American Express
February 6, 2013 Financial Community Presentation
Ken Chenault

Good afternoon. And welcome to our first Financial Community Meeting of 2013.

Here's today's agenda.

Agenda

I'll begin by covering our 2012 financial performance, including the strong metrics we generated, and the elements of our business model that made it such a successful year.

I'll then spend time reviewing the outcomes from some of our current and future growth drivers: our strong core business performance, as well as the results we're seeing from some of our key moderate to longer-term growth investments.

Finally, I'll share my perspective on the short-term environment and how our business model could potentially respond to a continued slow growth global economy.

One important driver of our performance over this time will be the appropriate management of our expense base.

We looked at this topic in depth last February, and took a number of important actions in this area during 2012. As such, I've asked Steve Squeri to give you an update on our progress against the goals we've laid out, as well as to reinforce how we plan on using our expense flexibility to help fund our growth investments.

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 results.

Financial Performance

I believe 2012 was a solid year for our financial performance. Despite continued weak economic conditions we grew revenues by 6% on an FX adjusted basis.[1] Our EPS was, as you know, impacted by three items in the fourth quarter – our restructuring reserve, our Membership Rewards estimation enhancement and a charge for cardmember reimbursements. Excluding these three items, our adjusted EPS was $4.40[2] against last year's EPS of $4.09, and our adjusted return on average equity was 26%[3].

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[1] 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%.

[2] Adjusted diluted EPS from continuing operations is a non-GAAP measure. On a reported basis, diluted EPS from continuing operations was $3.89 in 2012. See Annex 1 of the accompanying presentation for a breakdown of the adjustments and a reconciliation.

[3] Adjusted return on average equity is a non-GAAP measure. On a reported basis return on average equity was 23% in 2012. See Annex 2 of the accompanying presentation for a breakdown of the adjustments and a reconciliation.

Metric Trends

Our financial performance was driven by the continued strength of our business metrics.

- Our billings growth weakened somewhat over the last three quarters of the year, but remained relatively strong given the environment.
- Cards in force continued to grow steadily, reflecting the continued strength of our brand, our increasing global relevance, and our commitment to providing premium value and service to our cardmembers.
- Our loans grew consistently during the year, with our focus on premium lending serving to drive not just balances, but billings as well.
- And, our premium lending strategy also contributed to our credit metrics remaining at historic lows while also being the best in the industry.

Billed Business Growth by Region

In looking at some of our metrics in depth, up first is billings by region.

U.S. growth has moderated somewhat, with the largest impact being seen from corporate spend. We did see upticks in Europe, Japan and Asia at the end of the year.

GNS continues to make good gains, both through the signing of new partnerships, such as our recent launch with Scotia Bank – one of the largest banks in Canada -- as well as by increasing our share of spend within existing partners. Our sales efforts in GNS continue to see success as evidenced by our recently announced issuing partnership with Barclays in the U.K., along with several new signings that are on track for announcement later this quarter and next.

AXP Share of U.S. Charge/Credit Purchase Volume

Despite some moderation of billings growth in the U.S., we continued to see our share of credit spend increase through the third quarter.

AXP Share of U.S. Purchase Volume

A slowing of debit spend across the industry led to a share increase for us when looking at credit and debit combined. Against this base we rose to 15.5% of share through the third quarter.[4]

Full Year 2012 Volumes – Relative Performance

Our billings base continues to be the largest by far against our major issuing peers, almost 2.5 times larger than that of Chase and Citi, and our growth rate remained relatively strong.

[4] Source: The Nilson Report.

Our spend based model means we're not overly dependent on loans to grow revenues, but we generated positive growth nonetheless. Citi, Chase and Bank of America continued to see an absolute decline in balances for the fourth year in a row.

Dependency Upon Balance Transfer Offers

Slow growth in balances has led to an aggressive ramp up in competitors' use of 0% Balance Transfer offers since the financial crisis. 73% of non-AXP industry mailings in 2012 included a 0% BT offer, some extending as long as 18 months.[5] This approach does not appear to target the affluent prospects some competitors claim to be after.

Now, it's estimated that total revolving credit in the U.S. grew by only 1% last year.[6] As the large lending players spend substantial marketing dollars to compete for a 0% yield, their revenue growth has continued to decline.

2012 Revenue Growth vs. Issuing Competitors

While Cap One's core results are hard to interpret because of acquisitions, the other 3 large U.S. bank card issuers continue to see lower managed revenues for the 3rd year in a row.

2012 Credit Reserve Release as % of Reported Net Income

Credit reserve releases continued to help the industry's bottom line in 2012, but it's clear that this page has now been turned. With little or no help from the balance sheet, and core revenues declining, it's hard for me to see how the top-line or bottom-line performance of the major card issuers has substantial growth potential over the short to moderate-term.

AXP Lending Net Write-off Rates vs. Competitors

As I mentioned earlier, our write-off rates continue to be the best in the industry. Our credit remains well controlled, and our risk management capabilities provide us with a core advantage as we continue to advance our premium lending strategy.

Total Operating Expense Growth

Our operating expenses were also well controlled in 2012, coming in at 3%[7] on an adjusted basis including FX impacts, compared to our 6% revenue growth.[8] Steve will take you through our operating expense performance in a few minutes, so I'll leave the details to him.

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[5] Source: Comperemedia.

[6] Source: Federal Reserve.

[7] Refer to the Glossary of Selected Terminology in the accompanying presentation for a definition of certain key terms, including Operating Expenses. Adjusted operating expense is a non-GAAP measure. On a reported basis operating expenses grew 19%. See Annex 7 of the accompanying presentation for a breakdown of the adjustments and a reconciliation.

[8] See Note 1, Page 1.

Marketing and Promotion Expense

Despite a slight slowdown in our revenues, we were able to maintain our investment levels in 2012 and are committed to investing in growth this year as well. We believe the leverage we gain from our opex base will support our objective of maintaining our marketing and promotion at approximately 9% of managed revenues[9], though the ratio in any given quarter could be higher or lower.

U.S. Card Industry Mail Volume Trends

Here are just a couple of points related to M&P and the competitive environment overall.

As you can see, across the industry, investments in direct mail have been cut back over the last year. Now granted, there's been a shift of acquisition sourcing over the last several years, with a greater number of new cards coming from online channels, across the industry and for us. But direct mail continues to be a major acquisition channel for most large players. To me this industry data is indicative of a trend – that a lower level of credit reserve releases will put even more pressure on investment levels at our lend-centric competitors.

Peer Issuer Expense Growth Trends

As you've seen, we continue to invest in our core businesses at substantial levels. We've protected our investments because, given the level of competition in the marketplace, and certainly within the premium card space, we want to continue to gain ground.

Given differing reporting norms, we don't know with clarity the card segment investment levels of our major issuing peers. As our own investments are split between marketing and operating expense, we assume theirs are as well.

We looked at year over year trends for operating and marketing expense for some of our competitors. While Capital One and Discover had the impact of acquisitions in their numbers, the growth rates for the other 3 issuers shows that their overall operating expense and marketing levels are all either down or flat year over year.

So, while the competition in the premium card arena remains quite healthy, it doesn't appear there's been a sizable ramp up in investments by these three large issuers -- unless another business or service area within their card segment is being significantly reduced.

Now, I'm comfortable with our investment levels and our growth plans, and I believe we can appropriately compete against anyone to grow our position in the affluent space.

Agenda

Growth is, of course, our focus as a leadership team. Profitable growth is what our investors look for, and it's certainly what drives our thinking and actions in leading this company. As I establish our growth plans I always consider our moderate to long-term horizon: What growth opportunities are in our

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[9] Marketing and promotion expenses as % of total managed revenue net of interest expense. Refer to Annex 5 in the accompanying presentation for total marketing and promotion expense as a percent of total revenue net of interest expense on a GAAP basis.

pipeline? What trends are evolving in the marketplace? What capabilities will be needed 3 or 5 or 10 years from now?

But I also recognize that we must generate acceptable results across a shorter time horizon. There likely is no “long-term” scenario for any company without some “short-term” success, without some track record to point to, without assets that can be leveraged for greater scale.

Now, short-term results can be achieved without strong top-line performance. Cutting back on investments or relying on reserve benefits from credit improvements to generate earnings when revenue growth is slow is not a sustainable solution.

Sustainable growth requires revenue generation. It requires competitive products that meet specific customer needs. It requires creative thinking and innovation. It requires an ongoing investment commitment.

In a slow growth economy revenue generation is more challenging but, as we’ve shown in the past, it can be done. I thought it would be helpful today to spend some time on our key sources of revenue to provide you with a perspective on what’s driving our revenue today and what will contribute to our revenue growth over the moderate to long-term.

2007 vs. 2012 Revenue Mix

So, let me start with our current revenue mix. For full year 2012 discount revenue made up 56% of our revenue base, Other Non-Interest Income was 29%[10] and Net Interest Income was 15%.

As you can see, the major shift from where we were 5 years ago is our lower reliance on lending and, therefore, Net Interest Income. The mix here has gone from 19% of total revenues in 2007 to 15% today. As I’ve mentioned to you before, this percentage is significantly lower than many of our issuing peers, who still rely on lending for anywhere from 65% to 85% of revenues based on their reporting practices.

So, against today’s mix, where do I see our growth potential? First let’s look at discount revenue.

Revenue Mix

Discount revenue is our largest revenue category. Discount revenue is generated from our core card businesses, each of which continue to have strong growth potential.

- Within the U.S. I believe opportunities remain to increase volume with affluent consumers and small businesses.

- As plastic penetration deepens outside of the U.S. and in B2B spend categories, our proprietary consumer and GNS businesses, along with Corporate Payments, stand to also make volume gains.

[10] Other Non-Interest Income represents net card fees, travel commissions and fees, other commissions and fees and other revenue.

- As online spending continues to expand, card volumes overall will make further gains and so will our products, helped by our brand attributes of security and trust which we believe resonate strongly in the online payment space.

- Spending on our prepaid and Serve products will also contribute to this revenue category, though their revenue per dollar of spend is less than that earned on our credit and charge products.

- And, by continually building our value to merchants, even in a very competitive environment, we believe we'll continue to support our premium discount rate.

Other Non-Interest Income is where many of our newer businesses fall, as well as longer-term revenue sources such as Card Fees.

Our Card Fee revenue line grew by a healthy 6% in the fourth quarter of 2012, helped by our growth in proprietary cards and also by higher fee levels. In many countries we've added substantially to our product value over time and, as a result, have been able to charge more for this value, while also maintaining relatively stable cardmember retention rates.

This revenue category also includes non-discount revenue fees earned through our GNS partners. In a number of our GNS relationships we earn royalties on spending, and also provide consultation and product solutions in the areas of rewards, risk management and marketing.

Our newer fee services businesses also contribute to this revenue line, for example our growth across Vente-Privee, our flash sale partnership, our Accertify merchant fraud prevention business and Loyalty Edge, our white label rewards business. While these businesses are not substantial in size relative to our core businesses, they do contribute to revenue growth. For example, the revenues earned by Accertify were up over 50% in 2012.

Our prepaid and Serve products, along with our Loyalty Partner business, also contribute to these revenues, and I'll speak more about each of these in a few moments.

Our final category is Net Interest Income, which includes the spread revenue earned from our lending products, as well as the float revenue earned from our prepaid products.

As we continue to make good gains within premium lending we would expect this revenue category to grow accordingly.

So, yes, I certainly believe our revenue growth potential remains strong for our core businesses, as well as our newer businesses. Let me now back this up with our results.

High Spending Cardmembers

Our discount revenue gains continue to be driven by our high spending card base. Looking at network results for us, Visa and Mastercard you can see that our proprietary cards have spending that is, on average, four times the level of Visa and five times that of Mastercard. And, because we continue to invest in attracting and retaining high spending cardmembers, our position has not really changed over time.

As you can see we've expanded our dollar gap since 2007.

These last five years have seen intense competition in the global marketplace, as you know. And we've kept our edge by focusing on what counts – providing high spending cardmembers with greater value and premium servicing that earns their loyalty. Our net promoter[11] scores continue to rise across our U.S. base, indicating to us that we're meeting the needs of our existing cardmembers, while also attracting new, higher spending members into our franchise. Bringing together these high spending cardmembers and our merchant customers remains a continuing focus of our business and a core element of the value we provide.

Clinton-Era Tax Increases

Now, we know that some questions have been raised about the potential impact of a tax increase, particularly given the affluent cardmembers within our premium U.S. base. So we went back to look at our spend growth after the Clinton era increases of 1993. Now granted, a lot has changed since 1993, in the card industry and for American Express.

Looking back at this time, even after the higher rates went into effect for the upper income brackets in 1993, our billings continued to grow at a healthy level from 1993 to 1995.

As we've said for many years, economic growth overall is good for our billings. And slower billings are more closely tied to economic weakness than they are to other factors, including tax rates.

More Diversified Spend Profile

Our revenue potential is also helped by the diversification we've achieved within our billings base over the last five years. GNS, International and everyday spending now make up a greater share of our billings, and I believe this trend will continue. With greater plastic penetration opportunities available outside of the U.S., and broad merchant penetration opportunities within smaller retail establishments, we continue to have growth potential across these core businesses.

International Business Operations Performance

Our international performance, including our consumer, GNS, merchant and corporate businesses, continues to generate solid results, even against the backdrop of a weak global environment. We're seeing good volume growth in Japan, Asia and Latin America, and saw a fourth quarter uptick in our European billings growth rate. As Ed Gilligan shared with you at our last meeting, our potential here is significant, and will also be helped by our expansion of Loyalty Partner, which I'll speak about in a few minutes.

2012 Performance: Customer Acquisition

Our cardmember acquisition efforts remain robust, and we continue to bring on high spending prospects across our charge, co-brand and proprietary lending products.

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[11] See Note 7, Page 3.

In 2012 we grew our new accounts acquired by 5%, and the first year spending of those new cardmembers is expected to grow by 9%[12]. This is now the third year in a row we've grown the first year spend of new cardmembers, which demonstrates not just the real and perceived value of our core products, but also the success of the segmentation and risk investments we've made over the last several years.

Small Business Performance

Our small business products also show good growth potential.

Our U.S. small business product – OPEN – has generated a 13% CAGR on billings over the last 2 years. Outside estimates had spend on small business cards in the U.S. growing by 8% for 2010 and 2011[13], indicating that we outgrew our peers, even with very intense competition.

International small business also has a great deal of revenue potential. Small business spend outside of the U.S. is still largely made up of cash and checks, so there is a significant penetration opportunity to tap here.

Global Corporate Payments

Corporate Payments continues to penetrate new large and mid-sized accounts. While corporate spending has slowed as a result of weaker economic conditions, we continue to sign new clients and in 2012 had one of our strongest acquisition years. The booked volume from new accounts has grown by 14%[14] over the last three years.

This outcome has been helped by our strategic focus on specific industries. For example we've made the acquisition of healthcare clients a priority, and clients in this industry grew their charge volume by over 100% in 2012.

Online Commerce – AXP Global Online Spend

We've also got a number of opportunities within online commerce, with online spending continuing to offer up substantial potential.

Online spend continues to grow faster than overall offline spend, driven largely by online retail, international, and B2B volumes. In 2012 we grew our online spend base by 15%, to over $ 152 billion.[15] As I've noted before this remains a conservative number, as we don't include some offline merchants who also have online billings within their submitted numbers. These volumes keep us just ahead of Paypal as the largest biller of online spending.

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[12] Includes customers acquired in the USCS, ICS and GCS segments. First Year Spend for USCS and ICS reflects the first 12 months of spending for a new customer acquired. For customers acquired less than 12 months prior, internal estimates have been used for their expected spending over the 12 month period, i.e. a new customer acquired on 8/1/12 includes 5 months of actual spend and 7 months of internally forecasted spend. For GCS, first year spend reflects spending in the calendar year from customers with less than one year of tenure.

[13] 2009-2011 CAGR. Source: McKinsey Global Payments Map and AXP internal data.

[14] Booked charge volume from new clients or the expansion of existing client relationships tracked for 13 months, starting with the month when the first dollar was billed.

[15] Primarily includes spending at pure online merchants and spending through known online channels.

I believe our expansion in prepaid will also serve to grow this number. Customers without access to debit or credit products have largely been shut out of online spending. With a consumer friendly prepaid product available, such as Bluebird or our reloadable prepaid card, we believe we can make further gains in online spending.

AXP Digital Highlights

Helping our online commerce efforts has been the progress we've made within a number of our digital investments. In terms of both servicing and fulfillment, we're steadily driving our online capabilities.

- In 2012 our cardmembers redeemed 155 billion reward points online, up 12% from 2011;
- Across our entire global card base, 80% of our customer payments are now received electronically;[16]
- Our mobile app has now been downloaded 5 million times;
- And cardmembers registered their cards for digital marketing offers over 3 million times in 2012.

These card achievements, along with continued enhancements to our Serve capabilities and functionality, represent a continued advancement of our digital footprint and keep us as a recognized leader in the digital space.

Revenue Mix

So these results represent the revenue potential – and the continued strength – of our core card products. We've done well across our base whether looking at geography, segment or product. We've invested in these businesses and have seen good returns in terms of revenue growth, profitability and brand position.

I believe the revenues and profits generated from these businesses will continue to fuel the Company's overall growth over the foreseeable future, while also generating investment capacity to put against moderate to longer-term growth opportunities.

Let me spend a couple of minutes now on two of those moderate term growth opportunities, Bluebird and Loyalty Partner.

Enterprise Growth Group – Metric Trends

Bluebird falls under our Enterprise Growth Group, led by Dan Schulman. Along with our prepaid products Dan also has responsibility for a number of our fee-based businesses and our Serve digital payment platform. Our Serve platform runs our Serve prepaid digital account product, as well as Bluebird and the mobile top up processing we provide for Lianlian in China. Over the last two years Dan and his team have worked to develop strong value propositions, as well as to sign distribution partnerships with companies such as Zynga and Verizon. These products are now out in the marketplace and gaining traction.

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[16] Electronic includes payments received via phone, online, AutoPay, 3rdParty remits and wire transfers.

Over the last year the customer base across Enterprise Growth has grown from 600,000 to approximately 3.1 million, with the strong quarter over quarter growth rates you see here.[17] While customer acquisition is critical, so too is activation. We don't just want customers, we want engaged customers, and we're starting to see that as well.

Customers engage by putting funds onto our products and platform, be it their Serve account or their Bluebird card, or the volumes processed on Serve through our partnership with Lianlian. During the year we've seen these volumes climb, with almost $600 million put on our Serve platform and prepaid products in the fourth quarter alone.[18]

Bluebird

Our fourth quarter numbers were driven by the early success of Bluebird, our next generation prepaid payment product. Bluebird capitalizes on the value attributes of the Walmart brand and the distribution breadth of their store network, issued and backed by the service, benefits, platform and brand of American Express.

Bluebird is a product that leverages our Serve platform, which provides offline, online and mobile capabilities for customers to manage their funds. It offers multiple options for adding funds, using funds, and controlling and reporting activity.

The response from consumer and financial groups, including the financial media, has been very positive, with a focus on the attractiveness of the product to the unbanked, underbanked and "unhappily" banked segments, and how the product is likely to intensify competition in the industry.

Bluebird Update

But I said it's still very early days for Bluebird, but here are a couple of points we can share:

- As of January we had over 575,000 accounts, on which customers had put $275 million in funds.

- Approximately 85% of Bluebird enrollees are new to American Express products and 45% of purchasers are under the age of 35 – both positive signs of the expanding footprint of our franchise.

- And, so far, about 30% of the funds put on Bluebird are now coming through direct deposit, up from the 15% level we shared with you just 8 weeks ago. This is a sign that customers see the product as a key component of their financial options. This is also supported by the fact that a good proportion of spend volumes are used for electronic bill pay, indicating to us that these enrollees see Bluebird as an alternative to traditional banking products.

Another point to note is that we're also seeing broad based spending on Bluebird, with the majority occurring at merchants outside of Walmart, an indication that purchasers are not viewing Bluebird simply as a store card, but as a broader payment solution.

[17] Enterprise Growth Customers include General Purpose Reloadable cards, travel cards, Serve, Vente-Privee and Bluebird. Includes accounts in pended status.
[18] Transaction volumes are across prepaid products (i.e. Serve, Bluebird, General Purpose Reloadable and travel cards) and include volumes processed on the Serve platform through our partnership with Lian Lian.

We’ve certainly been pleased with our progress so far, as has Walmart, and we’ve been running ahead of our internal projections.

In terms of economics, Bluebird is an attractive product, offering sustainable low-risk revenues, and a lower expense and capital profile relative to our traditional products.

On the revenue side, we earn discount revenue (though at a lower rate than our traditional card products), float revenue and some customer fee revenue. Our value proposition was specifically designed to be far less customer fee dependent than many, if not most, products in this category.

On the expense side, we benefit from owning and operating our own payment network, which gives us a largely fixed operating expense base. We also have lower overall provision costs as compared to our traditional card products, no rewards expense and the lower customer acquisition costs we gain by utilizing Walmart’s 4,000+ network of U.S. stores.

We need to generate substantial scale here to achieve the full financial benefit of our investments, but we’re certainly encouraged by what we’re seeing.

Bluebird

I firmly believe that our next generation reloadable prepaid products, including Bluebird offer us significant growth potential. They fill a clear need in the marketplace and offer strong customer value. They open up new customer segments for us in the U.S. and in key markets around the world. They are fulfilled through lower cost acquisition channels. And they leverage an infrastructure that is already up and running.

We still have to ramp up our scale over the short-term, but the size of this opportunity, along with the economics we bring to the table, give me confidence that Bluebird and reloadable products on our Serve platform will be growth drivers for us over the moderate term.

Another business that we see as a revenue driver for us is Loyalty Partner.

Loyalty Partner Update

As you remember, Loyalty Partner is a closed-loop loyalty and rewards business that we acquired in early 2011.

Based in Germany, Loyalty Partner brings buyers and sellers together through a coalition rewards program called Payback. Enrolled customers earn rewards by spending at participating coalition merchants. To ensure that a wide range of spending can be accommodated, the coalition usually includes major categories of merchants such as a supermarket, telecom provider, drugstore and gas station chain.

Loyalty Partner provides the platform for the rewards interaction between the consumers and merchants. Merchants provide SKU level data to Loyalty Partner so that they can more effectively target offers to new or existing shoppers on behalf of all coalition partners.

From October 2011 to October 2012 Loyalty Partner's customer base grew by 36% to approximately 47 million enrollees. The largest growth came in India, which more than doubled its enrollee base, and in Mexico, where a fully digital program was launched in the third quarter. By the end of the year, largely due to our early success in Mexico, we had reached 50 million international customers.

Payback currently operates in four countries and we believe is the largest coalition loyalty program in each of those markets, providing customers with exceptional relevance, reach and value.

In terms of economic drivers, Loyalty Partner generates several types of fee revenues, including performance marketing revenues from merchants and revenues from affiliates looking to market to a broader customer base. On the expense side we benefit from merchant funded rewards and no customer credit exposure.

One key to the longer term success of this business is the engagement of consumers. Merchants are paying fees to Loyalty Partner to ultimately improve the performance of their marketing spend – to improve their customer acquisition efforts and to gain greater revenue from new and existing customers. We'll only earn their marketing dollars if we can show results, and here's one example of this.

Loyalty Partner: 2012 Digitization

Now, we've invested heavily in building a digital infrastructure to house our merchant partner offers. By targeting the right offers to the right collectors we can, and do, bring engaged customers to these merchants.

For example, in Germany, by using social media, mobile apps, in store kiosks and email marketing, we put over 250 million merchant offers in front of our customers. Of those, 50 million were activated and ultimately almost 3.5% were redeemed.[19]

To put this into context for a supermarket, restaurant or supplier, such as Procter & Gamble, their coupon redemption rates are far less. Industry numbers can vary by source but here's one estimate for 2011: that marketers issued over 305 billion coupons both online and hard copy, of which only 3.3 billion – or 1.1% -- were redeemed.[20] This makes Loyalty Partner's targeted offer channel 3 times more efficient for merchants.

Loyalty Partner

Through Loyalty Partner's performance marketing capabilities, there is a huge opportunity for us to help merchants make their spending more efficient. We have the merchant relationships. We have customer relationships. And we've shown that we know how to bring these two together. Loyalty Partner can also help our traditional card business reach new cardmember segments through co-branded products linked to the program.

As Loyalty Partner expands into more countries and more customer segments, the revenue growth potential here becomes even greater. We're realizing some of that potential now, but as our ramp up

[19] Data collected from January-October of 2012.
[20] Source: NCH Marketing Services.

continues over the next several years, we believe our revenue build will accelerate. As an example, while Loyalty Partner generated reasonable revenue growth for 2012, their growth as they exited the fourth quarter was above 20%, helped by the launches in Mexico and India. Now, they still have a relatively small base of revenues, but the upside here is substantial.

Blue Box

The potential of Bluebird and Loyalty Partner are two reasons why I believe our fee revenue base will continue to grow.

As you know, in 2010 I set a target for our organization: that by the end of 2014 we would be on a run rate to generate $3 billion in fee revenues across our businesses. This objective included revenues from our existing fee businesses, such as sales of travel insurance and foreign exchange, along with new businesses that would drive new categories of revenues.

Coming out of the financial crisis my goal was to focus our businesses on revenues that did not require high levels of capital. I wanted us to diversify our base and emphasize revenues that had minimal credit risk, were less volatile and more recurring.

When I laid out our goal I looked at our existing fee revenue businesses, and also at about 10 to 15 new projects that were at various stages of investment. I didn’t expect that all of these projects would ultimately contribute to our goal, but I was comfortable with our pipeline.

Since that time, of course, the marketplace has changed and, accordingly, so have a number of our priorities. The recovery of the global economy has been slower than most of us had envisioned. And a number of trends have certainly changed trajectory. For example, three years ago I thought that digital payments at point of sale and their corresponding e-wallets would see a ramp up of consumer adoption. But, as we all know today, this adoption has been far slower than expected.

We continue to make progress against a number of businesses I mentioned earlier – Vente-Privee, Accertify and Loyalty Partner, for example. These businesses, along with our existing fee businesses, generated good revenue growth in 2012. In total they were up approximately 15%, generating $1.5 billion in revenue.

I didn’t envision a steady build against our $3 billion goal – I expected that our fee revenue growth would accelerate in the out years. But, as our priorities have shifted over the last few years, so have our revenue drivers. Loyalty Partner and our next generation stored value products are two important contributors to this goal and, as I just showed you, their potential is substantial. But their ramp up from launch, to customer acquisition, to revenue generation is more back ended.

Based on our 2012 performance and our current assumptions, I believe our goal to exit 2014 with a $3 billion run rate remains reasonable, though we’re taking a different path than I thought two and a half years ago.

Agenda

Because of the overall flexibility of our business needs, I continue to believe that we’re well positioned to deal with a range of economic conditions. It’s always easier to do well in better times, but to me the true test of a company’s strength is how well they do in times of weaker growth. Do they still stay focused on growth or do they go on defense? Do they take short-term actions to meet a bottom-line objective, but at the expense of their moderate to longer-term growth?

As all of you know, I take a longer-term view when it comes to leading this company. I think it comes with the territory when you're heading up a company that is 163 years old. I do, of course, focus on our quarterly performance, but the greatest amount of my time is spent looking out over a 3, 5, or 10 year horizon. How are we positioned to sustainably grow revenues? How do we appropriately maintain our capital strength? What investment capacity do we need to sustain our growth, and how do we fund these investments over time?

Given this longer-term outlook, I remain comfortable with targets that are "on average and over time" and, specifically, with our stated financial targets.

AXP Financial Targets

As you know, our company objectives are to generate – on average and over time – revenue growth of 8% or more; EPS growth of 12% to 15%; and an ROE of at least 25%.

I believe these targets remain appropriate for our business model and appropriate for generating sustainable value for our shareholders. In some quarters and some years we'll be above these numbers, and in some we'll be below.

2010-2012 Performance Against Financial Targets

For example, in looking at our financial performance over the last 2 years, you can see that revenues net of interest expense have grown by 7%, just below target, our adjusted earnings per share was 14%[21], at the higher end of our targeted range, and our adjusted ROE was 27%[22], above our 25% objective.

So, while we were just short of our revenue objective, we were still able to generate EPS growth and returns within or above our targeted levels.

In looking at this performance it's also important to consider the P&L benefits we had at the start of this three year period, benefits that have since moderated.

For example, in 2010 we had the benefit of $2.3 billion in credit reserve releases and $900 million of settlement payments from Visa and Mastercard. But, by 2012, our settlement payments had fully ended and our credit reserve release came to only $400 million. This represented a significant grow over challenge, but we met it through the strong results of our core businesses.

AXP Financial Targets

To me, this performance reinforces the appropriateness of our objectives. They will continue to guide our actions and our investments, and our entire organization remains committed to them.

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[21] See Note 2, Page 1 for a definition of adjusted diluted EPS from continuing operations, a non-GAAP measure. On a reported basis, diluted EPS grew 7% from 2010-2012.
[22] See Note 3, Page 1 for a definition of adjusted return on average equity, a non-GAAP measure. On a reported basis, return on average equity was 25% from 2010-2012.

As I said, in weaker times all companies face a headwind in generating growth and revenue. Now, I've led through a range of economic cycles, whether it was the post 9/11 downturn or the financial crisis in 2008 and 2009, and I know the challenges that companies face at these times.

The global economic conditions that currently exist – weak growth over a sustained period – present their own challenges. We're facing low single digit growth, and economists have no real expectation that these conditions will change over the next year or two.

So, given this current environment, what do I consider as I look out on our own performance? What actions might we take under current economic conditions?

First I look at the key driver of our business model – card billings.

Historical Billings Performance vs. GDP

Based on almost 20 years of history, excluding the crisis of 2008 and 2009, we have seen correlation in the U.S. between GDP growth and our billings growth rate. This relationship generally holds with the ups and downs of the U.S. economy. Of course, any individual year may differ, but over time our billings growth rate has been approximately 4.5 times that of real GDP growth.

If this historical relationship held, and if real GDP growth was 2%, we would expect to see billings growth in the 9% range. This relationship would be one of the key drivers of our revenue growth assumption in a weak economic environment.

Expense to Revenue Ratio

I then consider our expense to revenue ratio. What kind of operating leverage do we have? What ratio have we been running at and, if we were able to take any expense actions over the short-term, what ratio could we expect?

Strong Capital Position

I then look at another important asset that we have – our strong capital position. As you know, we have a very strong balance sheet and currently generate capital in excess of what we need to support our business growth. Our on-average-and-over-time objective is to return 50% of the capital we generate to shareholders through dividends and share repurchases. But, we also have the option of paying out more or less in any given year, so this too is a variable we can consider.

Blue Box

When we put all of these assumptions on the table we can then consider our financial possibilities under a slow growth economic environment.

As I share some of this thinking with you today you should note that this is essentially a math exercise, based on our historical trends and current position. It's not intended to be a forecast or a business plan. Rather it's an exercise to show how our financial results might play out based on certain assumptions.

Potential Slow Growth Scenarios – Scenario 1

In our first scenario, for example, we've assumed a revenue growth of 5%, the reported rate we generated last year.

We then assume that operating expenses grow by 1%, within the commitment we've made of keeping our growth rate at 3% or less. This adds 7 percentage points to our EPS growth rate.

We then assume that Marketing and Promotion grows with revenue, consistent with our objective to keep our investment levels up and maintain M&P at about 9% of revenue. If we assume reward costs generally grow with billings, this expense growth would slightly outpace revenues. In combination these two items would reduce our EPS growth by 200 basis points.

Credit, of course, has a significant impact on our earnings. In this scenario we assume there is a modest 10bps increase in our write-off rate across all portfolios, lowering EPS growth by 3 points.

Now let's look at our capital position. If we assume that we pay out approximately 80% of total capital generated through share buybacks and our regular dividends (assuming, of course, the approval of our primary regulators), this would add 500 basis points to our EPS growth rate.

In total then, by using our operating leverage and strong capital position, this scenario would have us at an EPS growth rate of 12%, within our targeted range even with 5% revenue growth.

Let's look at another potential scenario.

Potential Slow Growth Scenarios – Scenario 2

This scenario also assumes a 5% revenue growth......

But opex growth now comes in at 2% growth instead of 1%. This adds 500 basis points to our EPS growth instead of 700.

We'll then assume that M&P, rewards and credit are the same as in the first scenario.

If our capital payout is 65%, instead of 80%, share repurchases would add 400 basis points to our growth rate.

These assumptions would have our EPS at 9%, below our targeted range.

Potential Slow Growth Scenarios – Scenario 3

A third scenario assumes that revenues grow somewhat better at 7%, the growth rate we generated from 2010 to 2012.

With higher revenue growth we assume slightly higher opex growth of 3%, a higher rate than in the first two scenarios, but still fulfilling our commitment. This then gives us a 7 point lift to our EPS growth rate.

We then keep our next 3 assumptions the same – M&P growing with revenues, rewards growing with billings, and a rise in write-off rates of 10 basis points.

If we assume a payout of 90% of total capital generated, similar to what we paid out during 2012, then EPS in this potential scenario would be 15%, at the high end of our targeted range. We would again be able to meet our EPS growth objective, even with revenue growth below our target of 8%, but we would get there a somewhat different way.

Blue Box

Now these scenarios are not meant to represent an actual calendar year. They're an exercise based on our business model. They show linkages between our metrics, revenues and earnings, as played out against the assumption of a slow-growth environment. They show the actions at our disposal to potentially counter the effects of the environment: the flexibility within our operating expense base, and how we could leverage our strong capital generation to return more capital to shareholders.

They don't represent our expected results for 2013 or 2014. They're not a projection. We know, for example, that 2013 includes a credit reserve release grow-over that's not accounted for here. And there will no doubt be other ins and outs, in both this year and next, that will also impact our actual EPS performance.

While these specific scenarios don't include an 8% revenue growth assumption, in my view it isn't completely off the table. We've made significant investments over the last few years, we're acquiring new customers and launching new products. But I do recognize the significant challenge we have in achieving this target within the current slow-growth environment.

These scenarios are meant to show that our on-average- and-over-time financial targets remain relevant, even against the backdrop of a slow-growth economy. They're meant to show that we do have the flexibility to generate good EPS growth by relying on the strength of our core businesses and – very importantly – without cutting back on our investment levels and putting our moderate-term growth at risk.

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The flexibility of our business model is never more important than when the global economy faces challenges.

I believe the flexibility we have within our revenue drivers, our operating expense base and our capital position puts us in a stronger position than a number of our peers when it comes to generating solid EPS growth, even in the midst of an extended slow-growth environment.

Now, since operating expenses are such a significant variable in driving our financial performance, I thought it would be useful to have Steve Squeri update you on the progress we've made in this area over the last year and why we believe our restructuring plans will help us achieve our commitment going forward.