

**American Express**  
**August 8, 2012 Financial Community Presentation**  
**Ed Gilligan**

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**Core Business Opportunities**

Today I'd like to spend the next 30 minutes or so talking in more detail about our business, and how we plan to continue our growth and our momentum. First, I'll start with a quick review of our recent performance. Then I'll talk about how we are sustaining our merchant value proposition, and the ongoing expansion of our merchant network. Next I'll go through the breadth of growth opportunities we have for the mid-term. And finally, I'll discuss our longer term vision for continuing to increase our relevance for consumers and merchants.

Let's start with a quick review of our performance. We believe we have a business model that has become stronger and more resilient over the past few years. This is an asset that has enabled us to deliver a strong performance to our shareholders. Ken gave you a lot of details on our performance since 2007, but I would like to highlight just a few points on the past two years in which we laid the groundwork for our mid- and longer-term growth opportunities that I will discuss.

**Global Volume Expansion**

Our spend-centric model has delivered strong double-digit growth in billed business over the last two years. During this period, our global growth rates are comparable overall to Visa's and higher than MasterCard's, while in the US we have outperformed both networks.

**Global Expansion of the AXP Franchise**

During the past two years, our share of credit and charge purchase volume in the US grew to over 26%<sup>1</sup>. Despite the recent moderation in billings growth, we believe we have continued to gain share in the US the first half of this year. What's important to note here, is that we grew in an environment which many people have called the most intensely competitive period for the card industry. And at the same time, our international businesses have grown, and became more profitable. We believe this positions us more effectively for future growth in international.

**Average Basic Cardmember Spend**

This is a story of premium customers that you know well. And we like to update you from time to time. Globally, our average spend per basic cardmember remains well above the average spend on the Visa and MasterCard networks. This has been one of our strengths, and it is a core value that we bring to merchants.

**AXP Consumer and Small Business Billed Business Acquired**

One of the key spending metrics we watch closely is Billed Business Acquired. This is a measurement of the amount of spending on an account in the first 12 months of membership.

You can see that this metric has grown well over the past three years in an increasingly competitive environment. And, we're acquiring this new spending more efficiently, in terms of dollars invested vs spending acquired. We're pleased with this performance.

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<sup>1</sup> Source: The Nilson Report.

### **Risk Profile**

Over the past several years, we strengthened the risk profile of the company as you've heard. Our net write-off rates improved, as did our 30-days past due rates. We are tracking well below those of our major competitors on both measures.

### **Expansion of Co-Brand and Network Partners**

We continued to enrich our network by adding co-brand and network partners. This created deeper relationships with our customers, and planted the seed for further growth. Since 2007, we have added 21 proprietary co-brand partners, bringing our global total to 50. And when you include our GNS co-brands, the total is more than 100 co-brands around the world. On the network side, we added 29 partners, which gives us 146 globally.

### **Partnerships with Innovators and Leaders**

We've also launched some new partnerships to offer innovative products and services, that create value for our cardmembers and merchants alike. For example, we launched a "Pay With Points" program with Amazon.com, and recently introduced merchant offers through leading digital platforms like Twitter, Facebook, and Foursquare. These new partnerships are examples of how we can bring our closed-loop to life, and make it relevant to both consumers and merchants.

### **Achieved Our Objectives**

To sum up this first section, our spend-centric premium model is stronger, as evidenced by our spending growth; Billed Business Acquired has grown; we've improved our risk profile; and our network is stronger.

### **Core Business Opportunities**

Next I'd like to turn to our merchant network. Merchants are a critical focus of our growth plans. Over the past two years, we have said that expanding our network and increasing merchant value will be a key growth driver for the Company. I want to take a moment now to talk about our progress.

### **Global New Merchant Signings and Activity**

To expand merchant acceptance among smaller merchants, we have opened up new channels. Through our One Point program in the US, we formed partnerships that acquire and service smaller merchants across the country. This program has been in place now for several years, and is working very well for us.

Outside the US, we have similar partnerships. Two examples are La Caixa in Spain, and Cielo in Brazil. Through these channels, as well as through GNS partners and our own internal channels, we have added more than 4 million merchant locations in the last two years alone. Some of you have asked me whether non-traditional players, such as merchant aggregators like Square, are presenting a challenge to our traditional business model. In fact, while these players may compete with us, I can tell you that we actually see an opportunity here, and have already begun to work closely with them on expanding American Express acceptance. There is a potential risk that working through aggregators could disrupt the flow of the data we need to serve customers. But we are working with the aggregators to mitigate that risk.

So we have been aggressively opportunistic in opening up new channels with companies like PayPal, Square, iZettle in Europe, and Stripe, which are now bringing us hundreds of thousands of small merchants, most of which previously had not accepted plastic before. And while it's early days with these new partners, the initial signs are promising. And on the right of the slide are some examples of larger merchants that our own sales force has recently added, including Costco in the UK. We'll continue to invest in our long-standing strategy of signing merchants where our cardmembers want to shop.

#### **Bradesco / Cielo Partnership**

Cielo is a large Brazilian acquiring business that has reach across the entire country. Working with Bradesco, our GNS partner in Brazil, Cielo now gives merchants access to American Express. In effect, every merchant in Brazil with a Cielo terminal now accepts Amex. The results speak for themselves. The American Express merchant network in Brazil is now over 4 times as large as it was when we started the partnership with Cielo in 2010.

#### **Suite of Value-Added Merchant Services**

In addition to adding new merchants to the network, we continue to build value for all our merchants. In the last two years, we've launched several initiatives and products, many of which are generating fee revenue for us. We have designed performance marketing programs to help merchants find new customers, and generate new business; we have launched financing services to help merchants manage their cash flow; and we have rolled out Accertify to assist merchants in managing risk and controlling fraud in their online business.

Since we know that Amex acceptance is a merchant's choice, it is important that we maintain our focus on providing value. These products, services, and marketing programs are all designed to help merchants grow their business profitably, and are powered by our closed-loop model. This is an advantage we give our merchants. And importantly, this has changed the conversation with merchants who increasingly see us as a business partner.

#### **Small Business Saturday**

I also want to mention Small Business Saturday. You are probably familiar with this successful initiative that we launched 2 years ago in the US, in which consumers were encouraged to "shop small" on the Saturday after Thanksgiving. In addition to raising awareness of the value small businesses bring to the US economy, we used our closed-loop model to drive business into small merchants by creating digital offers for American Express Cardmembers.

This is not about just one day. Small Business Saturday is symbolic of our new relationship with small merchants. We stand with them, and are creating on-going programs and tools to help them build their business throughout the year. Helping small businesses market on Facebook and Twitter, and win business from the Federal government, are examples of things we do every day to help them.

#### **Core Business Opportunities**

That's a very brief snapshot of our merchant strategy. Obviously, continuing to strengthen and bring new value to our merchant franchise is a critical piece of our plans for growth. So let me take you through the opportunities that we see in the mid-term. But first, I want to acknowledge some of the environmental challenges that we face today.

### **Dynamic Environment**

Some of this is stating the obvious, but I want to place our growth plans in context. The economic environment is in a slow-growth mode, and unemployment remains high in many places. The level of competition is high. Some of our traditional competitors have been aggressively targeting affluent consumers and small businesses. On the regulatory and legal front, we're continuing to see increased activism by governments in regulating aspects of the payments industry. And litigation, particularly in the US, is forcing some changes in the way major players do business. To be sure, these are challenges. Yet we are still excited about the opportunities we have to grow, and make American Express an even stronger company over the next few years.

### **Diverse Investment Opportunities Across the Franchise**

We have a large and diverse range of investment opportunities in our core businesses. Our investment focus aligns with large, faster-growing segments of the industry. And we believe that our unique business model places us in a very good position to take advantage of these opportunities.

Today I'd like to touch on six areas of investment.

### **Our Investment Focus Aligns with Six Global Trends**

Even in today's environment, there are clearly large pockets of spend that have the potential to show strong growth. These industry forecasts could, of course, change if the economic environment changes, but as Ken said, we believe that our cautious assumptions about the economy are reasonable.

First, premium consumers are the heart and soul of our business. We have a proven record in attracting them, and engaging them with rewards, experiences, and outstanding service. We'll continue to invest heavily in this opportunity.

US Small Businesses spent \$275 billion dollars on credit and charge cards last year<sup>2</sup>. There is an enormous amount of spending on cash and checks that we could capture. We are a leading issuer of cards that serve small businesses in the US, and already have strong small business franchises in other places like Australia, Japan, and Canada.

B2B is another large opportunity. B2B payments represent \$2 trillion in potential plastic ready global spend, which is forecast to grow at 8% through 2015<sup>3</sup>. We have innovative platforms designed for B2B commerce that can capture plastic and non-plastic payments.

Emerging Markets have strong growth potential. Credit spend in these markets is expected to grow 20% each year through 2015<sup>4</sup>.

Prepaid cards are another fast-growing area of payments that is estimated to be a \$340 billion opportunity. Demand for prepaid products is forecast to grow at 13% globally over the next three

<sup>2</sup> Source: McKinsey Global Payments Map, 2011.

<sup>3</sup> Source: McKinsey Global Payments Map, 2011. Includes credit, debit, retail, and prepaid cards.

<sup>4</sup> Source: McKinsey Global Payments Map, 2011. Computed from forecasted credit spend in 15 emerging market countries representing 75% of emerging market GDP.

years<sup>5</sup>. To capture that growth, we have a diverse set of prepaid products targeted at broad range of customers.

Finally, there is online and mobile spend, which is growing at 10% in the US and 18% internationally<sup>6</sup>. We will continue to form new partnerships and deploy our closed-loop model, so that we can play an important role in global online and mobile.

We remain confident in our ability to grow. In many of these areas, we have already grown faster than the industry because of our strong value proposition. Now I'd like to give you some specific examples of how we are investing for growth.

#### **AXP Estimated Share of U.S. Premium Card Spend**

Let's look first at premium spending consumers, who are part of total US general purpose credit, charge, and debit spenders. For the purposes of this analysis, we're defining the premium spend consumer as any individual who meets our credit criteria, and who we believe spends more than \$60 thousand a year on plastic.

People ask me whether there any more opportunities to grow. Here's the answer. While we already have a large number of premium spending consumers in the US, it's clear that there is an opportunity to expand. Bringing in new premium consumers, and increasing our share of wallet among current customers, are important and highly promising areas of growth for us. And we have many strategies for capturing more premium spend. I'll give you a few examples.

#### **Mercedes-Benz and Morgan Stanley Partnerships**

This is a new twist on partnerships that we have launched in the US. It's a niche approach that leverages partnership channels to capture high-spending customers. In this case, Mercedes-Benz and Morgan Stanley are integrating American Express Cards into their distribution channels. Along with a co-brand credit card, they are also offering a Platinum charge card. Their customers can choose which one they want. Both these partnerships have proven successful in bringing new, high-spending customers into the American Express franchise. You can expect to see more of these types of partnerships.

#### **Spend Lift from Card Upgrade**

Another way we've found to capture more spend is to offer customers an upgrade to a more premium product where appropriate. We've found that this generates more spending on American Express since we are better able to meet the customer's needs.

Measured over a 12-month period, the average spend on upgraded cards is 25% higher than it was on the previous product<sup>7</sup>. This is one of our most successful initiatives to increase engagement among premium customers, and capture a higher share of their wallet. A clear measure of the relevance we offer is the ability to add value, and get people to put more of their spend on us. This program is proof that it is working.

<sup>5</sup> Source: McKinsey Global Payments Map, 2011.

<sup>6</sup> Source: Comscore. Excludes corporate and small business.

<sup>7</sup> Based on measuring 12 months pre-and post-upgrade for the three most recent vintages for which 12 months of performance is available (i.e., April'11-June'11 upgrades). An "upgrade" is from one card to a more premium card in the same product line (e.g. Green to Platinum, Blue to Blue Cash Preferred, Delta Gold to Delta Platinum).

#### **AXP Estimated Share of Premium US Credit Card Lending**

Capturing more premium lending is another way we can grow, while maintaining our risk profile. This chart shows that there is a large amount of premium lending in the US that is not currently on American Express products. This is clearly another big opportunity for growth.

#### **US Ending Loans vs Peers**

Growing loans has never been our primary strategy. Instead, we have said that we want to capture as much of our customers' premium spending as possible by offering them products that meet their needs. Naturally, some of them will revolve. And we are making good progress in growing loans, compared to other large players. We and only one of our large issuer competitors actually grew loan portfolios organically in the second quarter of 2012. So what was, at one time, a headwind for revenue growth, has now become a driver. We are doing some innovative things that are working well. Let me give you one example.

#### **Example: Blue Cash Preferred Launch**

Blue Cash Preferred is an interesting product that we launched in April last year. It has an attractive rewards program with multiple redemption options. We are particularly pleased with the performance of this new product. 34% of Blue Cash Preferred cardmembers are new to our franchise, and the average annual spend per cardmember is \$25 thousand<sup>8</sup>. 21% revolve, and their average revolve balance is \$11 thousand, and their credit is strong<sup>8</sup>. These are premium customers.

Now let's take a look at how we're attracting premium consumers outside the United States.

#### **Proprietary & Network Airline Co-Brand Partners**

We have a broad array of airline co-brands in our international markets. We have relationships with many major airlines around the world – either through our proprietary business or through GNS.

#### **International Premium Consumer Opportunities**

As in the US, we have other opportunities to grow in international. Here are some examples. We have re-launched premium charge cards in 7 markets with additional services, and re-priced fees. This initiative has been successful in increasing consumer engagement and building more revenue. Our premium co-brand products continue to be among our most successful cards in international markets. They capture an engaged, high-spending base, with the right risk profile.

Small Business customers are another opportunity.

#### **American Express OPEN Billed Business**

In the US, our OPEN business is demonstrating strong growth in an environment where competition is intense. With a renewed focus on small business owners, we grew faster from 2009 to 2011 than did our competitors. Overall, spend on small business cards in the US grew at 8%<sup>9</sup> per annum since 2009. Nilson estimates that Visa's and MasterCard's combined small business volume grew at 5%, while we grew at 12% over the same period. Our growth in the first half of 2012 was an even stronger 14%.

<sup>8</sup> Based on first 12 months following launch.

<sup>9</sup> Source: McKinsey Global Payments Map and AXP internal data.

#### **OPEN Spend per Account**

Our average spend per account is also stronger than those of our competitors – more than double<sup>10</sup>. And average spending per account grew 16% a year from 2009 to 2011.

#### **Business Gold Rewards**

Increasing our share of wallet among these small business owners is a key element of our strategy. One product that is doing very well is our Business Gold Rewards Card. Based on the successful Gold Rewards product for consumers, this card is tailored for small business owners with business-oriented rewards, unlimited additional cards, and employee spend tracking. This card has a point accelerator, and has been our primary small business acquisition vehicle. This recently redesigned product is performing strongly. We're seeing a 41% boost in spend per account<sup>11</sup>, and a 40% increase in new card acquisition<sup>12</sup>. And we're continuing to expand our small business footprint outside the United States.

#### **AXP International Small Business Billed Business**

Small business is already a big driver of our results in our international markets, with a 12% per year growth rate since 2009<sup>13</sup>. We are also seeing increased spend per cardmember by around 20% a year<sup>14</sup>. And there is potential for even more growth. You might be interested to know, that despite the challenging economic conditions in Europe, two of our fastest growing small business markets are France and Germany, which both experienced solid double digit small business spending growth for us in the last year.

Our success with small business is an example of one of the benefits of being a global company. We have diversified geographic markets in which we can operate, and we have the ability to replicate success, with a short time-to-market.

#### **B2B Quarterly Global Billed Business**

B2B payments present another important growth opportunity for us. This business reports up to Steve Squeri. We are a leader in this field, but the upside potential for even more revenue is very attractive particularly given the opportunity to convert B2B spend from check to plastic. As you can see on this graph, our B2B payments business has been growing at a healthy rate in both the US and international markets through the first half of the year.

#### **Our Digital Wallet for Corporate Payments: PAYVE**

You've been hearing a lot about digital wallets in the consumer world. And we have talked to you about Serve, our digital platform for consumer commerce. This is PAYVE – our digital wallet for corporate payments. It is an innovative product that facilitates corporate payments across multiple channels:

<sup>10</sup> Source: Argus Industry Data.

<sup>11</sup> Based on new cardmember vintages acquired from August'10-April'11 compared to August'11-April'12. Spend per account is based on three-month average billed business per new account acquired.

<sup>12</sup> Based on comparison of December'10-May'11 vs. December'11-May'12. Excludes direct mail channel. Business Gold was redesigned in August'11.

<sup>13</sup> On an FX adjusted basis. FX adjusted information assumes a constant exchange rate between the periods being compared for purposes of currency translation into U.S. dollars. On a reported basis, the 2009-2011 CAGR was 20%.

<sup>14</sup> On an FX adjusted basis. On a reported basis, the 2009-2011 CAGR was 29%.

Buyer Initiated Payments, which is our own product but also includes, ACH, International Wire, and checks. In addition, PAYVE offers an analytics service to help businesses manage cash flow, and provides a consulting service to guide suppliers through the process of migrating to e-payments.

B2B is certainly an area of focus for us, as we expand our capabilities even further. We believe we are strongly-positioned to capture the B2B opportunity by leveraging our closed-loop model, and by building on our reputation for demonstrated success in this area.

#### **Our International Market Models**

To address international markets, we have deployed two principal models – a proprietary model, and a network model. In a few markets, we operate both models side by side. In the proprietary model, which operates in 22 mostly large markets, we are both the issuer and the acquirer. The network model is in place in 159 markets – many of them fast-growing emerging markets. This model relies on partners to acquire merchants and/or issue cards.

#### **International Billed Business**

Here's a look at our growth in international over the past three years. As you would expect, emerging markets are growing faster than the developed markets<sup>15</sup>. To take advantage of that growth, we have a clear emerging market strategy.

#### **American Express Presence in Emerging Markets**

You might be surprised that our footprint in emerging markets is as extensive as it is. Here are the largest emerging markets where we offer cards either directly, or through GNS partners. In several of these markets we are growing fast, and we have plans to improve our position in each of them.

#### **AXP Worldwide Prepaid Plastic Sales**

Another area of investment focus is Prepaid, which reports to Dan Schulman. This is a fast-growing business, albeit off a small base. Importantly, it gives us an opportunity to grow by expanding beyond our customer base and capturing payments traditionally made by cash and checks. We have already begun to tap into the opportunity for prepaid products in several countries, including the US, where we began by introducing Gift Cards over five years ago.

#### **Global Prepaid Expansion**

In several markets, we have launched prepaid cards that are performing well. For example, our Gift Card is now available in the US, Canada, and India. Our Global Travel Card offers 24-hour customer service, with fraud protection, free card replacement, and emergency cash access. We've launched this product in four markets: Australia, Brazil, the US, and South Africa. And finally, in the US we launched a general purpose reloadable card. This product is bringing in new customers to the franchise, including many who are younger than our traditional base – more than 45% of them are under 35 years old.

Prepaid is an area that we will be expanding both into new markets, and in new product and service innovations.

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<sup>15</sup> "Developed" markets include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom. All other international markets are classified as "Emerging".



### **AXP Online Billed Business**

Our investments in online continue to pay-off both in the US and international. Our growth in online billed business has been strong – 23% annually since 2009<sup>16</sup>. And as you can see, it is growing even faster internationally.

### **AXP's Recent Online Spend Performance**

Through June, our worldwide online spend is at more than \$70 billion, which is up approximately 13% over the first half of last year<sup>16</sup>. It's growing at 11% in the US, and even faster in international at 19%<sup>16</sup>. And while growth in the US has moderated, ComScore data indicates that we are continuing to gain share in this segment. Our growth in online Travel spend is holding steady, and we are also gaining traction in the Retail sector, which is where we have been focusing.

So we're pleased with the progress we're making in online spend. We have some clear strengths that are the foundation of this progress.

### **AXP's Online Strengths**

We have a strong consumer value proposition based on privacy, security, and service. Our coverage of online merchants is very good. We have acceptance at over 95% of the top US sites<sup>17</sup>. And our innovative capabilities like "Pay With Points" and our Digital Closed-loop ecosystem, bring value to consumers and merchants.

As in other parts of the business, we have metrics to measure our success. Let's look at some of them.

### **AXP Online Highlights**

As of June, there have been 3.7 million cumulative downloads of our Mobile App., which is more than double the downloads we had at this time last year.

Last year, consumers redeemed a total of 138 billion "Pay With Points". And in the first half of this year, we're already ahead of that pace with 77 billion points redeemed. We've had almost 2 million Registered Card enrollments for our digital offers in the last four quarters.

And the portion of US card applications approved online, has now reached 50%.

### **Set-Up for Growth**

That was a very quick run through of what we see as some of our primary growth opportunities in the mid-term. My conversations with many of you have centered on our premium customers. I hope I've demonstrated that we're capturing opportunities to grow this business.

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<sup>16</sup> AXP estimated Online Spend 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.

<sup>17</sup> Source: Top 500 e-commerce sites in the U.S. by 2011 \$ volume as reported by Comscore. Top 250 based on an internal manual review of payment acceptance; 250-500 based on internal sampling and review of payment acceptance at 100 sites.

But there's much more to our story. Our investments are generating double digit growth across a range of areas. This gives us confidence that we're putting our money in the right places. We think we're in a great position to continue to grow despite the economic environment.

#### **Well-Positioned in a Dynamic Environment**

In the face of an uncertain economy, we're concentrating our investments in attractive areas. We have also strengthened both our capital position, and our risk profile.

To meet the challenges of competition, we're going after more premium spend and lend with refreshed products. We're deepening our engagement with small businesses. We're adding more merchants. And we're developing our merchant relationships, forming digital partnerships, and using our closed-loop to create value for consumers through savings, and value for merchants through business building initiatives.

And finally, we're intensely focused on ensuring our internal processes and compliance meet the high standards expected of us – and what we expect of ourselves.

#### **Core Business Opportunities**

Now I'd like to share with you some of our longer-term vision to increase our relevance to both consumers and merchants.

#### **AXP's Record of Delivering Relevance**

We have a strong track record of delivering relevant value. Our products and services we delivered throughout our history speak to that – Membership Rewards, Fine Hotels and Resorts, OPEN Forum, to name just a few. In parallel to expanding through our core payments services, we are building innovative capabilities to increase our relevance in the lives of consumers and merchants. Over the last several years, we have gone beyond adding value only when a card is swiped. We have built products and programs that add value early in the commerce chain, ranging from OPEN Savings, to Small Business Saturday, and Link, Like, Love on Facebook. Not only have we increased the range of value we add to consumers, we are also creating demand, and driving more volume to our merchants.

#### **Digital Closed-Loop Ecosystem**

You've heard us talk about the closed-loop advantage for quite some time. Historically, we used closed loop information to reduce fraud, improve marketing, and provide management information to commercial card customers. These are just a few of those examples.

Now we are bringing the closed-loop to life in a new way in the digital world. This has proved to be an elegant and authentic way to reach customers in a manner we haven't been able to do before. Cardmembers sync their cards on platforms like Facebook, Foursquare, and Twitter. They then receive offers from key merchants that they can redeem merely by swiping their card. There is no need for coupons. Cardmembers get an instant message from us confirming that they got the deal, and they get a statement credit for the value of the offer. We have embedded our unique technology in these platforms, and use our information to drive performance.

You'll hear a lot of people talking about the power of 'big data'. We're putting it to use in new and creative ways that also safeguard our customers' personally identifiable information. We believe the

value of data is only going to be realized by those companies that handle it responsibly, and use it in ways that benefit customers. That thinking guides our approach. Our closed-loop model, in which we have direct relationships with merchants and cardmembers, enables this frictionless digital ecosystem that has proven to be hard for others to replicate.

Let me give you some examples of some recent offers and experiences.

#### **Select Examples of Digital Closed-loop Content**

We are currently running a program in the US called *Sync. Explore. Save.* By syncing your American Express Card to Facebook, Foursquare, or Twitter, you can take advantage of some great limited-time offers.

And what do Jay-Z and Justin Bieber have in common? The answer is American Express. Through our digital marketing campaigns, our cardmembers got early access to Jay-Z's and Justin Bieber's concerts in the US.

#### **Loyalty Partner: A Platform for Performance Marketing**

Another example of increasing our relevance is Loyalty Partner. You may recall that Doug Buckminster talked last year about Loyalty Partner, a closed-loop network business, which is a model we know well. Loyalty Partner links consumers with merchants. At its base are 40 million consumers and hundreds of merchants. Loyalty Partner provides SKU-level data that enable merchants to target offers to consumers. This is a performance marketing business in which merchants pay us fees based on participation and on the effectiveness of our marketing programs with them. The concept of charging fees for performance is one that we have brought to other areas of our business. Loyalty Partner is an adjacency to our current business, but it is also an integral part of our transformation of the Company.

Let me give you a quick update on Loyalty Partner's progress.

#### **Loyalty Partner: Expanding into New Markets**

PayBack is the brand name that now operates in all Loyalty Partner markets. Germany was the first, and is still the largest. Loyalty Partner has penetrated almost half of Germany's households<sup>18</sup>, and we expect the business to continue to grow. Historically, merchants have used paper coupons to make offers. Increasingly, we are moving more German merchant offers onto mobile phones, the web, and Facebook. And cross-sell of American Express card-based products is also underway.

In India, we had 9 million consumers a year ago. Since we signed a new partner – Future Group – 6 months ago, we've added 6 million consumers. We're very pleased with the progress in this important market. And our newest market is Mexico, which just launched and which has good potential. This market is fully digital, and is the first time Loyalty Partner has launched with an integrated American Express card product.

Over the next four years, our intent is to add at least three new markets to our current roster of Germany, India, Poland, and Mexico. When we closed this deal in March 2011, we had 32 million consumers. We now have 40 million, and by this time next year, we plan to have over 50 million consumers on the Loyalty Partner platform.

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<sup>18</sup> Assumes one card per household.

**Core Business Opportunities**

I don't have to convince you that the economic environment is challenging, and that the competition in our industry is intense. We've been through economic cycles before, and we have had a lot of experience growing our business in the face of tough competition. We are proud of our track record in setting the standard for premium products and premium service, diversifying our business, making international a bigger part of our growth, strengthening our merchant base, building leading products for businesses – both large and small, and transforming our business through innovative digital capabilities.

Ken said that we came out of the last recession a stronger company than when we went in. We still have the focus, the experience, the momentum and the strategies to continue on that trajectory despite the external challenges.