Saturday after Thanksgiving, thanks to higher public awareness, which increased to 65% compared to 37% last year. We partnered with over 75 companies such as Fedex, Google and Facebook to provide value to both customers and merchants and to promote the day through their online channels, including more than 2.7 million "likes" on Facebook. Across our franchise we saw a 23% increase in transactions by our cardmembers at small merchants, on top of a similar increase last year.

The critical point of this page is not just to list the partnerships and programs impacting our business today. We're pleased, of course, that this list is lengthy, relevant and represents value actually in the marketplace, rather than just written about in press releases. The key point on this page is how we're using these efforts to shape our digital future. We're building partnerships and executing programs with market leading companies, companies our customers and prospects do business with today. We're bringing buyers and sellers together online, adding value to both. And we're building and using digital capabilities that can be leveraged for future growth.

Progress Against Growth Priorities

Another related priority is to drive greater value to our merchant base.

Drive Greater Value to Merchant Base

We have several means of driving merchant value and over the course of the year we've made progress against each. For example, our high spending cardmembers are a unique source of value for our merchants.

Merchant Value – High Spending Cardmembers

Our customers continue to spend far more each year than the cardholders of other payment networks. We continue to sustain a large gap against both Visa and Mastercard, a gap that has been consistent over the last decade. As I said earlier, this is despite statements by a number of bankcard issuers that they've ramped up their acquisition of affluent cardmembers.

Drive Greater Value to the Merchant Base

Beyond our substantial spend value, we also continue to launch and expand other services for merchants. Some examples here include Accertify, the acquisition we made in 2010, which continues to build its client base for fraud management services, and Business Insights, our merchant analytics business, which also continues to expand the breadth and depth of its fee generating services.

We also continue to add value to merchants by helping them connect with new customers. This includes programs such as Small Business Saturday, which I discussed earlier, "Go Social", which provides merchants with social media tools to build their customer base, and our Smart Offer API, which merchants can use to develop digital offers for customers.

Drive Greater Value to the Merchant Base

As I mentioned earlier, the value we provide to merchants allowed us to add well over 1 million merchant locations to our base in each of the last 2 years, with some markets growing by double digits.

Our merchant relationships are key to our future opportunities. And, based on the growth we've generated in locations, I believe it's clear merchants recognize the high premium value we provide to them.

Progress Against Growth Priorities

The next priority is to accelerate our international growth. Just about every one of our businesses has a role to play here – proprietary card, GNS, corporate services, prepaid and Serve.

International Business Operations Performance

When we did a deep drill into International at this same meeting last year we showed you the progress we've made in profitably growing our businesses outside of the U.S. As you can see here, that success continued in 2011.

Across our proprietary and GNS businesses, we grew billings by 13%[4] on an FX adjusted basis, which helped drive pre-tax income growth by 38%.[5] We had already doubled our international pre-tax profits from 2008 to 2010, and 2011 was further evidence of our commitment to international and the success of our ongoing investments.

Accelerate International Growth Across Businesses

One key driver of our billings performance has been the continued high growth of GNS. We continue to have great success with GNS in the U.S., but the roots of GNS are international. International billings represent approximately 85% of GNS' total, driven by our 131 partnerships in 154 countries, including 8 new partnerships launched in 2011.

As you can see here, GNS crossed the $100 billion level of billings last year, adding to its long term CAGR of 25%. The growth in this business continues to be impressive, and our continued success in signing partnerships in key markets such as China gives me confidence in the sustainability of our performance.

Progress Against Growth Priorities

Also key to our international success will be the contributions of new products and businesses outside of our core charge and credit products.

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[4] On a reported basis international billed business grew 19%.

[5] International represents the sum of the Europe, Middle East and Africa (EMEA) regions, the Japan, Asia/Pacific and Australia (JAPA) region and the Latin America, Caribbean and Canada (LACC) region to be set forth in the geographic note to the Company's 2011 consolidated financial statements.

For specific segments of prospects we're investing in prepaid, which we believe can be an important growth driver in specific countries. We continue to sign partnerships with key players, from co-brands with Virgin Australia and Costco in the U.K., to Tenpay, which is China's second largest online payments network. This partnership has the objective of making it possible for Chinese consumers to purchase on U.S. and U.K. websites, the potential of which could be substantial.

Serve will also be an important component of international growth. We've already announced an important partnership in China, which I'll talk about in a moment, and expect to further capitalize on growth potential in countries with similar digital opportunities.

Loyalty Partner

Moving from potential opportunity to current contributions, another great example is Loyalty Partner, the coalition rewards company we purchased last year. We've now completed all of our integration workstreams, at a lower cost than expected, and we were also pleased with their revenue performance in 2011.

Very importantly we're already seeing Loyalty Partner expand our international customer base. They brought an established base of 35 million customers with them at acquisition, and we've seen that number grow over the year. For example, Loyalty Partner expanded in India in 2011 where we've brought a number of major merchants into the program, for example Future Group, the largest retailer in the country. Since Future Group joined in November, we've added over 2.2 million customers to the program, representing a 25% growth in our collector base. Another great outcome here is the engagement level of these new customers. Over 81% of these new points collectors have activated and made a purchase since they joined.

Progress Against Growth Priorities

I'm pleased with our progress against this priority and continue to believe we'll be able to capitalize on this important opportunity.

Progress Against Growth Priorities

Our next priority is making significant progress in our Enterprise Growth businesses, including prepaid, mobile and online payments and our fee services businesses.

In August you heard from Dan Schulman on his strategy, tactics and accomplishments, and our progress has continued.

Here are some examples:

Growth Priorities Prepaid

Our prepaid products continue to expand our overall franchise. Dan told you about the American Express reloadable prepaid card in August and, since then, the product has successfully brought new customers into our base.

Some consumers continue to deleverage and move away from credit products. As they do so, they're finding that reloadable prepaid meets their needs, and we're finding that it's a great way of attracting new segments of consumers to American Express. For example, almost 20% of the reloadable prepaid customers we acquired since launch had been turned down for one of our proprietary charge or credit products. These prospects applied for one of our products, so they clearly have an affinity for our brand. Now, with prepaid, we're able to offer them an option for joining our franchise, an option that's attractive to them and economically attractive for us.

We'll continue to pursue this opportunity in a number of ways – through the marketing of our core product, as well as through co-branded offerings with partners such as Target, which we launched in November, and others that will be announced this year.

2011 was also a good year for our Gift Card product. We had our sixth year of strong double digit sales growth, selling over 20 million American Express branded gift cards in the marketplace.

Also within Enterprise Growth are a number of our fee service businesses, such as LoyaltyEdge, our white label rewards platform used by Delta and for which we have planned launches with several new clients in 2012.

Another important achievement was our November launch of Vente-Privee USA, our online flash sale business that we developed in partnership with Vente-Privee of France, the global leader of online private sales. We leveraged our cardmember base to preregister tens of thousands of customers prior to launch, and have grown enrollees to hundreds of thousands since.

We continue to make steady progress across all of our fee services businesses, both those that are within Enterprise Growth and those in other parts of the company. In earlier forums I've mentioned the goal I've set to generate $3 billion in fee based revenues for the company by the end of 2014. Based on our continued progress in 2011, which saw us generating $1.3 billion, I continue to believe we're on track to achieve this objective.

Another major focus within Enterprise Growth is Serve, our online and mobile payments platform. Dan took you through our rollout plans in August and we continue to make excellent progress in positioning Serve for future growth. Through the end of 2011 we had signed 15 distribution partners for the Serve platform, including major companies such as Ticketmaster, Verizon, Sprint and AOL. By the end of 2012 we expect to have made substantial progress in implementing our partnerships and adding to our customer base.

As I said earlier, we intend to use Serve as a key driver of our international expansion. To this end we made a strategic investment in the Lianlian Group, which includes a mobile top-up company in China.

As you may know, the mobile market in China follows a prepaid model. Instead of monthly or annual plans, mobile users in China "pay as they go". They pay to load minutes on their phones and, as those minutes get used, they then pay to add more minutes – also called "topping up". Founded in 2004, Lianlian is one of the largest providers of this "top up" service and has served over 300 million customers with a distribution network of over 300,000 agents across 14 provinces. We've made this investment with the intent of developing Serve as the online and mobile payments platform that will facilitate a range of digital transactions for Lianlian's customer base.

We believe this is a great entree into the Chinese payments market. We're taking this step with an innovative partner, and with what we believe are appropriate risk parameters, attractive economics and strong potential for future growth.

During 2011 we focused on ensuring that Serve was ready for growth: that it could appropriately meet the needs of a range of customers, had the necessary capabilities for international rollout and the heavy-duty infrastructure to support substantial scale. In 2012 our objective moves from development to execution. We've set goals for the Serve team that are focused on outcomes, specifically customer acquisition and transactions. And we believe we're in a strong position to meet these objectives. A strong foundation has been set; now it's about activation, revenue generation, and accelerating our growth.

Finally, we expect our digital transformation to be further accelerated by strategic investments we're making -- for example our acquisition of Sometrics, a virtual currency technology platform, and our investment in Payfone, a capability that allows consumers to pay for goods and services using their mobile phone.

In November we announced the creation of a $100 million investment program to expand our digital capabilities by working with early stage start ups in Silicon Valley, Silicon Alley, Mumbai, Shanghai and wherever innovations are being developed. We're looking to invest in capabilities across all of our new and core businesses, including loyalty and rewards, online and mobile payments, and security and fraud, to name just a few. Our office in Palo Alto has just opened and is already making its presence known. We've had great dialogue with hundreds of companies and have already got a range of relevant possibilities in the pipeline.

Progress Against Growth Priorities

The final priority is to appropriately broaden our base of customers. In order to sustain our growth over the longer-term, we need to have healthy demographics across the franchise, including both younger customers and women.

While we didn't have specific investments stacked against this priority in 2011, we knew that succeeding at a number of our other growth priorities would also serve to broaden our customer base, and that has certainly been the case.

For example, 40% of our prepaid customers are under the age of 35. 60% of our Vente-Privee customers are women. 55% of our Serve enrollees are 35 and under. And initial analysis shows that cardmembers who have synched their Amex cards with foursquare and Facebook skew significantly younger than our overall base, while also having income levels consistent with our overall average.

Our digital transformation is already having a positive impact on our demographics, and I believe our progress will continue.

Agenda

I believe 2011 was an excellent year for us. We generated exceptionally strong financial results while also making significant progress against our key growth priorities.

Despite a continued slow and uncertain economic environment, we achieved record billings and best in class credit results. Our customer service metrics continued to improve and remained best in class. For the fifth straight year we received the J.D. Power Award for highest credit card customer satisfaction in the U.S., and we received service recognitions in several other countries as well.

Importantly, as I just went through, we took full advantage of our earnings performance to substantially invest in growth and made good progress against our digital transformation.

But, even as we ramped up investments, our ongoing operating expenses were well controlled, and we continued to generate significant reengineering benefits across our major business processes.

Because of the achievements and progress we made last year, I believe we're in a strong position to sustain our growth over the short, moderate and long-term.

As we move into 2012, one issue we've been focused on, and certainly an issue you've raised, is the confluence of events we face this year: the elimination of our settlement payments from Visa and Mastercard, a significant reduction in credit reserve releases, and the continued need to invest in our digital transformation and businesses.

While each of these serve to put pressure on our financials, the good news is that none of this comes as a surprise. We've known about all 3 for several years and, as a result, we've been able to address their implications quite planfully.

Investment Process

We've shared this challenge with you before. As you may remember from 2010, we recognized that we'd be moving from five major sources of investment funding to essentially three. (Credit performance has the potential to be a source over certain periods in the future, but as we look out over the near-term we know our benefits here are subsiding.)

Investment Process

We've shared this challenge with you before. As you may remember from 2010, we recognized that we'd be moving from five major sources of investment funding to essentially three. (Credit performance has the potential to be a source over certain periods in the future, but as we look out over the near-term we know our benefits here are subsiding.)

While we may, on occasion, have one-off financial benefits that we use to fund investments – a practice we've followed over the last decade -- on an ongoing basis we'll rely on revenue growth and expense control to source our growth priorities. And, of course, all of these actions will be balanced against the on-average-and-over-time achievement of our EPS, revenue and ROE objectives.

In terms of our revenue potential I think you know where I stand.

Revenue Mix

I continue to believe strongly in our ability to grow revenues across all of our businesses.

The progress we've already made, and the plans we have in place, give me confidence in our growth potential in all revenue categories. While interest income likely won't return to our past growth levels, targeted growth in certain premium lending segments will add to our revenue base.

Global Opportunity in Payments Industry

One core opportunity continues to be the overall growth and shift across payment categories. It's estimated that this global payment pie grew by about 6% from 2010 to 2011[6], a growth rate not many large industries can match. This overall growth, on top of the ongoing global shift away from cash and checks, provides our payment businesses with a lot of runway.

As a result, I continue to have a great deal of confidence in our revenue potential in both our core and new business.

Investment Process

Our other ongoing investment source is expense control.

Now, given the major investments we've made over the last several years, our expense levels have risen. And, as a result, questions have been raised – and rightfully so -- about our ongoing balance between expense control and investments. Specifically ……..

Question

Will we be able to manage our expenses even while investing for growth and succeeding at our digital transformation?

It's a good question and one, as I said earlier, we've been addressing for several years now. Appropriately balancing current expenses against future growth has been a priority for our entire leadership team. We believe we've made the appropriate tradeoffs over time to achieve this balance, but we know that our task is not going to get easier.

Our accelerated investments over the last several years have been very broad-based and their impact has been seen across all of our major expense lines.

Marketing and Promotion Expense

For example, marketing and promotion.

M&P has always been critical to our cardmember acquisition efforts and our loyalty investments. We appropriately cut back on these investments during the financial crisis, while continuing to fund our most critical priorities. Once credit began to turn in 2010 we ramped up our M&P spending, and generally held our investments steady for 2011.

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[6] Source: Euromonitor January 2012, excludes ATM withdrawals.

Going forward we're targeting M&P spending to hold at a rate of approximately 9% of total revenue[7], net of interest expense. This is our objective on average and over time though, as I mentioned earlier, should events happen that give us the capacity to invest more we likely would.

Cardmember Rewards and Services Expense

Another major expense category that received investment dollars over the last several years is Cardmember Rewards and Services.

The direct correlation of rewards to spending makes rewards a key driver of our economics. On an absolute level and as a percentage of billed business, rewards costs have steadily increased since 2009, an outcome that's been positive for our business overall. As we've discussed with you before, rewards positively impact our economics through higher spending, higher cardmember retention, and better credit performance.

We've invested directly in rewards by making our programs more attractive to cardmembers, for example expanding the number of MR partners and the range of redemption options we provide. We know that cardmembers who redeem rewards are highly engaged in our franchise and, because of this, our goal is not to reduce these costs, but to make sure we're getting appropriate returns on our dollars. We continue to modify our programs and offerings to make sure we're getting appropriate, profitable behavior from our cardmembers.

Rewards expense is driven by a number of factors – for example, volumes, cardmember behavior and the cost of our offerings – but our objective is to have this cost generally grow in line with billings on average and over time. We intend to keep our programs as efficient as we can, while also retaining the high value our cardmembers place on rewards.

Expense Balance

By taking advantage of higher investment sources in 2010 and 2011, and by appropriately spending to grow our franchise, we did see increases in our expense to revenue ratios.[8] With our investment sources coming down, we'll look to reduce this ratio as well. Our objective is to move this ratio towards 2007 levels, even as we continue to maintain our on-average-and-over-time revenue growth target of 8%+.

The largest component of our controllable cost base is operating expense, which includes salaries and benefits, professional services and other operating expense. Our accelerated investments over the last several years impacted this line pretty substantially as we ramped up our sales forces, expanded our digital and analytic capabilities, and launched Enterprise Growth. On an ongoing basis our objective is to grow opex at a slower rate than revenues, something we did achieve in the fourth quarter.

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[7] Marketing and promotion expenses % of total managed revenue net of interest expense. Refer to annex 3 in the accompanying presentation for total marketing and promotion expense as a percent of total revenue net of interest expense on a GAAP basis.

[8] Adjusted total expenses, a non-GAAP measure, is total expenses on a GAAP basis adjusted for certain Visa/MasterCard settlement payments and a net investment in a foreign subsidiary in 2009, as set forth in Annex 2 of the accompanying presentation.

Because of the size of our base, and the critical role it will play in funding our investments, we felt it was an appropriate time to give you a deep drill on the components of opex, as well as the actions we've taken, and expect to take, to appropriately control its growth.

Title Slide

As I mentioned earlier, Steve Squeri is responsible for a number of functions that represent major elements of our opex base. Steve has been responsible for much of the reengineering success we've attained over the last several years and can provide you with great context on how we see our expense base supporting and driving our future growth.