

## Financial Community Meeting

August 4, 2004

### Remarks by Ken Chenault, Chairman and CEO, American Express Company

Good afternoon, and welcome to our second financial community meeting of the year. Let me get right to today's agenda.

I'll begin with a review of our year to date performance, including a discussion of our major business drivers. I'll then cover a couple of specific topics — topics we're very focused on across our businesses, and about which I know some of you have raised questions.

Ed Gilligan, Group President of Global Corporate Services and International Payments, will then take you through the progress we're making in our proprietary card business outside of the U.S. It's been several years since we presented this topic at one of these meetings, so I thought the timing would be right to give you an update on how we're doing. Ed will take you through our business model, our competitors, the strategies we're implementing and our growth potential.

We'll then end as always with any questions you may have for me, Ed or the rest of the management team.

Let me start with our year to date performance.

Capitalizing on the momentum of the business-building investments we've made over the last six to eight quarters, we generated excellent performance. Through June, against our long-term financial targets, we met or exceeded all of our objectives.

- Our diluted earnings per share (after accounting changes) were up 15 percent;
- Return on Equity was 21.2 percent,
- and revenues grew by 14 percent.

By now you've seen our second quarter earnings materials, so I won't cover the financial details today. I thought I'd focus instead on those metrics and highlights most relevant to our growth potential over the moderate to long-term.

Our performance at TRS has been outstanding so far this year. As we've discussed before, I believe the breadth of our business in payments is one of our greatest assets.

Multiple customer segments, multiple products, and diverse spend and geography, all make for what I believe is the strongest card business in the industry. And so far this year, we've been running on all cylinders.

As we discussed at this meeting last year, our strategy in payments is focused on driving spend **from** our cardmembers **to** our merchants.

Through June our reported billings grew at 20 percent, an exceptionally strong increase, and one that led the industry in terms of organic growth. As billings are the core driver of the TRS P&L, let's look at some of the underlying detail.

As we discussed last year when we reviewed our payments business model, billings have two basic components – Cards in Force and Average Cardmember Spending. Both of these metrics have been the focus of our investment initiatives over the last two years, and I believe our progress is evident.

Year to date we added two million net new cards and have a year over year growth rate of seven percent — slightly ahead of 2003's full year growth of six percent.

Our acquisition efforts across the company are bringing in significant numbers of cards but also, very importantly, cards of high value. Because of investments we've made to our risk and information management capabilities, we're better able to segment and target appropriate, high quality prospects. As a result, our entire acquisition process has become more efficient.

In addition, because of our focus on rewards and the customer experience, our cardmember attrition rates have improved by 180 basis points over the last 18 months, further adding to the net growth in our base.

As all of you know, we must continually balance our objectives of increasing the absolute scale of our card franchise, while simultaneously growing spend within our existing card base. Both are clearly important. Our focus on high-spending cardmembers has formed the basis for our tactics against both of these objectives.

One example of how we're evolving our approach to this balance is how we look at cardmember attrition. While we never want to lose any cardmember, we recognize that every customer is **not** equal. Some cardmembers spend disproportionately higher than others. So, in terms of retention, we want to make sure that we do everything possible to retain these good, high spenders. Because of this, in addition to absolute card attrition, "spend attrition" is another important indicator we monitor and manage.

The second component of billings is average cardmember spending. Because average spend is key to our merchant value proposition, it's an important indicator of the overall health of our card franchise.

This year we've had very strong results with average spend across our proprietary base up 15 percent. And we're seeing that this strength is consistent, regardless of how you look at the numbers.

Average spend across our customer segments has been strong with U.S. and international consumers, small businesses and corporations all seeing good growth.

On the corporate front we continue to have a strong pipeline of potential signings and a very good win/loss ratio. Recent large wins, for example, include British Petroleum's corporate card business and the renewal of our card contract with Siemens.

Looking at our billings by major industry sector, we also achieved strong growth. After several years of poor growth, T&E has rebounded, while growth in our retail billings continues to be exceptional.

Most retailers have seen their sales increase this year. But, importantly for us, we're also seeing our spend share at major merchants improve. For example, we looked at our top 10 retail accounts and matched up our charge volume growth at those retailers against the sales numbers they externally reported for their last reporting period.

When we looked at the side-by-side numbers, we had achieved share gains in **all** of these top 10 retail merchants — a strong indicator of our increased relevance in the everyday spend category.

Looking across geographies, our growth is also strong, with all of our proprietary regions and GNS generating double digit growth. Ed will share some of the specifics on our proprietary growth during his part of today's discussion, so I'll leave the details for later.

Our success in growing average spend has also been the result of investments we've made in merchant coverage. This is a focus for us in both the U.S. and in major international markets, where coverage is more of a challenge given our relatively smaller scale.

One element of this coverage expansion has been to sign new merchants in existing industry categories — for example, our signings this year of McDonald's, the London Underground, and Safeway Supermarkets — the last major supermarket chain that was still unsigned.

We're also expanding our billings universe by tapping into industries where cash and checks still dominate — for example, the meeting and events market. While the vast majority of hotels accept our card for individual travelers, 70 percent of meetings and events costs, which are estimated at \$30 billion in the U.S., continue to be paid by check. As you can imagine, the spend potential in this segment is substantial.

For small businesses and corporations, it is easier for them to pay with plastic and, for charges of this size, our product is even easier to use because we don't impose credit limits like the bankcards. (As a result, Visa, Mastercard and Discover all have a very low penetration within this segment.) At the same time merchants benefit by moving this type of transaction to plastic because they no longer have to manage an invoicing and collection process.

Meetings and Events, Business to Business, rental apartments — these are all examples of new industries where plastic is just starting to take off — new industries with the potential to even further increase our average cardmember spending.

While we don't have market level data available yet for 2004, some industry sources have now compiled full year numbers for 2003. For example, Nilson recently reported Visa and Mastercard's average spend numbers for the U.S. credit and charge segment.

Looking at our comparable numbers, you can see that our gap, which was already substantial, is widening — further evidence that our investments in spend initiatives are paying off.

Nilson's worldwide share data for 2003 showed a similar picture. Of the 5 major card networks, we gained the largest share last year, up 17 bp. As Nilson's estimates cover global purchase volume, including debit, this clearly indicates the progress we've made.

Now, let me add one caveat. As the different networks use different accounting and reporting, I'm not always sure that the Nilson share numbers are fully comparable. But I will tell you that our internal card share assessment, which is quite thorough and in which I have strong confidence, does directionally show the same results. So, to me, the progress we've made is both clearly evident and supported.

Growth in loans has also been relatively strong this year, up seven percent on a managed basis against last year. This growth has moderated somewhat from the 12 percent to 16 percent growth we'd seen in several of the last quarters, but this decrease has been prevalent across the industry. In fact, our seven percent growth still puts us in a very solid competitive position when compared against the organic growth of most of our peers.

The moderation in our growth rate is primarily due to two factors:

- First, with a greater proportion of our investments focused on driving spend, we've specifically made tradeoffs to eliminate some of our low-margin balance transfer efforts.
- Second, because of the overall economic environment and our focus on spend-based cardmembers in both our existing and prospect base, our pay-down rates have increased.

This is good news for our charge volume growth and our credit performance, but it does serve to reduce our AR growth. We're clearly still gaining and growing AR, but in many cases it's as an **outcome** of our initiatives to drive spend.

We currently have some very compelling investment opportunities that specifically advance our spend-centric strategy. So, because we've made these investments a priority, we've eased back somewhat on the acquisition of balances.

The next core element of our year to date performance has been credit. As you've all seen by now, we put up some very strong numbers again this quarter. For charge card, our net loss ratio continues to be at historically low rates, while our worldwide lending write-off rates on a managed basis have been consistently improving, and are the lowest among our major peers.

We're seeing the benefit of these metrics directly in our P&L, of course. But it's also important to note that we're keeping our credit reserves strong. We continue to grow or maintain our coverage ratios at relatively high levels for both charge and lending.

The final driver I want to talk about within payments is our marketing, promotion, rewards and cardmember service costs. On a year to date basis, while these costs have risen 34 percent, I'm showing this indicator as positive.

The two largest elements of this P&L line are our marketing and rewards costs, both of which had a very direct impact on our strong revenue performance.

A large proportion of our business building initiatives have been marketing related. The card acquisition programs we implement, the international advertising campaign you saw as you came in today, many of the merchant promotions we run — all are reflected within this line.

We've been growing these costs consistently over the last two years. And, with the resulting higher spend and double digit transaction growth we've generated, our strong metric, revenue and earnings performance has been the outcome.

The second large component here is rewards. By now you should all be familiar with the economics of our rewards strategy and the favorable impact it has on billings, credit, float, retention and acquisition.

In today's competitive market, rewards have become more prevalent, particularly in pursuing and retaining high value, high spending cardmembers. In many ways, we've been the market mover in this area, and our competitors have been quite active as they try and catch up.

Our higher margins and the breadth and depth of our reward options have allowed us to create strong value propositions for our cardmembers, both in the U.S. and across international. As a result, rewards penetration within our base has been increasing, as has our redemption rate.

Higher penetration and redemption levels do increase costs, but healthy earn rates and redemption rates are signs of an engaged customer — and that, at the end of the day, is what ultimately drives profits.

So, as we assess our rewards program, our goal is not to minimize costs, but to optimize our overall economics. Because we work with our merchant partners to offer a wide range of rewards and benefits at varying cost and value levels, we gain flexibility in how we promote and position our redemption options to our cardmembers — a flexibility that I believe is unique to us, given that we're both a merchant network and an issuer.

I believe our marketing and reward programs are well managed and give us good payback. As with any aspect of our business we continually look to improve our analyses, processes and controls to do an even better job. And that's certainly the case with these costs, particularly given their size and importance to our business.

The final TRS highlights I want to cover are Travel and Travelers Cheque Sales.

As I mentioned earlier when discussing our billings, volumes in the travel industry have strengthened during the year, and we're clearly seeing this trend beyond just our card billings.

Through June total travel sales are up 32 percent. Excluding our 2003 acquisition of Rosenbluth International, our organic sales are up 19 percent.

In addition to our existing customers being out on the road more, we also have a strong sales pipeline and are making some impressive account wins. So far this year some of our big wins include General Motors and the European Defense and Space Agency.

With the integration of Rosenbluth now complete, Travel has been generating good overall performance. We've retained over 90 percent of Rosenbluth's customer accounts, while also exceeding the cost synergy assumptions we made at the time of the acquisition.

Finally, Travelers Cheque is another indicator of the stronger travel market. After three years of declines, travelers cheque and prepaid product sales are once again positive, up 7 percent through June.

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So, as I said earlier, TRS is clearly hitting on all cylinders, with excellent performance to date.

Performance at Financial Advisors also had many strong elements, but the environment has clearly presented challenges for the entire financial services industry.

Even with the environment, we've generated strong revenue and earnings growth so far this year. And, on a relative basis, we've stacked up quite well against the comparable business segments of our peers — even when looking just at our organic numbers.

Against last year, assets owned, managed or administered rose 55 percent, including our Threadneedle acquisition, and 21 percent on an organic basis. Against prior year, our advisor force was up 2 percent but down slightly from the first quarter.

Our actions to implement more stringent hiring and advisor appointment standards did slow our growth during the second quarter. Over time, however, we expect to see the benefits from these changes in improved productivity and advisor retention, and lower hiring and training costs.

Planning and advice fees grew by 11 percent, and sales generated through planning and advice services represented 75 percent of total sales.

While clients have been reluctant to increase investment levels given the uncertainty in the markets, they **have** increased their planning activity — setting the stage for potentially stronger sales once confidence in the markets improves.

Cash sales for the year are up 22 percent, reflecting strong sales of insurance and non-proprietary funds offered within our “wrap” accounts.

In terms of proprietary mutual funds, our fixed income performance this year is better and has been improving over the past year and a half.

On the equity side, while we have seen improved performance since new managers have assumed portfolio management duties, some of our equity funds have underperformed during the past several quarters against peers and internal targets.

The financial services industry continues to struggle with a less than robust market, investor uncertainty, and regulatory issues. Despite these challenges, Financial Advisors continues to be relatively well positioned against its peers.

Because we clearly can't improve the environment, Jim Cracchiolo and his team have remained focused on execution as they continue to implement changes and gain traction against many aspects of our strategy.

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So those are our year to date performance highlights. As I said earlier, I believe we generated excellent performance.

Before moving on to our business presentation, I did want to comment briefly on a few more topics — topics that are firmly on our radar screen, as I know they are on yours. As these items are sure to come up during the Q and A, I thought I'd cover some of the basics now in order address common questions that might be out there.

In terms of the consolidated company, one area we continue to focus on and, I believe, successfully manage, has been our overall margins. The improvements we've made in interest and provision, and to key operating functions and processes, have enabled us to re-invest in our core business growth and improve our flexibility.

Our ongoing reengineering activities continue to favorably, and materially, impact our results. We remain on track to achieve our \$1 billion reengineering target for 2004, and we already have a number of projects underway that will generate additional benefits in 2005.

Our base operating expenses remain very well controlled. We're tightly controlling our non-investment discretionary spending, and our employee levels (except for our acquisitions) have remained generally flat for the last two years.

On a year over year basis, our growth in operating expenses has been driven by a couple of business factors:

**First**, in the Human Resource and Other Operating expense lines, acquisitions have added seven percent and three percent of our expense growth, respectively.

The integrations of Threadneedle and Rosenbluth — both just about complete — have gone very well, and both are achieving cost synergies at or above the levels we expected at the time of acquisition.

**Second**, our employee compensation and benefit costs have been increasing, primarily due to the expensing of stock options, and — like most other companies — from rising health care costs.

In addition, the sales growth at Financial Advisors has resulted in higher commissions being paid to our advisors. Also at Financial Advisors, and like others in financial services, we've incurred costs due to increased litigation and regulatory activity underway across the mutual fund industry.

Finally, while many of our business building initiatives impact our marketing line, a number also impact operating expenses. The spending we've done to increase the efficiency of our infrastructure and improve our customer experience is primarily focused on technology, which is a large driver of other operating expenses.

Another area of ongoing focus has been our discount rate. Our rate is a key driver of our earnings and, as you all know, is an important outcome of our higher cardmember spending. Over the last few years, as we've diversified our billings base and expanded our relevance for cardmembers, I believe we've managed this element of our economics very well.

Our discount rate, across most markets and most industries, continues to be higher than our competitors, although this gap has been decreasing as Visa and Mastercard have recently forced through rate increases to their U.S. merchant base.

Because of our continued focus on the merchant we've largely been able to retain our premium rates and, in some cases, actually raise rates when we've shown we've provided increased value.

The gradual reduction in our rate over the last several years has largely been the result of our planned mix shift from T&E industries, into more retail and everyday spend categories.

Because our retail and everyday spend merchants are generally at lower, though still premium, discount rates, the higher growth we've had in this category of spending (particularly over the last few years) serves to lower our consolidated rate strictly due to the impact of mix shift.

Having this far broader merchant base has lowered our calculated discount rate but, at the same time, it has substantially strengthened the health of our franchise, increased our processing scale and made us far more relevant in the marketplace.

We do selectively face rate issues around the world — in some cases these issues are raised by merchants, while in other cases they're raised by regulators, such as in Australia. We expect to have ongoing challenges to our discount rate, but this is really no different from what David House and his team already manages every day.

In thinking about this trend, it's important to recognize a number of points:

**First**, we believe our discount rate appropriately reflects the value of our higher spending customer – and that merchants understand and recognize this value.

**Second**, we've added economic flexibility to our payments business model, which allows us to more effectively manage our overall margin, even as one element of it may go up or down.

**Third**, by increasing our scale and running many more transactions through our network, we're able to significantly improve our unit costs.

Finally, there are the characteristics of the non-T&E spend we've have been adding over the last several years. While some of that spend may come onto the books at a lower absolute discount rate, in many cases its profitability is actually higher.

Think about the Meetings and Events example I mentioned earlier. While the discount rate we charge in this industry may not be as high as in some categories, our on-going marketing costs are minimal, and our fraud and cardmember dispute costs are also very low. So while our discount rate may be below our global average, our overall profitability within this industry is actually enhanced.

There are a lot of inter-relationships across our P&L, not all of which can be individually seen. Whether it's *Membership Rewards* or our merchant fees, we can't and don't focus just on a single P&L line item when we assess our business. Instead, we manage our **overall** profitability — which, at the end of the day, is really what drives value for our shareholders. And which, I believe, we've successfully achieved given our 30 percent+ returns at TRS.

With the U.S. launch of our MBNA network card expected in the fourth quarter, some have asked how these products will affect our proprietary base. While we recognize this as a potential issue, we believe we can appropriately manage both our GNS and proprietary businesses to the net benefit of our **entire** network.

We've been in the network business outside of the U.S. for several years now, and we do have experience with this issue. So, I thought it would be useful today to share some results from a couple of those markets — markets where we have both a proprietary business and a network issuer, or issuers.

I tried to pick examples that met a couple of criteria. First, where our proprietary business had some reasonable relevance in the market prior to signing a GNS partner; and second, where we had several years of results to look at.

As a number of our partnerships are still relatively “young” I wanted to make sure the examples I shared had a track record in order to make the analysis worthwhile.

Our first example is Argentina. In terms of cards in force, since we first launched GNS in 1999 we've more than doubled our overall card share in the market.

While our network partners have had good success in acquiring cards, the share of our proprietary base has also grown.

Puerto Rico is another example of this. Our partnership with Banco Popular, which was launched in 1997, clearly increased the number of American Express branded cards in the market.

But our overall card share growth has been fueled by our proprietary cards-in-force as well.

So as you can see from both of these examples, we do have success in growing both our network and proprietary businesses within the same market. This is clearly a very complex task, but I believe we've been able to manage it effectively for several reasons.

First, our partners know their business and their customers. They're able to come up with relevant value propositions that provide choice for their customers, and therefore spending for our network.

At the same time, the managers of our proprietary businesses are creative and highly competitive. They bring a wide range of assets and capabilities to the table, including well-proven marketing skills. These employees are focused on growth, on the customer, and on having a winning product in the marketplace.

Across both of these businesses, our overall strategy is to generate additional spend for the American Express network. It's about better meeting customer needs, increasing the size of the entire pie, and growing profitable market share for all parts of our business.

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The final issue I want to mention is the ongoing regulatory reviews underway across the mutual fund industry.

As you know, in the last year the mutual fund and broker dealer businesses have undergone intense, unprecedented scrutiny from state and federal regulators. Like others in the industry we have received our share of information requests and are cooperating fully. Some of these have concluded, like breakpoints, while others, like revenue sharing, continue.

While I obviously won't comment specifically on pending and confidential matters, I want you to know that we are taking the situation quite seriously, as you would expect.

We continue to invest in compliance systems, personnel and infrastructure that will allow us to meet the raised expectations of our regulators and customers. This is entirely consistent with our heritage of integrity and trust at Financial Advisors, and our long standing commitment to our clients.

Not every firm will have the culture, leadership, financial resources and follow-through to compete successfully in this new environment. We have always made compliance a priority across the Company. And we are now making it even stronger.

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Let me close out my comments on the company's overall performance with the following.

I believe our performance over the first six months of the year has been excellent. As I've mentioned to all of you before, one benefit we have as a company is the diversity of our businesses. If one unit hits a weak period, we have other units that can compensate for, and balance out, our overall performance.

So far this year, however, we haven't had to rely on that diversity. Our growth has been strong — and consistent — across all of our major businesses.

As you know, the basic math for our growth rates in the second half of the year becomes a little harder. The economy and the markets strengthened over the course of last year, and our 2003 performance strengthened accordingly. Therefore, this gives us a harder grow-over task during the latter half of 2004.

For any company to generate shareholder value over the moderate to long-term, three core elements must be present: growth, profitability and stability.

- In terms of growth, I think our results speak for themselves. Our revenue and metric performance has been excellent. We're continuing to invest in future growth, and we have a pipeline of competitive opportunities with the potential to sustain that growth.
- Our profitability is also strong. We've generated returns well above our cost of capital and above our stated ROE target of 18 percent to 20 percent. This performance has allowed us to return a relatively high proportion of our generated capital back to investors.

While our long-term goal is to return two thirds of our generated capital to shareholders, to date in 2004 we returned 91 percent.

Our continued focus on margins, our reengineering activities, the ongoing optimization of our asset base and investment initiatives — all help to sustain our returns and further drive shareholder value.

- Finally, consistency. This element has the greatest degree of difficulty because it can be impacted by conditions and events outside of the control of any business manager. Our goal has been to focus on what we can control about our own stability and consistency.

Against this objective are the steps we've taken to diversify our businesses, to reduce our overall risk profile, and to improve our flexibility and contingency planning.

While we can never eliminate all of the risk factors that may impact our business, by taking the actions we have in this area I believe we're better positioned, on a relative basis, to do well under a range of economic conditions.

And finally, behind all of these results is our organization — an organization that has strong morale, talent and leadership, and even stronger values. The combination of all of these elements is what I believe sets us apart from our peers — and makes us better positioned to sustain the shareholder value we generate over the moderate to long-term.

One excellent example of all of the strengths I just mentioned — growth opportunity, diversity, and management talent — is our international proprietary card business. We've had good success across international for a number of years, and I firmly believe in our potential.

To me, succeeding in an international market is not about duplicating what works in the U.S. Instead, success in international payments comes when you effectively match global capabilities with local relevance, while optimizing your financial and human resources.

This was the objective I laid out for Ed Gilligan last year when I asked him to take on responsibility for international payments in addition to his Global Corporate Services portfolio. And I believe, one year later, the perspective he's brought to his expanded international role has clarified our goals in this business and better focused our actions.

So with that, let me now ask Ed Gilligan — Group President of Global Corporate Services and International Payments — to come up and take you through our international proprietary businesses, including our progress, and our potential.