

Thanks, Ron.

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

I'll begin with a review of our year to date performance, including some of the actions we've taken against our 3 key priorities – improving the flexibility of our business models, lowering our risk profile and focusing on growth.

Since we did a deep drill on Financial Advisors at our February meeting, the focus for today's session will be on payments. I'll discuss what I see as the inherent advantages of our business model, and our unique capabilities. In addition, I'll take you through how our business model compares to others in the payments industry. Al Kelly – Group President of U.S. Consumer and Small Business Services – will then do a deeper drill on our U.S. initiatives.

Al will show how he's using and building on our advantages within his businesses. He'll discuss some of the business drivers we think have the greatest growth potential, and he'll give you a progress report on a number of current products, such as Cash Rebate and Blue from American Express.

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

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Let me start with our year to date performance. Faced with an uncertain economic environment over the first several months of the year, we chose to remain focused on the business elements we could control. As a result, I believe we delivered excellent performance.

Against our long-term financial targets, we've done very well on a year-to-date basis.

- Our Earnings Per Share were up 15%;
- Return on Equity was 20%;
- And revenues were up by 6%.

By now you've all seen our 2nd quarter press release, our earnings supplement and the notes from Gary's conference call. As those documents cover the details of the quarter and the year, I'll talk about our results from a slightly different context.

We've achieved our results by executing against three priorities priorities we've shared with you at several previous meetings:

- Improving the flexibility and adaptability of our business models;
- Lowering our risk profile;
- And focusing on growth.

I thought it would be useful to take you through our year to date results from the context of these priorities, so that you can see the consistent focus we've applied across our businesses.

Let me start with our business models. Over the past few years we've taken a number of actions to improve our economic flexibility, including, of course, our continued reengineering and cost management efforts. Here are some of the results we've achieved to date, results that clearly contributed to our strong financial performance.

Our workforce numbers remain tightly controlled. Even as our volumes have grown we continue to be approximately flat to the employee levels in place after our restructuring actions of 2001 and 2002. As you know, we have a global workforce serving global customers. To maximize our flexibility, we look to appropriately balance customer servicing across our network on an ongoing basis.

Through "Global Infrastructure Optimization", our initiative to optimize our servicing across multiple locations, we've increased our economic flexibility by delivering high quality service from lower cost markets. We've ramped up our capabilities over the last two years and, by the end of the year, we expect to almost double the savings delivered in 2002.

A third element of our flexibility has been to migrate our service transactions online. For the first six months we've continued to see progress across each of our businesses. Since each online transaction saves us anywhere from 5% to 90% of our comparable offline unit cost, the savings here continue to build.

Finally, travel continues to be a true success story in terms of flexibility. Despite the volume hits caused by the war in Iraq and SARS, Travel continues to deliver good profits. With our online capabilities, and our price-for-service approach, we now have a model that is more adaptable to the sales volatility we've seen over the last two years.

So, as you can see, we continue to make excellent progress on flexibility and cost management. Although our incremental growth investments are increasing some of our individual P&L lines, expenses remain well controlled. Our reengineering initiatives are meeting their milestones, and we remain on track to deliver the \$1 billion of incremental benefit we targeted at the beginning of the year.

As you know, we've set a long-term target for our operating expense margin: to return this ratio to our 1996 levels on average and over time. We expect to have variances in our quarter to quarter performance against this goal as market conditions change and we

respond accordingly. The current environment is a good example of this, given our actions to ramp up our investments to sustain and increase our business momentum.

Margins continue to be a priority for us. We have not, and will not, lose our overall focus on returning our margins to their 1996 levels.

The second priority I identified for the organization was to lower the risk profile in each of our major business lines. In card, our credit ratios are an excellent story. Losses and writeoffs remain well controlled and are better than industry averages...
... while our past due coverage in both charge and lending continues to be exceptionally strong.

At AEB we continue to lower our exposure to corporate lending risk. And Financial Advisors continues to build on the progress of the last few years. Since the beginning of the year we've:

- Reduced our exposure to airline losses,
- And strengthened our reserves for commercial mortgages.

At each of our segments – TRS, the Bank and Financial Advisors -- and on a consolidated basis at the corporate level, we've worked to lower our risk profile and strengthen our balance sheet. While we've recently seen some positive trends in our broad business indicators, our balance sheet actions have been prudent and appropriate for the environment.

Our final priority was to focus on growth ... to stay on the offensive despite an uncertain and difficult environment. While a number of competitors scaled back on marketing during the last 12 months, we continued to invest. On a year to date basis our marketing expenses at TRS increased by 11% as we developed and launched products, acquired customers and strengthened our market position.

Our focus on growth can be seen in the strength of a number of our key metrics.

- Year-to-date TRS billings were up 10%, helped by strong consumer spend in both the U.S. and international.
- Cards in force were up 5%. We've added 1.3 million net new cards so far this year as a result of both acquisition efforts and higher retention levels.
- Managed loan balances increased 16% against last year -- 14% in the U.S. and 32% in international, outpacing all of our major competitors.

- At Financial Advisors, while cash sales for the year were down by (5%), we increased our advisor force, bucking the trend of other financial services companies, who continued to see sales force declines.

In addition to relatively strong growth in our core businesses, we announced a number of initiatives to build and sustain our growth over the moderate term.

In June we announced a corporate co-brand card with American Airlines. Aimed at mid-sized companies, the product provides cardmembers with airfare savings, and rebates they can use on future transactions.

Strategic partnerships with several other major carriers are also being developed – Qantas and Air Canada, which have been announced, and one other major European carrier, which will be announced shortly. Each of these partnerships includes one or more co-brand products, as well as participation in our Membership Rewards program.

Our years of experience in working with merchants to craft deals, deliver innovation and develop mutual value have now been fully extended to our issuing business as well. While some airlines focus only on costs, we work with our airline partners to expand their revenues so that their overall bottom line is improved.

By bringing together co-brand products, Membership Rewards, and our merchant and travel relationships, we deliver a “3 way” win – a partnership where our mutual customer, our airline partner and American Express all achieve benefits beyond what could have been achieved separately.

While this may sound somewhat routine, let me assure you that successful co-brands don't just happen. Signing and announcing deals is easy. Designing and launching a new piece of plastic with two logos on it is easy. The hard work comes later as the partnership is managed over time, so that all parties ultimately benefit from the co-brand relationship.

Also on the growth front, we recently announced 2 major acquisitions:

- Threadneedle Asset Management, a well-respected investment company based in the UK;
- And Rosenbluth International, a major corporate travel agency with clients and operations around the world.

As I've discussed with you before, I have always been open to using our capital to make appropriate, targeted acquisitions. But unlike the position of some other companies, the strength of our organic growth allows us to make acquisitions from the best possible perspective: to make them because we choose to, not because we have to.

As you'll remember, I previously talked to you about the criteria that must be met before we'd move forward with an acquisition. Both Threadneedle and Rosenbluth clearly met our hurdles:

- They accelerate our established strategies and growth in targeted, core areas of our business;
- They represent good financial valuations;
- And, finally, the cultures of both organizations represent a good fit against ours in terms of values, focus and leadership.

We have exceptional opportunities for organic growth across our businesses, a number of which you'll be hearing about during the next hour or so. But we felt these two companies offered us opportunity as well opportunity to accelerate growth against our strategies, while delivering solid financial returns for our shareholders.

The strength of our recent financial performance allowed us to further return capital to our shareholders through both buybacks and dividends.

Historically we've returned 66% of capital to shareholders, in line with our stated long-term objective of 65%.

Through the first 6 months of this year we actually paid out 75%, and also announced an increase in our dividend rate effective in July. Our recent acquisitions will bring this percentage down during the latter half of the year, but we still expect to be at a very healthy level and are comfortable with our long-term targets.

So let me now turn to our overall performance, and how I'm thinking about the year. As you've seen from our reported numbers, we've had strong financial results for the first half of the year. The actions we've taken over the last two years to improve our flexibility, lower our risk profile and invest in growth have now taken hold and are delivering tangible results.

As you know, I'm not one to build business plans on the "hope" of good times. I prefer to take a cautious approach. But I will tell you this I'm encouraged by both the trends we're seeing in our business, and the position of the company.

As our priority is to provide shareholder value over the moderate to long-term, I believe we must continue to invest in growth. And I believe very strongly that now is the time to do it.

Three factors are converging to make this so: first, our business volumes are strengthening; second, some of our competitors have had some difficulties; and third, we have a range of attractive organic growth opportunities to choose from. Our challenge is in choosing among these growth investments.....clearly one of the best problems to have as CEO. As we look to step up our investments during the last half of the year, we're

expecting that our full year EPS before accounting changes will not grow above 14%, at the high end of our targeted range.

Last year we were able to invest in the business and substantially improve our growth rates. This year our objective is to drive additional momentum, gain a further competitive advantage in the marketplace, and still deliver attractive financial growth.

Today's presentation will show you some of the ways we intend to do this in our payments business. As you know, a lot has been going on within the payments industry, and a lot has been going on at individual competitors. As a result, it's easy to become distracted by the latest piece of news, and lose some focus on a company's core business model. I thought now was a good time to step back and take a look at the payments market and, specifically, our position in it.

Let me start with the basics. Any company in payments essentially makes money through some combination of these revenues and expenses. While this is a broad picture, these are the basic drivers for all of us.

Differences between competitors are essentially driven by their revenue focus. Some companies emphasize spend revenue, some rely on spread revenue, and some others fee revenue.

Here's a simplified view of our basic model. Our revenue streams include all three of these sources – spend, spread and fees – but the focus of our business is spend.

The math for this revenue stream is easy – our cardmembers put spending on their American Express cards, generating billed business, on which we earn discount revenue.

But our spend model actually has many more layers, and – in my opinion – many more advantages. So while this slide shows the basic math, here's how we think about our spend model.

It starts with an attractive customer base. Customers who spend at higher average levels ... Generating billed business against which we earn premium economics ... Allowing us the margin flexibility to invest back into premium value propositions for our customers. This economic model is then supported by a superior customer experience ...

All of which is centered around the attributes of the American Express brand. Still a simple concept, but more expansive than just the basic financial model, and a lot more telling about who we are as a company, and how we focus our business actions.

So, at its core, our business model is “spend” based, relying primarily on cardmember spending to drive our financials. But a benefit to our model is that it also has diversity. Over the last several years we've broadened our product portfolio to also allow for the benefits of lending economics. But the difference under our model is one of emphasis.

Under our model, lending is a complement to spend. We focus on turning customer spending into lending by providing customers with multiple means to revolve their balances. Because our goal is longer-term growth, we view “spending” as a means to get “lending”, which I believe is a more balanced approach than some of our competitors. Our spend based model is one of three basic models you see across the payments industry.

Some other companies have what I call a “Lend” based model. These companies target revolve customers, and their revenues are largely driven by the balances they bring on. As a result, pricing is key to their model.

Finally, there are fee based models. These competitors target what we call “credit seekers”. They earn a significant portion of their revenues from back end customer fees, such as overlimit charges and delinquency fees. As a result they tend to have low card limits and focus on the sub-prime segment.

A number of their fees come about when customers exhibit “bad” credit behavior. While this does drive revenue, repeated bad credit behavior can eventually lead to credit losses and customer attrition. As a result, similar to lend competitors, fee-based companies also look to continually attract new customers and balances, and are also sensitive to spread pricing.

There are pluses and minuses to each of these models, but I clearly prefer a spend based approach, and specifically, our spend based approach. I believe our model gives us both diversity and flexibility.

- We’re spend-focused, but we also have revenues from lending and up-front customer fees.
- We have multiple options when it comes to competing and generating growth – we’re not dependent on a single lever, such as APR pricing.

A spend based model clearly isn’t perfect. As we’ve seen over the last two years we’re not insulated from the environment. Spending can, and does, rise and fall. Interest rates impact us, as do unemployment rates and bankruptcy trends. Within our model we also face a number of challenges, from merchant coverage to the rising expense of rewards.

But in looking at the other two models in the industry, I still prefer to be “spend based”.

As I see it, “lend” based models are essentially on a treadmill. They need revolvers in their card base and new balances on their books for two reasons:

- First is so they can securitize.

The continued financial benefits of securitization have become embedded into their P&Ls. If their balance growth were to slow down significantly, their ability to securitize would be squeezed, and their earnings growth would likely take a hit.

- Second, a continual increase in new customers means an eventual peak in credit losses as portfolios naturally season.

Competitors with “lend” based models find that their loss rates spike up unless they get help from their denominator – that is, from continued growth in outstandings.

Now, just because there are some challenges to “lend based”, doesn’t mean it doesn’t work. Some companies, such as MBNA, have done exceptionally well with this model – in both good times and weaker times. But, in my assessment, this model is still too concentrated it is still too single-focused on balances.

Fee based competitors also face something of a treadmill. Companies with significant revenues from over limit fees and insufficient payment fees can actually do very well in weaker times. But over the longer-term they run up against some limits to their growth.

- First, the low credit lines they assign minimize their ability to further penetrate existing customers.
- Second, turnover in their customer base can be extensive, and expensive.
 - “Bad” customers generate fees, but also losses.
 - “Good” customers take their business elsewhere when hit with punitive fees for inadvertent actions.

The company is then left with customers who have no place else to go for credit – not the most appealing of segments.

- And third, increased scrutiny by regulators may end up reducing some of the flexibility of fee based players.

Both fee-based and lend-based companies are continually after new accounts and balances. As spread pricing is one of their few business levers, the competition can get intense.

It is clear that card issuers who market very aggressive APRs for extended periods are not doing so because the offer is profitable. They are doing it despite the cost to their margins in order to increase volumes.

Now, of course, I certainly recognize that we too compete actively in the lending space. We want to grow balances. Therefore, we closely monitor the competition on an ongoing basis, and will selectively adjust our APR to be competitive and avoid adverse selection.

But, because of our diversity, we have multiple economic levers in our model. We don't need to ... nor will we market offers that are not profitable.

As you'll see in a moment, our lending portfolio includes a number of customer value propositions that are not centered on APR. These products provide other elements of value, like the flexibility of our lending on charge products, or the rewards component of our Delta and Costco products. For these products we can support a higher APR, earn more spread revenue and provide a more stable overall earnings stream.

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As I said earlier, the business models in payments are essentially driven by their revenue focus. Directionally, here's what you might see on a P&L if you looked broadly across the market.

On average, lend-based players earn the majority of their revenues from spread, while fee based competitors rely on back-end fees along with spread.

Now, let me be clear, the averages shown here are not intended to represent any one company. These are estimates based on our internal models. Individual competitors can look quite different from these composites depending on their specific business mix for example, some competitors have non-card businesses that we didn't try to include here. But, for both lend and fee based competitors, I think their dependence on balances is clear.

Our mix is more diversified, with spend, lend and value based card fees contributing to our revenue. As you'll see in a moment, I believe this gives us far greater flexibility in delivering top-line growth.

So I've talked broadly about the advantages of a spend based model. Now let's look at some numbers.

First, the basics in terms of opportunity. Consumer payments have shown strong growth over the last few years. And while cash and checks continue to be a large proportion of spend, plastic – and more specifically charge and credit products – is gaining greater acceptance.

Drilling down further by industry, the components of the spend opportunity firm up even more.

With the size of the circles approximating the size of the spending within each industry group, you can see that the largest opportunity to gain plastic spend is in the group of

industries growing the fastest. Spend within this emerging portfolio, which includes telecom, healthcare, and professional services, is growing at rates in excess of 20%, and yet remains largely dominated by cash and checks.

While these opportunities would broadly benefit all payment providers, projections also show that growth in spend volumes will accelerate, and continue to outpace outstandings growth.

In thinking about it broadly, household spend and outstandings tend to grow in line with GDP over time. While spending can clearly be impacted by the ups and downs of the economy, its recurring nature tends to make it more stable, and the opportunity for further plastic penetration (as you saw earlier) is substantial. With outstandings currently at historic highs relative to consumer leverage, growth in household balances will be harder to achieve and will mostly be a function of GDP growth.

Now, projections are easy to make. Who knows what these numbers will actually look like by 2010? But I do believe the economic assumptions underlying this chart are correct.

So between a recurring rise in GDP spend and the further potential for plastic penetration, I'm firmly convinced that a spend based model offers the greatest opportunities for growth.

And, because of the unique advantages and flexibility we've developed over time, I'm even more confident that our model is the best in the business. Let me start at the appropriate point – with our customers.

We're able to attract and retain a high quality base of customers for a number of important reasons.

Our first two advantages are the breadth of our product portfolio, and our international presence.

First, we serve multiple customer segments, including a range of consumers, small businesses, and corporations – both large and mid-size.

Second, we provide a range of payment products to serve the needs of those multiple customers. And in addition to product types, we also have product depth. The product groups shown here are really just broad representations. Under each category are many individual products – for example, our co-brand and affinity portfolio contains over 300 different products.

And, while we have a great quantity of products, I also believe we have great quality. For every product we issue, we strive to be the premium provider within our competitive set to offer higher, more relevant value, to meet each customer's needs, and to deliver a high quality customer experience.

And finally we serve these segments and offer these products on a global basis. While not every product is offered in every market, we issue proprietary cards in 73 countries around the world and in 20 different currencies. While some competitors play in some countries, entering into a new international market can be both difficult and expensive.

France is one example. Because of the structure and concentration of the French banking industry, there are high barriers for entry into the payments market. We've been in the issuing business in France for many years, but it is really only recently, as a result of our Air France co-brand and focus on rewards, that we've been generating attractive financial returns. A number of other competitors from both the U.S. and the U.K. have tried to crack the code in this market, only to ultimately pull back.

If you view this slide as a matrix and total up all the products we issue across all of these dimensions, we have almost 1,000 individual products in our global portfolio.

In terms of potential opportunity, this variety and depth makes it far more likely that we have an appropriate value proposition for just about any customer or prospect we choose to serve. In addition, our breadth also strengthens our ability to retain customers. As the needs of an individual consumer evolve.....as a business moves from being small to mid-size.....our breadth and depth allows us to keep these customers in our franchise.

We clearly compete with individual issuers across one or more segments of each of these dimensions, but there is no card issuer out there able to match the scope of our product portfolio.

We've also been able to build an attractive customer base because of the multiple acquisition channels we employ.

As with many elements of our business, our acquisition channels have evolved over time.

In the mid to late 90's we largely relied on direct mail, telemarketing and our corporate sales force to bring in the majority of our new cardmembers.

But over the last few years that mix has changed considerably. We've added the internet, and strong partners such as Costco and Delta to our mix.

Having multiple channels improves our ability to find the right customer prospects and offer them the right products. At the same time, it expands our flexibility to optimize our acquisition investment dollars. I believe it is far better to have this diversified mix than it is to have the single channel focus of some of our competitors.

Another advantage that contributes to a higher quality customer base is our focus on rewards.

In the category of rewards I put any product linked to a spend incentive: a charge card enrolled in Membership Rewards, our cash rebate product, a Costco or Delta Skymiles card, a Blue Card linked to Membership Rewards Options, or any of the hundreds of co-brand and affinity cards we have around the world.

Our rewards focus is an advantage in two ways.

- First, it is a very powerful competitive weapon;
- And second, it provides us with a number of economic advantages.

AI will discuss this topic later on, so I won't go into detail now. Suffice it to say that cardmembers enrolled in rewards are very attractive – in terms of their spend, retention, credit performance and profitability.

As a result of this, on the issuing side of our business, we look to penetrate rewards into most of our customers and prospects. But reward programs also add value to our merchant network as they increase cardmember insistence at the point of sale and contribute to our merchant value proposition.

For both these reasons, over the last few years we've ramped up our efforts to expand reward-linked products across our global card base. For example our reward penetration across our U.S. consumer and small business base has increased from 31% in 1998 to 60% today.

Given the breadth of our incentives, the penetration of our base, and the fundamental margin advantage of our premium economics, I believe we are the leader in the rewards arena. And I intend to keep us strongly focused on this strategy.

The next element of our model comes into play when our high quality customer base now begins to spend. For years you've seen numbers showing that our cardmembers generate higher average spend than our competitors, and more recent data is no different. Looking at our U.S. cardmember spending against the bankcards, our averages are significantly higher across all customer segments.

This plays out at the transaction level against the bankcards as well. Our average record of charge is higher than the average bankcard by over 15% across our consumer base, and up to 4 times higher for a Corporate Purchase Card transaction, driving up profitability for our merchants.

Slicing the numbers by issuer instead of network leads to the same results, with our average account spend more than twice the size of our nearest competitor. Our focus on higher spend provides another economic advantage, and that is the lower capital needed to support our balances versus lend-based companies. As a result our cash flow is higher and more sustainable, and we can generate more free capital. In light of the profitability

we earn on our spend based model, our risk adjusted return on capital is proportionately higher than that of lend based companies.

Our higher average spend then drives the premium discount revenue we earn within our model. But to me, our premium economics don't begin and end with discount revenue and our discount rate. I view our economics more broadly, and see us earning premium economics within 3 areas of our model.

- The first is card fees.

For a number of products where we charge a fee, that fee is higher than the competition because of the proportionately higher value we offer our customers.

- Second, relative to the competition, our overall economics are better because we have two revenue streams within our model: we earn revenues from the issuing side of our business, and we earn revenues from our network and merchant activities. Except for Discover, no other competitor has this broad flow of network revenues.

In addition, being both an issuer and a merchant network within a spend based model appropriately aligns our interests and the interests of our merchants – we both want spending.

- And finally, there is our discount rate, which, across most markets and most industries, is higher than competitors.

Now I know that some questions have been raised about the declining trend in our discount rate over the last few years. But while this rate is an important element of our economics, it is not our only driver of profitability. Here are a couple of ways that we look at it.

Here is the actual trend you've seen in our reported numbers. From 1997 to 2002 our rate declined from 2.73% to 2.64%. Underlying the calculation of this number, however, was our deliberate action to expand the types of merchants in our base.

As we actively moved into non-T&E spend categories beginning in the U.S. in 1992, we recognized that this was a new area for us – a segment that would require a new approach to pricing. Gas stations, supermarkets, mass merchandisers ... all of these industries had lower rates than T&E industries. We therefore didn't expect that our pricing structures would simply transfer over to these new industries.

We've always had to compete, and therefore price our services, based on value and we recognized that our value to supermarkets or drug stores was going to be less than the value we offered to T&E merchants given the smaller proportion of our corporate and small business spend.

As you saw from one of my earlier slides, our average consumer spend is still materially higher than that of bankcard holders. Therefore we were still able to provide premium value to this expanded merchant base – but our pricing needed to reflect the reality of the environment.

As our non-T&E spend expanded, we did see a decline in our overall discount rate because of our changing mix. But a decline in average rates didn't mean a decline in margins. Because, by tapping into these new spend categories, we gained several important benefits.

First, we were able to tap into a new segment of prospective cardmembers. These were people who didn't do a lot of traveling, and didn't associate American Express as being right for them. Once we expanded our coverage outside of T&E, we met more of the spending needs of these prospects, and could therefore develop more meaningful value propositions for them.

Expanded spending opportunities for our cardmembers also translated into expanded lending opportunities, increasing our managed spread revenue on both an absolute and proportionate basis.

On the expense side, adding more merchants and transactions gave us additional scale benefits and helped drive down our unit processing costs by 40%. This translated into a solid improvement to our margins, with the potential to deliver even more.

As you saw before, the big growth opportunity is going to come from emerging industries, which have very low plastic penetration. As people begin to put their insurance payments, wireless phone bills and monthly rent on our cards our transaction growth should be significant. As a result, we should continue to gain financial benefits on both the top-line and across our expense base.

Expanding beyond T&E did produce a decline in our overall discount rate. But since our focus has always been the long-term, it was absolutely the right move for us. Because, while this one metric may have declined, our actions strengthened our overall margins, improved the balance and stability of our economic model, and allowed our card franchise to grow substantially.

One way of seeing the benefits of our premium economics and the breadth of our revenue streams is to look at managed revenue per account across the industry. As you can see we are proportionately higher than our next competitor.

My objective is to have our business models be sustainable over the moderate to long-term. Therefore, we look to continually use our premium economics to re-invest – to make investments that reinforce and increase our value to customers – so that the cycle can begin again.

We always re-invest in our business on a steady basis at some level. But, as we indicated in our earnings release, the current market environment, our current position within the market, and our list of potential investments make for a very attractive time to increase our growth investments. My goal is take full advantage of this window while it exists.

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These four elements of our model – attractive customers, higher spend, premium economics and reinvestment – are not new concepts for us, nor should they be for you. We've been applying these concepts consistently for a number of years.

Many of you may remember this slide – our virtuous circles – which shows the multiple and reinforcing relationships between our issuing and network businesses. Al will be taking you through the tactical implications of these relationships later on.

Regardless of how it is depicted, our model is not just mathematical, it is also emotional and the emotional core of our model is our brand.

Our brand, and what it stands for, has been evolving for 153 years and it sits at the center of our business model. It serves as a benchmark for our products and services, and as a guide for our corporate and individual actions.

Building a brand is not easy. It is time consuming, costly and complex. (Just ask a number of competitors who are currently trying to build their own brands.) But by building a brand the right way, and by doing it diligently, you can end up with the most valuable corporate asset at your disposal. And our brand is just that.

Here are the details from a survey by Brandeconomics, which assessed brand attributes across a range of financial service companies.

On this chart 0% represents the average score across all the companies assessed. As you can see from the results, our overall brand score was well above the rest of the field. While we were not ranked #1 for every category in this survey, our composite average is the highest in financial services. (You've probably also read about other recent surveys by Corebrands and Interbrand, both of which also showed the increased value of our brand).

The assessed attributes may read somewhat like the Boy Scout oath (trustworthy, helpful, kind, and reliable), but these characteristics are critical to any financial services company. These qualities represent the emotional connection our customers have with us, and they are what we strive to achieve in each element of our products and servicing.

That leads me to the final element of our model and its foundation that of a superior customer experience.

Our customer experience is a core element of our value proposition and is therefore a priority for us in terms of both focus and re-investment.

For us, a customer's experience is not just about a single phone call or a single web page. It is far broader, encompassing almost every component of a customer's interaction with us.

Over the years we've developed a number of capabilities to support the customer experience – capabilities such as customer servicing, marketing, credit management and process improvement. Each of these capabilities impacts one or more points of contact with customers and prospects – a point of contact that can be inconsequential or one that can be a “moment of truth”.

I believe we are not just good in each of these areas – I believe we are among the best in the business.

Al will go into greater detail on these capabilities so I'll leave the substance to him.

Another capability that impacts our customer experience, and one that I will briefly mention, is our skill at partnering. Choosing appropriate partners and developing appropriate value propositions is an important element of the customer experience. Here are two important examples.

First are our airline partnerships.

This chart gives you a sample of the relationships we have with carriers on the card side of the business – represented by either a consumer or corporate co-brand, or as a loyalty or rewards partner. As you can see, the list is quite robust, with representation from the U.S. and all international regions. And, as I said, this is just a sample. Our full list is far longer.

In addition to our airline partnerships we also have successful co-brand and loyalty programs with terrific partners such as Costco, Starwood and Hilton, which Al will go into in a few minutes.

Another important category of partnership for us is in Global Network Services, where we work with financial institutions outside of the U. S. to issue non-proprietary cards on the American Express network. We've actively expanded our relationships over the last 7 years and now have 79 partners issuing 325 American Express branded products across 88 different markets.

As with airlines, our partnership selection and relationship is key to the customer's overall experience, because in GNS it is our partner who issues the card and has the relationship with the cardmember. Therefore, it is very important to find institutions with strong, comparable values.....to find partners who share similar views on customer commitment and our brand.

Once the network opportunity opens up for us here in the U.S., which Judge Jones has said must happen, I believe we'll be able to capitalize on our international experience to develop even more "3 way" wins – partnerships that add value for banks, consumers and American Express.

So those are the components of our spend model. The comprehensive advantages I've laid out for you don't just look good on paper, they also have a direct impact on our business drivers and ultimate profitability.

For example, by having such a broad product set we're able to attract and retain additional customers, driving up our cards in force. We're able to more appropriately target products for specific customer needs, driving up spend.

Our rewards focus positively impacts our card base and produces higher average spend, while lowering credit provision and interest. Yes, our rewards provision goes up, but – as you saw -- the overall profitability of a rewards participant is still far greater than that of a non-rewards cardmember.

Our partnerships, such as those with Costco and Delta, impact the same business drivers as rewards, but we get the added benefit of lower acquisition costs that result from leveraging a partner's infrastructure.

Because our process improvement efforts are so broad, our skills in this area impact just about every driver we have.

- Increasing the efficiency of our sales force improves our outcomes on cards, spend and fees.
- Migrating activities online reduces operating costs.

The list under this category is extensive, impacting almost every driver in our model.

While I've addressed the components and advantages of our spend model one at a time, it is really by looking at the model holistically that the greatest benefit is seen. And that benefit is flexibility, which results in good growth and attractive economics.

No other payments company has the scope of growth levers available to them as we do. As we consider our options for generating growth, as we implement investment actions, we have a range of options to choose from.

We can invest more heavily in one or more customer segments – consumer, small business or corporate. For example, if the consumer sector is weak, we can ramp up investments in small business or mid-sized companies.

Based on product returns and the competitive market, we can pull back on proprietary lending products and invest in rewards-linked charge cards, Costco or Delta Skymiles.

Our global breadth is another lever. If Argentina suddenly faces a financial crisis, or if personal bankruptcies rise in Hong Kong (as both did last year), we can, for example, move investment dollars to Australia, Canada, Mexico or the U.S.

While most competitors focus primarily on new accounts and balances, we have the option of investing in spend. If a particular market gets saturated with competitive offers, driving down response rates, we can invest to drive up the spend and penetration of existing cardmembers. CIF is an important metric for us, one that measures the breadth of our franchise, but, as you've seen, what drives our model is spend.

Related to this, we can also choose to invest and drive up spend from the other side of the equation, by signing up more merchant accounts, or running a rewards promotion within a merchant category.

As you can see, we have many options when it comes to generating organic growth. Now this is not meant to imply that every potential payment product or line of business is an opportunity for us. We know there are gaps in our portfolio, for example, not having a debit product, or not having strong relevance in every international market. But no other competitor has the range of growth levers we have.

Now I could go through this same growth assessment for each of our competitors. But most of you know these players pretty well, so I'll leave it to you to fill out the rest of this chart.

Let me just say that this is a very strong group of competitors. There is a lot of talent at these organizations there are a lot of exceptional capabilities. But I just don't believe that anyone else has the flexibility and choices we do when it comes to generating growth.

- MBNA has had terrific success in consumer payments, but they don't have a major corporate presence.
- Citi offers both charge and lending products, but their Diner's charge product really has very limited relevance.
- Cap One issues products outside of the U.S., but in just a handful of markets, and their success to date has really been limited to English-speaking countries.

In terms of growth potential it is clear that there are only so many unsigned affinity groups out there. There are only so many times you can change an APR for a revolve card and re-mail an offer to the same prospect. There are only so many times you take the same product and put it on a key chain.

As I said upfront, I believe our model is the best in the business. And I firmly believe we can substantially build on our success in the card business.

The changes we've made over the last several years have made our card business much stronger, and our growth more sustainable. And we have a number of unique advantages that can be leveraged for profitable growth:

- We have a product franchise that is both broad and deep.
- We have a range of talent and capabilities within our organization that we've enhanced over time.
- We have multiple business levers available that can generate growth over the moderate to long-term.
- And we have a brand that is widely respected, a brand that differentiates us from the competition, a brand with attributes that strongly support our businesses.

I know a good thing when I see it. And I can tell you this - I wouldn't change places with anyone else in this business.

Let me now turn things over to Al Kelly, Group President of U.S. Consumer and Small Business Services.

As a preface, let me just say that my overview of our model was intended to give you a global perspective. Oftentimes, though, we – along with our competitors – get specific questions about growth opportunities within the U.S. Isn't the U.S. card market mature? How much growth is really left?

Clearly, the U.S. remains our largest market. So I thought it would make sense today to use the U.S. as an example of how we're capitalizing on the advantages of our payments model to generate growth. You'll see how we're executing against our strategy, and I think you'll also see that a lot of opportunity remains in this market over the short, moderate and long-term.

INFORMATION RELATED TO FORWARD LOOKING STATEMENTS

This release includes forward-looking statements, which are subject to risks and uncertainties. The words "believe," "expect," "anticipate," "optimistic," "intend," "plan," "aim," "will," "should," "could," "likely," and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. 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 company's ability to successfully implement a business model that allows for significant earnings growth based on revenue growth that is lower than historical levels, including the ability to improve its operating expense to revenue ratio both in the short-term and over time, which will depend in part on the effectiveness of reengineering and other cost control initiatives, as well as factors impacting the company's revenues; the company's ability to grow its business and meet or exceed its return on shareholders' equity target by reinvesting approximately 35% of annually-generated capital, and returning approximately 65% of such capital to shareholders, over time, which will depend on the company's ability to manage its capital needs and the effect of business mix, acquisitions and rating agency requirements; the ability of the company to generate sufficient revenues for expanded investment spending, to actually spend such funds over the remainder of the year to the extent available, particularly if funds for discretionary spending are higher than anticipated, and to capitalize on such investments to improve business metrics; credit risk related to consumer debt, business loans, merchant bankruptcies and other credit exposures both in the U.S. and internationally; fluctuation in the equity and fixed income markets, which can affect the amount and types of investment products sold by AEFA, the market value of its managed assets, and management, distribution and other fees received based on the value of those assets; AEFA's ability to recover Deferred Acquisition Costs (DAC), as well as the timing of such DAC amortization, in connection with the sale of annuity, insurance and certain mutual fund products; changes in assumptions relating to DAC, which could impact the amount of DAC amortization; the level of guaranteed minimum death benefits paid to clients; potential deterioration in AEFA's high-yield and other investments, which could result in further losses in AEFA's investment portfolio; the ability to improve investment performance in AEFA's businesses, including attracting and retaining high-quality personnel; the success, timeliness and financial impact, including costs, cost savings and other benefits including increased revenues, of re-engineering initiatives being implemented or considered by the company, including cost management, structural and strategic measures such as vendor, process, facilities and operations consolidation, outsourcing (including, among others, technologies operations), 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 re-engineering 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; the potential negative effect on the company's businesses and infrastructure, including information technology systems, of terrorist attacks, disasters or other catastrophic events in the future; the impact on the company's businesses resulting from the recent war in Iraq and its aftermath and other geopolitical uncertainty; the overall level of consumer confidence; 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 and revolving credit, sustain premium discount rates, increase merchant coverage, retain cardmembers after low introductory lending rates have expired, and expand the global network services business; the impact of severe acute respiratory syndrome (SARS) on consumer and business spending on travel, including its potential spread to the United States and other locales that have not, to date, been significantly affected; the ability to manage and expand cardmember benefits, including Membership Rewards®, in a cost effective manner; the triggering of obligations to make payments to certain co-brand partners, merchants, vendors and customers under contractual arrangements with such parties under certain circumstances; successfully cross-selling financial, travel, card and other products and services to the company's customer base, both in the U.S. and internationally; a downturn in the company's businesses and/or negative changes in the company's and its subsidiaries' credit ratings, which could result in contingent payments under contracts, decreased liquidity and higher borrowing costs; fluctuations in interest rates, which impact 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 businesses that accept the company's card products and returns on the company's investment portfolios; fluctuations in foreign currency exchange rates; political or economic instability in certain regions or countries, which could affect lending and other commercial activities, among other businesses, or restrictions on convertibility of certain currencies; changes in laws or government regulations; the costs and integration of acquisitions; the ability to accurately interpret and apply FASB Interpretation No. 46, the recently issued accounting rule related to the consolidation of variable interest entities, including those involving collateralized debt obligations (CDOs) and secured loan trusts (SLTs) that the company manages and/or invests in, and the impact of the rule on both the company's balance sheet and results of operations, which could be greater or less than that estimated by management to the extent that certain assumptions have to be revised, such as estimates of the valuations of the underlying collateral of the CDO or SLT structures, or the application of the rule to certain types of structures has to be re-evaluated; and outcomes and costs associated with litigation and compliance and regulatory matters. A further description of these and other risks and uncertainties can be found in the company's Annual Report on Form 10-K for the year ended December 31, 2002, and its other reports filed with the SEC.