Stock Analysis

AMERICAN EXPRESS

Nicholas Whitener

Whitener Associates

Table of Contents

1. Prenote

First off, I would like to start this analysis with a brief clarification. This will be my first stock analysis of a bank/financial institution, and the annual report was filled with a lot of new information. In my report, I will try my best to compile all the qualitative and quantitative data that I deemed necessary to successfully judge American Express unbiasedly as a company. This means I may omit some data that I deem unnecessary or repetitive for the reader. Banks have a lot more special requirements compared to other industries and while I have studied most of these, I can still be mistaken, as I'm still a novice. I'm still trying my best to learn how to get my mental models of finance onto paper and outside my head, as a lot of what I'll discuss in this stock analysis is digested for my personal use subconsciously. Feedback is important for me to grow, and all is appreciated, so please contact me at nickwhitener@yahoo.com regarding anything that could be done differently in the future or if you need me to explain things differently. Earnings and cash flow for banks are more complicated to calculate than in other industries due to fancy accounting gimmicks, so please keep that in mind. This layout will be somewhat new for my future post and I'm still trying new things, so I would like to thank everyone for taking the time to read my report, especially at this stage in my career. Lastly, I would like to give thanks to Lee McGee for helping me edit my analysis. Please enjoy.

-Nicholas Carl Whitener

2. Overview

American Express is a global financial institution, operating in about 130 countries, that provides consumers and businesses with charge and credit card payment products. The company also operates a highly profitable merchant payment network. Since 2018, it has operated in three segments: global consumer services, global commercial services, and global merchant and network services. In addition to payment products, the company's commercial business offers expense management tools, consulting services, and business loans. (Ycharts)

A breakdown of American Expresses' revenue follows:

Global Consumer Services Group (GCSG): primarily issues a wide range of proprietary consumer cards globally. GCSG also provides services to consumers, including travel and lifestyle services and non-card financing products, and manages certain international joint ventures, partnership agreements in China, and loyalty coalition businesses operated in certain countries.

Global Commercial Services (GCS): primarily issues a wide range of proprietary corporate and small business cards globally. GCS also provides payment, expense management, and financing solutions to businesses.

Global Merchant and Network Services (GMNS): operates a global payments network that processes and settles card transactions, acquires merchants, and provides multi-channel marketing programs and capabilities, services, and data analytics, leveraging global integrated network. GMNS manages the partnership relationships with third-party card issuers, merchant acquirers, and a prepaid reloadable and gift card program manager, licensing the American Express brand and extending the reach of the global network

Organizational Hierarchy: Bank Holding Company/Financial Holding Company

RSSD ID: 1275216

Under corporate bylaws, American Express is a bank holding company that has elected to become a financial holding company. This in turn authorizes American Express to engage in a broader range of financial and related activities. This can be seen in the annual report with financial statements of both the parent company and a consolidated statement which includes subsidiaries

3. Glossary of Selected Terminology

Adjusted net interest income — A non-GAAP measure that represents net interest income attributable to Card Member loans (which includes, on a GAAP basis, interest that is deemed uncollectible), excluding the impact of interest expense and interest income not attributable to Card Member loans.

AEC (American Express Company)

AENB (American Express National Bank)

Airline-related volume — Represents spending at airlines as a merchant, which is included within T&E-related volume.

Asset securitizations — Asset securitization involves the transfer and sale of loans or receivables to a special-purpose entity created for the securitization activity, typically a trust. The trust, in turn, issues securities, commonly referred to as asset-backed securities that are secured by the transferred loans and receivables. The trust uses the proceeds from the sale of such securities to pay the purchase price for the transferred loans or receivables. The securitized loans and receivables of the Lending Trust and Charge Trust (collectively, the Trusts) are reported as assets, and the securities issued by the Trusts are reported as liabilities on the Consolidated Balance Sheets.

Average discount rate — This calculation is generally designed to reflect the average pricing at all merchants accepting American Express cards and represents the percentage of network volumes retained from spending at merchants acquired, or from merchants acquired by third parties on behalf of Amex, net of amounts retained by such third parties. The average discount rate, together with network volumes, drives discount revenue.

Billed business — Represents transaction volumes (including cash advances) on cards and other payment products issued by American Express. Billed business is reported as inside the United States or outside the United States based on the location of the issuer.

Capital ratios — Represents the minimum standards established by regulatory agencies as a measure to determine whether the regulated entity has sufficient capital to absorb on- and off-balance sheet losses beyond current loss accrual estimates. Refer to the Capital Strategy section under “Consolidated Capital Resources and Liquidity” for further related definitions under Basel III.

Card Member — The individual holder of an issued American Express-branded card.

Card Member loans — Represents revolve-eligible transactions on card products, as well as any interest charges and associated card-related fees.

Card Member receivables — Represents transactions on card products and card-related fees that need to be paid in full on or before the Card Member's payment due date.

Card Member Receivables—Represents the outstanding amount due from card members for charges made on their American Express charge cards as well as any card-related fees.

Cards-in-force — Represents the number of cards that are issued and outstanding by American Express (proprietary cards-in-force) and cards issued and outstanding under network partnership agreements with banks and other institutions, including joint ventures (GNS cards-in-force), except for GNS retail co-brand cards that had no out-of-store spending activity during the prior twelve months. Basic cards-in-force excludes supplemental cards issued on consumer accounts. Cards-in-force is useful in understanding the size of the Card Member base.

CD's — Certificate of Deposit

Charge cards — Represents cards that generally carry no pre-set spending limits and are primarily designed as a method of payment and not as a means of financing purchases. Each charge card transaction is authorized based on its likely economics reflecting a Card Member's most recent credit information and spending patterns. Charge Card Members must pay the full amount of balances billed each month, except for balances that can be revolved under lending features offered on certain charge cards, such as Pay Over Time and Plan It, that allow Card Members to pay for eligible purchases with interest over time.

Cobrand cards — Cards issued under cobrand agreements with selected commercial partners. Pursuant to the cobrand agreements, Amex makes payments to co-brand partners, which can be significant, based primarily on the amount of Card Member spending and corresponding rewards earned on such spending and, under certain arrangements, on the number of accounts acquired and retained. The partner is then liable for providing rewards to the Card Member under the co-brand partner's loyalty program.

Common Equity Tier 1 Risk-Based Capital Ratio — Calculated as CET1 capital, divided by risk-weighted assets. CET1 capital is common shareholders' equity, adjusted for ineligible goodwill and intangible assets and certain deferred tax assets.

Credit cards — Represents cards that have a range of revolving payment terms, structured payment features (e.g., Plan It), grace periods, and rate and fee structures.

Discount revenue — Primarily represents the amount earned on transactions occurring at merchants that have entered into a card acceptance agreement with Amex, a GNS partner, or other third-party merchant acquirers, for facilitating transactions between the merchants and Card Members.

Goods and Services (G&S)-related volume — Includes spending in merchant categories other than T&E-related merchant categories, which includes back to back spending by small and medium size enterprise customers in the GCS segment.

Interest and dividends on investment securities — Primarily relates to the performing fixed-income securities. Interest income is recognized using the effective interest method, which adjusts the yield for security premiums and discounts, fees, and other payments, so a constant rate of return is recognized on the outstanding balance of the related investment security throughout its term. Amounts are recognized until securities are in default or when it is likely that future interest payments will not be made as scheduled.

Interest expense — Includes interest incurred primarily to fund Card Member loans and receivables, general corporate purposes, and liquidity needs. Interest expense is divided principally into two categories: (i) deposits, which primarily relates to interest expense on deposits taken from customers and institutions, and (ii) debt, which primarily relates to interest expense on long-term financing and short-term borrowings, (e.g., commercial paper, federal funds purchased, bank overdrafts and other short-term borrowings), as well as the realized impact of derivatives hedging interest rate risk on long-term debt.

Interest income — Includes (i) interest on loans, (ii) interest and dividends on investment securities, and (iii) interest income on deposits with banks and others.

Interest income on deposits with banks and other — Primarily relates to the placement of cash in excess of near-term funding requirements in interest-bearing time deposits, overnight sweep accounts, and other interest-bearing demand and call accounts.

Interest on loans — Assessed using the average daily balance method for Card Member loans. Unless the loan is classified as non-accrual, interest is recognized based upon the principal amount outstanding following the terms of the applicable account agreement until the outstanding balance is paid or written off.

Loyalty coalitions — Programs that enable consumers to earn rewards points and use them to save on purchases from a variety of participating merchants through multi-category rewards platforms. Merchants in these programs generally fund the consumer offers and are responsible for the cost of rewards points; Amex earns revenue from operating the loyalty platform and by providing marketing support.

Net card fees — Represents the card membership fees earned during the period recognized as revenue over the covered card membership period (typically one year), net of the provision for projected refunds for Card Membership cancellation and deferred acquisition costs.

Net interest yield on average Card Member loans — A non-GAAP measure that is computed by dividing adjusted net interest income by average Card Member loans, computed on an annualized basis. Reserves and net write-offs related to uncollectible interest are recorded through the provision for credit losses and are thus not included in the net interest yield calculation.

Net write-off rate — principal only — Represents the amount of proprietary consumer or small business Card Member loans or receivables written off, consisting of principal (resulting from authorized transactions), less recoveries, as a percentage of the average loan or receivable balance during the period.

Net write-off rate — principal, interest, and fees — Includes, in the calculation of the net write-off rate, amounts for interest and fees in addition to the principal for Card Member loans, and fees in addition to the principal for Card Member receivables.

Network volumes — Represents the total of billed business and processed volumes. Network volumes are reported as United States or outside the United States based on the location of the issuer.

Operating expenses — Represents salaries and employee benefits, professional services, data processing and equipment, and other expenses.

Processed volumes — Represents transaction volumes (including cash advances) on cards issued under network partnership agreements with banks and other institutions, including joint ventures, as well as alternative payment solutions facilitated by American Express. Processed volume is reported as United States or outside the United States based on the location of the issuer.

Reserve build (release) — Represents the portion of the provisions for credit losses for the period related to increasing or decreasing reserves for credit losses as a result of, among other things, changes in volumes, macroeconomic outlook, portfolio composition, and credit quality of portfolios. Reserve build represents the amount by which the provision for credit losses exceeds net write-offs, while reserve release represents the amount by which net write-offs exceed the provision for credit losses.

Return on average equity — Calculated by dividing the preceding twelve months of net income by one-year monthly average total shareholders’ equity.

Risk-Weighted Assets — Assets are weighted for risk according to a formula used by the Federal Reserve to conform to capital adequacy guidelines. On- and off-balance sheet items are weighted for risk, with off-balance sheet items converted to balance sheet equivalents, using risk conversion factors, before being allocated a risk-adjusted weight. Off-balance sheet exposures comprise a minimal part of the total risk-weighted assets.

T&E-related volume — Represents spending on travel and entertainment, which primarily includes airline, cruise, lodging, and dining merchant categories.

The Company (American Express Company or AEC)

Tier 1 Leverage Ratio — Calculated by dividing Tier 1 capital by the average total consolidated assets for the most recent quarter.

Tier 1 Risk-Based Capital Ratio — Calculated as Tier 1 capital divided by risk-weighted assets. Tier 1 capital is the sum of CET1 capital, preferred shares, and third-party non-controlling interests in consolidated subsidiaries, adjusted for capital held by insurance subsidiaries. The minimum requirement for the Tier 1 risk-based capital ratio is 1.5 percent higher than the minimum for the CET1 risk-based capital ratio. AEC issued preferred shares to help address a portion of the Tier 1 capital requirements in excess of common equity requirements. t

Total Risk-Based Capital Ratio — Calculated as the sum of Tier 1 capital and Tier 2 capital, divided by risk-weighted assets. Tier 2 capital is the sum of the reserve for loan and receivable credit losses adjusted for the CECL final rules (limited to 1.25 percent of risk-weighted assets), and $240 million of eligible subordinated notes, adjusted for capital held by insurance subsidiaries. The $240 million of eligible subordinated notes reflect a 60 percent, or $360 million, reduction of Tier 2 capital credit for the $600 million subordinated debt issued in December 2014.

TRS- American Express's Travel Related Services Company

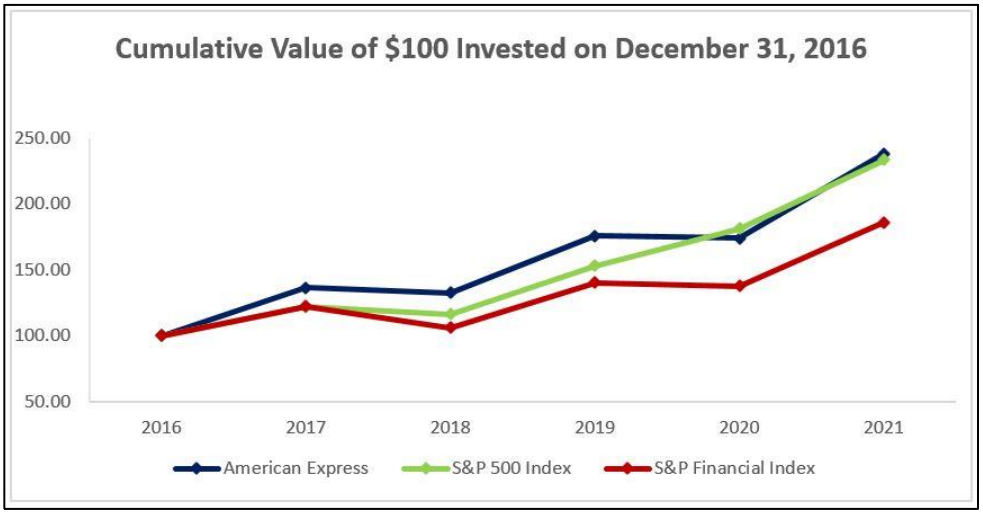

Figure 3–1 - Shareholder Return Graph

Figure 3.1 compares the cumulative total shareholder return on our common shares with the total return on the S&P 500 Index and the S&P Financial Index for the last five years. It shows the growth of a $100 investment on December 31, 2016, including the reinvestment of all dividends. (United States Security and Exchange Commission)

While past price performance is not an indication of how well a company's stock price will do in the future, it gives a reference to how well a company did concerning the general market and to its peers. Under the Efficient-Market Hypothesis by Eugene Fama, American Express's stock price reflects all available current information, and companies are generally priced correctly. In this post, I am not going to go over the Efficient-Market hypothesis to save some time. Note that while the markets might be right a vast majority of the time, they can still be wrong, and it is the job of the investor to conclude whether the stock market's pricing is correct when compared to a company's intrinsic value.

Based on the chart one can conclude that American Express essentially followed the S&P 500 average returns in the years 2016-2021 but did outperform the S&P Financial Index in those same years.

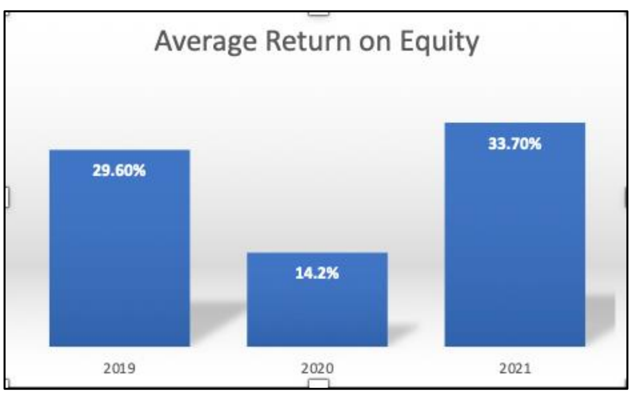

Figure 3.2 - Average Return on Equity

Return on average equity:

Return on average equity (ROE) is calculated for the relevant periods by dividing the (i) preceding twelve months of net income ($8.1 billion, $3.1 billion, and $6.8 billion for 2021, 2020, and 2019, respectively) by (ii) one-year monthly average of total shareholders' equity ($23.9 billion, $22.0 billion and $22.8 billion for 2021, 2020 and 2019, respectively.

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4. Operations

How American Express acquires and retains customers

American Express acquires and retains customers by providing customers incentives to bank with them which causes consumers to use their credit cards. This includes increased loyalty reward points, benefits, and better terms on accounts/credit when being compared to competitors.

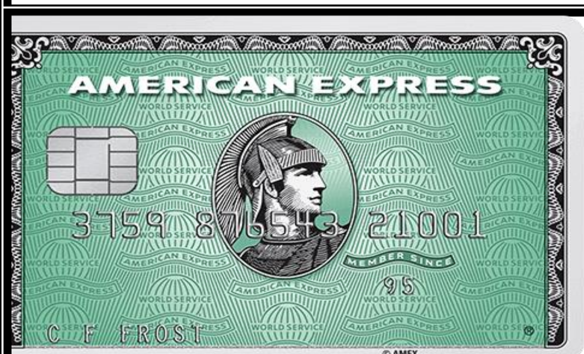
These rewards generally are exchanged for travel credits at airlines, hotels, and other travel-related services. They can also be exchanged for credits at stores and other consumer spending places.

American Express has a few card options for their customers which include The Centurion (Black), Platinum, Gold, and Green Card. The hierocracy of the card status is listed from top to bottom, with the former relating to the higher status and more costly cards. The higher status cards often give their user(s) increased travel points per dollar spent, bonus reward points, etc. See table 4-1 & 4-2 below for additional details. The Centurion Card requires $350,000 in personal spending in a given year to obtain an invite. The initiation fee is $10,000 and the yearly dues are $5,000. The biggest perk available to Centurion card members is access to a personal concierge which can help with travel arrangements. There are a lot of smaller perks that come with the card but most of them are similar to the platinum card.

American Express Centurion Card

American Express Platinum Card

American Express Gold Card



American Express Green Card

Figure 4.4–1 - Card Levels

These cards are available for personal, business, and corporate use

	PLATINUM CARD	GOLD CARD	GREEN CARD
Annual fee	$795	$250	$150
Welcome offer	60K points after you spend $5K in 3 months	35K points after you spend $4K in 3 months	30K points after you spend $2K in 3 months
Bonus categories	5x on airfare purchased directly through the airline 5x points on flights and prepaid hotels reserved through the Amex Travel portal	4x at restaurants worldwide and US supermarkets (on up to $25K spent per year, then 1x) 3x points on flights booked directly through the airline or through the Amex Travel portal	3x on all eligible travel 3x at restaurants worldwide
Foreign transaction fees not charged	✓	✓	✓
Annual airline fee credit	Up to $200	Up to $100	×
Monthly credits	$15 for Uber (up to $35 in December)	$10 at Grubhub, Seamless, The Cheesecake Factory, Ruth's Chris Steak House, Boxed, and participating Shake Shack locations	×
Other Credits	Up to $100 towards Global Entry or TSA PreCheck Up to $100 at Saks Fifth Avenue	×	Up to $100 towards CLEAR membership
Hotel status	Marriott Gold/ Hilton Gold	×	×
Lounge Access	Extensive airport lounge access: Centurion lounges, Delta SkyClubs, Priority Pass and more	×	Up to $100 toward lounge visits via LoungeBuddy
Other benefits	Access to the Amex Fine Hotels & Resorts program	×	×

Figure 4. 4–2 - Card Info

Partnership agreements
(Excerpt from the 2021 annual report)

"There are many examples of how we connect partners with integrated payments platform, including: issuing cards under co-brand arrangements with other corporations and institutions (e.g., Delta Air Lines, Marriott International, Hilton Worldwide Holdings, and British Airways); offering innovative ways for Card Members to earn and use points with merchants (e.g., Pay with Points at Amazon.com); expanding merchant acceptance with third-party acquirers (e.g., OptBlue partners); developing new capabilities and features with digital partners (e.g., PayPal); integrating into the supplier payment processes of business customers (e.g., Bill.com, SAP Ariba and Coupa); and extending the platform into travel services with American Express leisure and business travel (e.g., Fine Hotels and Resorts)."

Delta Air Lines is American Express's largest strategic partner. Their relationships with, and revenues and expenses related to, Delta are significant and represent an important source of value for Card Members. We issue cards under cobrand arrangements with Delta and the Delta cobrand portfolio **represented approximately 9 percent of worldwide network volumes and approximately 21 percent of worldwide Card Member loans as of December 31, 2021.** The Delta cobrand portfolio generates fee revenue and interest income from Card Members and discount revenue from Delta and other merchants for spending on Delta co-brand cards. The current Delta co-brand agreement runs through the end of 2029, and we expect to continue to make significant investments in this partnership. Among other things, Delta is also a key participant in Membership Rewards program, provides travel-related benefits and services, including airport lounge access for certain American Express Card Members, accepts American Express cards as a merchant, and is a corporate payment customer." – American Express (United States Security and Exchange Commission)**.**

Partnership Exposure

A critical deficiency that I think is of the highest importance to American Express is its exposure to the airline industry and travel industry (e.g., Delta Air Lines, Marriott International, Hilton Worldwide Holdings, and British Airways). American Express's main benefits, when compared to their banking competitors, are an increase in travel points per dollar spent and the luxury benefits of the card when used during travel. During 2020 and 2021, the decrease in travel negatively affected free cash flow significantly simply due to a lack of consumer spending in the economy. See figure 4-3. And to double down on the lack of consumer spending, much of the competitive advantage of their cards decreased for this short period. But this decrease in free cash flow does make sense in the broader economic view.

First off, American Express provides credit to consumers and businesses which was negatively impacted by work-from-home orders and quarantines. Hence one can say that American Express's business model relies on consumers spending money in the economy. American Express's partnerships are with companies such as airlines and retailers which are in cyclical industries. While I do think American Express's exposure to these cyclical industries is large, I strongly believe that its business will continue growing (figure 4-4). American Express has diverged from the path of its competitors and other credit service businesses by targeting people in the upper class of society. Not only does this make sense as a business objective but it's also beneficial to the company. People with higher wealth and income will be more likely to be able to pay off their debts compared to lower-income individuals during economic crises and times of distress. Another layer of protection American Express has against defaulting when compared to their competitors is that American Express customers rarely carry over their balance every month. This in turn allows American Express to quickly restructure lending policies during tough times and navigate murky waters efficiently. And while not only targeting consumers, American Express is also known for targeting small, medium, and large size businesses/corporations or suppliers. With this third layer of protection, it makes it hard to see the company not being able to withstand future catastrophes. American Express has been woven into American society and the economy (supply and demand) as a whole is slowly expanding.

It would be good to see American Express try to get better terms with their partnership agreements while adding on to them with big oil companies such as Chevron and Exxon as well as add department stores such as Walmart. I would also like to see Amex renew their expired Costco partnership (a non-cyclical businesses). Food is certainly a necessity to life and one can argue that oil and natural gas is a necessity in an industrialized world. If American Express can beat competitors' offers by providing to businesses and consumers who buy frequently and in bulk, it will only add to their durable advantage. I do believe that even if this doesn't happen, American Express is still a sound business.

On a final note, American Express's business model relies on these partnerships and must make mutually beneficial deals. Since this is common sense, I shall not dwell further into it than this. As long as people conduct trade and do business, American Express will find its way in connecting consumers' wants and needs with others and can be seen as somewhat of a middleman in society. Businesses will continue going to American Express with good deals (partnerships) if the majority of high-spending consumers in society use their services and Consumers will continue using the card if the card is superior in every way to competitors cards.

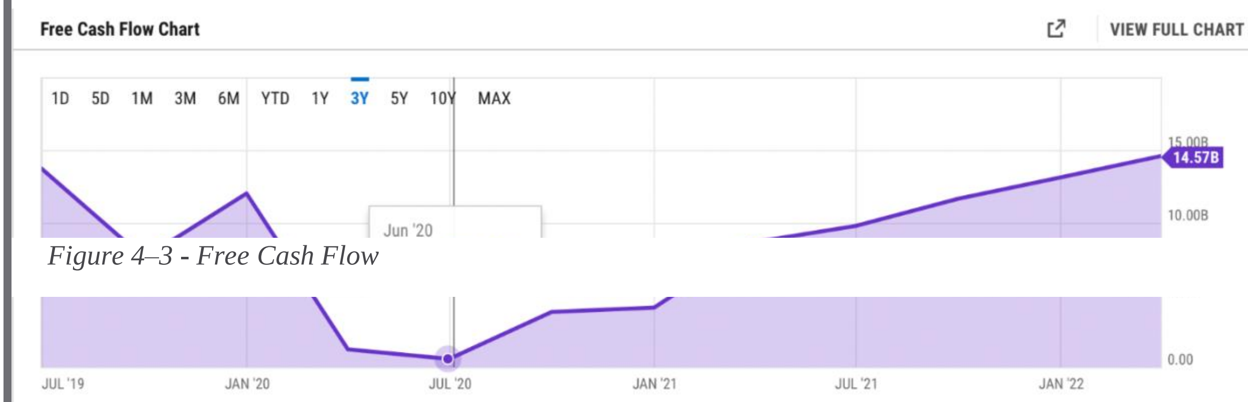


Figure 4–3 - Free Cash Flow

Figure 4-4 - American Express's free cash flow since 1990 has shown an increase following the Early 1990's recession as well as the great Recession in 2007-2009

Revenue Breakdown

(Excerpt from the 2021 annual report)
The following types of revenue are generated from Amex's various products and services:

•Discount revenue, the largest revenue source, primarily represents the amount earned on transactions occurring at merchants that have entered into a card acceptance agreement with Amex, a Global Network Services (GNS) partner, or other third-party merchant acquirers, for facilitating transactions between the merchants and Card Members. The amount of fees charged for accepting Amex's cards as payment, or merchant discount, varies with, among other factors, the industry in which the merchant does business, the merchant's overall American Express-related transaction volume, the method of payment, the settlement terms with the merchant, the method of submission of transactions and, in certain instances, the geographic scope for the related card acceptance agreement between the merchant and Amex (e.g., domestic or global) and the transaction amount. In some instances, an additional flat transaction fee is assessed as part of the merchant discount, and additional fees may be charged such as a variable fee for "non-swiped" card transactions or for transactions using cards issued outside the United States at merchants located in the United States.

•Interest income principally represents interest earned on outstanding loan balances.

•Net card fees, represent revenue earned from annual card membership fees, which vary based on the type of card and the number of cards for each account.

•Other fees and commissions, primarily represent Card Member delinquency fees, foreign currency conversion fees charged to Card Members, loyalty coalition-related fees, service fees earned from merchants, travel commissions and fees, and Membership Rewards program fees; and

•Other revenue primarily represents revenues arising from contracts with Amex's GNS partners (including commissions and signing fees less issuer rate payments), cross-border Card Member spending, ancillary merchant-related fees, earnings (losses) from equity method investments (including GBT), insurance premiums, and prepaid card and Travelers Cheque-related revenue.

Geographic operations

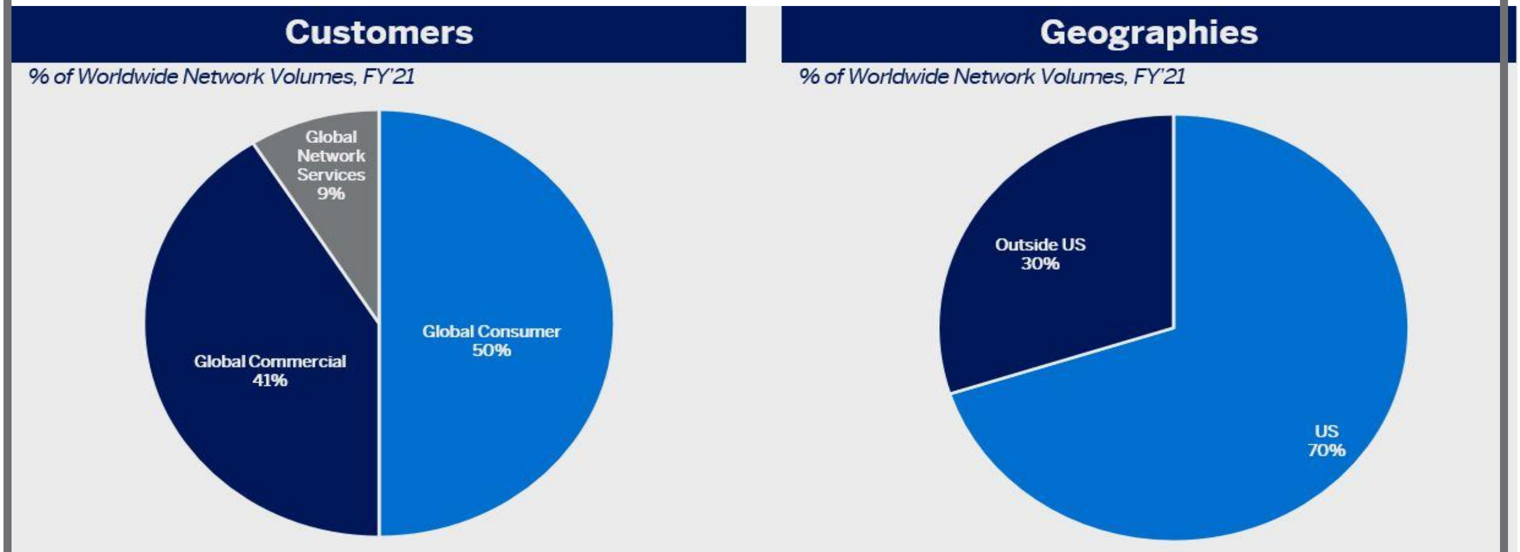


Figure 4–4- Geographic Operations

As shown in the table, 70% of Amex's Network volume is derived from the U.S. Additionally, 50% of its network volume is derived from consumers and 41% is derived from its commercial business.

Total revenues net of interest expense and pretax income

The following table presents our total revenues net of interest expense and pretax income (loss) from continuing operations in different geographic regions based, in part, upon internal allocations, which necessarily involve management's judgment:

(Millions)	United States	EMEA(a)	APAC(a)	LACC(a)	Other Unallocated(b)	Consolidated
2021						
Total revenues net of interest expense	33,103	3,643	3,418	2,238	-22	42,380
% of Total Revenue	**78%**	**9%**	**8%**	**5%**	**0%**	**100%**
Pretax income (loss) from continuing operations	9,512	705	707	782	-1,017	10,689
% of Total Income	**89%**	**7%**	**7%**	**7%**	**-10%**	**100%**
2020						
Total revenues net of interest expense	28,263	3,087	3,271	2,019	-553	36,087
% of Total Revenue	**78%**	**9%**	**9%**	**6%**	**-2%**	**100%**
Pretax income (loss) from continuing operations	4,418	398	665	452	-1,638	4,296
% of Total Income	**103%**	**9%**	**15%**	**11%**	**-38%**	**100%**
2019						
Total revenues net of interest expense	32,629	4,388	3,934	2,776	-171	43,556
% of Total Revenue	**75%**	**10%**	**9%**	**6%**	**0%**	**100%**
Pretax income (loss) from continuing operations	7,302	1,177	853	884	-178	8,429
% of Total Income	**87%**	**14%**	**10%**	**10%**	**-2%**	**100%**
(a)EMEA represents Europe, the Middle East and Africa; APAC represents Asia Pacific, Australia and New Zealand; and LACC represents Latin America, Canada and the Caribbean.						
(b)Other Unallocated includes net costs which are not directly allocated to specific geographic regions, including costs related to the net negative interest spread on excess liquidity funding and executive office operations expenses.						

Figure 4–5 - Geographic Regions

While American Express does make a sizeable amount of revenue and net income from outside the United States, the bulk of its revenue and even higher a higher percentage of its consolidated net income is generated within the United States. All the reader can deduct from this is that American Express's United States operations are more cost efficient and has higher margins than operations outside of the U.S.

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5. Consolidated Statements of Income

Year Ended December 31 *(Millions, except per share amounts)*		**2021**		2020		2019
Revenues						
Non-interest revenues						
Discount revenue	**$**	**25,727**	$	20,401	$	26,167
Net card fees		**5,195**		4,664		4,042
Other fees and commissions		**2,392**		2,163		3,297
Other		**1,316**		874		1,430
Total non-interest revenues		**34,630**		28,102		34,936
Interest income						
Interest on loans		**8,850**		9,779		11,308
Interest and dividends on investment securities		**83**		127		188
Deposits with banks and other		**100**		177		588
Total interest income		**9,033**		10,083		12,084
Interest expense						
Deposits		**458**		943		1,559
Long-term debt and other		**825**		1,155		1,905
Total interest expense		**1,283**		2,098		3,464
Net interest income		**7,750**		7,985		8,620
Total revenues net of interest expense		**42,380**		36,087		43,556
Provisions for credit losses						
Card Member receivables		**-73**		1,015		963
Card Member loans		**-1,155**		3,453		2,462
Other		**-191**		262		148
Total provisions for credit losses		**-1,419**		4,730		3,573
Total revenues net of interest expense after provisions for credit losses		**43,799**		31,357		39,983
Expenses						
Marketing and business development		**9,053**		6,747		7,125

Card Member rewards	**11,007**	8,041	10,439
Card Member services	**1,993**	1,230	2,223
Salaries and employee benefits	**6,240**	5,718	5,911
Other, net	**4,817**	5,325	5,856
Total expenses	**33,110**	27,061	31,554
Pretax income	**10,689**	4,296	8,429
Income tax provision	**2,629**	1,161	1,670
Net income	**$ 8,060**	$ 3,135	$ 6,759
Earnings per Common Share [(a)]			
Basic	**$ 10.04**	$ 3.77	$ 8.00
Diluted	**$ 10.02**	$ 3.77	$ 7.99
Average common shares outstanding for earnings per common share:			
Basic	**789**	805	828
Diluted	**790**	806	830

(a) Represents net income less (i) earnings allocated to participating share awards of $56 million, $20 million, and $47 million for the years ended December 31, 2021, 2020, and 2019, respectively, (ii) dividends on preferred shares of $71 million, $79 million, and $81 million for the years ended December 31, 2021, 2020 and 2019, respectively, and (iii) equity-related adjustments of $16 million related to the redemption of preferred shares for the year ended December 31, 2021.

American Express's Net income was hurt in 2020 during the Coronavirus Pandemic. With fewer consumers shopping and traveling, their discount revenue (money earned from transactions at merchants' businesses) was slashed by approximately 20% from 2021 and 2019 levels. Their income did benefit from a slightly less expense on the card member rewards section as fewer consumers were redeeming reward points from American Express. Revenue covered their interest expense 17.27x and Net Income covered interest expense 1.49x for the fiscal year 2020. The 1.49x coverage of interest expense I believe should be looked at carefully and the investor should judge whether he wants to disregard the statistic as a whole just because of how unusual 2020 was for businesses. I do believe that the statistic is important because it shows that AMEX is tied to the consumer spending business, especially for in-store shopping. If for some reason lockdowns occur again, American Express's net income will probably be significantly impacted. I do believe American Express's cash reserves will be adequate in protecting it from insolvency if matters arise that trouble the business as we'll discuss in the balance sheet section. Also, AMEX covered their interest expense 33x by Revenue and 6.28x by Net Income in the fiscal year 2021 which I believe is somewhat of a more normal year of business for American Express. Going forward I will be using 2021 as the base year for my assumptions.

American Express's corporate income tax rate was 24.6%, 27.0%, & 19.8% for the years 2021, 2020, and 2019 respectively (Income tax provision / Pretax income)

Also, there was a very little dilutive impact on earnings per share from options, grants, etc. which is desirable.

Net card fees increased by $531 million & 622 million or 11% & 15% from the years 2021-2020 and 2020-2019 respectively due to an increase in premium card portfolios. This is a solid strategic growth and I expect that this number will keep growing as AMEX is currently focusing on attaining high-net-worth customers for their platinum fee-based cards.

The process of estimating the Membership Rewards liability includes a high degree of judgment. Actual redemptions and associated redemption costs could differ significantly from estimates, resulting in either a higher or lower Membership Rewards expense. Rewards are a variable expense that is tied directly to network volume. Hence during times when there's a lot of spending (high network volume), there will be a higher expense and during times with decreased spending, there will be a smaller expense as seen in 2020. This expense tends to be ~.8% (± ~0.05%) of the network volume for a given year. Also, travel-related benefits tend to cost more than other reward benefits hence the ratio of rewards expense to network volumes for 2021 was 0.86% compared to 2020 which was 0.77%. Given this information, we can estimate the difference between the cost of travel-related rewards with non-travel-related rewards to be ~.05 - .09%. I've made this a range partly from the fact that there was still some travel in early 2020 and I wanted to give the most precise answer possible with my given knowledge and the limited information given in the annual report.

Furthermore, we can estimate the amount earned on the total network volume by dividing it by the discount revenue. This number will give us ~2% for each of the years. Below, we'll see that the average discount rate the company gives is ~0.3-0.35% higher than the number here. This is due to the use of just using the billed business numbers and not adding the processed volumes to the network volume. The processed volumes include "alternative payment solutions facilitated by American Express" which from what I can infer are blockchain or digital payment wallets. It's kind of hard to know what this category is as there isn't much information on this, but American Express might not take a % out of this volume as revenue, unlike the billed business aspect, hence it wasn't included in the total to inflate the discount rate numbers and make it look higher than it actually is. This just makes it appear that American Express has a higher gross margin for the billed business aspect to the untrained eye. The spread between the two numbers will not influence the actual discount revenue American Express receives.

Changes in the Membership Rewards URR (Ultimate Reward Redemption) and WAC (Weighted Average Cost) per point have the effect of either increasing or decreasing the liability through the current period Membership Rewards expense by an amount estimated to cover the cost of all points previously earned but not yet redeemed by current enrollees as of the end of the reporting period. As of December 31, 2021, an increase in the estimated URR of current enrollees of 25 basis points would increase the Membership Rewards liability and corresponding rewards expense by approximately $140 million. Similarly, an increase in the WAC per point of 1 basis point would increase the Membership Rewards liability and corresponding rewards expense by approximately $168 million. This shows how much the membership reward expense can fluctuate from an increase/decrease in the ultimate reward redemption and the weighted average cost per point estimates.

Card Member Reward expense should always be the biggest expense American Express has because it's tied to American Express's biggest revenue driver. Also, reward points never expire so the reward expense will not vary drastically with regard to revenue.

Other Fees & Commissions & Other Expenses

The following is a detail of other fees and commissions for the years ended December 31:

(Millions)		2021		2020		2019
Fees charged to Card Members:						
Delinquency fees	**$**	**637**	$	772	$	1,028
Foreign currency conversion fee revenue		**523**		433		982
Other customer fees:						
Loyalty coalition-related fees		**508**		435		456
Travel commissions and fees		**244**		102		424
Service fees and other (a)		**480**		421		407
Total Other fees and commissions	**$**	**2,392**	$	2,163	$	3,297

(a)Other includes Membership Rewards program fees that are not related to contracts with customers.

The following is a detail of other expenses for the years ended December 31:

Millions)		2021		2020		2019
Data processing and equipment (a)	**$**	**2,431**	$	2,334	$	2,168
Professional services		**1,958**		1,789		2,091
Net unrealized and realized gains on Amex Ventures equity investments		**-767**		-152		-77
Other (b)		**1,195**		1,354		1,674
Total Other expenses	**$**	**4,817**	$	5,325	$	5,856

(a)Effective for the first quarter of 2021, we changed the expense category name from Occupancy and equipment to Data processing and equipment to better reflect the nature and components of the expense.

(b)Other primarily includes general operating expenses, non-income taxes, communication expenses, Card Member and merchant-related fraud losses, foreign currency-related gains and losses, as well litigation expenses.

I included these charts because they are large amounts and should be looked at to make sure everything looks good and makes sense. No line item in these charts shows anything unexpected and we don't see rapid growth in any of these items so we can conclude that the other fees & expenses are normal and are part of normal business operations.

SELECTED CARD-RELATED STATISTICAL INFORMATION

Years Ended December 31,	2021	2020	2019	Change 2021 vs. 2020	Change 2020 vs. 2019
Network volumes: *(billions)*					
U.S.	$ **897.0**	$ 708.1	$ 840.7	27%	(-16)%
Outside the U.S.	**387.2**	329.7	425.0	17	(22)
Total	$ **1,284.2**	$ 1,037.8	$ 1,265.7	24	(18)
Billed business	$ **1,089.8**	$	$ 1,070.5	25	(19)
Processed volumes	**194.4**	167.1	195.2	16	(14)
Total	**1,284.2**	$ 1,037.8	$ 1,265.7	24	(18)
Cards-in-force: *(millions)*					
U.S.	**56.4**	53.8	54.7	5	(2)
Outside the U.S.	**65.3**	58.2	59.7	12	(3)
Total	**121.7**	112.0	114.4	9	(2)
Proprietary	**71.4**	68.9	70.3	4	(2)
GNS	**50.3**	43.1	44.1	17	(2)
Total	**121.7**	112.0	114.4	9	(2)
Basic cards-in-force: *(millions)*					
U.S.	**44.3**	42.2	43.0	5	(2)
Outside the U.S.	**56.4**	49.1	50.0	15	(2)
Total	**100.7**	91.3	93.0	10	(2)
Average proprietary basic Card Member spending: *(dollars)*					
U.S.	**$ 22,477**	$ 18,085	$ 21,515	24	(16)
Outside the U.S.	$ 15,251	$ 12,264	$ 16,351	24	(25)
Worldwide Average	**$ 20,392**	$ 16,352	$ 19,972	25	(18)
Average discount rate	**2.30%**	2.28%	2.37%		
Average fee per card *(dollars)* (a)	**$ 74**	$ 67	$ 58	10%	16%

(a) Average fee per card is computed on an annualized basis based on proprietary Net card fees divided by average proprietary total cards-in-force.

The first thing with the table that you should observe is that American Express has $1.284 trillion of network volume in 2021 alone. Compared to the U.S. Gross Domestic Product for the year 2021 which is $22.99 trillion ((*Gross Domestic Product, Fourth Quarter and Year 2021 (Advance Estimate) | U.S. Bureau of Economic Analysis (BEA)*) American Express accounted for 3.90% (using U.S. network volumes only) or 5.585% (using total network volumes) of the national GDP alone!

Also, we can see that network volumes went back to pre-pandemic levels in 2021 and even rose a bit higher. The pandemic dropped AMEX's network volume by a total of 18% in 2020 compared to 2019. This shows that American Express is highly affected by consumer spending in the economy and by lockdowns. What's interesting to observe is that American Express has fewer cards inside the U.S. than outside. Recall that 70% of American Express's worldwide network volumes in the year 2021 came from inside the U.S. This means that while American Express has most of its customers outside the U.S., United States customers represent a larger part of spending on their credit cards compared to their outside U.S. counterparts. This can be due to the United States having one of the highest GDP per capita in the world, the dollar is the global reserve currency, as well as oil which is exchanged by the dollar in turn creating a great demand in other countries for it, and the U.S. has a higher standard of living (can be seen in the higher GDP per capita) which often results in consumers buying luxury goods compared to many consumers buying normal goods outside the U.S., etc.

American Express has continued to increase its average fee per card even throughout 2020 which seems counterintuitive. This shows American Express can increase its prices during tough times and still be able to acquire new customers (9.4 million new cards-in-force from 2021 to 2020). This shows that American Express not only has pricing power over their cards, but they can increase it rapidly (27.59% total increase from the years (2019-2021)

Merchant Industry Metrics

	2021	2020
Merchant Industry Metrics		
Worldwide billed business		
G&S-related	**81%**	**86%**
T&E-related	**19%**	14%
Airline-related (included in T&E)	**3%**	3%
U.S. billed business		
G&S-related	**82%**	87%
T&E-related	**18%**	13%
Airline-related	**3%**	**2%**

Airline-related volume — Represents spending at airlines as a merchant, which is included within T&E-related volume.

T&E-related volume — Represents spending on travel and entertainment, which primarily includes airline, cruise, lodging, and dining merchant categories.

Goods and Services (G&S)-related volume — Includes spending in merchant categories other than T&E-related merchant categories, which includes back to back spending by small and medium size enterprise customers in our GCS segment.

This table breaks down Amex's billed business into 3 different categories. This shows that American Express's cards are mainly used for goods and services and not for travel and entertainment. This helps explain why American Express was still able to record a profit in 2020.

Interest on loans

There was a total of $88.562 Billion and $73.373 Billion outstanding in cardmember loans (not accounting for credit losses) outstanding during the years 2021 and 2020 respectively.

NET INTEREST YIELD ON AVERAGE CARD MEMBER LOANS

Years Ended December 31,						
(Millions, except percentages and where indicated)		**2021**		2020		2019
Net interest income	**$**	**7,750**	$	7,985		8,620
Exclude:						
Interest expense not attributable to our Card Member loan portfolio (a)		**738**		1,295		1,833
Interest income not attributable to our Card Member loan portfolio (b)		**-379**		-668		-1,227
Adjusted net interest income (c)	**$**	**8,109**	$	8,612	$	9,226
Average Card Member loans *(billions)*	**$**	**76.0**	$	74.6	$	82.8
Net interest income divided by average Card Member loans (c)		**10.2%**		10.7%		10.4%
Net interest yield on average Card Member loans (c)		**10.7%**		11.5%		11.1%

(a) Primarily represents interest expense attributable to maintaining our corporate liquidity pool and funding Card Member receivables.

(b)Primarily represents interest income attributable to other loans, interest-bearing deposits, and fixed-income investment portfolios.

(c) Adjusted net interest income and net interest yield on average Card Member loans are non-GAAP measures. Amex believes adjusted net interest income is useful to investors because it represents the interest expense and interest income attributable to the Card Member loan portfolio and is a component of net interest yield on average Card Member loans, which provides a measure of profitability on the Card Member loan portfolio. Net interest yield on average Card Member loans reflects adjusted net interest income divided by average Card Member loans, computed on an annualized basis. Net interest income divided by average Card Member loans, computed on an annualized basis, a GAAP measure, includes elements of total interest income and total interest expense that are not attributable to the Card Member loan portfolio, and thus it's not representative of net interest yield on average Card Member loans.

The Average net interest yield on average Card Member loans is a better ratio than the net interest income divided by average Card Member loans because it excludes interest income that isn't received from Card Member loans. A quick rule of thumb and observation we can make is that in the future we can multiple the Card Member loans by ~10.5-11% and find how much income the loans will expect to make. This is just an estimate using the average of past historical data which can be thrown off in any year in the future. A 10% yield on loans is profitable because there are very few fees and expenses attributable to this section of the business hence a very large profit margin. Note that this part of the business is highly capital intensive but has a high turnover rate. Also, the biggest expense that would have to come from card member loans would be a default on a loan.

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6. Global Consumer Services Group

Recall that the GCSG (global consumer services group) primarily issues a wide range of proprietary consumer cards globally. GCSG also provides services to consumers, including travel and lifestyle services and non-card financing products, and manages certain international joint ventures, partnership agreements in China, and loyalty coalition businesses operated in certain countries Below, I’ll go over just this specific part of American Express

GSGS Income Statement Data

Years Ended December 31, *(Millions, except percentages)*	**2,021**	2,020	2,019	Change 2021 vs. 2020		Change 2020 vs. 2019	
Revenues							
Non-interest revenues	**$ 18,157**	$ 14,632	$ 17,178	$ 3,525	24 %	$ (2,546)	(15) %
Interest income	**7,391**	8,199	9,414	(808)	(10)	(1,215)	(13)
Interest expense	**717**	1,054	1,731	(337)	(32)	(677)	(39)
Net interest income	**6,674**	7,145	7,683	(471)	(7)	(538)	(7)
Total revenues net of interest expense	**24,831**	21,777	24,861	3,054	14	(3,084)	(12)
Provisions for credit losses (a)	**(945)**	3,150	2,636	(4,095)	#	514	19
Total revenues net of interest expense after provisions for credit losses	**25,776**	18,627	22,225	7,149	38	(3,598)	(16)
Expenses							
Marketing, business development, and Card Member rewards and services	**13,898**	9,841	12,201	4,057	41	(2,360)	(19)
Salaries and employee benefits and other operating expenses	**5,052**	5,099	5,179	(47)	(1)	(80)	(2)
Total expenses	**18,950**	14,940	17,380	4,010	27	(2,440)	(14)
Pretax segment income	**$ 6,826**	$ 3,687	$ 4,845	$ 3,139	85 %	$ (1,158)	(24) %

Table 6-1

# Denotes a variance of 100 percent or more

(a)Results for reporting periods beginning on and after January 1, 2020, are presented using the CECL methodology, while information as of and for the year ended December 31, 2019, continues to be reported under the incurred loss methodology then in effect.

CSGS Statistical Data

As of or for the Years Ended December 31, *(Millions, except percentages and where indicated)*	2021	2020	2019	Change 2021 vs. 2020	Change 2020 vs. 2019
Billed business: *(billions)*					
U.S.	**$ 444.2**	$ 337.6	$ 398.8	32 %	(15) %
Outside the U.S.	**148.9**	121.1	154.0	23	(21)
Total	**$ 593.1**	$ 458.7	$ 552.8	29	(17)
Proprietary cards-in-force:					
U.S.	**39.0**	37.7	37.9	3	(1)
Outside the U.S.	**17.0**	16.7	17.5	2	(5)
Total	**56.0**	54.4	55.4	3	(2)
Proprietary basic cards-in-force:					
U.S.	**27.3**	26.6	26.9	3	(1)
Outside the U.S.	**11.9**	11.6	12.1	3	(4)
Total	**39.2**	38.2	39.0	3	(2)
Average proprietary basic Card Member spending: *(dollars)*					
U.S.	**$ 16,498**	$ 12,641	$ 14,801	31	(15)
Outside the U.S.	**$ 12,759**	$ 10,175	$ 12,884	25	(21)
Average	**$ 15,368**	$ 11,881	$ 14,212	29	(16)
Total segment assets *(billions)*	**$ 102.1**	$ 87.4	$ 107.0	17	(18)
Card Member loans:					
Total loans *(billions)*					
U.S.	**$ 59.8**	$ 51.4	$ 62.4	16	(18)
Outside the U.S.	**10.7**	8.7	10.9	23	(20)
Total	**$ 70.5**	$ 60.1	$ 73.3	17	(18)
Average loans *(billions)*					
U.S.	**$ 52.0**	$ 53.0	$ 59.4	(2)	(11)
Outside the U.S.	**9.0**	8.6	10.0	5	(14)
Total	**$ 61.0**	$ 61.6	$ 69.4	(1) %	(11) %
U.S.					
Net write-off rate — principal only (a)	**0.8 %**	2.4 %	2.3 %		
Net write-off rate — principal, interest and fees (a)	**1.1 %**	2.9 %	2.8 %		
30+ days past due as a % of total	**0.7 %**	1.0 %	1.6 %		
Outside the U.S.					
Net write-off rate — principal only (a)	**1.7 %**	3.0 %	2.4 %		
Net write-off rate — principal, interest and fees (a)	**2.2 %**	3.7 %	2.9 %		
30+ days past due as a % of total	**0.8 %**	1.7 %	1.8 %		
Total					
Net write-off rate — principal only (a)	**0.9 %**	2.5 %	2.3 %		
Net write-off rate — principal, interest and fees (a)	**1.3 %**	3.0 %	2.8 %		
30+ days past due as a % of total	**0.7 %**	1.1 %	1.6 %		

Table 6-2

Card Member receivables: *(billions)*	2021		2020		2019		Change 2021 vs 2020		Change 2020 vs 2019	
U.S.	**$**	**15**	$	11.9	$	14.2	24	%	(16)	%
Outside the U.S.		**7.7**		6.8		8.6	13		(21)	
Total	**$**	**22.4**	$	18.7	$	22.8	20	%	(18)	%
U.S.										
Net write-off rate — principal only (a)	—	%	1.3	%	1.4	%				
Net write-off rate — principal and fees (a)	**0.1**	**%**	1.4	%	1.6	%				
30+ days past due as a % of total	**0.4**	**%**	0.4	%	1.2	%				
Outside the U.S.										
Net write-off rate — principal only (a)	**0.8**	**%**	2.5	%	2.2	%				
Net write-off rate — principal and fees (a)	**0.9**	**%**	2.7	%	2.4	%				
30+ days past due as a % of total	**0.7**	**%**	1.0	%	1.3	%				
Total										
Net write-off rate — principal only (a)	**0.3**	**%**	1.7	%	1.7	%				
Net write-off rate — principal and fees (a)	**0.4**	**%**	1.9	%	1.9	%				
30+ days past due as a % of total	**0.5**	**%**	0.6	%	1.2	%				

Table 6-3

(a) The net write-off rate is based on principal losses only (i.e., excluding interest and/or fees) to be consistent with industry convention. In addition, Amex's practice is to include uncollectible interest and/or fees as part of the total provision for credit losses, a net write-off rate including principal, interest, and/or fees is also presented

Fiscal Year Ending Decemeber 31, 2021	U.S.	Outside the U.S.
Billed Business	75%	25%
Basic cards in-force	70%	30%
Propiericy cards in-force	70%	30%
Avg card member spending	107%	83%
Total loans	85%	15%
Average loans	85%	15%
Receivables	66%	34%

Table 6-4

Table 6-2 through 6-4 compares GSGS operations and statistical data by either operating in the United States or outside. The growth of the U.S. section compared to the outside U.S. reaffirms that American Express is targeting consumers in the United States compared to other countries or there is a greater demand for American Express's products inside the U.S. Also, the average card member spending per card is higher when compared to outside the U.S. which further increases revenue and net income. Lastly, in tables 6-2 & 6-3 we see that the write-off rate and 30+ days past due as a % of the total for the U.S. compared to outside the U.S. is lower in every single category further developing how American Express has been correct to target consumers that mainly reside in the U.S.

Also, we see again that the GCGS section of American Express was significantly weakened during 2020 but rebounded quickly to be near or surpass 2019 levels.

GCSG NET INTEREST YIELD ON AVERAGE CARD MEMBER LOANS

As of or for the Years Ended December 31, *(Millions, except percentages and where indicated)*		**2021**			2020			2019	
U.S.									
Net interest income	**$**	**5,933**		$	6,222		$	6,660	
Exclude:									
Interest expense not attributable to our Card Member loan portfolio(a)		**158**			288			276	
Interest income not attributable to our Card Member loan portfolio(b)		**(110)**			(189)			(220)	
Adjusted net interest income(c)	**$**	**5,981**		$	6,321		$	6,716	
Average Card Member loans *(billions)*	**$**	**52.0**		$	53.0		$	59.4	
Net interest income divided by average Card Member loans(c)		**11.4**	**%**		11.7	%		11.2	%
Net interest yield on average Card Member loans(c)		**11.5**	**%**		11.9	%		11.3	%
Outside the U.S.									
Net interest income	**$**	**741**		$	923		$	1,024	
Exclude:									
Interest expense not attributable to our Card Member loan portfolio(a)		**108**			105			85	
Interest income not attributable to our Card Member loan portfolio(b)		**(8)**			(12)			(15)	
Adjusted net interest income(c)	**$**	**841**		$	1,016		$	1,094	
Average Card Member loans *(billions)*	**$**	**9.0**		$	8.6		$	10.0	
Net interest income divided by average Card Member loans(c)		**8.2**	**%**		10.7	%		10.2	%
Net interest yield on average Card Member loans(c)		**9.4**	**%**		11.9	%		10.9	%
Total									
Net interest income	**$**	**6,674**		$	7,145		$	7,683	
Exclude:									
Interest expense not attributable to our Card Member loan portfolio(a)		**266**			393			361	
Interest income not attributable to our Card Member loan portfolio(b)		**(118)**			(201)			(234)	
Adjusted net interest income(c)	**$**	**6,822**		$	7,337		$	7,810	
Average Card Member loans *(billions)*	**$**	**61.0**		$	61.6		$	69.4	
Net interest income divided by average Card Member loans(c)		**10.9**	**%**		11.6	%		11.1	%
Net interest yield on average Card Member loans(c)		**11.2**	**%**		11.9	%		11.3	%

(a) Primarily represents interest expense attributable to maintaining a corporate liquidity pool and funding Card Member receivables.

(b)Primarily represents interest income attributable to other loans, interest-bearing deposits, and 2 investment portfolios.

(c)Adjusted net interest income and net interest yield on average Card Member loans are non-GAAP measures. Amex believes adjusted net interest income is useful to investors because it represents the interest expense and interest income attributable to our Card Member loan portfolio and is a component of net interest yield on average Card Member loans, which provides a measure of the profitability of the Card Member loan portfolio. Net interest yield on average Card Member loans reflects adjusted net interest income divided by average Card Member loans, computed on an annualized basis. Net interest income divided by average Card Member loans, computed on an annualized basis, a GAAP measure, includes elements of total interest income and total interest expense that are not attributable to the Card Member loan portfolio and thus are not representative of net interest yield on average Card Member loans.

Net interest income in the U.S. has a higher yield compared to outside the United States. Since American Express has most of its loans inside the U.S. they're able to capitalize on this concentration of capital when being compared to other geographic regions. GCSG represents 86% of all of Amex's total net interest income for the year 2021. The average interest yield in card member loans for GCSG is 11% which is higher than the average interest loans by a few basis points.

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7. Global Commercial Services

Recall that Global Commercial Services (GCS) primarily issues a wide range of proprietary corporate and small business cards globally. GCS also provides payment, expense management, and financing solutions to businesses. So, GCS focuses on acquiring small businesses into becoming American Express's customers.
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GCS SELECTED INCOME STATEMENT DATA

Years Ended December 31, *(Millions, except percentages)*	2021	2020	2019	Change 2021 vs. 2020		Change 2020 vs. 2019	
Revenues							
Non-interest revenues	**$ 11,489**	$ 9,652	$ 12,242	$ 1,837	19 %	$ (2,590)	(21) %
Interest income	**1,460**	1,586	1,900	(126)	(8)	(314)	(17)
Interest expense	**449**	619	1,034	(170)	(27)	(415)	(40)
Net interest income	**1,011**	967	866	44	5	101	12
Total revenues net of interest expense	**12,500**	10,619	13,108	1,881	18	(2,489)	(19)
Provisions for credit losses (a)	**(438)**	1,493	918	(1,931)	#	575	63
Total revenues net of interest expense after provisions for credit losses	**12,938**	9,126	12,190	3,812	42	(3,064)	(25)
Expenses							
Marketing, business development, and Card Member rewards and services	**6,592**	4,991	6,237	1,601	32	(1,246)	(20)
Salaries and employee benefits and other operating expenses	**3,418**	3,199	3,261	219	7	(62)	(2)
Total expenses	**10,010**	8,190	9,498	1,820	22	(1,308)	(14)
Pretax segment income	**$ 2,928**	$ 936	$ 2,692	$ 1,992	#	$ (1,756)	(65) %

# Denotes a variance of 100 percent or more

(a)Results for reporting periods beginning on and after January 1, 2020, are presented using the CECL methodology, while information as of and for the year ended December 31, 2019, continues to be reported under the incurred loss methodology then in effect.

GCS has a decent pretax profit margin (10-20%) even during 2020.

GCS SELECTED STATISTICAL INFORMATION

As of or for the Years Ended December 31, *(Millions, except percentages and where indicated)*	**2021**	2020	2019	Change 2021 vs. 2020	Change 2020 vs. 2019
Billed business *(billions)*	**$ 490.9**	$ 406.5	$ 513.3	21 %	(21) %
Proprietary cards-in-force	**15.4**	14.5	14.9	6	(3)
Average Card Member spending *(dollars)*	**$ 33,055**	$ 27,769	$ 34,905	19	(20)
Total segment assets *(billions)*	**$ 52.9**	$ 42.1	$ 52.8	26	(20)
GSBS Card Member loans:					
Total loans *(billions)*	**$ 18.0**	$ 13.2	$ 14.1	36	(6)
Average loans *(billions)*	**$ 15.0**	$ 12.9	$ 13.3	16	(3)
Net write-off rate — principal only(a)	**0.6 %**	2.1 %	1.9 %		
Net write-off rate — principal, interest and fees(a)	**0.8 %**	2.4 %	2.2 %		
30+ days past due as a % of total	**0.5 %**	0.7 %	1.3 %		
Calculation of Net Interest Yield on Average Card Member Loans:					
Net interest income	**$ 1,011**	$ 967	$ 866		
Exclude:					
Interest expense not attributable to our Card Member loan portfolio(b)	**354**	478	772		
Interest income not attributable to our Card Member loan portfolio(c)	**(78)**	(170)	(222)		
Adjusted net interest income(d)	**$ 1,287**	$ 1,275	$ 1,416		
Average Card Member loans *(billions)*	**$ 15.0**	$ 13.0	$ 13.4		
Net interest income divided by average Card Member loans(d)	**6.7 %**	7.4 %	6.5 %		
Net interest yield on average Card Member loans(d)	**8.6 %**	9.8 %	10.6 %		
Card Member receivables:					
Total receivables *(billions)*	**$ 31.3**	$ 25.0	$ 34.6	25	(28)
Net write-off rate — principal and fees(e)(f)	**0.2 %**	2.1 %	1.4 %		
GCP Card Member receivables:					
Total receivables *(billions)*	**$ 13.3**	$ 10.9	$ 17.2	22	(37)
90+ days past billing as a % of total(e)	**0.3 %**	0.6 %	0.8 %		
Net write-off rate — principal and fees(e)(f)	**— %**	1.9 %	0.8 %		
GSBS Card Member receivables:					
Total receivables *(billions)*	**$ 18.0**	$ 14.1	$ 17.4	28 %	(19) %
Net write-off rate — principal only(a)	**0.3 %**	2.1 %	1.9 %		
Net write-off rate — principal and fees(a)	**0.4 %**	2.3 %	2.1 %		
30+ days past due as a % of total	**0.7 %**	0.7 %	1.7 %		

(a) Is presented as a net write-off rate based on principal losses only (i.e., excluding interest and/or fees) to be consistent with industry convention. In addition, as Amex’s practice is to include uncollectible interest and/or fees as part of the total provision for credit losses, a net write-off rate including principal, interest, and/or fees is also presented.

(b)Primarily represents interest expense attributable to maintaining the corporate liquidity pool and funding Card Member receivables.

(c)Primarily represents interest income attributable to other loans, interest-bearing deposits, and fixed-income investment portfolios.

(d)Adjusted net interest income and net interest yield on average Card Member loans are non-GAAP measures. Amex believes adjusted net interest income is useful to investors because it represents the interest expense and interest income attributable to our Card Member loan portfolio and is a component of net interest yield on average Card Member loans, which provides a measure of the profitability of their Card Member loan portfolio. Net interest yield on average Card Member loans reflects adjusted net interest income divided by average Card Member loans, computed on an annualized basis. Net interest income divided by average Card Member loans, computed on an annualized basis, a GAAP measure, includes elements of total interest income and total interest expense that is not attributable to the Card Member loan portfolio and thus is not representative of net interest yield on average Card Member loans.

(e)For GCP Card Member receivables, delinquency data is tracked based on days past billing status rather than days past due. A Card Member account is considered 90 days past billing if payment has not been received within 90 days of the Card Member's billing statement date. In addition, if Amex initiates collection procedures on an account before the account becomes 90 days past billing, the associated Card Member receivable balance is classified as 90 days past billing. GCP delinquency data for periods other than 90+ days past billing and the net write-off rate based on principal losses only are not available due to system constraints.

(f)The net write-off rate for the year ended December 31, 2021, includes a $37 million partial recovery in Card Member receivables related to a corporate client bankruptcy, which had resulted in a $53 million write-off in the year ended December 31, 2020.

GCS represents almost 50% of Amex's billed business, 22% of propriety cards in force, is 62% over the average card member spending, represents 20% of all of Amex's loans, and has a smaller write-off rate on loans compared to GCSG for the year 2021. This shows that small businesses make a majority of the purchases on Amex's cards when compared to other parts of Amex's operations. (higher % of billed business per card in circulation as well as a higher average card member spending). Since most of these purchases are going to the business (which produces free cash flow) it would be safe to say that these loans are generally safer than CCSG which is backed by the data on the loans. However, receivables seem to be written off as a higher % of the total when comparing the 2 groups. This can be due to GCSG card members generally spending less money on their cards in turn making it easier to pay off or due to a larger size of receivables diluting the total % of written off.

GCS's net interest income represents 13% of Amex's total net interest income for the year 2021. This is probably due to businesses being charged a smaller interest expense on loans because they're relatively safer as well as businesses free cash flow is generally used to pay off loans quickly allowing them to accrue less interest over time. GCS also represents 33% of Amex's non-interest revenue.

GCS makes ~ 65% of their income from the receivables part of the business (transactions that need to be paid in full card fees)

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8. Global merchant and network services

Recall that Global Merchant and Network Services (GMNS) operates a global payments network that processes and settles card transactions, acquires merchants, and provides multi-channel marketing programs and capabilities, services and data analytics, & leveraging a globally integrated network. GMNS manages Amex's partnership relationships with third-party card issuers, merchant acquirers, and a prepaid reloadable and gift card program manager, licensing the American Express brand and extending the reach of the global network.

GMNS SELECTED INCOME STATEMENT AND OTHER DATA

Years Ended December 31, *(Millions, except percentages and where indicated)*	**2021**	2020	2019	Change 2021 vs. 2020		Change 2020 vs. 2019	
Revenues							
Non-interest revenues	**$ 4,964**	$ 4,143	$ 5,428	$ 821	20 %	$ (1,285)	(24) %
Interest income	**16**	18	27	(2)	(11)	(9)	(33)
Interest expense	**(92)**	(82)	(303)	(10)	12	221	(73)
Net interest income	**108**	100	330	8	8	(230)	(70)
Total revenues net of interest expense	**5,072**	4,243	5,758	829	20	(1,515)	(26)
Provisions for credit losses (a)	**(37)**	87	19	(124)	#	68	#
Total revenues net of interest expense after provisions for credit losses	**5,109**	4,156	5,739	953	23	(1,583)	(28)
Expenses							
Marketing, business development, and Card Member rewards and services	**1,478**	1,130	1,263	348	31	(133)	(11)
Salaries and employee benefits and other operating expenses	**1,682**	1,711	1,791	(29)	(2)	(80)	(4)
Total expenses	**3,160**	2,841	3,054	319	11	(213)	(7)
Pretax segment income	**1,949**	1,315	2,685	634	48	(1,370)	(51)
Total segment assets *(billions)*	**$ 15.2**	$ 14.0	$ 17.2	$ 1.2	9 %	$ (3)	(19) %

# Denotes a variance of 100 percent or more

(a) Results for reporting periods beginning on and after January 1, 2020, are presented using the CECL methodology, while information as of and for the year ended December 31, 2019, continues to be reported following the incurred loss methodology then in effect.

GMNS has a very high-profit margin of ~38%. GMNS has yet to recover to 2019 levels, so its income is a little depressed. One of GMNS operations charges merchants a % of transaction volume when customers use their cards, so it varies with network volume partially. I'd assume this is where it makes a majority of its' money but it's hard to tell because it's not broken apart further. GMNS is Amex's smallest unit segment.

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9. The Balance Sheet

In my opinion, the most important financial statement (especially for banks) is the balance sheet. I'll go into more detail about some of these components on the balance sheet later in the stock analysis. At first glance, you should see that American Express's balance sheet is complex compared to a non-financial company's balance sheet. American Express will have to keep cash in hand for their reserve requirement as well as other financial obligations.

Quick Glance:

- American Express can be seen paying off long-term debt with $57,835 million outstanding in 2019 and then $38,675 million in 2021. This is a decrease of 33.1%! This is an excellent sign of financial health and maturity, especially with the uncertainty in the U.S. economy during 2020.
- Had $84.382 billion in consumer deposits at the end of 2021 compared to $73.287 billion in 2019.
- Had $53.581 billion in receivables at the end of 2021 compared to $56.794 billion in 2019.
- Had $85.257 billion in card member loans at the end of 2021 compared to $84.998 billion in 2019.
- Shares outstanding went down from 810 million in 2019 to 761 million in 2021. A decrease of 6% over the period.
- Most of American Express's physical assets such as property and equipment are near the end of their depreciation life cycle. This means that when American Express repurchases similar items (if they decide to do), a large cash outflow will occur.

Consolidated Balance Sheet

December 31: (Millions, except share data)	2021-FY	2020-FY	2019-FY
Assets			
Cash and cash equivalents			
Cash and due from banks (includes restricted cash of consolidated variable interest entities: 2021, $11; 2020, nil)	**$ 1,292**	$ 2,984	$ 3,613
Interest-bearing deposits in other banks (includes securities purchased under resale agreements: 2021, $463; 2020, $92; 2019, $87)	**20,548**	29,824	20,610
Short-term investment securities (includes restricted investments of consolidated variable interest entities: 2021, $32; 2020, $47; 2019, $85)	**188**	157	223
Total cash and cash equivalents	**22,028**	32,965	24,446
Card Member loans (includes gross loans available to settle obligations of a consolidated variable interest entity: 2021, $26,587; 2020, $25,908 ; 2019, $32,230), less reserves for credit losses: 2021,$3,305; 2020, $5,344; 2019, $2,383)	**85,257**	68,029	84,998
Card Member receivables (includes gross receivables available to settle obligations of a consolidated variable interest entity: 2021, $5,175; 2020, $4,296; 2019, $8,284), less reserves for credit losses: 2021, $64; 2020, $267; 2019, $619)	**53,581**	43,434	56,794
Other loans, less reserves for credit losses: 2021, $52; 2020, $238	**2,859**	2,614	4,626
Investment securities	**2,591**	21,631	8,406
Premises and equipment, less accumulated depreciation and amortization: 2021, $8,602; 2020, $7,540; 2019, $6,562	**4,988**	5,015	4,834
Other assets, less reserves for credit losses: 2021, $25; 2020, $85; 2019, 27	**17,244**	17,679	14,217
Total assets	**$ 188,548**	$ 191,367	$ 198,321
Liabilities and Shareholders' Equity			
Liabilities			
Customer deposits	**$ 84,382**	$ 86,875	$ 73,287
Accounts payable	**10,574**	9,444	12,738
Short-term borrowings	**2,243**	1,878	6,442
Long-term debt (includes debt issued by consolidated variable interest entities: 2021, $13,803; 2020, $12,760; 2019, $19,668)	**38,675**	42,952	57,835
Other liabilities	**30,497**	27,234	24,948
Total liabilities	**$ 166,371**	$ 168,383	$ 175,250
Shareholders' Equity			
Preferred shares, 1.66 2/3 par value, authorized 20 million shares; issued and outstanding 1,600 shares as of December 31, 2021 and 2020	**0**	0	0
Common shares, $0.20 par value, authorized 3.6 billion shares; issued and outstanding 761 million shares as of December 31, 2021; 805 million shares as of December 31, 2020; and 810 million shares as of December 31, 2019	**153**	161	163
Additional paid-in capital	**11,495**	11,881	11,774
Retained earnings	**13,474**	13,837	13,871
Accumulated other comprehensive income (loss)			
Net unrealized debt securities gains, net of tax of: 2021, $7; 2020, $20; 2019, $11	**23**	65	33
Foreign currency translation adjustments, net of tax of: 2021, $(330); 2020, $(381); 2019, $(319)	**(2,392)**	(2,229)	(2,189)
Net unrealized pension and other postretirement benefits, net of tax of: 2021, $(184); 2020, $(236); 2019, $(208)	**(576)**	(731)	(581)
Total accumulated other comprehensive income (loss)	**(2,945)**	(2,895)	(2,737)
Total shareholders' equity	**22,177**	22,984	23,071
Total liabilities and shareholders' equity	**$ 188,548**	$ 191,367	$ 198,321

Capital, Regulatory, & Legal Requirements

Since American Express is a bank, they're required to maintain certain ratios for the purpose of maintaining adequate financial health to protect consumers and the economy. First, let's start with the risked based capital ratio.

Risk-Based Capital Ratios

“The purpose of the risk-based capital ratio is to make sure an entity (bank) hasn’t over-levered itself with liabilities and debt and can support its business operations with the capital it has on hand. Risk-Based capital is outlined in the Basil Accords under Basil Agreements 1,2, &3. It uses Tier 1 and 2 Capital and divides it by the total risk-based capital of the bank. Tier 1 capital includes Common Equity Tier 1 Capital (basically the statement of shareholders’ equity). Additional Tier 1 Capital includes qualifying noncumulative perpetual preferred stock, bank-issued Small Business Lending Fund, and Troubled Asset Relief Program instruments that previously qualified for Tier 1 capital, a final component that commits to qualifying Tier 1 minority interests, less certain investments in other unconsolidated financial institutions’ instruments that would otherwise qualify as additional Tier 1 capital.” (“Risk Management Manual of Examination Policies Federal Deposit Insurance Corporation”). Tier 2 capital includes loan and lease loss reserves/allowance, subordinated debt, qualifying minority interest, and hybrid capital instruments (mixture of debt and equity instruments).

Tier 2 capital is much harder to calculate and should be less counted on than Tier 1 capital during times of liquidation. The reader should also note that there used to be a Tier 3 capital, but Basil III got rid of it. When reading older annual reports, you might see its use.

Leverage Ratio

The leverage ratio is calculated by dividing Tier 1 capital by average total consolidated assets for the most recent quarter. The purpose is to make sure a bank isn’t overlending and was introduced in Basil III after the 2008 financial crisis.

Dividends and Other Capital Distributions

The Company and American Express Travel Related Services Company (TRS), as well as AENB and the Company’s insurance and other regulated subsidiaries, are limited in their ability to pay dividends by statutes, regulations, and supervisory policy.

Common stock dividend payments and share repurchases by the Company are subject to the oversight of the Federal Reserve, as described above. The Company will be subject to limitations and restrictions on capital distributions if, among other things, (i) the Company's regulatory capital ratios do not satisfy applicable minimum requirements and buffers or (ii) the Company is required to resubmit its capital plan.

In general, federal laws and regulations prohibit, without first obtaining the OCC’s approval, AENB from making dividend distributions to TRS, if such distributions are not paid out of available recent earnings or would cause AENB to fail to meet capital adequacy standards. In addition to the specific limitations on dividends that AENB can pay to TRS, federal banking regulators have the authority to prohibit or limit the payment of a dividend if, in the banking regulator’s opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the institution.

Stress Testing and Capital Planning

Under the Federal Reserve’s regulations, the Company is subject to supervisory stress testing requirements that are designed to evaluate whether a bank holding company has sufficient capital on a total consolidated basis to absorb losses and support operations under adverse economic conditions. As part of the Comprehensive Capital Analysis and Review (CCAR), the Federal Reserve uses Pro-forma capital positions and ratios under such stress scenarios to determine the size of the stress capital buffer (SCB) for each CCAR participating firm.

As a Category IV firm, the Company is required to participate in the supervisory stress tests every other year and is subject to the Federal Reserve’s supervisory stress tests in 2022. The Company is required to develop and submit to the Federal Reserve an annual capital plan on or before April 5 of each year.

“For Category IV firms, such as the Company, the portion of the SCB based on the Federal Reserve's supervisory stress tests is calculated every other year. During a year in which a Category IV firm does not undergo a supervisory stress test, the firm receives an updated SCB that reflects the firm's updated planned common stock dividends. A Category IV firm can elect to participate in the supervisory stress test in an “off year” and consequently receive an updated SCB” (United States Security and Exchange Commission).

REGULATORY RISK-BASED CAPITAL AND LEVERAGE RATIOS

	Effective Minimum (a)	Ratios as of December 31, 2021
Risk-Based Capital		
Common Equity Tier 1	7.0%	
American Express Company		10.5 %
American Express National Bank		11.8%
Tier 1	8.5%	
American Express Company		11.5%
American Express National Bank		11.8%
Total	10.5%	
American Express Company		12.9%
American Express National Bank		13.7%
Tier 1 Leverage	4.0 %	
American Express Company		10.5%
American Express National Bank		10.5 %

(a)Represents Basel III minimum requirements and applicable regulatory buffers as defined by the federal banking regulators, which includes the stress capital buffer (SCB) for American Express Company and the capital conservation buffer for AENB.

American Express Company		
($ in Billions)		31-Dec-21
Risk-Based Capital		
Common Equity Tier 1	$	17.6
% of Total Capital		**82%**
Additonal Capital Tier 1		1.6
% of Total Capital		**7%**
Tier 1 Capital		19.2
Tier 2 Capital		2.3
% of Total Capital		**11%**
Total Capital		21.5
Risk-Weighted Assets		166.5
Average Total Assets to calculate the Tier 1 Leverage Ratio	$	183.5

American Express has a majority of its capital in Common Equity Tier 1 which is preferable in the case that they require cash. They also pass all Capital and Leverage Requirements by a sizeable amount.

On August 3, 2021, AEC issued $1.6 billion of 3.550% Fixed Rate Reset Noncumulative Preferred Shares, Series D. With the proceeds from that issuance, AEC redeemed in full the $850 million of 4.900% Fixed Rate/Floating Rate Noncumulative Preferred Shares, Series C on September 15, 2021, and the $750 million of 5.200% Fixed Rate/Floating Rate Noncumulative Preferred Shares, Series B on November 15, 2021. This makes up the entire Additional Capital Tier 1 section.

How do these ratios affect AEC?

First off, the Risk-Based Capital Ratio and Reserve Ratio affect a bank's ability to distribute wealth to shareholders. "Common stock dividend payments and share repurchases by the Company are subject to the oversight of the Federal Reserve, as described above. The Company will be subject to limitations and restrictions on capital distributions if, among other things, (i) the Company's regulatory capital ratios do not satisfy applicable minimum requirements and buffers or (ii) the Company is required to resubmit its capital plan.

In general, federal laws and regulations prohibit, without first obtaining the OCC's approval, AENB from making dividend distributions to TRS, if such distributions are not paid out of available recent earnings or would cause AENB to fail to meet capital adequacy standards. In addition to specific limitations on the dividends AENB can pay to TRS, federal banking regulators have the authority to prohibit or limit the payment of a dividend if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the institution." (United States Security and Exchange Commission)

This can be seen during the first six months of 2021 when the Federal Reserve placed restrictions on common stock dividends and common share repurchases for bank holding companies like AEC that participate in the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR). These capital distribution restrictions ceased to apply on July 1, 2021. AEC capital distributions have since returned to being governed by the SCB framework and based on managing CET1 risk-based capital ratio within a 10 to 11 percent target range. AEC may conduct share repurchases through a variety of methods, including open market purchases, 105b-1 plans, privately negotiated transactions (including employee benefit plans), or other purchases, including block trades, accelerated share repurchase programs or any combination of such methods as market conditions warrant and at prices deemed appropriate.

American Express is severely limited in wealth distribution plans when compared to non-financial companies and for a good reason. If American Express decides to distribute a large part of its working capital, during times of economic stress American Express may not be able to play off obligations to creditors and consumers (which are often the same). This can in turn cause huge negative economic consequences throughout the entire U.S. economy. If the reader wants to see how unsafe banking practices of a bank can negatively harm the U.S. economy; a case study[1] on the 2008/2009 financial crisis which was caused by Lehman Brothers would be a good start.

I don't think the capital requirements are detrimental to the business and I strongly believe that it's an effective way of allowing shareholders and the government to keep Bank Holding Companies accountable in not overleveraging and by requiring a solid working capital base.

[1] The Federal Reserve Bank of San Francisco has a good publishing in 2020 on the permanent and transitory effects of the 2008–09 recession.

Financial Assets and Liabilities

Assets and Liabilities are recorded on the balance sheet usually by fair value. Fair value is defined as the price that would be required to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the principal or, in the absence of a principal, the most advantageous market for the specific asset or liability.

General Accepted Accounting Principles (GAAP) provides for a three-level hierarchy of inputs to valuation techniques used to measure fair value, defined as follows:

•Level 1 — Inputs that are <u>quoted prices</u> (unadjusted) for <u>identical</u> assets or liabilities in <u>active</u> markets that the entity can access.

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

– Quoted prices for similar assets or liabilities in active markets.

– Quoted prices for identical or similar assets or liabilities in markets that are not active.

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

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

•Level 3 — Inputs that are unobservable and reflect <u>management's own estimates</u> about the estimates market participants would use in pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding the timing and amount of expected cash flows).

“From an accounting standpoint, Level 3 assets involve some additional duties for the companies that own them. Federal Accounting Standard Board (FASB) 157 requires a reconciliation of the beginning and ending balances for Level 3 assets, with particular attention paid to changes in the value of existing assets as well as details on transfers of new assets into or out of Level 3 status. International Financial Reporting Standards (IFRS) 13 contemplates similar measures, with separate detail on transfers in and transfers out of Level 3 treatment.

Accounting Standards Update 2011-04 added some more clarity to what disclosures companies must make in dealing with Level 3 assets. ASU 2011-04 requires quantitative information about the unobservable inputs that companies choose in doing valuation analysis, as well as a description of the valuation process itself. Most importantly, companies should do sensitivity analysis to help investors get a better handle on the risk that the companies' valuation work on Level 3 assets, turns out to be wrong. However, even the ASU gives companies considerable latitude in deciding which information is relevant to the analysis and therefore must be disclosed” (The Motley Fool).

I probably should clarify that ASU 2011-04 was created in response to the 2008-09 Financial Crisis and how banks such as Lehman Brothers carried their mortgage-backed securities and derivative contracts on the balance sheet and used scummy accounting tricks to clean up their nasty books.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES CARRIED AT FAIR VALUE

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

		2021				2020			
(Millions)		Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level
Assets:									
Investment securities: (a)									
Equity securities	$	**79**	**78**	**1**	—	81	80	1	—
Debt securities		**2,512**	—	**2,480**	**32**	21,550	—	21,550	—
Derivatives, gross (a)		**590**	—	**590**	—	629	—	629	—
Total Assets		**3,181**	**78**	**3,071**	**32**	22,260	80	22,180	—
Liabilities:									
Derivatives, gross (a)		**139**	—	**139**	—	702	—	702	—
Total Liabilities	$	**139**	—	**139**	—	702	—	702	—

There are very few level 3 assets and liabilities, which is good. Most of their balance sheet here is carried on a level 2 basis which means that prices can be found in another market for similar securities. We'll talk about the debt securities in the Investment Securities section. As we shall see, most of Amex's balance sheet is not carried at fair value.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES CARRIED AT OTHER THAN FAIR VALUE

The following table summarizes the estimated fair values of financial assets and financial liabilities that are measured at amortized cost, and not required to be carried at fair value on a recurring basis, as of December 31, 2021, and 2020. The fair values of these financial instruments are estimates based on the market conditions and perceived risks as of December 31, 2021, and 2020, and require management's judgment. These figures may not be indicative of future fair values, nor can the fair value of American Express be estimated by aggregating the amounts presented.

2021 *(Billions)*	Carrying Value	Corresponding Fair Value Amount: Total	Level 1	Level 2	Level 3
Financial Assets:					
Financial assets for which carrying values equal or approximate fair value					
Cash and cash equivalents(a)	$ 22	$ 22	$ 20	$ 2	$ —
Other financial assets(b)	56	56	—	56	—
Financial assets carried at other than fair value					
Card Member and Other loans, less reserves(c)	88	91	—	—	91
Financial Liabilities:					
Financial liabilities for which carrying values equal or approximate fair value	105	105	—	105	—
Financial liabilities carried at other than fair value					
Certificates of deposit(d)	5	5	—	5	—
Long-term debt(c)	$ 39	$ 40	$ —	$ 40	$ —

2020 *(Billions)*	Carrying Value	Corresponding Fair Value Amount: Total	Level 1	Level 2	Level 3
Financial Assets:					
Financial assets for which carrying values equal or approximate fair value					
Cash and cash equivalents(a)	$ 33	$ 33	$ 31	$ 2	$ —
Other financial assets(b)	46	46	—	46	—
Financial assets carried at other than fair value					
Card Member and Other loans, less reserves(c)	71	75	—	—	75
Financial Liabilities:					
Financial liabilities for which carrying values equal or approximate fair value	101	101	—	101	—
Financial liabilities carried at other than fair value					
Certificates of deposit(d)	8	8	—	8	—
Long-term debt(c)	$ 43	$ 45	$ —	$ 45	$ —

(a)Level 2 fair value amounts reflect time deposits and short-term investments.

(b)Balances include Card Member receivables (including fair values of Card Member receivables of $5.2 billion and $4.2 billion held by a consolidated VIE as of December 31, 2021, and 2020, respectively), other receivables, and other miscellaneous assets.

(c)Balances include amounts held by a consolidated VIE for which the fair values of Card Member loans were $26.7 billion and $25.8 billion as of December 31, 2021, and 2020, respectively, and the fair values of Long-term debt were $13.9 billion and $13.0 billion as of December 31, 2021, and 2020, respectively.

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

While I'd prefer that the loans are carried on the balance sheet at the fair market value (cost value); I don't see any red flags. Certificates of deposit / Consumer deposits shouldn't change in value rapidly. Long-term debt is being carried on the balance sheet $2 billion less or a 4% decrease. This is probably due to the fact that the carrying value is carried at the cost of issuance and the fair value considers an increase in the market price of the debt obligations. This means long-term debt increased in value on the open market which is a good sign of financial strength.

"As of December 31, 2021, Amex had a total of $24.6 billion in cash and cash equivalents and Investment securities (which are substantially comprised of U.S. Government Treasury obligations). The decrease of $30.0 billion from $54.6 billion as of December 31, 2020, was primarily driven by the increase in the balances of Card Member loans and receivables, debt maturities, share repurchases, and a reduction in customer deposits, partially offset by the issuance of unsecured and secured debt securities" (United States Security and Exchange Commission).

Investment Securities

Since American Express is a Bank Holding Company, it would make sense that they hold assets in investment securities. Most banks hold debt obligations because they are always in need of some sort of cash flow to pay their current obligations. Holding debt is good because senior obligations are relatively safe (Senior debtors get paid before equity shareholders even in the event of restructuring or bankruptcy, but creditors don't usually wish for bankruptcy as their claim is limited to whatever money the company or government can manage to gather) and because debt usually pays interest or discounted income (in the case of Treasury Bills) weekly, monthly, yearly, etc.

American Express's investment securities are mainly obligations from the U.S. government, other governments, states, etc. and can be regarded as regarded as safe. Governments unlike businesses tend to pay off debt because they have a constant cash flow that arrive from taxpayers yearly. Please note that during 2021, $19.703 billion of securities (mainly U.S. Government Treasury Obligations) with a weighted average yield of 0.31%, yielded ~$61 million. In 2022, $1.477 billion of securities which is composed of $832 million of U.S.

Government Treasury Obligations and $628 million of foreign government obligations will be due with an average weighted yield of 1.74%. The reason why the yield is higher is because of the increased number of debt obligations becoming due by foreign governments. Most foreign governments don't have the same luxury the U.S. has when it comes to a low-interest rate payoff of their debt because they must compensate investors for the extra risk of default. In all, this will yield ~$25,698,800.]

The following is a summary of investment securities as of December 31:

Description of Securities (Millions)	2021 Cost	2021 Gross Unrealized Gains	2021 Gross Unrealized Losses	2021 Estimated Fair Value	2020 Cost	2020 Gross Unrealized Gains	2020 Gross Unrealized Lossses	2020 Estimated Fair Value
Available-for-sale debt securities:								
State and municipal obligations	$ 106	$ 5	$ —	$ 111	$ 172	$ 7	$ —	$ 179
U.S. Government agency obligations	6	—	—	6	7	—	—	7
U.S. Government treasury obligations	1,680	25	-1	1,704	20,655	76	—	20,731
Mortgage-backed securities (a)	17	1	—	18	28	2	—	30
Foreign government bonds and obligations	630	—	—	630	581	—	—	581
Other (b)	43	—	—	43	22	—	—	22
Equity securities (c)	66	17	-4	79	56	27	-2	81
Total	$ 2,548	$ 48	$ -5	$ 2,591	$ 21,521	$ 112	$ -2	$ 21,631

(a)Represents mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.

(b)Represents investments in Corporate debt securities and debt securities issued by Community Development Financial Institutions.

(c)Equity securities comprise investments in common stock, exchange-traded funds and mutual funds.

Short Term Debt and Working Capital

SHORT-TERM BORROWINGS

Short-term borrowings outstanding, defined as borrowings with original contractual maturity dates of less than one year, as of December 31 were as follows:

(Millions, except percentages)	2021 Outstanding Balance	2021 Year-End Stated Interest Rate on Debt (a)	2020 Outstanding Balance	2020 Year-End Stated Interest Rate on Debt (a)
Commercial paper (b)	$ —	— %	$ —	—
Other short-term borrowings (c)	2,243	0.58	1,878	0.61%
Total	$ 2,243	0.58 %	$ 1,878	0.61%

(a)For floating-rate issuances, the stated interest rates are weighted based on the outstanding principal balances and interest rates in effect as of December 31, 2021 and 2020

(b)Average commercial paper outstanding was nil and $628 million in 2021 and 2020, respectively.

(c)Includes borrowings from banks and book overdrafts with banks due to timing differences arising in the ordinary course of business.

Th average commercial paper outstanding in 2020 was $628 million, but at the end of the year it was paid off and redeemed hence the year end outstanding balance in the table above is $0.

American Express stated in the annual report, "The investment income we receive on liquidity resources is less than the interest expense on the sources of funding for these balances. In 2021, the net interest costs to maintain these resources were substantial. The level of future net interest costs depends on the amount of liquidity resources we maintain and the difference between our cost of funding these amounts and their investment yields." (United States Security and Exchange Commission)

Customer Deposits

Customer Deposits make up 50.7% of Amex's total liabilities. Customer deposits are one of the main ways banks make their revenue. While customer deposits are financial obligations and liabilities, banks can use these deposits to loan out other people's money to other people which is called fractional reserve banking. This, in turn, allows banks to lever up their debt level safely and lend more to the economy which increases the nation's Gross Domestic Product as well as net income for the bank. This lending out of customer deposits can be a double-edged sword, however. If there is a bank run (when many people withdraw money from the bank causing a bank's reserves or Tier 1 Capital to dwindle), a bank might be unable to pay off these liabilities causing it to go insolvent. Banks are usually forced to pay interest to customers on the money that the bank loans out which is owned by the customer. During the 1980s savings banks and saving and loan associations were competing to offer the highest interest rate on consumer accounts to try to attract more customers. Unfortunately, this caused banks' earnings to decline as spiraling interest rates increased costs for the banks. Regulation Q & D[2] defines how banks classify accounts and how they pay interest. Nowadays banks pay very little interest on customer deposits as we shall see later on while being able to charge absurdly high-interest rates on loans due to the Depository Institutions Deregulation Act of 1980 which eliminated federal interest rate ceilings (the limit on how much a bank can charge on a loan).

As of December 31, customer deposits were categorized as interest-bearing or non-interest-bearing as follows:

(Millions)		**2021**		2020
U.S.:				
Interest-bearing	$	**83,304**	$	85,583
Non-interest-bearing (includes Card Member credit balances of: 2021, $527; 2020, $576)		**553**		599
Non-U.S.:				
Interest-bearing		**18**		19
Non-interest-bearing (includes Card Member credit balances of: 2021, $503; 2020, $671)	$	**507**	$	674
Total customer deposits		**84,382**		86,875

[2] https://www.federalreserve.gov/boarddocs/supmanual/cch/200601/int_depos.pdf

Customer deposits by deposit type as of December 31 were as follows:

(Millions)		2021		2020
Savings and transaction accounts	$	**66,142**	$	63,512
Certificates of deposit:				
Direct		**1,415**		2,440
Third-party (brokered)		**3,095**		5,561
Sweep accounts —Third-party (brokered)		**12,658**		14,070
Other deposits		**42**		45
Card Member credit balances		**1,030**		1,247
Total customer deposits	$	**84,382**	$	86,875

As of December 31, certificates of deposit in denominations of $250,000 or more, in the aggregate, were as follows:

(Millions)	2021		2020
U.S.	**521**	$	930
Non-U.S.	**1**		1
Total	**522**	$	931

The scheduled maturities of certificates of deposit as of December 31, 2021, were as follows**:**

(Millions) (USD)	Total
2022	**3,216**
2023	**777**
2024	**287**
2025	**211**
2026	**19**
After 5 years	—
Total	**4,510**

I included all of these to give the reader a clearer sense of how American Express customer deposits and obligations break down. To get a good look at the company, it's important to be able to understand the granular details of the business. I will break down what is important to observe now.

A majority of Amex's Customer Deposits are in the form of interest-bearing accounts and a majority of that is in savings accounts. The average yield customers get from American Express on their savings account is 0.4%, 1.0%, and 2.1% in 2021, 2020, and 2019 respectively. American Express's total interest expense was $1.283, $2.098, and $3.464 Billion in 2021, 2020, and 2019 respectively. This can drastically cause American Express's cost and profit margin to fluctuate solely because of the interest rate environment (this is part of the reason why bank companies are so hard to value). Time deposits while making up only 4.85%, 7.48%, and 9.15% of American Express's Interest-Bearing Liabilities in 2021, 2020, and 2019 respectively, made up 10.83%, 11.30%, and 8.60% of American Express's Total Interest Expense on these accounts. The higher yield American Express pays to customers, we should see a small decrease in net income. During a high-interest rate environment, AMEX expenses will increase as we'll probably see shortly in the upcoming rate hikes by the fed. It's unlikely that an increase in interest rates on deposit accounts will affect Amex's core business.

American Express Certificate of Deposit Expense was approximately $3.828, $4.632, $4.748, and $5.256 Billion in the years 2021, 2020, 2019, and 2018 respectively

Note: I couldn't find anywhere on the 10-k the actual expense of these CDs, but I kept going back into previous annual reports and recorded what the scheduled maturities were which should be a close estimate of the expense.

Card Member Loans and Receivables

as of or for the Years Ended December 31, (Millions, except percentages and where indicated)	2021	2020	2019	Change 2021 vs. 2020	Change 2020 vs. 2019
Worldwide Card Member loans					
Card Member loans: *(billions)*					
U.S.	**$ 76.9**	$ 64.2	$ 76.0	20 %	-16 %
Outside the U.S.	**11.7**	9.2	11.4	27	-19
Total	**$ 88.6**	$ 73.4	$ 87.4	21	-16
Credit loss reserves:					
Beginning balance (a)	**$ 5,344**	$ 4,027	$ 2,134	33	89
Provisions — principal, interest and fees	**-1,155**	3,453	2,462	#	40
Net write-offs — principal less recoveries	**-672**	-1,795	-1,860	-63	-3
Net write-offs — interest and fees less recoveries	**-207**	-375	-375	-45	—
Other (b)	**-5**	34	22	#	55
Ending balance	**$ 3,305**	$ 5,344	$ 2,383	-38	#
% of loans	**3.7 %**	7.3 %	2.7 %		
% of past due	**555 %**	727 %	177 %		
Average loans *(billions)*	**$ 76.1**	$ 74.6	$ 82.8	2	-10
Net write-off rate — principal only (c)	**0.9 %**	2.4 %	2.2 %		
Net write-off rate — principal, interest and fees (c)	**1.2 %**	2.9 %	2.7 %		
30+ days past due as a % of total	**0.7 %**	1.0 %	1.5 %		
Worldwide Card Member receivables					
Card Member receivables: *(billions)*					
U.S.	**$ 38.4**	$ 30.5	$ 39.0	26	-22
Outside the U.S.	**15.2**	13.2	18.4	15	-28
Total	**$ 53.6**	$ 43.7	$ 57.4	23	-24
Credit loss reserves:					
Beginning balance (a)	**$ 267**	$ 126	$ 573	#	-78
Provisions — principal and fees	**-73**	1,015	963	#	5
Net write-offs — principal and fees less recoveries (d)	**-129**	-881	-900	-85	-2
Other (b)	**-1**	7	-17	#	#
Ending balance	**$ 64**	$ 267	$ 619	-76 %	-57 %
% of receivables	**0.1 %**	0.6 %	1.1 %		
Net write-off rate — principal and fees (c)(d)(e)	**0.3 %**	2.0 %	1.6 %		

# Denotes a variance of 100 percent or more

(a)Includes an increase of $1,643 million and a decrease of $493 million to the beginning reserve balances for Card Member loans and receivables, respectively, as of January 1, 2020, related to the adoption of the CECL methodology.

(b)Other includes foreign currency translation adjustments.

(c) Represent a net write-off rate based on principal losses only (i.e., excluding interest and/or fees) to be consistent with industry convention. In addition, as Amex's practice is to include uncollectible interest and/or fees as part of our total provision for credit losses, a net write-off rate including principal, interest, and/or fees is also presented.

(d)The net write-off rate for the year ended December 31, 2021, includes a $37 million partial recovery in Card Member receivables related to a corporate client bankruptcy, which had resulted in a $53 million write-off in the year ended December 31, 2020, in the GCS segment.

(e)A net write-off rate based on principal losses only for Global Corporate Payments (GCP), which reflects global large and middle market corporate accounts, is not available due to system constraints.

I would first like to clarify that in the table above; the total loans and receivables aren't the total volume that was done throughout the year. It just reflects the amount remaining as of the reporting date. During the 4th quarter, there is an increased demand (presumably holiday shopping) for consumer loans hence the numbers will normally slightly be above the average amount of loans outstanding throughout the year. This doesn't seem to be the case for 2020 presumably due to covid restricting holiday get-togethers. The full amount of loans throughout the year is the total network volume as discussed in the income statement section of this stock analysis.

Receivables have a very small credit reserve as well as a write-off rate which is good compared to its size and that of other competitors.

The credit loss reserve in 2020 increased from 2.7% to 7.3% of the total % of loans due to macroeconomic factors. It was then reduced to 3.7% of all loans in 2021 which is still relatively high. The credit loss reserves directly affect net income and should be looked at annually in order to adjust the net income for years such as 2020.

Card Member Loans & Receivables Aging

2021 (Millions)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Card Member Loans:					
Global Consumer Services Group	$ **69,960**	$ **158**	$ **112**	$ **237**	$ **70,467**
Global Commercial Services					
Global Small Business Services	**17,950**	**34**	**19**	**37**	**18,040**
Global Corporate Payments (a)	**(b)**	**(b)**	**(b)**	**—**	**55**
Card Member Receivables:					
Global Consumer Services Group	**22,279**	**41**	**24**	**48**	**22,392**
Global Commercial Services					
Global Small Business Services	$ **17,846**	$ **59**	$ **28**	$ **44**	$ **17,977**
Global Corporate Payments (a)	**(b)**	**(b)**	**(b)**	$ **22**	$ **13,276**
2020 (Millions)					
Card Member Loans:					
Global Consumer Services Group	$ 59,442	$ 177	$ 148	$ 317	$ 60,084
Global Commercial Services					
Global Small Business Services	13,132	27	20	47	13,226
Global Corporate Payments (a)	(b)	(b)	(b)	—	63
Card Member Receivables:					
Global Consumer Services Group	18,570	33	26	56	18,865
Global Commercial Services					
Global Small Business Services	$ 14,023	$ 37	$ 21	$ 38	$ 14,119
Global Corporate Payments (a)	(b)	(b)	$ (b)	$ 60	$ 10,897

(a)Global Corporate Payments (GCP) reflects global, large, and middle market corporate accounts. Delinquency data is tracked based on days past billing status rather than days past due. A Card Member account is considered 90 days past billing if payment has not been received within 90 days of the Card Member's billing statement date. In addition, initiation of collection procedures on an account before the account becomes 90 days past billing, the associated Card Member loan or receivable balance is classified as 90 days past billing. These amounts are shown above as 90+ Days Past Due for presentation purposes. See also (b).

(b)Delinquency data for periods other than 90+ days past billing is not available due to system constraints. Therefore, such data has not been utilized for risk management purposes. The balances that are current to 89 days past due can be derived as the difference between the Total and the 90+ Days Past Due balances.

The table above shows us that ~99% of American Express's loans and receivables are current and in good credit health. I'd like to briefly discuss footnote (b)- I don't understand why they don't calculate delinquency data the same way as others, but I'd guess it would have to do because it refers to large corporations. Also, to speculate why they don't track delinquency data for periods other than 90+ days past billing could be due to a large increased cost if they do so or partly because large corporations handle their billing differently.

Credit Quality Indicators

	2021			2020		
	Net Write-Off Rate			Net Write-Off Rate		
	Principal Only (a)	Principal, Interest & Fees (a)	30+ Days Past Due as a % of Total	Principal Only (a)	Principal, Interest & Fees (a)	30+ Days Past Du as a % o Tota
Card Member Loans:						
Global Consumer Services Group	**0.9%**	**1.3%**	**0.7%**	2.5%	3.0%	1.1%
Global Small Business Services	**0.6%**	**0.8%**	**0.5%**	2.1%	2.4%	0.7%
Card Member Receivables:						
Global Consumer Services Group	**0.3%**	**0.4%**	**0.5%**	1.7 %	1.9%	0.6%
Global Small Business Services	**0.3%**	**0.4%**	**0.7%**	2.1%	2.3%	0.7%
Global Corporate Payments (d)	**(b)**	—	**(c)**	(b)	1.9%	(c

(a)The net write-off rate is based on principal losses only (i.e., excluding interest and/or fees) to be consistent with industry convention. In addition, Amex's practice is to include uncollectible interest and/or fees as part of their total provision for credit losses, a net write-off rate including principal, interest, and/or fees is also presented.

(b)Net write-off rate based on principal losses only is not available due to system constraints.

(c)For GCP Card Member receivables, delinquency data is tracked based on days past billing status rather than days past due. Delinquency data for periods other than 90+ days past billing is not available due to system constraints. 90+ days past billing as a % of the total was 0.3% and 0.6% as of December 31, 2021, and 2020, respectively.

(d)The net write-off rate for the year ended December 31, 2021, includes a $37 million partial recovery in Card Member receivables related to a corporate client bankruptcy, which had resulted in a $53 million write-off in the year ended December 21, 2020.

The table above shows write-off rates on loans and receivables, and everything looks good- nothing out of the ordinary.

The following tables provide additional information concerning impaired loans and as of December 31, 2021, 2020, and 2019. Impaired loans and receivables are individual larger balance or homogeneous pools of smaller balance loans and receivables for which it is probable that Amex is unable to collect all amounts due according to the original contractual terms of the customer agreement. Impaired loans and receivables include (i) loans over 90 days past due still accruing interest, (ii) nonaccrual loans and (iii) loans and receivables modified as troubled debt restructurings (TDRs).

	As of December 31, 2021					
			Accounts Classified as a TDR (c)			
2021 (Millions)	Over 90 days Past Due & Accruing Interest (a)	Non-Accruals (b)	In Program (d)	Out of Program(e)	Total Impaired Balance	Reserve for Credit Losses - TDRs
Card Member Loans:						
Global Consumer Services Group	**$ 149**	**$ 82**	**$ 708**	**$ 997**	**$ 1,936**	**415**
Global Commercial Services	**19**	**14**	**176**	**332**	**541**	**132**
Card Member Receivables:						
Global Consumer Services Group	—	—	**133**	**130**	**263**	**9**
Global Commercial Services	—	—	**248**	**303**	**551**	**39**
Other Loans (f)	**1**	—	**67**	**2**	**70**	**1**
Total	**$ 169**	**$ 96**	**$ 1,332**	**$ 1,764**	**$ 3,361**	**$ 596**

	As of December 31, 2020					
			Accounts Classified as a TDR (c)			
2020 (Millions)	Over 90 days Past Due & Accruing Interest (a)	Non-Accruals (b)	In Program (d)	Out of Program(e)	Total Impaired Balance	Reserve for Credit Losses - TDRs
Card Member Loans:						
Global Consumer Services Group	$ 203	$ 146	$ 1,586	$ 248	$ 2,183	$ 782
Global Commercial Services	21	29	478	67	595	285
Card Member Receivables:						
Global Consumer Services Group	—	—	240	34	274	60
Global Commercial Services	—	—	534	75	609	139
Other Loans (f)	**2**	**1**	**248**	**6**	**257**	**80**
Total	**$ 226**	**$ 176**	**$ 3,086**	**$ 430**	**$ 3,918**	**$ 1,346**

	As of December 31, 2019					
			Accounts Classified as a TDR (c)			
2019 (Millions)	Over 90 days Past Due & Accruing Interest (a)	Non-Accruals (b)	In Program (d)	Out of Program(e)	Total Impaired Balance	Reserve for Credit Losses - TDRs
Card Member Loans:						
Global Consumer Services Group	$ 384	$ 284	$ 500	$ 175	$ 1,343	$ 137
Global Commercial Services	44	54	97	38	233	22
Card Member Receivables:						
Global Consumer Services Group	—	—	56	16	72	3
Global Commercial Services	—	—	109	30	139	6
Total	$ 428	$ 338	$ 762	$ 259	$ 1,787	$ 168

a) Amex's policy is generally to accrue interest through the date of write-off (typically 180 days past due). They establish reserves for interest that they believe will not be collected. The amounts presented exclude loans classified as a TDR.

b) Non-accrual loans not in modification programs primarily include certain loans placed with outside collection agencies for which Amex has ceased accruing interest. The amounts presented exclude loans classified as TDRs. Accounts classified as a TDR include $41 million, $32 million, and $26 million that are over 90 days past due and accruing interest, and $19 million, $11 million, and $10 million that are non-accruals as of December 31, 2021, 2020 and 2019, respectively.

c) In Program TDRs include accounts that are currently enrolled in a modification program.

d) Out of Programs include $1,621 million, $316 million, and $188 million of accounts that have successfully completed a modification program, and $143 million, $114 million, and $72 million of accounts that were not in compliance with the terms of the modification programs as of December 31, 2021, 2020 and 2019, respectively.

e) Other loans primarily represent consumer and commercial non-card financing products. Balances as of December 31, 2019, were not significant.

Provision for credit losses

Years Ended December 31,				Change		Change	
(Millions, except percentages)	**2021**	2020	2019	2021 vs. 2020		2020 vs. 2019	
Card Member receivables							
Net write-offs	**$ 129**	$ 881	$ 900	$ (752)	(85) %	$ (19)	(2) %
Reserve (release) build (a)	**(202)**	134	63	(336)	#	71	#
Total	**(73)**	1,015	963	(1,088)	#	52	5
Card Member loans							
Net write-offs	**879**	2,170	2,235	(1,291)	(59)	(65)	(3)
Reserve (release) build (a)	**(2,034)**	1,283	227	(3,317)	#	1,056	#
Total	**(1,155)**	3,453	2,462	(4,608)	#	991	40
Other							
Net write-offs — Other loans (b)	**21**	111	98	(90)	(81)	13	13
Net write-offs — Other receivables (c)	**33**	27	20	6	22	7	35
Reserve (release) build — Other loans (a)(b)	**(185)**	66	28	(251)	#	38	#
Reserve (release) build — Other receivables (a)(c)	**(60)**	58	2	(118)	#	56	#
Total	**(191)**	262	148	(453)	#	114	77
Total provisions for credit losses (d)	**$ (1,419)**	$ 4,730	$ 3,573	$ (6,149)	#	$ 1,157	32 %

# Denotes a variance of 100 percent or more

(a) Represents the portion of the provisions for credit losses for the period related to increasing or decreasing reserves for credit losses as a result of, among other things, changes in volumes, macroeconomic outlook, portfolio composition, and credit quality of portfolios. Reserve build represents the amount by which the provision for credit losses exceeds net write-offs, while reserve release represents the amount by which net write-offs exceed the provision for credit losses.

(b)Relates to Other loans of $2.9 billion, $2.9 billion, and $4.8 billion less reserves of $52 million, $238 million, and $152 million, as of December 31, 2021, 2020, and 2019, respectively.

(c)Relates to Other receivables included in other assets on the Consolidated Balance Sheets of $2.7 billion, $3.0 billion, and $3.1 billion, less reserves of $25 million, $85 million, and $27 million as of December 31, 2021, 2020 and 2019, respectively.

(d)Results for reporting periods beginning on and after January 1, 2020, are presented using the CECL methodology, while information as of and for the year ended December 31, 2019, continues to be reported under the incurred loss methodology then in effect.

Before we get started talking about the reserves let's talk about footnote (d). The CECL methodology, which became effective January 1, 2020, requires management to estimate lifetime expected credit losses by incorporating historical loss experience, as well as current and future economic conditions over a reasonable and supportable period (R&S Period), which is approximately three years beyond the balance sheet date. Management will make various judgments combined with historical loss experience to determine a reserve rate that is applied to the outstanding loan or receivable balance to produce a reserve for expected credit losses.

American Express uses a combination of statistically based models that incorporate current and future economic conditions throughout the R&S Period. The process of estimating expected credit losses is based on several key models: Probability of Default (PD), Exposure at Default (EAD), and future recoveries for each month of the R&S Period. Beyond the R&S Period, we estimate expected credit losses by immediately reverting to long-term average loss rates.

•PD models are used to estimate the likelihood an account will be written off.

•EAD models are used to estimate the balance of an account at the time of write-off. This includes balances less expected repayments based on historical payment and revolve behavior, which varies by customer. Due to the nature of revolving loan portfolios, the EAD models are complex and involve assumptions regarding the relationship between future spending and payment behaviors.

•Recovery models are used to estimate amounts that are expected to be received from Card Members after default occurs, typically as a result of collection efforts. Future recoveries are estimated by taking into consideration the time of default, the time elapsed since the default, and macroeconomic conditions.

Before the CECL methodology, management would only record a loss if it was “probable” that the bank already incurred the loss. Now banks must take into account expected future losses even if there is no loss currently. What the reader should get from this is that more than likely, banks will report a larger provision for credit losses. None of these changes affects a bank's legal rights to collect on its loans, nor do they result in a requirement that a bank set aside cash to cover the loss. Moreover, given that the cash flows from the loan are unchanged, the reduction in income and capital only changes the timing of when the bank reports the losses on any given loan (Federal Reserve of Atlanta). Since banks will build up a higher reserve during good times, they should have enough loss-absorbing capacity to lend out during economic downturns.

We can see that during 2020, Amex increased its provision for credit (loan) losses effectively decreasing earnings. In 2021, American Express released its credit reserves and deceased loan write offs increasing earnings by a sizable amount compared to prior years. “Card Member loans increased 21 percent, which was lower than the growth in billed business due to higher paydown rates driven in part by the continued liquidity and financial strength of our customer base. Provisions for credit losses decreased and resulted in a net benefit, primarily due to a $2.5 billion reserve release in the current year versus a reserve build in the prior year and lower net write-offs in the current year. The reserve release in the current year was driven by improved portfolio quality and macroeconomic outlook, partially offset by an increase in the outstanding balance of loans and receivables. We do not expect to see reserve releases of this magnitude in 2022.” -American Express Corporation (United States Security and Exchange Commission). Currently, I cannot estimate what provisions for credit losses will be in the future due to the adoption of the CECL methodology, but I’d estimate they would be higher than the 2019 period and would be somewhat around the 2020 period but we’ll need more data from future 10-k’s to measure the change of accounting principal on the company’s balance sheet and income statement. Also, it would be fair to say that 2020 or 2021 isn’t a good base year for credit losses due to the increase in the provision due to the COVID-19 pandemic as well as the release of some of the reserves in 2021.

Net income in 2020 was ~$1.5 billion higher than reported and anyone that just checked the yearly net income was misled by a fictitious expense. Similarly, people who just looked at the net income for 2021 might have been misled by the higher net income due to the release of the provision for credit losses.

Long Term Debt

Long-term debt outstanding, defined as debt with original contractual maturity dates of one year or greater, as of December 31 was as follows:

	2021				2020		
(Millions, except percentages) (USD)	Original Contractual Maturity Dates	Outstanding Balance(a)	Year-End Interest Rate on Debt(b)	Year-End Interest Raw with Swaps(b)(c)	Outstanding Balance(a)	Year-End Interest Rate on Debt(b)	Year-End Interest Rate with Swaps(b)(c)
American Express Company (Parent Company only)							
Fixed Rate Senior Notes	**2022 - 2042**	**$18,324**	**3.02%**	**2.03%**	$18,251	3.25%	2.09%
Floating Rate Senior Notes	**2022 - 2026**	**3,300**	**0.69%**	—	4,000	0.84%	—
Fixed Rate Subordinated Notes	**2024**	**599**	**3.63%**	**1.38%**	599	3.63%	1.43%
American Express Credit Corporation							
Fixed Rate Senior Notes	**2022 - 2027**	**2,078**	**2.80%**	**1.32%**	6,746	2.38%	1.67%
Floating Rate Senior Notes	**2022**	**300**	**0.87%**	—	300	0.93%	—
Lending Trust							
Fixed Rate Senior Notes	**2022 - 2024**	**8,199**	**2.01%**	**1.82%**	8,325	2.74%	2.55%
Floating Rate Senior Notes	**2022 - 2023**	**3,325**	**0.49%**	—	4,125	0.51%	—
Fixed Rate Subordinated Notes	**2022**	**212**	**2.72%**	—	246	2.80%	—
Floating Rate Subordinated Notes	**2022 - 2023**	**79**	**0.68%**	—	79	0.73%	—
Charge Trust							
Floating Rate Conduit Borrowings	**2024**	**2,000**	**0.40%**	—	—	—	—
Other							
Finance Leases	**2024 - 2033**	**14**	**5.49%**	—	17	5.54%	—
Floating Rate Borrowings	**2022 - 2024**	**297**	**0.42%**	—	328	0.42%	—
Unamortized Underwriting Fees		**-52**			-64		
Total Long-Term Debt		**$38,675**	**2.22%**		$42,952	2.49%	2.49%

(a) The outstanding balances include (i) unamortized discount, (ii) the impact of movements in exchange rates on foreign currency denominated debt, and (iii) the impact of fair value hedge accounting on certain fixed-rate notes that have been swapped to floating rate through the use of interest rate swaps.

(b) For floating-rate issuances, the stated interest rate on debt is weighted based on the outstanding principal balances and interest rates in effect as of December 31, 2021, and 2020.

(c) Interest rates with swaps are only presented when swaps are in place to hedge the underlying debt. The interest rates with swaps are weighted based on the outstanding principal balances and the interest rates on the floating leg of the swaps in effect as of December 31, 2021, and 2020.

Aggregate annual maturities on long-term debt obligations (based on contractual maturity or anticipated redemption dates) as of December 31, 2021, were as follows:

(Millions)	2022	2023	2024	2025	2026	Thereafter	Total
American Express Company (Parent Company only)	**5,675**	**5,750**	**$5,000**	**750**	**$2,450**	**$2,933**	**$22,558**
American Express Credit Corporation	**2,050**	—	—	—	—	**339**	**2,389**
Lending Trust	**6,381**	**2,685**	**2,750**	—	—	—	**11,816**
Charge Trust	—	—	**2,000**	—	—	—	**2,000**
Other	**77**	**88**	**136**	—	—	**10**	**311**
	$14,183	**$8,523**	**$9,886**	**750**	**$2,450**	**$3,282**	**$39,074**
Unamortized Underwriting Fees							**-52**
Unamortized Discount and Premium							**-584**
Impacts due to Fair Value Hedge Accounting							**237**
Total Long-Term Debt							**$38,675**

American Express's debt maturities should be covered by its $22 billion in cash and cash equivalents. Overall, the debt seems manageable, and the total interest rate on all its debt averages 2.22% which is cheaply financed and preferable. American Express may refinance some of their debt by reissuing some of it. Debt went down by over $4 billion from 2020 to 2021 which is nice to see. All in all, Amex should easily be able to finance the maturities in the table above from its operating cash flows.

Revolving Credit Line

American Express has 3 major ways they can finance any working capital needs, by being able to sell in the market senior debt notes. American Express currently has a revolving line of a $3 billion secured borrowing facility, with a maturity date of July 15, 2024, which gives them the right to sell up to $3.0 billion face amount of eligible AAA notes from the American Express Issuance Trust II (the Charge Trust). They also maintained a revolving, secured borrowing facility, with a maturity date of September 16, 2024, which gives them the right to sell up to $2.0 billion face amount of eligible AAA certificates from the American Express Credit Account Master Trust (the Lending Trust). Both facilities are used in the ordinary course of business to fund working capital needs, as well as to further enhance our contingent funding resources. As of December 31, 2021, $2.0 billion was drawn on the Charge Trust facility, which was subsequently repaid on January 18, 2022. No amounts were drawn on the Lending Trust facility. This means they can borrow at least 5 billion dollars quickly.

Also, as an insured depository institution, AENB may borrow from the Federal Reserve Bank of San Francisco, subject to the amount of qualifying collateral that it may pledge. The Federal Reserve has indicated that both credit and charge card receivables are a form of qualifying collateral for secured borrowings made through the discount window. Whether specific assets will be considered qualifying collateral and the amount that may be borrowed against the collateral remain at the discretion of the Federal Reserve. American Express had approximately <u>$80.8 billion as</u> of December 31, 2021, of U.S. credit card loans and charge card receivables that could be sold over time through securitization trusts or pledged in return for secured borrowings to provide further liquidity, subject in each case to applicable market conditions and eligibility criteria.

Lastly, American Express maintained a committed syndicated bank credit facility of $3.5 billion as of December 31, 2021, with a maturity date of October 15, 2024, with American Express Company and TRS as co-borrowers and co-obligors. The availability of the new credit facility is subject to American maintenance of a minimum CET1 risk-based capital ratio of 4.5 percent, with certain restrictions in relation to either accessing the facility or distributing capital to common shareholders if the CET1 risk-based capital ratio falls between 4.5 percent and 6.5 percent. As of December 31, 2021, American Express complied with the covenants contained in the new credit facility, and no amounts were drawn on the facility. Amex may, from time to time, use this facility in the ordinary course of business to fund working capital needs. Any undrawn portion of this facility could serve as a backstop for the amount of commercial paper outstanding.

I believe that these credit lines that American Express can use are beneficial to the company's future success in the case that they're ever in a need of some working capital to fund lending operations.

UNSECURED DEBT RATINGS

Credit Agency	American Express	Short-Term Ratings	Long-Term Ratings	Outlook
Fitch	American Express	N/A	A	Stable
Fitch	All other rated entities	F1	A	Stable
Moody's	American Express	Prime-1	A2	Stable
Moody's	American Express	N/A	A2	Stable
Moody's	American Express	Prime-1	A3	Stable
Moody's	American Express	N/A	A2	Stable
S&P	American Express	A-2	A-	Stable
S&P	American Express	N/A	A-	Stable
S&P	American Express	A-2	A-	Stable
S&P	American Express	A-2	BBB+	Stable

The table above shows American Express's credit ratings via the 3 major credit ratings. Almost every rating is in the A's which is extremely good. These credit ratings allow American Express to finance debt cheaply and quickly compared to other companies with poorer ratings. These ratings carry huge weight with creditors.

Other Liabilities

The following is a summary of Other liabilities as of December 31:

(Millions)	2021	2020
Membership Rewards liability	$ 11,398	$ 9,750
Employee-related liabilities (a)	2,528	2,336
Deferred card and other fees, net	2,516	2,282
Card Member rebate and reward accruals (b)	1,809	1,367
Income tax liability (c)	1,576	943
Other (d)	10,670	10,556
Total	$ 30,497	$ 27,234

(a) Includes employee benefit plan obligations and incentive compensation.

(b) Card Member rebate and reward accruals include payments to third-party reward partners and cash-back rewards.

(c) Includes repatriation tax liability of $1,012 million as of both December 31, 2021, and 2020, which represents American Express' remaining obligation under the Tax Cuts and Jobs Act enacted on December 22, 2017 (Tax Act) to pay a one-time transition tax on unrepatriated earnings and profits of certain foreign subsidiaries, the net position for current federal, state, and non-U.S. income tax liabilities, and deferred tax liabilities for foreign jurisdictions.

Primarily includes book overdraft balances for accounts without an associated overdraft credit facility, Travelers Cheques, and other prepaid products, lease liabilities, accruals for general operating expenses, payments to co-brand partners, marketing, and business development liabilities, dividends payable, and client incentives.

Membership rewards represent management's best estimate of the cost of points earned that are expected to be redeemed by Card Members in the future. The weighted average cost (WAC) per point and the Ultimate Redemption Rate (URR) are key assumptions used to estimate the liability. This is an expense and under accrual accounting, it must be matched under the period it's derived from. In other words, since the rewards points were earned in 2021 even if they aren't used, it's a deferred expense and represented as a liability under the balance sheet. it's recorded under card member reward expense.

Other liabilities are just expenses that are accrued during the period that will have to be paid out at a later date. Since these liabilities are carried over every year and presumably paid in the following year, they already affect the net income in a given year.

Other Assets

The following is a summary of Other assets as of December 31:

(Millions)	2021	2020
Goodwill	$ 3,804	$ 3,852
Other intangible assets, at amortized cost	201	265
Other [(a)]	13,239	13,562
Total	$ 17,244	$ 17,679

(a) Primarily includes other receivables net of reserves, prepaid assets, net deferred tax assets, tax credit investments, right-of-use lease assets, and investments in non-consolidated entities.

Other assets include nothing out of the ordinary. Very little goodwill which is good because earnings more than likely won't be affected by intangible asset write-downs. Also, other [(a)] is pretty vague- $1.124 & 1.147 billion for years 2021 and 2020 respectively are allocated to tax credit investments with almost all of it in a non-controlling entity investment. Concerning the rest of Other [(a)], we can trace it to the cash flow section where management says, "In 2020, the net cash provided by operating activities was primarily driven by the cash generated from net income for the period, partially offset by lower accounts payable to merchants and purchases of loyalty program points from certain of our co-brand partners, which resulted in an increase in Other assets." In the 2019 annual report, we can see other [(a)] is 11.149 billion so the difference is a mere $2 billion but even this number we cannot confirm its accuracy.

The rest is up to the reader to speculate on its nature which is somewhat scary as it's ~$9-11 billion leftover, but from the footnote, it doesn't seem anything terrible or malicious.

Off balance sheet arrangements:

"Off-balance sheet (OBS) items are a term for assets or liabilities that do not appear on a company's balance sheet. Although not recorded on the balance sheet, they are still assets and liabilities of the company" (Investopedia). American Express's off-balance sheet arrangements are contingencies, commitments, guarantees, and significant credit concentrations.

Contingencies

In the ordinary course of business, it is usual for a business to get sued. American Express has a few outstanding legal battles, and it seems that some of them are just getting dragged out so it's hard to tell when they will end and their expected loss. But there are some legal proceedings that it's probable American Express will have to pay for damages. For the disclosed legal proceedings where a loss is reasonably possible in future periods, the current estimated range is zero to $170 million in excess of any accruals related to those matters. Some of the cases can be awarded more money by the court so this should be taken lightly as this range represents management's estimate based on currently available information and does not represent the maximum loss exposure.

Commitments

Total lease expense includes rent expenses, adjustments for rent concessions, rent escalations, and leasehold improvement allowances and is recognized on a straight-line basis over the lease term. Total lease expense for the years ended December 31, 2021, 2020, and 2019 was $161 million, $177 million, and $151 million, respectively.

The following represents the maturities of the outstanding lease commitments as of December 31, 2021:

(Millions)		
2022	$	**155**
2023		**155**
2024		**146**
2025		**123**
2026		**109**
Thereafter		**986**
Total Outstanding Fixed Lease Payments	$	**1,674**
Less: Amount representing interest	$	**(553)**
Lease Liabilities	$	**1,121**

Lease liabilities are recognized at the present value of the contractual fixed lease payments, discounted using the incremental borrowing rate as of the lease commencement date or upon modification of the lease. For lease liabilities outstanding as of December 31, 2021, the weighted average remaining lease term was 18 years and the weighted average rate used to discount lease commitments was 3 percent.

We can see the "Less: Amount representing interest" is how much Amex expects to earn on presumably fixed income securities over the time period hence the discount rate of 3%. The discount rate is standard and nothing out of the ordinary. And the total expense is just a bundle of leases with remaining terms averaging 18 years which is good because these leases are fixed payments.

Lastly, as of December 31, 2021, “[there were] approximately $2.6 billion in financial commitments outstanding related to agreements with certain cobrand partners under which [American Express is] required to make a certain level of minimum payments over the life of the agreement, generally ranging from five to ten years. Such commitments are designed to be satisfied by the payment [they] make to such co-brand partners primarily based on Card Members’ spending and earning rewards on their cobrand cards and as [Amex] acquire[s] new Card Members. In the event these payments do not fully satisfy the commitment, [Amex] generally pays the cobrand partner up to the amount of the commitment in exchange for an equivalent value of reward points” -American Express (Securities Exchange Commission).

Guarantees

The maximum potential undiscounted future payments and related liability resulting from guarantees and indemnifications provided by Amex in the ordinary course of business was $1 billion and $24 million, respectively, as of both December 31, 2021, and 2020, all of which were primarily related to real estate and business dispositions.

When selling an asset, American Express will cover special future cost for the buyer in special circumstances under a legal agreement. $1 billion is a lot of money even for Amex, but American Express can cover it if needed with its cash on hand. Also, this doesn’t mean that it will be paid in the future necessarily so I highly doubt this liability will fully be recognized.

Significant Credit Concentrations

The following table details Card Member loans and receivables exposure (including unused lines of credit available to Card Members as part of established lending product agreements) in the United States and outside the United States as of December 31:

(Billions)		**2021**		2020
On-balance sheet:				
U.S.	**$**	**115**	$	95
Non-U.S.		**27**		22
On-balance sheet		**142**		117
Unused lines-of-credit: (a)				
U.S.		**261**		251
Non-U.S.		**66**		63
Total unused lines-of-credit	**$**	**327**	$	314

(a) Total unused credit available to Card Members does not represent actual future cash requirements, as a significant portion of this unused credit will likely not be drawn. Charge card products generally have no pre-set spending limit, and therefore are not reflected in unused credit available to Card Members.

We can see American Express has a large off-balance sheet liability made up of unused lines of credit. I’d say these are pretty safe considering the low loan write-off as discussed earlier. Also, as noted in note (a), some of Amex’s cards (charge cards) have no spending limit so their off-balance sheet exposure could be exponentially more as discussed above. Amex has fractional reserve banking and the Federal Reserve Discount Window to help mitigate the exposures of lowering Amex’s Tier-1 Capital requirement below its required percentage.

Unfortunately, this can be part of American Express's downfall, improbable, but it's a risk an investor must take when investing in any bank, as almost every credit-lending company has some sort of risk against borrowers borrowing from the company all at once.

Variable Interest Entities (VIEs)

Amex periodically securitizes Card Member loans and receivables arising from card businesses through the transfer of those assets to securitization trusts, American Express Credit Account Master Trust (the Lending Trust) and American Express Issuance Trust II (the Charge Trust and together with the Lending Trust, the Trusts). The Trusts then issue debt securities <u>collateralized by the transferred assets to third-party investors</u>.

The Trusts are considered VIEs as they have insufficient equity at risk to finance their activities, which are to issue debt securities that are collateralized by the underlying Card Member loans and receivables. Amex performs the servicing and key decision-making for the Trusts and therefore has the power to direct the activities that most significantly impact the Trusts' economic performance, which is the collection of the underlying Card Member loans and receivables. In addition, American Express holds all of the variable interests in both Trusts, except for the debt securities issued to third-party investors. As of December 31, 2021, and 2020, American Express's ownership of variable interests was <u>$15.0 billion and $13.4 billion, respectively, for the Lending Trust and $3.2 billion and $4.3 billion, respectively, for the Charge Trust.</u> These variable interests held by Amex provide them with the right to receive benefits as well as the obligation to absorb losses, which could be significant to both the Lending Trust and the Charge Trust. Based on these considerations, American Express is the primary beneficiary of the Trusts and therefore consolidates the Trusts.

These VIEs, even though they offer collateralized debt securities (similar instrument to the collateralized mortgage back securities) should be regarded as somewhat safer than similar debt instruments due to the fact of American Express's low loan and receivable write-off rate. Unlike mortgage back securities, these collateralized debt securities won't be as negatively affected during a sharp increase in the mortgage rates or other rate hikes since these loans generally have a high turnover rate. The consolidation and pooling of some of American Express's loans and receivables can help mitigate some future risks. Also, it doesn't seem like they are being used speculatively. Lastly, it's common practice for banks and bank holding companies to use VIEs to securitize and sell some of their loans.

Trust Activity

Record Date	May 31, 2022
Number of days in Monthly Period	31
Beginning Number of Accounts	15,452,340
Beginning Principal Receivable Balance, including any Additions, Removals, or Adjustments of Principal Receivables during the Monthly Period	25,266,529,779
a. Addition of Principal Receivables	0
b. Removal of Principal Receivables	0
c. Adjustments to Principal Receivables	0
Special Funding Account Balance	0
Beginning Total Principal Balance	25,266,529,779
Finance Charge Collections (excluding Recoveries)	590,619,094
Collections of Discount Option Receivables	0
Recoveries	12,728,475
Total Collections of Finance Charge Receivables	603,347,568
Total Collections of Principal Receivables	12,570,922,452
Monthly Payment Rate	48.1483 %
Defaulted Amount	27,385,801
Annualized Default Rate	1.2463 %
Annualized Default Rate, Net of Recoveries	0.667 %
Trust Portfolio Yield	26.8398 %
New Principal Receivables	13,204,431,717
Ending Number of Accounts	15,446,297
Ending Principal Receivables Balance	25,872,653,243
Ending Required Minimum Principal Balance	14,478,756,360
Ending Transferor Amount	12,341,105,243
Ending Special Funding Account Balance	0
Ending Total Principal Balance	25,872,653,243
Ending Total Receivables	26,917,829,234

Table 9-1 - American Express Credit Account Master Trust Activities

Trust Performance

Ending Principal Receivables Balance	25,872,653,243
Defaulted Amount	27,385,801
Recoveries	12,728,475
Net Default Amount	14,657,326
Annualized Default Rate	1.25 %
Annualized Recovery Rate	0.58 %
Annualized Default Rate, Net of Recoveries	0.67 %
Number of Accounts Experiencing a Loss	6,135
Number of Accounts Experiencing a Recovery	24,243
Average Net Default Amount per Account Experiencing a Loss	2,389

Table 9-2 - American Express Credit Account Master Trust Delinquencies

	Dollar Amount	Ending Total		Number of Accounts	Number of Accounts	
31-60 Days Delinquent	38,400,279	0.14	%	6,736	0.04	%
61-90 Days Delinquent	24,881,807	0.09	%	3,461	0.02	%
91-120 Days Delinquent	24,471,084	0.09	%	3,038	0.02	%
120+ Days Delinquent	34,505,355	0.13	%	4,333	0.03	%
Total 30+ Days Delinquent	122,258,524	0.45	%	17,568	0.11	%

Table 9-3 - American Express Credit Account Master Trust Loss Experience

First, in table 9-1 we can see the total receivables and principal balance. Receivables include interest hence it’s a somewhat greater amount. We can then find the defaulted amount and calculate the annualized default rate. Table 9-2 also provides the default rate after recoveries which is what we’ll use in this analysis because if they can recover some cash from loans that default, then the loss never actually happened. The default rate is 0.667% which is low. This help show that these securitized loans in this VIE does not default often and can be regarded as somewhat safe from past performance. Also, the annual yield is 26.6%, which is high but normal. Credit card loans have a high-interest rate attached to them, hence this high number. Table 9.3 shows the delinquent trust loans. These are overdue but can still be collected until they’re categorized as a loss. The total amount that is over 30+ days Delinquent is only 0.45% of the total loans. They also represent only 0.11% of accounts. While American Express has huge ownership in these VIEs ($18.2 billion), the risk they impose on American Express is not higher than the loans American Express currently has.

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10. Cash Flow Statement

(a)Includes net gains on Amex Ventures equity investments, net gains and losses on fair value hedges, and changes in equity method investments.

Currently, we can deduce from the cash flow statement that Amex is using a large amount of free cash flow in paying off some of its long-term debt. It's also generating some cash by issuing debt but in general, it pays off more than it issues. Also, stock-based compensation expense was $330, $249, & $283 million for years 2021, 2020, & 2019 respectively. This comes out to be 3.9%, 7.4%, & 4.0% of net income pre-stock-based compensation expense for years 2021, 2020, & 2019 respectively. I chose to add stock-based compensation to net income so you can see how much managers and directors are taking from shareholders. While I added it back to net income; stock-based compensation is a non-cash expense in the form of share dilution. We can jump to the income statement and calculate the expense per share which comes out to be ~ 41 cents, ~ 31 cents, and ~ 34 cents per share outstanding for the years 2021, 2020, and 2019 respectively. Their stock-based compensation expense doesn't seem excessive, and we'll compare it to some of their competitors in a later section

Also, since Amex is a bank, we see that its investing activities fluctuate with loans and receivables made and its financing activities fluctuate due to changes in consumer deposits. This is in my opinion the hardest reason to value a bank. Their cash flows can be inconsistent and if their balance sheet isn't strong enough it could end horribly for shareholders. As seen in the previous section on the balance sheet, I believe Amex has a very strong working capital base and their loan schedule seems very manageable. If American Express can grow its billed business and loan portfolio, its cash flow from operations will continue to increase dramatically & a similar increase in cash from investing activities. Hence, we can see that as cardmember loans and receivables increase, the subsequent cash used in investing activities also increases. A decrease in card member loans returns cash to American Express which increases its working capital and an increase in loans American Express gives out decreases its working capital balance. So healthy manageable growth is especially important for a company like American Express.

American Express's cash flow from operations is directly tied to its billed business. This is why in 2020 we see a sharp decline in cash flow from operations. Also, in 2020 American Express prepaid for loyalty program points but the amount is unclear. As discussed earlier in the balance sheet section, we can speculate that this expense was ~$2 billion and if the prepaid expense is recorded on the cash flow statement as other assets this comes out to be a decrease of 1.785 billion on the operating cash flow which should be added back to that year's income because the expense wasn't used in that year. Hence, it's recorded as an asset on the balance sheet as it'll generate a future economic benefit for the company.

We also see in the investing section a purchase of $20 billion and $7 billion for the years 2020 and 2019 respectively with maturities the following year. These are Treasury Obligations and are low risk hence it's included in working capital as they have maturities of less than a year.

American Express returned to shareholders $9.1, $2.5, & $6.1 Billion in the form of dividends and share repurchases for the years 2021, 2020, & 2019 receptively. We mainly see that their shareholder return program consists of $1.4 billion in dividends every year with the rest composed of share repurchases which increase shareholders' stake in the company. We'll see if management was able to buy shares back under intrinsic value when we discount the free cash flow and assign an intrinsic value for the company. (Total dollar amount spent on share repurchases 13.058 billion in share repurchases (2019-21))

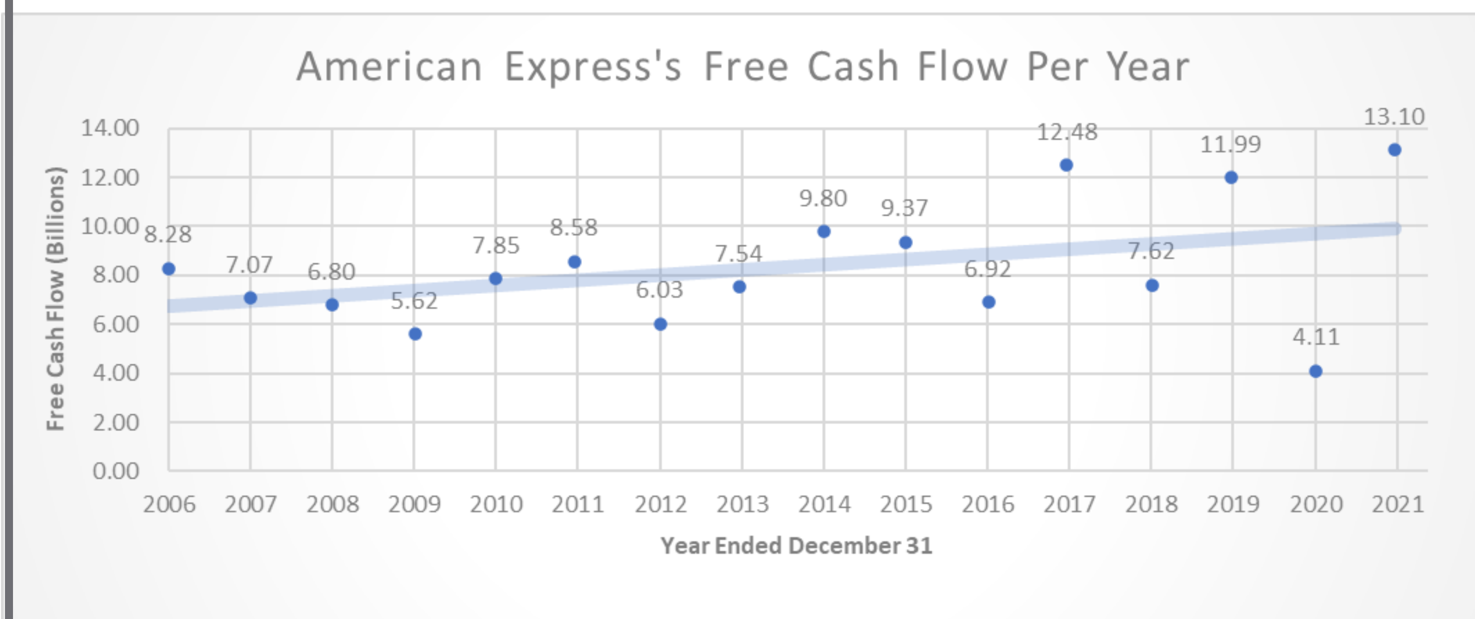
All in all, American Express's cash flow statement looks healthy

Free Cash Flow

Free cash flow measures the amount of cash left over from a period of time after all operational and working capital payments are made. This is in my opinion the most important financial metric. A company with negative or low free cash flow will be unable to meet financial obligations. Hence, a company must continue to be able to consistently generate excess cash from operations which can then be used to pay off debt, repurchase shares, pay dividends, or reinvest into the business. Free cash flow will be the metric we use to value American Express because, as I discussed above, it is the fundamental and arguably sole method of shareholder return (besides selling assets).

For Year Ended December 31 (Billions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Free Cash Flow																
	$ 8.28	7.07	6.80	5.62	7.85	8.58	6.03	7.54	9.80	9.37	6.92	12.48	7.62	**11.99**	**4.11**	**13.10**
Y/Y Change %		(15)%	(4)%	(17)%	40 %	9 %	(30)%	25 %	30 %	(4)%	(26)%	80 %	(39)%	57 %	(66)%	219 %
5 year Change						21%					15%					5%
Average	**$ 8.3**															
5 Year Average	**$ 9.9**															
Median	**$ 7.7**															
5 Year Median	**$ 12.0**															



We can see that American Express's free cash flow fluctuates widely but it has never been negative in the 15-year interval from which I have chosen to pull the data. The unpredictability is partly because it is a bank and the cash flow coming in and going out over a year's time frame can vary with the total number of loans and receivables throughout the year and other operating cash flow irregularities. This unpredictability makes it somewhat harder to value a bank as the inputs into the discount cash flow model can significantly vary a company's intrinsic value range. We can see that over long intervals it has been increasing. I used a linear regression line to make a line of best fit for the data points to further study the relationship in a given year on how the numbers vary when being compared to the estimated value of the linear regression model using past data points. The Charted Financial Analysis (CFA) tests quantitative methods (statistical models and data), but I try to keep statistical models to a minimum as the data only show us a pattern of past circumstances, and in any given time past financials don't mean future financial success (as discussed in *Security Analysis 2nd Edition* by Benjamin Graham). Over these past 5 years Amex's free cash flow has had 3 great years, (2017, 2019, 2021), 1 mediocre year (2018), and a terrible year (2020). When measuring the statistic over the period (2006-2021), we can see that 2020 was the worse year when compared to the other ones. On a positive note, Amex still managed to produce positive free cash flow even during the coronavirus outbreak and the lockdowns that followed, both of which seriously impacted the business. This not only shows the resilience of the company during a hard time but further shows how well the company can manage unpredictable events by still producing positive free cash flow. When we discount the free cash flow, I'll modify 2020's free cash flow partly to reduce the impact of the one-time event on our intrinsic value calculation which will be discussed in the future section.

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11. Statement of Shareholders' Equity

(Millions, except per share amounts)	Total	Preferred Shares	Common Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
Balances as of December 31, 2018	$ 22,290	$ —	$ 170	$ 12,218	$ (2,597)	$ 12,499
Net income	6,759	—	—	—	—	6,759
Other comprehensive loss	(140)	—	—	—	(140)	—
Repurchase of common shares	(4,585)	—	(8)	(671)	—	(3,906)
Other changes, primarily employee plans	186	—	1	227	—	(42)
Cash dividends declared preferred Series B, $52,000.00 per share	(39)	—	—	—	—	(39)
Cash dividends declared preferred Series C, $49,000.00 per share	(42)	—	—	—	—	(42)
Cash dividends declared common, $1.64 per share	(1,358)	—	—	—	—	(1,358)
Balances as of December 31, 2019	23,071	—	163	11,774	(2,737)	13,871
Cumulative effect of change in accounting principle - Reserve for Credit Losses (a)	(882)	—	—	—	—	(882)
Net income	3,135	—	—	—	—	3,135
Other comprehensive loss	(158)	—	—	—	(158)	—
Repurchase of common shares	(875)	—	(2)	(105)	—	(768)
Other changes, primarily employee plans	164	—	—	212	—	(48)
Cash dividends declared preferred Series B, $45,807.57 per share	(34)	—	—	—	—	(34)
Cash dividends declared preferred Series C, $52,919.91 per share	(45)	—	—	—	—	(45)
Cash dividends declared common, $1.72 per share	(1,392)	—	—	—	—	(1,392)
Balances as of December 31, 2020	22,984	—	161	11,881	(2,895)	13,837
Net income	**8,060**	**—**	**—**	**—**	**—**	**8,060**
Other comprehensive loss	**(50)**	**—**	**—**	**—**	**(50)**	**—**
Preferred shares issued	**1,584**	**—**	**—**	**1,584**	**—**	**—**
Redemption of preferred shares	**(1,600)**	**—**	**—**	**(1,584)**	**—**	**(16)**
Repurchase of common shares	**(7,598)**	**—**	**(9)**	**(631)**	**—**	**(6,958)**
Other changes, primarily employee plans	**227**	**—**	**1**	**245**	**—**	**(19)**
Cash dividends declared preferred Series B, $36,419.41 per share	**(27)**	**—**	**—**	**—**	**—**	**(27)**
Cash dividends declared preferred Series C, $26,317.47 per share	**(23)**	**—**	**—**	**—**	**—**	**(23)**
Cash dividends declared preferred Series D, $13,213.89 per share	**(21)**	**—**	**—**	**—**	**—**	**(21)**
Cash dividends declared common, $1.72 per share	**(1,359)**	**—**	**—**	**—**	**—**	**(1,359)**
Balances as of December 31, 2021	**$ 22,177**	**$ —**	**$ 153**	**$ 11,495**	**$ (2,945)**	**$ 13,474**

(a)Represents $1,170 million, net of tax of $288 million, related to the impact as of January 1, 2020, of adopting the current expected credit loss (CECL) methodology for the recognition of credit losses on certain financial instruments.

We can see in the statement of equity that a majority of Amex's shareholder return program is done through repurchasing shares. :During the year ended December 31, 2021, [Amex] returned $9.0 billion to shareholders in the form of common stock dividends of $1.4 billion and share repurchases of $7.6 billion. [Amex] repurchased 46 million common shares at an average price of $165.40 in 2021. These dividend and share repurchase amounts collectively represent approximately 109 percent of total capital generated during the year." (United States Security and Exchange Commission) It looks like Amex likes to keep $13 billion of retained earnings. This could be due to regulatory requirements for Equity. Also, we can see Amex keeps ~22 billion in shareholders' equity, this is also probably due to the fact of making sure they keep regulatory requirements.

Lastly, American Express increased the regular quarterly dividend on the common shares outstanding by approximately 20 percent, from 43 cents to 52 cents per share in the **first quarter of 2022.** This will yield $2.08

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per share during the year (if the dividend continues quarterly – which is probable as Amex has paid dividends quarterly since **1989**!).

Common Shares

The following table shows authorized shares and provides a reconciliation of common shares issued and outstanding for the years ended December 31

(Millions, except where indicated)	**2021**	2020	2019
Common shares authorized *(billions)* (a)	**3.6**	3.6	3.6
Shares issued and outstanding at beginning of year	**805**	810	847
Repurchases of common shares	**(46)**	(7)	(40)
Other, primarily stock option exercises and restricted stock awards granted	**2**	2	3
Shares issued and outstanding as of December 31	**761**	805	810

(a)Of the common shares authorized but unissued as of December 31, 2021, approximately 21 million shares are reserved for issuance under employee stock and employee benefit plans.

On September 23, 2019, the Board of Directors authorized the repurchase of up to 120 million common shares from time to time. This authorization replaced the prior repurchase authorization and does not have an expiration date. In 2021, 2020, and 2019, American Express repurchased <u>46 million common shares with a cost basis of $7.6 billion, 7 million common shares with a cost basis of $0.9 billion, and 40 million common shares with a cost basis of $4.6 billion, respectively.</u> The cost basis includes commissions paid of $5.6 million, $1.0 million, and $6.2 million in 2021, 2020, and 2019, respectively. As of December 31, 2021, approximately 56 million common shares were remaining under the Board share repurchase authorization.

Common shares are generally retired upon repurchase (except for 2.5 million shares held as treasury shares as of both December 31, 2021, and 2020 and 2.6 million shares held as treasury shares as of December 31, 2019); retired common shares and treasury shares are excluded from the shares outstanding in the table above. The treasury shares, with a cost basis of $271 million, $279 million, and $292 million as of December 31, 2021, 2020, and 2019, respectively, are included as a reduction of additional paid-in capital in the Shareholders' equity on the Consolidated Balance Sheets.

Preferred Shares

The Board of Directors has authorized the issuance of up to 20 million preferred shares at a par value of $1.66^{2/3}$ without further shareholder approval. The following perpetual Fixed Rate Reset Noncumulative Preferred Share series issued and outstanding as of December 31, 2021, is detailed below:

	Series D
Issuance date	3-Aug-21
Securities issued	1,600 Preferred shares; represented by 1,600,000 depositary shares
Dividend rate per annum	3.55% through September 14, 2026; resets September 15, 2026 and every subsequent 5-year anniversary at 5-year Treasury rate plus 2.854%
Dividend payment date	Quarterly beginning September 15, 2021
Earliest redemption date	Tuesday, September 15, 2026
Aggregate liquidation preference	$1,600 million
Carrying value (a)	$1,584 million

(a)Carrying value, presented in the Statements of Shareholders' Equity, represents the issuance proceeds, net of underwriting fees, and offering costs.

In the event of the voluntary or involuntary liquidation, dissolution, or winding up of the Company, the preferred shares then outstanding takes precedence over the common shares for the payment of dividends and the distribution of assets out of funds legally available for distribution to shareholders. American Express may redeem the outstanding series of preferred shares at $1 million per preferred share (equivalent to $1,000 per depositary share) plus any declared but unpaid dividends in whole or in part, from time to time, on any dividend payment date on or after the earliest redemption date, or in whole, but not in part, within 90 days of certain bank regulatory changes.

The difference between the redemption value and carrying value of the redeemed Series C and Series B preferred shares resulted in a $16 million reduction in net income available to common shareholders.

There were no warrants issued and outstanding as of December 31, 2021, 2020, and 2019. This is good because warrants allow people to buy shares of stock at a specific price. If the warrant price is below the share price, an arbitrage opportunity is given to the holder which guarantees the warrant to be used which dilutes shareholders’ ownerships by however many shares the warrant is good for.

The earliest redemption date is a little over 4 years as of the time of writing. The preferred stock is unique because of its reset feature. This means that if the Company doesn’t retire the shares during September 15, 2026, it will be forced to pay the 5-year Treasury rate + 2.854% afterward. The 5-year Treasury rate as of 6/13/2022 is 3.457%. This means that the yield will be 6.041% if the rate remains the same which is very improbable. The annual payout of this would be ~$102 million. I’m skeptical about some of the terms because it seems too preferable to debtors. The last dividend that would be payable by the earliest redemption will be this new dividend. As the dividend will change on September 15, 2026, and even if the company will buy back the preferred shares on the earliest redemption date, the company must pay any declared but unpaid dividends in whole or in part, from time to time, on any dividend payment date <u>on</u> or after the earliest redemption date, or in whole, but not in part, within 90 days of certain bank regulatory changes. This means the company will eventually be forced to pay this new rate at least once. It is very probable that if the company has enough cash on hand to redeem the preferred shares on the earliest redemption date it will redeem the shares to reduce the future payout as it's quite high for a company with such good credit ratings. Also, the 5-year Treasury rate in September 2022 will more than likely be higher than the time of writing. With year-over-year inflation at 8.6%, the Federal Reserve has announced they will be increasing the discount rate by at least 25 basis points next quarter. The discount rate will probably jump 75 basis points in the next Fed meeting, and it will more than likely increase in the meetings that follow to curb inflation. While the 5-year Treasury rate isn't the discount rate, The Treasury usually closely follows the discount rate. Historically the spread between the discount rate and inflation is narrow. I'm not going to speculate what the future rate & inflation will be as no one including myself can predict the future of the economy.

The preferred shares were issued to finance a portion of the Tier 1 capital requirements in excess of the common equity requirements. On August 3, 2021, Amex issued $1.6 billion of 3.550% Fixed Rate Reset Noncumulative Preferred Shares, Series D. With the proceeds from that issuance, Amex redeemed in full the $850 million of 4.900% Fixed Rate/Floating Rate Noncumulative Preferred Shares, Series C on September 15, 2021, and the $750 million of 5.200% Fixed Rate/Floating Rate Noncumulative Preferred Shares, Series B on November 15, 2021. The difference between the redemption value and carrying value of the redeemed Series C and Series B preferred shares resulted in a $16 million reduction in net income available to common shareholders.

This is advantageous to common shareholders as it provides a bigger margin of safety for the reserve requirement. A wider spread between the CET1 and the required ratio will allow the company in the future to continue its shareholder return program of dividends and share repurchases.

12. Competitors

The following chart compares American Express's network with network competitors for the calendar year 2020[(1)]:

	Visa	Mastercard	American Express	JCB	Diners Club
Payments Volume (Billions USD)	8,911	4,743	1,005	308	166
Total Volume (Billions USD)	11,383	6,337	1,011	317	178
Total Transactions (Billions)	205	126	9	5	3
Cards (Millions)	3,586	2,334	112	141	65
Average Card Member Spending (USD)	3174	2715	9027	2248	2738
Average $ Amount Per Transaction	56	50	112	63	59

(1) Mastercard, American Express, JCB, and Diners Club / Discover data sourced from The Nelson Report issue 1199 (June 2021). Mastercard excludes Maestro and Cirrus figures. American Express, Diners Club / Discover, and JCB include business from third-party issuers. JCB figures include other payment-related products, and some figures are estimates.

First, let's discuss the limitations of this chart. Visa and Mastercard don't loan out any money (while they partner with banks that loan out money, the companies aren't involved). They are solely a payment processing network. This chart doesn't show Visa's and Mastercard's assets & liabilities, which are a lot lower when compared to American Express [(2)]. Also, the cards used for American Express on this chart include cards added under the same account hence the higher number and not the smaller number used in the operations segment which was used in the prior segment. It also doesn't break it down by geographic operations. JCB is mainly in Asia [(6)], so they aren't a threat to American Express's North American Business. Diners Club trails American Express in every country & category by a large margin so their threat to American Express is minimal [(7)]. Lastly, the data for this chart is for the year 2020 and was published in Visa's annual report for the fiscal year 2021 so the data isn't updated by a single but important year.

Figure 12-5 shows American Express's, Visa's, and Mastercard's annual stock-based compensation expense. American Express has decreased this expense since 2014, unlike their competitors. Until recently, Mastercard has had a very small stock-based compensation expense. Most of their executive compensation expenses were paid in cash and didn't dilute shareholders. American Express's expense is in between these two companies therefore we can deduct that the expense isn't outrageous when compared to all three companies' free cash flow.

I'm not going to divulge into Amex's competitors when it comes to loans, but some examples would be Wells Fargo, JP Morgan Chase, etc. These large banks push down the interest charged on loans and increase the benefits on their cards to compete with each other which reduces net income. But American Express's consumer loan portfolio beats these banks when it comes to safety due to their target demographics (American Express targets higher wealth consumers and businesses) hence American Express can afford to charge lower interest as there is reduced risk. This in turn forces the other banks to play catch up and lower interest charges and not vice versa. Also, American Express charges more fees per card and their charge cards force customers to pay off their monthly balances in full every month which allows American Express to give more reward points on their card spending which further increases their competitive advantage.

Now, Visa and Mastercard are American Express's biggest competitors in terms of payment processing. These companies make a large amount of payment processing in prepaid gift cards which increases their payment volume significantly and they also have a very large profit margin [(3)] as they don't have the cost associated with the loans and receivables business segment. Since they don't have a loans and receivables business segment, their free cash flow fluctuates a lot less compared to American Express and other banks [4]. You can see the average card member spending and its average dollar amount per transaction of American Express significantly trumps its rivals. I would love to have the data of the median card member spending and median amount per transaction as it would be less impacted by outliers, but unfortunately, the data is unavailable from the 10-ks.

To supplement the outdated data for the chart, here's the following data for Visa, Mastercard, & American Express for the fiscal year 2021.

- American Express's total payments volume was $1.3 trillion with 121.7 million cards in force.
- Visa's total payments and cash volume was $13 trillion, and there were 3.7 billion cards/accounts that was available to be used.
- Mastercard's total payments and cash volume was $7.7 trillion and there were 2.6 billion cards in force.

We can see American Express dwarfs Visa and Mastercard in payment volume and cards in force by a large amount but we can see that in 2021, Amex's average spending per cards in force was greater than its competitors by a sizable margin. If Amex can continue this trend, each card member they acquire and retain to their network will allow for greater growth in their billed business. Their margin should also grow during the scenario of an increased number of new card members as their annual fees per card have little to no expenses (besides rewards) and is like a subscription model. Unlike subscriptions which get canceled very frequently, closing a credit account lowers one's credit score which deters this activity as it increases the rates borrowers (consumers) are charged on loans. This results in a lower cancelation of cards/accounts which makes this cash flow/income coming into the business stable.

Lastly, we should compare a valuation metric of the companies in order to estimate which company's price is the most attractive. For this, I've chosen price to free cash flow. To simplify we can divide the market cap by its current (I prefer 5–7-year average) free cash flow and then divide 1 by that number to find what our return would be based on that metric. I've seen some analysts use sales or EBITDA (Adjusted EBITDA is even worse and should be completely disregarded if seen) but the two best metrics to use for valuation happen to be either net income (Earnings Per Share) or free cash flow (Free Cash Flow Per Share). I prefer the free cash flow metric because it's less impacted by managerial adjustments and special charges.

We can see that Visa's and Mastercard's price to free cash flow is always above 20+ during the time frame and has sometimes gone above 40 and even 60 times. Currently, Visa's price to free cash flow is ~29x which we can further find the annual yield by using 1 divided by 29 (1/29) to get an implied yield of ~3.4% a year if the free cash flow remains the same under the current price. Mastercard's price to free cash flow is ~36x which gets us an implied yield of 2.8% (1/36) a year if the cash flow remains the same under the current price. American Express's price to free cash flow is ~9x which would give us an implied yield of 11.1% (1/9) a year if the cash flow remains the same under the current price [5]. It should be noted that this metric should be just used for a quick glance at the current valuation and doesn't take into effect growth. We'll further our valuation model of American Express when we discount the cash flow.

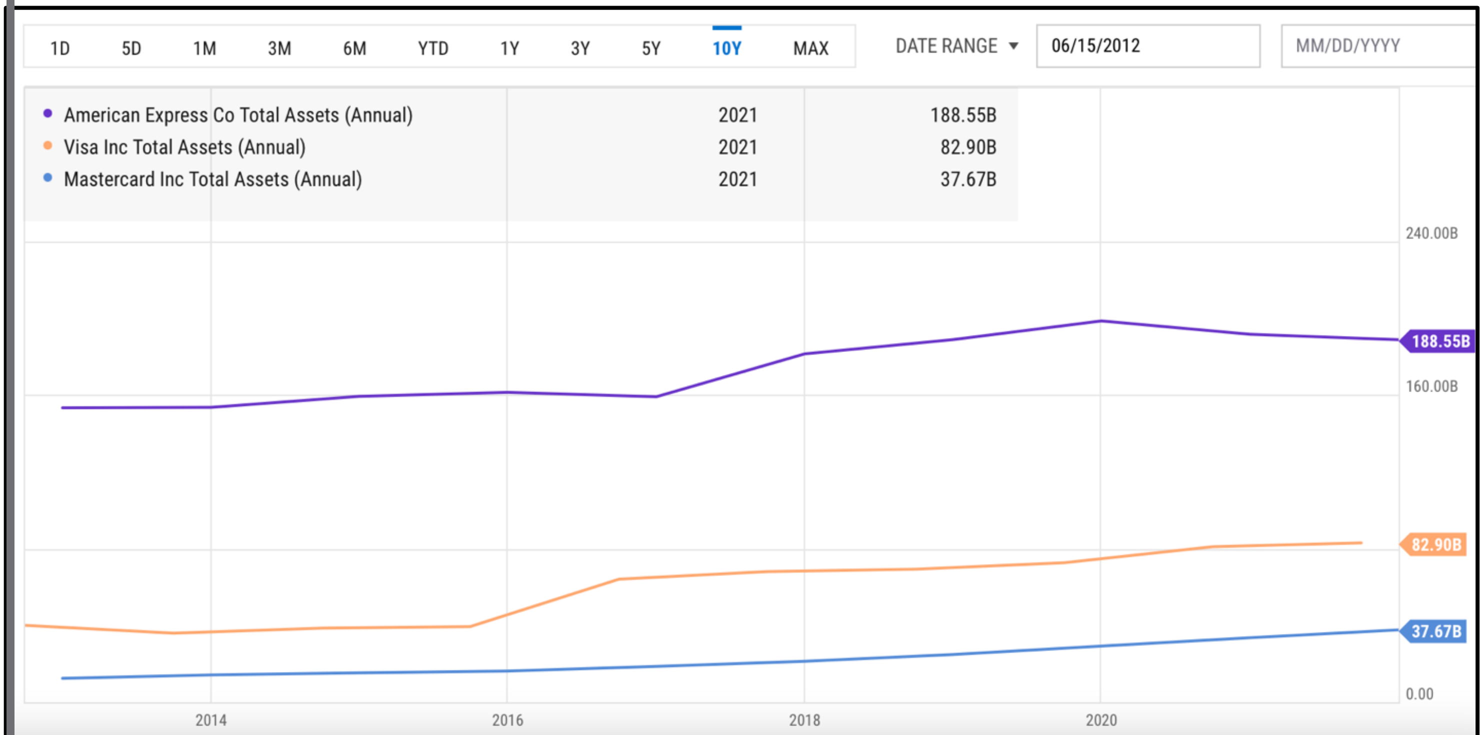

Figure 12-1: American Express & Competitors Assets (2)

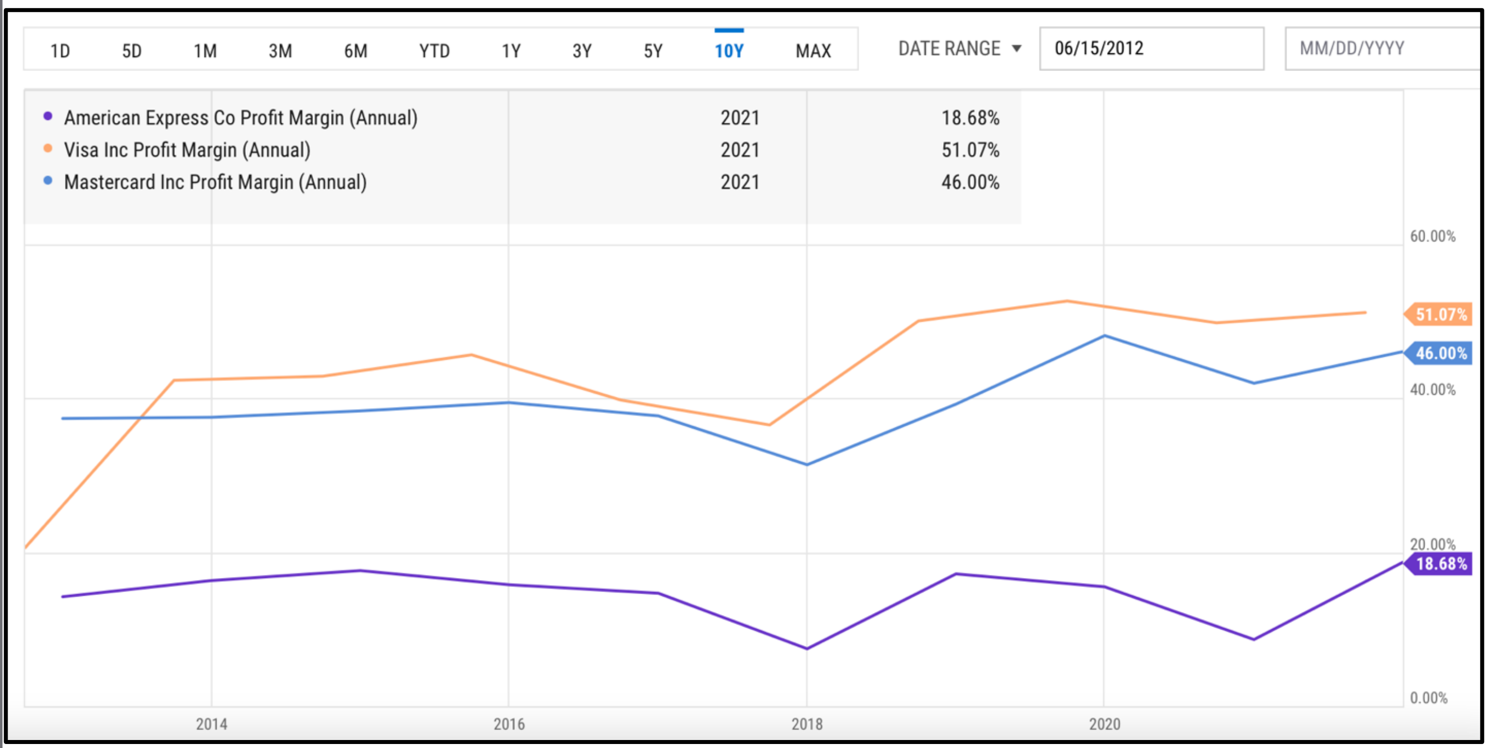

Figure 12-2: American Express & Competitors' Profit Margin (3)

Figure 12-3: American Express & Competitors' Free Cash Flow (4)

Figure 12-4: American Express & Competitors' Price to Free Cash Flow (5)

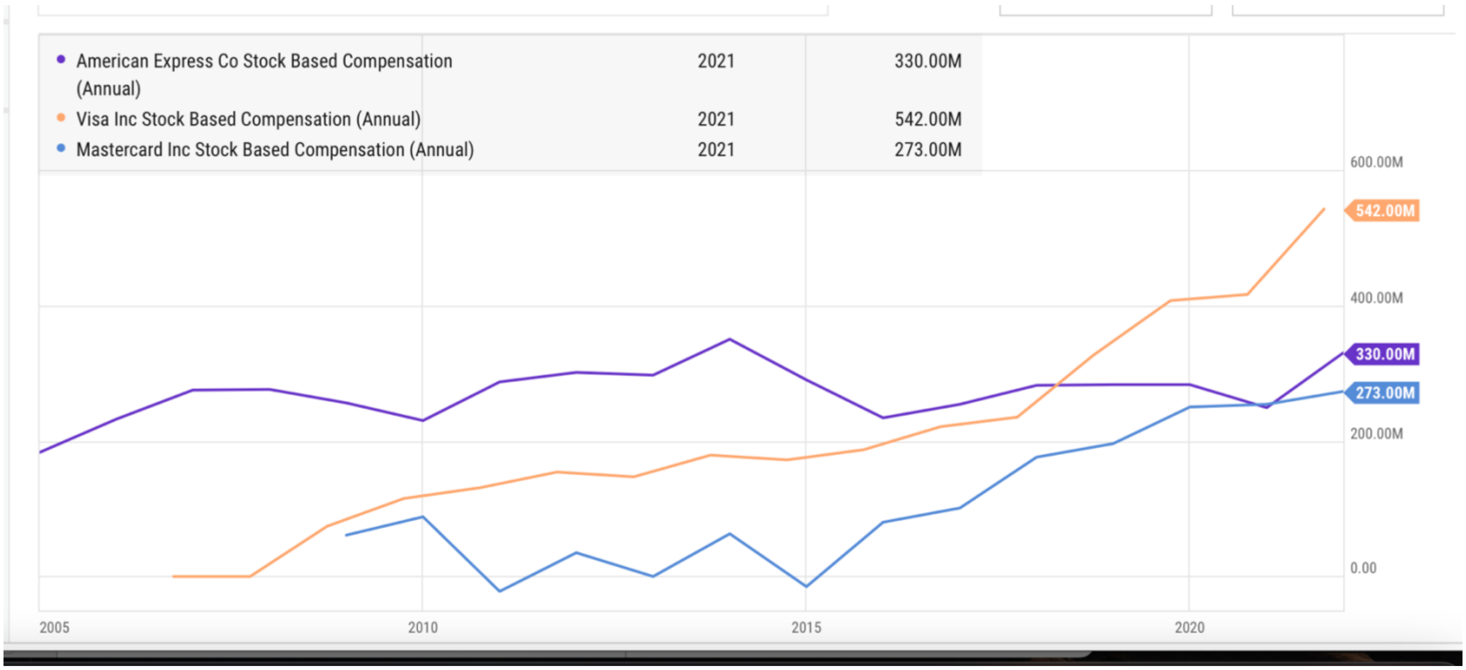

Figure 12-5: Amex and Competitors' Stock-Based Compensation Expense

<u>Apple</u>

I’ve included Apple as a competitor (not in their annual report section for competition) because their new apple credit card is being introduced globally. In turn, Apple will start giving loans on its credit cards similar to American Express. Apple said they would fund these loans with their cash on hand. As of the fiscal year 2021, Apple has $62.64 billion in cash and short-term investments which contains $34.94 billion in cash & cash equivalents alone! This should be compared to American Express’s cash and cash equivalents of $22.0 billion for the fiscal year 2021. It should be noted that American Express is a bank, so their cash & cash equivalents change rapidly ($33.0 billion in 2020) while Apple hasn’t experienced being in the lending business so far so their cash on hand hasn’t changed rapidly in the past. Also, unless Apple creates a separate entity that happens to be a bank holding company or depository institution for their card business, it’s highly unlikely that they will switch their corporate structure in the next couple of years to a bank holding company as their business model doesn’t pertain to lending (yet). This will not allow them to use the Federal Reserve’s discount window which will stunt the growth of the new business segment because the will have to be more restrictive on the amounts they loan. I’m not going to speculate where this division of Apple will end up in the future because Apple’s sheer size, cult-like following, and huge product mix will almost guarantee the future success of this business segment and it should be watched in the upcoming years for its effects on American Express business. It would be pretty cool to observe (as an investor and consumer) both companies in the future partnering up on their card units and it would be probable that it would be mutually beneficial for both companies, but only time will tell how these two corporations will work around each other in the future.

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13. Q1 2022 Results

The table(s) below shows the most important aspects of the quarter. Also not included, Amex bought short-term investment securities ($3 billion of U.S. Treasury obligations) and refinanced $6 billion of debt in this quarter.

Three Months Ended March 31	2022	2021
Net Income	2,099	2,235
Provision for credit loss release	(320)	(1,054)
Adjusted Net Income	1,779	1,181
% Change	51%	
Balance Sheet (mllions)	**Mar-31-22**	**Dec-31-21**
Customer Deposits	90,917	84,382
% Change	8%	

Table 13–1

The table below sets forth the information concerning purchases of common stock made by or on behalf of Amex during the three months ended March 31, 2022.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares as Part of Publicly Plans or Programs (c)	Maximum Number of May Yet Be Purchased Plans or Programs
January 1-31, 2022				
Repurchase program(a)	3,191,300	$167.51	3,191,300	53,042,565
Employee transactions(b)	—	—	N/A	N/A
February 1-28, 2022				
Repurchase program(a)	2,420,658	$193.31	2,420,658	50,621,907
Employee transactions(b)	718,621	$175.53	N/A	N/A
March 1-31, 2022				
Repurchase program(a)	2,594,969	$184.97	2,594,969	48,026,938
Employee transactions(b)	67	$177.06	N/A	N/A
Total				
Repurchase program(a)	8,206,927	$180.64	8,206,927	48,026,938
Employee transactions(b)	718,688	$175.53	N/A	N/A

Table 13–2

a) On September 23, 2019, the Board of Directors authorized the repurchase of up to 120 million common shares from time to time, subject to market conditions and in accordance with the capital plans. This authorization replaced the prior repurchase authorization and does not have an expiration date.

(b)Includes: (i) shares surrendered by holders of employee stock options who exercised options (granted under incentive compensation plans) in satisfaction of the exercise price and/or tax withholding obligation of such holders and (ii) restricted shares withheld (under the terms of grants under incentive compensation plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares.

(c)Share purchases under publicly announced programs are made under open market purchases, 10b5-1 plans, privately negotiated transactions (including employee benefit plans), or other purchases, including block trades, accelerated share repurchase programs, or any combination of such methods as market conditions warrant and at prices deemed appropriate.

In table 13-1 we see that American Express made a 32% increase in net income adjusted for the provision for credit loss release. The adjustment was made to compare the two quarters evenly because Q1 2021 had a higher net income simply due to its credit reserve release which only happened because of the markup of the reserve during 2020. This isn't true income and should be adjusted accordingly. Also, we see an increase in customer deposits by $6.5 billion, or an increase of 8%. Overall Q1 2022 was a very strong quarter for Amex, and we can infer that their corporate goal of servicing wealthy individuals and businesses is working.

Table 13-2 includes the share repurchase orders that were executed in the quarter. There were 8 million shares repurchased with an aggregate value of 1.4 billion dollars. The average price paid per share was ~$15 higher when compared to the average price paid per share during 2021. From June 8-24 the price of the common stock dropped $20 per share to $145/share from $165/share. We should see in Q2 that American Express repurchases more shares as the price is more attractive when compared to $180. If the managers liked it at $180- then they should love it at $145.

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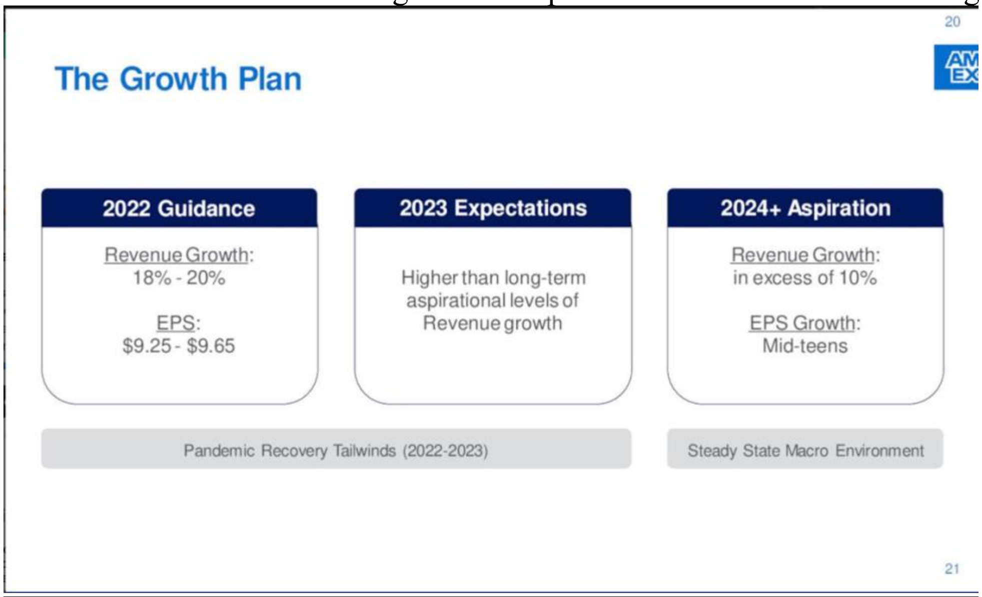
14. Management Discussion

Below is a table of management's expectations of revenue and earnings growth,



When talking about card member growth on the earnings call, it was said that "This quarter, [Amex] acquired 3 million new cards with acquisitions of US consumer and US business Platinum Card members reaching a record high, as noted earlier, demonstrating great demand for our products, especially our premium fee-based products.". This tremendous growth in card members will drive future revenue and earnings growth if maintained properly. Above is a figure that describes the growth plan of American Express. Their guidance for 2022 shows tremendous revenue growth, especially for the size of the company which can be seen in the revenue for Q1. Free cash flow is the most important financial aspect, and I didn't see them talking about that during the MD&A of the earning call which is upsetting. Their expenses move in proportion to their revenue which can be seen in an increase in expenses during Q1. It doesn't matter if their revenue grows at 15-20% if expense growth matches it. Luckily, I do think that American Express will have an opportunity to be able to grow their earnings over time at a growth rate of ~6-10% for 2-3 years at least partly due to their high-profit margins. Card member fees are almost entirely income with very little fee expense relating to this revenue. As long as they don't start loaning out to people and businesses with lower incomes and poor credit then their growth should be advantageous. Also, being able to bring down the card member rewards cost by a few hundred basis points will increase their earnings and margins tremendously.

In the upcoming years, I think it will be important to watch the card member loan and receivable write-off rate as a % of total loans & receivables and make sure it doesn't increase rapidly. As long as the growth is well maintained it will be beneficial in the future when Amex focuses on cutting costs.

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15. Proxy Statement

Name and Principal Position	Year	Salary	Bonus(1)	Stock Awards(2),(3)	Option Awards(2)	Non-Equity Incentive Plan Compensation(4)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (5)	All Other Compensation(6)	Total
S.J. Squeri	2021	$1,500,000	$8,000,000	$12,549,027	$2,899,974	N/A	$ 16,429	$ 548,492	$25,513,922
Chairman and CEO	2020	$1,500,000	$3,960,000	$13,016,122	$2,899,986	$ 2,322,000	$ 64,575	$ 458,636	$24,221,319
	2019	$1,500,000	$7,000,000	$10,318,663	$2,439,992	$ 1,875,000	$ 83,985	$ 578,362	$23,796,002
J.C. Campbell	2021	$1,000,000	$6,500,000	$ 4,586,779	$1,059,973	N/A	N/A	$ 206,880	$13,353,632
Vice Chairman and Chief Financial Officer	2020	$1,000,000	$3,285,000	$ 4,857,541	$1,059,986	$ 1,290,000	N/A	$ 206,880	$11,699,407
	2019	$1,000,000	$5,300,000	$ 4,405,932	$ 899,979	$ 1,875,000	N/A	$ 264,580	$13,745,491
D.E. Buckminster	2021	$1,100,000	$7,075,000	$ 5,106,092	$1,179,977	N/A	$ 8,249	$ 264,357	$14,733,675
Vice Chairman and Group President, Global Consumer Services Group	2020	$1,083,333	$3,600,000	$ 5,296,166	$1,179,992	$ 1,118,000	$ 54,684	$ 232,212	$12,564,387
	2019	$ 983,333	$5,700,000	$ 4,059,749	$ 959,993	$ 1,625,000	$ 68,497	$ 274,100	$13,670,672
A.D. Williams	2021	$ 951,634	$6,037,500	$ 5,022,813	$1,159,960	N/A	$ 0	$ 190,801	$13,362,708
Group President, Enterprise Services and CEO of AENB	2020	$ 850,000	$2,995,000	$ 4,353,631	$ 969,994	$ 860,000	$ 53,347	$ 186,869	$10,268,841
	2019	$ 841,667	$4,850,000	$ 3,467,769	$ 819,983	$ 1,250,000	$ 59,057	$ 240,332	$11,528,808
L.E. Seeger	2021	$ 850,000	$4,850,000	$ 3,807,873	$ 879,999	N/A	N/A	$ 186,810	$10,574,682
Chief Legal Officer	2020	$ 841,667	$2,330,000	$ 3,949,666	$ 879,976	$ 946,000	N/A	$ 191,729	$ 9,139,038
	2019	$ 800,000	$2,350,000	$ 3,044,865	$ 719,983	$ 1,375,000	N/A	$ 223,910	$ 8,513,758

(1) The amounts in this column reflect AIA cash payments for annual performance. For Messrs. Campbell, Buckminster, and Williams and Ms. Seeger, 2021 Bonus amounts exclude the portion of AIA that was made in the form of RSUs granted in January 2022 to comply with regulatory guidance that at least 50% of incentive compensation is deferred. Payment of these RSUs is deferred for three years from the grant date, subject to positive cumulative net income performance but not to continued employment. The amounts excluded (and awarded in RSUs) are as follows: Messrs. Campbell ($200,000), Buckminster ($175,000), and Williams ($237,500) and Ms. Seeger ($150,000).

(2) Represents the aggregate grant date fair value of the awards pursuant to FASB ASC Topic 718, Compensation – Stock Compensation. Additional details on accounting for stock-based compensation can be found in Note 10 Stock Plans, to our Consolidated Financial Statements contained in our 2021 Annual Report on Form 10-K.

(3) For each executive's award of Performance Restricted Stock Units, the maximum value as of the grant date, assuming the highest level of performance will be achieved and based on the closing price of the Company's common shares on the NYSE on the grant date, is as follows: Messrs. Squeri ($13,919,949), Campbell ($5,087,863), Buckminster ($5,663,908) and Williams ($5,567,753) and Ms. Seeger ($4,223,865).

(4) The amounts in this column reflect the cash payment made to the NEO in respect to a payout under the Portfolio Grant award program that was eliminated in 2019 and last paid out for the 2020 performance year. For the 2021 performance year, there were no other payouts in respect to non-equity incentive compensation.

(5) The amounts in this column reflect the actuarial increase or decrease in the present value of the NEOs' benefits under all defined benefit pension plans established by the Company. The amounts reflect the impact of changes in interest rates and the NEOs' changes in age during the year which are used to measure the present value. Mr. Campbell and Ms. Seeger are not eligible to participate in the defined benefit plan due to their employment commencement dates.

Table 15–1 - Executive Compensation

Figure 15.1 shows the executive compensation for the 5 highest-paid employees of American Express Corporation. We can see that all the compensation packages are designed to follow Section 162 (m) of the Internal Revenue Code. Section 162 (m) makes corporations capable of only being able to deduct $1 million in compensation from each covered employee in taxes unless the compensation plan is performance base. Performance-based bonuses include cash bonuses, stock options, stock grants, etc. as long as they're tied to a performance measure(s). American Express's bonuses are all tied to different performance measures which help align managers with shareholder interest. While the amounts may seem excessive, for a corporation the size of American Express, the total compensation amounts are pretty small. Compensation plans are chosen by directors on the compensation committee, which uses company peer groups to make compensation outlines for the company. I will not judge the compensation too much, but we should note that the compensation isn't too high nor too low.

Name	Number of Shares Owned(4)	Right to Acquire(5)	Percent of Class (%)	Number of SEUs Owned by Director
Warren Buffett Berkshire Hathaway Inc. and subsidiaries 3555 Farnam Street Omaha, NE 68131	151,610,700(1)	—	19.97%	N/A
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	46,602,078(2)	—	6.02%	N/A
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	45,902,704(3)	—	5.9%	N/A
Thomas J. Baltimore	324	—	*	2,027
Charlene Barshefsky	20,134	—	*	71,249
John J. Brennan	4,000	—	*	17,464
Douglas E. Buckminster	99,882	269,949	*	
Jeffrey C. Campbell(6)	105,893	179,984	*	
Peter Chernin	18,300	—	*	46,494
Ralph de la Vega	—	—	*	17,674
Michael O. Leavitt	—	—	*	23,604
Theodore J. Leonsis	4,005	—	*	35,591
Karen L. Parkhill	37	—	*	3,716
Charles E. Phillips	—	—	*	2,151
Lynn A. Pike	1,065	—	*	3,716
Laureen E. Seeger	47,867	—	*	
Stephen J. Squeri(7)	246,354	170,632	*	
Daniel L. Vasella	—	—	*	36,641
Lisa W. Wardell	—	—	*	1,948
André D. Williams(8)	114,178	35,087	*	
Ronald A. Williams	59,125	—	*	76,593
Christopher D. Young	—	—	*	11,697
All current directors, nominees and executive officers (26 individuals)(9)	863,441	749,155	*	350,565

* Less than 1%

(1) Based on information contained in a report on Form 13F that Berkshire Hathaway Inc. (Berkshire) filed with the SEC, which contained information provided by Berkshire as of December 31, 2021. Of the shares listed in the table, National Indemnity Co. and its subsidiaries beneficially owned 122,198,179 shares. National Indemnity Co. is a subsidiary of Berkshire. Mr. Buffett, Berkshire and certain subsidiaries of Berkshire share voting and investment power over these shares. Based on information provided to the Company, Mr. Buffett owned 32% of the aggregate voting power of the outstanding shares of Berkshire's Class A Common Stock and Class B Common Stock. As a result of this ownership position in Berkshire, Mr. Buffett may be considered the beneficial owner of the shares that Berkshire beneficially owns.

Table 15–2 - Shareholders of Record

Table 15.2 shows the main shareholders of record. We can see Berkshire Hathaway has a huge stake in the company amounting to 20% of the shares outstanding. Following Berkshire is Vanguard and BlackRock which are the two biggest asset managing companies in the world. The asset managers usually are allowed to vote for their clients if given permission or their clients can vote for their shares. Often the asset managers just vote with manager recommendations unless a business is severely underperforming. Berkshire is known to let managers do what they think best is for the business and tend to steer away from dictating the company's internal decisions. Since the shareholders of record are very large asset managers or holding companies, it's hard to say anything negative about the major shareholders simply because all the parties involved tend to be neutral.

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16. Intrinsic Value / Conclusion

Free Cash Flow (Billions)						
		2021	2020	2019	2018	2017
		$13.1	**$ 7.00**	$ 12.00	$ 7.62	$ 12.48
5 Year Adjusted Average (Base)	$10.44					
2020 was $4.1 Billion originally						
Base FCF	10,440,000,000					
Growth Rate	2%					
Discount Rate (10-Year Treasury Rate as of 6/27/2022)	3.13%					
Years Discounted	15					
Average Shares Outstanding Q1 2022	758,000,000					
Price Per Share on NYSE (6/27/2022)	$ 144.33					
Market Value	$ 109,402,140,000					
DCF or Intrinsic Value	$ 143,550,564,206					
Intrinsic Value / Share	$ 189					
Margin of Safety	31%					

Table 16-1 - Intrinsic Value using DCF

To find the intrinsic value of the company I decided to use a Discount Cash Flow Model. The growth rate is 2% because Amex might be able to achieve growth of 6-10% in each of the next 2-3 years. I've yet to see their free cash flow grow at this rate in the past. It's always better to use assumptions that will underestimate the growth rate than overestimating it because if you're wrong when you underestimate the growth, then your company will be worth more than expected hence you'll make more money. But if you overestimate the growth % and are wrong then you overvalued the company and could take massive losses because you might've overpaid for the company and not have given yourself a large enough margin of safety. I can't forecast the growth in the future because their size limits their growth potential. I do believe they'll achieve some mild free cash flow growth, but I think it will be a misleading calculation over 5% in the long term and anything over 10% is outrageous.

The assumptions for my discounted cash flow model use the risk-free rate of return of the 10-Year Treasury Rate as my discount rate and as stated earlier a growth rate of 2%. Historically the growth rate is usually around 3-4% for Amex when looking at the total 5-year change total divided by 5 (this approximates the average yearly change). With a price per share trading at $144.33 as of Jun 27, 2022, we can see it's trading below its intrinsic value. When the managers were buying back shares in the $180 range, it seems that they were overpaying a bit as that's only ~ a 3.13% rate of return under the assumptions I've chosen. But during 2021, American Express cost averaged down and repurchased 46 million common shares at an average price of $165.40.

If you want a higher return, you increase your discount rate to said return which will lower the intrinsic value per share but it's better to just use the risk-free rate of return to gauge different investment securities. The margin of safety or the difference between the intrinsic value and American Express's current market value is 33% which is decent. I prefer a margin of safety that's >50% hence I cannot justify buying American Express at this market cap. If American Express drops in the $90 billion market cap range, it will be worth looking at acquiring a stake in the company if you believe the assumptions of the discounted cash flow model will hold.

In conclusion, American Express is a very good company and will be around for many years in my opinion. Its balance sheet and continuous free cash flow over the years show how resilient the company has been and its recent quarters show how well the company has set itself up for future growth and expansion. American Express has taken a different route when compared to its payment processor competitors as well as other banks and their credit cards and has come out as one of the best financial institutions in the world. Also, American Express's corporate goal of growing its premium fee-based products (cards) & its shareholder return plan of share repurchases and quarterly dividends will allow for a decent shareholder return in the future for current stockholders. I believe the company will be attractive to me if its market cap gets into the low-mid $90 billion range. Even then, I still believe there are better investment opportunities out there that can return over 25-30% on average on invested capital over the years at the company's current market price (I'm referring to small-cap companies because asset managers and big investment companies need to invest just a much greater sum of money. Hence, they get overlooked and have depressed market prices. Some solid companies in this market are trading near 1-3 times their 5-year average free cash flow; compared to American Express's 10x multiple.). I don't think investors should be shunned if they buy American Express even near the intrinsic value range because finding some of the companies in which I'm referring to requires a lot of work/time as well as general knowledge of businesses. American Express is a very solid company and is regarded as a pretty safe bet if you want to own a company that produces some sort of free cash flow while not having to worry about the company going bankrupt over the next 10-15 years. It's improbable that American Express will go bankrupt in the future, but unforeseen events can change my assumptions hence there's still theoretically a possibility.

Thank you for your time in reading my investment thesis and analysis and if you have any questions or feedback, you can reach me at nickwhitener@yahoo.com.

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