

**AMERICAN EXPRESS COMPANY
2Q '01 EARNINGS PRE-ANNOUNCEMENT
CONFERENCE CALL TALKING POINTS
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CHAIRMAN & CEO**

- Appreciate all of you joining us on such short notice this morning.
- In light of the complexities of the discussion, my opening remarks will be somewhat lengthier than our regular earnings conference calls.
- Therefore, to help you anticipate the flow of my discussion let me outline its major components:
 - First, I will provide a brief summary of the actions we announced.
 - Then, I will discuss the background of our decision to rebalance the risk profile of AEFA's investment portfolio.
 - Next, I will review our reengineering progress and our decision to take a restructuring charge in the third quarter to facilitate the acceleration of several major initiatives that were being planned for 2002.
 - Lastly, I will quickly review our underlying business performance during the quarter. However, as Ron mentioned, the details of our performance won't be fully available until we release final earnings next Monday.
- With that, let me get started.

SUMMARY

- During the second quarter, we saw continued weakness in the economy and further deterioration in the high-yield sector, where default rates are at record high levels.
- Because there are few signs of a recovery, we now believe that the economy will remain weak during the remainder of this year and into 2002. We also believe that the current level of high-yield defaults will continue through next year and we want to make sure that we have adjusted our portfolio accordingly.
- As a result, we are taking some aggressive steps now to improve the risk/reward profile of our investment portfolio at AEFA and align it with our business objectives.
- We are taking a second quarter pre-tax charge of approximately \$826 million:
 - To reflect actual defaults and estimated cash flow impairments in the high yield portfolio and our investment grade structured investments; and
 - More importantly, to significantly reduce the amount of high-yield investments that we own, and rebalance the remaining portion towards better-quality, less volatile securities.

- In addition, based on the strong progress in our reengineering activities, we are accelerating reengineering efforts originally planned for next year to:
 - Further reduce expenses,
 - Provide added financial flexibility, and
 - Free up additional resources that will fund initiatives in high-growth areas of our business.
- We intend to take a restructuring charge of approximately \$310-370 million that will be recognized in the third quarter when the accelerated reengineering initiatives are launched. The charge is primarily due to severance and related costs of eliminating between four and five thousand jobs.
- In light of the negative capital generation impact of the charges discussed above, share repurchases for the remainder of 2001 will be reduced substantially.

AEFA INVESTMENT PORTFOLIO

- AEFA has invested in high-yield securities for about 15 years. In 1997-98 we began investing in structured instruments -- such as Collateralized Debt Obligations (CDOs) and Structured Loan Trusts (SLTs) and increased their holdings in high yield securities as a percent of AEFA's investment portfolio to between 10 and 12 percent.
- The structured investments represent ownership interests in an underlying pool of high-yield bonds and loans. AEFA's holdings of these include products we manufactured and sold to institutional investors, however, also include products we have purchased from third parties.
- At the end of the first quarter, the total high yield portfolio amounted to approximately \$3.5 billion - or 11% of total investments - and included approximately \$90 million of CDO residuals, \$400 million of low grade CDOs, and \$3.0 billion of directly-owned bonds.
- In addition, the AEFA portfolio also included approximately \$900 million of high grade CDOs and \$745 million of investment grade structured loan trusts.
- It has now become clear that in 1997 when we began to significantly increase our holdings of high yield investments – mostly through structured instruments – we took on securities that did not have the appropriate balance between risk and reward for us.
- So why did we do it?
 - Most of the structured investments AEFA holds were purchased as long term investments in 1998 when default rates were at historically low levels. AEFA entered into these structured investments at a time of a bull market and robust economy. Given the favorable loss experience we had in high yield investments in prior years, and the positive spread versus investment grade securities, this type of investment seemed to make sense.
 - Also, many of AEFA's structured investments were investment grade so they thought they had a reasonable level of protection against loss.

- It is also now apparent that our analysis of the portfolio at the end of the first quarter did not fully comprehend the risk underlying these structured investments during a period of persistently high default rates.
- Why not?
- In 2000, we saw an increase in default rates and recorded \$123 million of losses related to our high-yield investments, primarily in the fourth quarter of last year.
- Performance deteriorated further in the first quarter of this year and, as a result, we recognized a related charge of \$182 million at AEFA.
- At that time, we believed there would not be any further significant losses this year.
- Subsequent events proved us wrong.
- During the second quarter, we saw a sharp increase in defaults to historically high levels throughout the high-yield sector. For purposes of evaluating our portfolio this quarter, we are now assuming that the current high levels of default will continue for the remainder of 2001 and through the end of next year.
- As a result of these increased defaults, we recognized a small amount of additional losses on the directly-owned high yield bonds in our portfolio.
- However, more impactful was the deterioration within our holdings of CDOs, which was higher than we had anticipated.
 - As defaults in the high-yield market continued to rise, the cash flows available in CDO structures diminished significantly.
 - As a result, there is a lower likelihood of receiving the expected payments on many of our CDO residuals and below investment grade CDOs.
 - However, because the overall deterioration in the market was more severe than we expected, we also saw erosion in the investment grade CDO tranches that we hold.
 - The bulk of the deterioration that took place in AEFA's investment portfolio during the second quarter fell within these structured investment categories.
 - Because expected proceeds from the underlying portfolio are becoming insufficient to pay holders of the residual and more junior tranches, the risk exposure in our mid-range rated, or mezzanine, tranches has increased dramatically.
 - In many cases, we are now in the original position of the CDO residual holders -- first in line to absorb any further losses from the underlying pool of investments.
 - Based on our revised assumptions for future default rates, our estimates now indicate that we will not receive full payment of interest and principal on some of these investments, although the more highly rated or senior tranches of our CDO holdings have continued to perform well.

- As a result of the unexpectedly high default rates and their apparent impact on the risk profile of our structured investments, we initiated a comprehensive review of these investments during the quarter.
- In addition to looking at individual credits, we ran computer simulations on the structured investments. These reviews helped to determine possible future losses under different economic and market conditions.
- Following the recent completion of this review, we concluded that structured investments that had been relatively high quality, now carry a much greater level of risk and the current risk/reward balance in our portfolio is inappropriate.
- Accordingly, we are making a significant change in our investment portfolio to rebalance it towards higher-quality, less volatile holdings.
- Our analysis indicates that the economic benefit of continuing to own certain of the high-yield investments in our portfolio is not sufficient to compensate for their underlying risk during difficult market cycles.
- We are taking a substantial charge to:
 - Recognize in the second quarter the impact of our higher default assumptions on “rated” structured investments. As I said earlier, we now believe the high level of defaults will continue through next year. This action represents approximately \$403 million of the charge, and to;
 - Further lower our risk profile by:
 - Selling lower-rated securities to reduce the level of our high-yield portfolio, and
 - Make additional sales within the remaining high-yield portfolio to allocate investments towards stronger credits and reduce the concentration of exposure to individual companies or industry sectors.
 - These actions represent approximately \$344 million of the charge.
 - And also to;
 - Write down the value of certain other investments to recognize losses incurred during the second quarter. This action represents approximately \$79 million of the charge.
- Following these actions, the portion of our total portfolio invested in high-yield securities will be approximately 7 percent, down from the 10-12 percent level we have maintained since 1998. This represents a significant change in our investment philosophy.
- After the rebalancing of the portfolio is complete, we expect the high yield portion of our portfolio to be in a range that is consistent with insurance industry averages.
- The credit quality of the remaining high-yield portfolio will be significantly stronger and less risky than in prior years.

- In addition, we will no longer purchase CDOs from third parties for our portfolio. We will, however, continue to manage the underlying assets of certain CDOs for institutional clients. As these investments are brought to market, we may continue to purchase minimal interests in some CDO tranches, as appropriate.
- The reduction in our high yield holdings as a percent of our portfolio will translate into an estimated reduction of \$40-60 million (pre-tax) of interest income annually at AEFA.
- The reengineering efforts currently underway at AEFA are expected to be more than sufficient to compensate for the lower yield.
- While our revised investment allocation sacrifices a modest level of incremental investment income, it translates into a more broadly diversified portfolio with a much lower level of risk than we have held in recent years.
- Let me now move to reengineering.

Reengineering

- Separately, we are making substantial progress on the reengineering efforts announced earlier this year. We have grown increasingly confident that these efforts will yield realized expense savings significantly in excess of \$500 million by year-end. In the second quarter, these benefits are mostly offsetting higher funding costs as a percent of revenue and a gain recognized last year from a business sale.
- The cost of these reengineering initiatives will continue to be funded through ongoing earnings.
- Based on our progress to date, as well as our assumption that the economy will remain weak into next year, we have decided to accelerate several major initiatives that were planned for 2002.
- These initiatives include:
 - Consolidating or outsourcing certain data processing activities and reducing staffing levels in our technologies group.
 - Relocating certain finance, operations and customer support functions to lower cost overseas locations.
 - Accelerating the transition of our business travel operations to the internet, introducing new technology and consolidating facilities to allow us to further reduce staffing levels in light of lower travel sales. As conditions improve, this will also position us to absorb volume increases without commensurately increasing staff.
 - Consolidating activities, thereby reducing staff levels in various business and staff groups.

- Moving certain employee processing and service functions, including Human Resources processes, travel booking and expense report processing, to the internet, thereby reducing the number of support staff currently needed to provide these services.
- Moving more rapidly to scale back AEB's corporate lending infrastructure and operations support in some overseas markets.
- The costs associated with these additional initiatives are expected to be recognized in the third quarter as a restructuring charge of \$310-370 million.
- The charge is due primarily to severance and the related costs of eliminating 4,000-5,000 jobs. These reductions are in addition to approximately 1,600 jobs which have been or are in the process of being eliminated through actions initiated during the first half of this year, bringing our total job eliminations to approximately 6,000.
- We expect the accelerated initiatives related to the third quarter restructuring charge to produce additional expense savings of \$275-300 million in 2002 and \$345-370 million annually thereafter.
- A portion of the expense savings we realize from reengineering initiatives will flow through to earnings in the form of improved operating expense margins; the rest will be reinvested back into business areas with high growth potential.
- Let me conclude with our expected results for the second quarter.

Underlying Business Performance

- Reported second quarter earnings per share are expected to decline approximately 76% versus the \$0.54 we earned last year.
- Excluding the losses on the high yield portfolio, consolidated earnings per share for the quarter are expected to be approximately \$0.53, 5% below last year.
- TRS' net income is expected to increase approximately 3% from the second quarter of last year.
- In light of the underlying business environment, the U.S. and international card businesses are performing well on a relative basis.
- CIF growth is expected to continue to be strong, at approximately 10%.
- Billed business is expected to grow by approximately 4% on a reported basis, and 5% F/X adjusted, as the impact of lower spending by corporate cardmembers on travel and entertainment was acute during the period. This trend is consistent with weak business volumes reported throughout the quarter by airlines and hotels.
 - Our U.S. consumer card activities remained relatively buoyant as volumes grew approximately 9% on double digit transaction growth.
- Worldwide lending balances are expected to grow in excess of 20 percent.

- While loan write-offs are expected to increase from prior quarters, they have thus far remained in-line with our expectations and general industry trends. However, in light of our more negative view of the economic environment we will add reserves to increase our lending coverage ratios.
- TRS' earnings growth will be offset by lower earnings at AEFA, which, excluding the charge, are expected to be down approximately 22 percent. AEFA's operating results are expected to show the continuing effect of the weak economy and financial markets.
 - The decline reflects the impact of lower equity markets, which are expected to result in lower managed assets levels and weak investment product sales, and are expected to reduce management and distribution fee revenues from year ago levels.
 - In addition, AEFA's results will be negatively affected by narrower investment spreads, reflecting the lagging benefit of lower interest rates.
 - On a more positive note, financial planning volumes should be up versus last year as more clients worked with financial advisors to establish or modify their longer-term investment strategies.
 - Managed asset net fund flows were also positive in the quarter.
- Our goal is to have AEFA produce results consistent with our overall financial targets on average and over time.
- Delivering these results will require:
 - An improvement in the economics of our new platform structure;
 - Better investment performance; and
 - A significant reduction in our cost base.
- As you know, we already have plans and initiatives in place to hopefully achieve these results. Jim Cracchiolo will provide significantly more detail related to these initiatives at our upcoming semi-annual financial community meeting scheduled for August 1st.
- As for the Bank, it continued to make good progress against our strategies in the quarter, as Private Banking client holdings and client volumes in PFS are expected to show solid growth.

Wrap up

- That completes my overview of the two actions we announced today and our expected results for the second quarter.
- What are our expectations for the remainder of the year?

- As you know, at the end of the first quarter, we said we expected earnings per share growth to be below 12% for the year. We did, however, expect earnings to grow. Obviously, in light of the charges discussed today that forecast is no longer valid.
- Based on the ongoing weakness in the economy and the volatility in the equity markets, we do not feel comfortable providing revised guidance for 2001 at this time.
- So, what are our expectations for next year?
 - As I already stated, because there are few signs of a recovery, we now believe the economy will remain weak into 2002.
 - The steps we are taking today are designed to help ensure we can better navigate through what we expect to be a longer period of economic weakness. More importantly, they will also help to ensure we are properly positioned to capitalize on an economic recovery.
 - I continue to believe our long term financial targets are appropriate in light of the underlying opportunities within the two industries in which we operate – Global Payment Services and Retail Financial Services – and the substantial competitive strengths with which we can attack those opportunities.
 - Obviously, in thinking about delivering on these long term targets we would exclude the extraordinary charges we discussed today.
- Despite the economic weakness, American Express should be well positioned as we enter 2002 based on:
 - The new risk-reward profile of our portfolio,
 - The expense savings we are now realizing, and will increasingly realize from reengineering,
 - Substantial reductions to be realized in our funding costs, and
 - The anticipated benefit from additional investments in the business.
- The actions announced today, coupled with the underlying strengths within our business performance enhance my confidence in the Company's ability to get back on track toward building the shareholder value our investors seek through their holdings in AXP.
- With that, let me now ask the moderator to begin the Q&A period.

This presentation contains forward-looking statements that are subject to risks and uncertainties. The words "believe", "expect", "anticipate", "intend", "aim", "will", "should", and similar expressions are intended to identify these forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, the following:

Adjustments arising in the normal course of completing the Company's second quarter financial closing process; fluctuation in the equity markets, which can affect the amount and types of investment products sold by AEFA, the market value of its managed assets, and management and distribution fees received based on those assets; potential deterioration in the high yield sector and other investment areas, which could result in further losses in AEFA's investment portfolio; the ability of AEFA to sell certain high yield investments at expected values and within anticipated time frames and to maintain its high yield portfolio at certain levels in the future; developments relating to AEFA's new platform structure for financial advisors, including the ability to increase advisor productivity, moderate the growth of new advisors and create efficiencies in the infrastructure; AEFA's ability to effectively manage the economics in selling a growing volume of non-proprietary products to clients; investment performance in AEFA's mutual fund business; the success and financial impact, including costs, cost savings and other benefits, of reengineering initiatives being implemented or considered by the Company, including cost management, structural and strategic measures such as vendor, process, facilities and operations consolidation, outsourcing, relocating certain functions to lower cost overseas locations, moving internal and external functions to the internet to save costs and planned staff reductions relating to certain of such reengineering actions; the ability to control and manage operating, infrastructure, advertising and promotion and other expenses as business expands or changes, including balancing the need for longer term investment spending; consumer and business spending on the Company's travel related services products, particularly credit and charge cards and growth in card lending balances, which depend in part on the ability to issue new and enhanced card products and increase revenues from such products, attract new cardholders, capture a greater share of existing cardholders' spending, sustain premium discount rates, increase merchant coverage, retain Cardmembers after low introductory lending rates have expired, and expand the global network services business; successfully expanding the Company's on-line and off-line distribution channels and cross-selling financial, travel, card and other products and services to its customer base, both in the U.S. and abroad; effectively leveraging the Company's assets, such as its brand, customers and international presence, in the Internet environment; investing in and competing at the leading edge of technology across all businesses; increasing competition in all of the Company's major businesses; fluctuations in interest rates, which impacts the Company's borrowing costs, return on lending products and spreads in the investment and insurance businesses; credit trends and the rate of bankruptcies, which can affect spending on card products, debt payments by individual and corporate customers and returns on the Company's investment portfolios; foreign currency exchange rates; political or economic instability in certain regions or countries, which could affect commercial lending activities, among other businesses; legal and regulatory developments, such as in the areas of consumer privacy and data protection; acquisitions; and outcomes in litigation. A further description of risks and uncertainties can be found in the Company's 10-K Annual Report for the fiscal year ending December 31, 2000 and other reports filed with the SEC.