

**Note: All financial information marked with a \* is presented on a managed basis. See Exhibit 3 for a presentation of comparable GAAP financial information.**

**AMERICAN EXPRESS FINANCIAL COMMUNITY MEETING  
AUGUST 6, 2003**

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Thanks Ken, and good afternoon. It is my pleasure to give you an update on the U.S. card business, with an emphasis on the consumer and small business segments. As Ken made clear, we have a business model and a set of levers for growth that make us quite confident about our future prospects.

If you look at our history, we have a very solid track record. We've innovated with products and services including Membership Miles (now Membership Rewards), Blue, Centurion, the Up to 5 percent Cash Rebate Card, Costco, and selling during in-bound service calls.

We've dealt with tough times, such as the Optima and Merchant challenges of the early '90s, and the economic environment of the past two years.

Unlike many of our competitors, we have been growing, and continue to grow in the market via organic means. We have tested portfolio acquisitions in two small deals in order to learn in case an opportunistic, scale deal becomes available in the future.

But, we won't do acquisitions or partnership deals that garner share at unattractive economics. In fact, we've dropped out of bidding on several recent deals because either the value proposition for the customer was not clear or compelling, and/or the economics did not make sense for our shareholders.

We have prospered in the Payments business over a long period of time. I ran track in high school, so allow me to use two analogies from that sport to define our philosophy.

We think about the time horizon over which we manage our business as more of a "marathon" than a "sprint." We don't simply manage quarter to quarter. We also think about the medium- to long-term implications of our strategy and actions. In terms of action in the marketplace, we act more like decathletes than single-event competitors. We realize that it is important to have an array of products, features, and distribution channels to meet the unique needs of our diverse target customer groups. And, most important, to always make customers our primary focus.

Before I get into the heart of my remarks, I'd like to make a few comments on the industry, share some high-level facts about the U.S. Payments business, and share a few interesting tidbits.

In terms of the card industry today:

- The competition for customers and accounts receivable is intense, and, given that most competitors operate under a lending model, pricing has been aggressive.
- The pursuit of receivables, in some cases at unsustainable pricing, is squeezing margins.
- Back-end fees have continued to rise, generating an ever-increasing share of revenue for some players. I question how much gas is left in that tank?
- Increasingly, it is important to look beyond earnings to marketing and loss provision levels to really gauge the quality of a competitor's progress.
- Finally, rewards are becoming a larger lever to attract accounts and receivables.

In short, in a tough economic environment marked by increasing pressure on margins, it is critical to be clear about your strategy, your customers and what you bring to the table. Make no mistake; we are very clear in our desire to serve customers exceptionally well and to win in the marketplace.

In terms of American Express' total U.S. Payments business, as of the end of the first half of this year, we had:

- Almost 36 million total cards in force;
- More than 27 million basic cards in force;
- \$123 billion in Billed Business; and
- \$36 billion in Total Lending Accounts Receivable, on a managed\* basis.

Our year-to-date charge volume is up 11 percent for consumers, 12 percent for small businesses, and flat for large corporations. In the consumer and small business segments, airline charge volume is flat, non-airline charge volume is up 13 percent, and non-travel charge volume is up 14 percent.

In looking solely at our U.S. consumer and small business portfolio, I thought you might be interested to know that in 2002:

- The single largest small business transaction was just over \$2 million.
- The largest rebate earned on an Up to 5 percent Cash Rebate card was almost \$1,900.

By the way, to achieve this rebate, the cardmember spent well over \$50,000, much of it in everyday spend categories, and carried a balance.

- In our Platinum Fine Hotels and Resorts program, we booked over half a million room nights last year, and our sales growth increased more than 20 percent vs. the prior year.
- Our service network handled over a half-a-billion phone calls, e-mails and letters in 2002.
- Our Centurion servicing unit handled many very challenging requests. Last year, we created some incredible surprise engagement and anniversary experiences, such as having a diver emerge from the sea to deliver an engagement ring to a couple walking on a beach.

Once in a while, we cannot fulfill a challenging request. An example that I recall from last year was a request for a private audience with the Pope.

So, while these facts probably will not help much in specifically forecasting our business, I do think they are a reflection of our service ethic and our customers' expectation of us -- something competitors have had difficulty duplicating. As a side benefit, they provide some interesting material to share with your family when they ask what you learned at work today.

In my presentation today, I'd like to address six important questions.

- 1. Where do we stand, and how large is the opportunity for growth?**
- 2. What are the core elements of our business model and growth strategy, and how do they create sustained competitive advantage?**

3. **Based on our strategy, how has the make-up of our U.S. consumer and small business card base evolved over the last few years?**
4. **What are the key areas of focus to achieve our growth ambitions?**
5. **What are some of the proven tactics that will drive our growth?**
6. **And, what are some new, or relatively new, tactics that will also drive our future growth?**

So, let me get started with:

#### **Where we stand today and the opportunity for growth.**

American Express is the largest card issuer in terms of charge volume in the United States. If we look at individual consumer spending alone, it is a very large category. According to the latest figures from The Nilson Report, over the last five years:

- U.S. consumer spending is estimated to have grown by 35 percent, and, in 2002 to have reached \$5.8 trillion.
- The subset of consumer spending on credit cards and debit cards is estimated to have grown by 89 percent, and in 2002 to have represented \$1.9 trillion, or almost one-third of all consumer spending.
- The portion of consumer spending for the much higher margin credit card business is estimated to have grown by 59 percent.
- In the same five-year period, American Express' consumer card spend, which does not include debit, grew by 72 percent, and we believe we are the second largest issuer based on individual consumer spending.

As we look ahead:

- According to the Nilson Report, consumer spending will grow by 28 percent between 2002 and 2007.
- During this period, consumer credit card plus debit card spending is again expected to grow faster, at 54 percent.
- Credit card spending alone is expected to grow by 45 percent.
- This means that there will be almost \$650 billion of new credit card spending available, which creates a lot of upside, even if we maintain our share, or even modestly grow share.

The small business spending segment is still dominated by cash and checks. For 2002, total U.S. small business spending was estimated to be \$2.3 trillion and only \$96 billion of that, or 4 percent, was done on small business plastic. It is much more challenging to capture credit card industry data in this segment. But, based on our research using a number of sources, we know that we are by far the industry leader, with more than 50 percent of small business spending on general purpose credit cards being made on American Express Cards. We estimate that we are seven times larger than the next biggest player. We expect small business general purpose plastic volume to grow dramatically and we are extremely well poised to capture much of that growth.

So, we simply don't subscribe to the theory that the U.S. charge and credit card market is mature, if the definition of maturity is that there is not much more growth potential. In our case, continued success in expanding merchant coverage will drive growth. Additionally, as high spenders (our power alley), seek to reduce the number of bills they pay in favor of putting charges on cards, and look to increase the number of rewards they earn, charge volume growth will naturally occur.

In short, when American consumers are still using cash and checks for two-thirds of their spending, and small business owners are using cash, checks and other means for more than 96 percent of their spending, there is plenty of upside potential -- well beyond inflation and population growth.

Now let me turn to **the core elements of our business model, our strategy for growth and how they create sustained competitive advantage.**

Ken provided an overview of our spend-based business model, but let me provide more detail in terms of its application in the U.S.

Our core business model is brand-driven, spend-centric and supported by an excellent customer experience.

Given our model, it makes sense that our primary focus is customers who have the capability to spend at high levels, and are in the following segments:

- prime individual consumers;
- super-prime consumers;
- and small business owners.

We are focused on incentives to grow spending. High-spending customers have become accustomed to receiving some return for using plastic. In recognition of what our customers want, we now offer a range of on-going options, complemented by targeted bonus earning opportunities. As you know, our Membership Rewards program is a marketplace leader. We believe it is the largest card-related loyalty program in the world, based on number of participants and total amount of program-related spending. I'll share some data on the power of rewards programs later in the presentation.

We are also focused on offering a broad product set, including customizing existing products to reach a greater share of customers in our target market segments. If you exclude Citibank's small consumer Diner's card portfolio, we are the only U.S. issuer with scale that offers charge cards, proprietary lending cards and cobrand cards.

Our charge card product line is large and unique. The no-preset-spending-limit, 30-day-pay-in-full nature of the card, and other diverse and valuable features, attracts high-spending cardmembers who want to use our cards to facilitate payments. It continues to be an important part of our business, even with the significant growth in our lending business.

A rich set of diversified and valuable partner relationships is important to our business model. We have been able to configure and leverage these relationships in ways that are extremely attractive for us and our business partners, and that appeal to different customer sub-segments – both consumer and small business. Our partner platforms include:

- Membership Rewards;
- Cobrand cards;

- Our Small Business Everyday Savings Program; and
- Our OPEN: Small Business Network partners.

Let me say a word or two about our small business unit and highlight our Everyday Savings Program. We were the first issuer to recognize the uniqueness and power of the small business segment. In 1993, we established a dedicated, stand-alone business unit, headed by a senior general manager, focused on small business.

Last year, in light of increased competition in this segment, we made the decision, based on a good deal of customer research, to establish a unique brand for this business. As the leading issuer, we wanted to take a new, bold step to further differentiate ourselves. Hence, our new brand: OPEN: The Small Business Network from American Express. For efficiency today, I'll refer to the business as the OPEN Network.

Now let me share three short, current ads for the OPEN Network we created in connection with our sponsorship of the reality television show, The Restaurant. The spots give you a sense of the challenges facing small business owners and the reason they look to a company like American Express.

Our Everyday Savings Program allows OPEN Network cardmembers to earn special savings by simply using any of our OPEN Network cards at any one of several participating partner locations including: Dell, Kinko's, Staples, The Hilton Family of Hotels, FedEx, Cingular Wireless, Nextel, and Hertz. The program saves money for small business owners, drives volume for our merchants, and incents spending on our cards.

Our core model is also supported by our multiple card strategy. U.S. consumer and small business owners continue to compartmentalize their spending. We recognize this behavior and have capitalized on it by building on a customer's initial basic card relationship by offering them additional charge cards, credit cards or the Lending-on-Charge capability.

We have even aligned Membership Rewards with this strategy by enabling cardmembers to enroll multiple cards in a single, aggregate rewards bank to facilitate faster point accumulation. To date, we have largely been focused on relationships that start with a charge card. We will be expanding our approach going forward and I'll talk more about that later.

We continue to extend our brand beyond its traditional positioning in travel and entertainment. As you know, over the last decade we have flipped the mix of spending toward non-T&E. In the consumer and small business segments, this diversification is even more pronounced. To give you a sense, in 2002:

- Airline volume, historically not a very large percentage of spending, was below ten percent of total volume.
- Combined spending in supermarkets, gas stations and drug stores slightly surpassed airline spending.
- More cardmembers used their cards in a supermarket than on an airline ticket, and still less than 40 percent of cardmembers used their cards in a supermarket.
- More than 2 million cardmembers used their cards for local transportation in taxis, limos, buses or trains, which is up substantially from prior years.

Another example of the importance of our shift in spend mix can be seen in the OPEN Network. Year-to-date 2003, airline spending by small business owners was down close to 30 percent, and total travel spending was down more than 15 percent from the same period in 2000. Yet, the OPEN Network was able to grow overall charge volume in the first half at double-digit levels. This performance was a direct result of our spend diversification.

I want to be clear that we are not, and I underscore not, walking away from travel. Rather, we are expanding our brand and our focus to a much wider set of industries. Industries that have excellent growth prospects and tend to be more habit-forming in getting people to use our card because of the frequency of usage in these categories. This strategy has served us well in the dramatic downturn in travel post-9/11. And, I believe it will serve us equally well, if not better, when travel picks up again.

We are focused on delivering a high-quality customer experience. Through competitive benchmarking, we believe we are indeed the leader in the industry in many transaction experience categories. We are proud of this, but we are not content to accept it as the status quo.

Our commitment to customer excellence is an on-going journey. Over the last few years, we have successfully reengineered various service transactions to significantly increase efficiency. In our transaction processes, unit costs have continued to drop, and we believe that for a number of processes, we are best-in-class.

We continue to keep a close eye on costs. But, in select areas where we may have focused a bit too much on efficiency, we are now making a concerted effort to balance efficiency and effectiveness. In doing so, we have taken some core business processes, that we already do very well, and moved them to even higher levels of effectiveness. Let me give a few examples.

- In our authorization process, we continue to strive to be as efficient as possible. But we have also introduced a significant amount of new data into the process so that we can be more effective, both in approving larger transactions for higher-spending customers, and in determining if a transaction is likely to be fraudulent. Using more data adds a little bit to the transaction cost, but this is more than offset by increased billings and fewer customer disruptions at the point of sale.
- In our cardmember retention process, our drive for efficiency tended to make the process too standardized in the past. The reality is that not all attriting cardmembers are the same. They differ in their emotional and rational affinity to our company, depending on their card product, spending level and reason for wanting to attrite.

Certainly there are elements of the process that can be standardized, but to achieve greater effectiveness, we have increasingly been introducing segmentation across the various phases of the retention lifecycle. This sometimes results in spending more time, and thus cost, to save some customers. But it is worth it to keep valued cardmembers in our franchise.

- As I shared in my presentation in February 2001, one of our largest sales channels is inbound telemarketing, where our customer service representatives cross-sell products and services to cardmembers who call into our service centers. The channel, which we call Customer Focused Sales, now delivers millions of sales annually.

In the last year or so, we have been making this channel even stronger by focusing on generating effective and profitable sales. For example, we have shifted our sales mix to more “core” products such as new cards and card upgrades. Additionally, research continues to show that these transactions increase customer satisfaction – a win-win for both our cardmembers and us.

Our brand research continually reinforces that our commitment to customers and our service excellence are key factors in why consumers and small business owners carry and use our products. Service is a definite advantage for American Express. By focusing on efficiency and effectiveness, taking core processes to even higher service levels, and keeping a close eye on costs, we believe we can continue to raise the bar on servicing.

In wrapping up this discussion on our strategy and business model, let me make the following observations about American Express in relation to other issuers.

- We have an advantaged position in terms of our relationships with high-spending customers across multiple segments.
- We have the most product breadth – with charge cards, proprietary credit cards and cobrand cards -- and the highest level of customer involvement, through incentives to drive spending.
- We have deep and wide-ranging relationships with partners, who deliver great value for our customers and for whom we deliver great value.
- Our commitment to a multi-card strategy is unique in the marketplace.
- American Express cards are no longer for just travel.
- And finally, we believe we are the market leader in terms of customer service.

Now let me turn to **how the make-up of our U.S. card base has evolved over the last few years.** With a broader product set and continued push into an expanded range of spending categories, there has been some change in the make-up of our U.S. consumer and small business card base since I last talked to you in February of 2001. A number of the changes should be self-evident, but let me highlight some of them.

- As a result of the success of Blue, Delta and Costco, the percentage of credit cards in our portfolio has increased relative to charge cards.
- While we have experienced a planned shift in product mix, we have dramatically increased the number of “charge card-like” customers, since many credit card-based products with incentives act more like charge cards in terms of spending levels and profitability. With our Delta SkyMiles Credit Card, for example, we attract high-spending cardmembers and we earn an annual fee comparable to our proprietary charge card products.
- As Ken mentioned, we have significantly increased the number of cardmembers who are incented to spend through reward programs, including Membership Rewards, cash rewards and cobrand card rewards.

- We have significantly increased profitability of our charge cards. Obviously, there has been some benefit from lower funding costs, but profitability has been greatly enhanced by higher spending levels, improved credit quality, faster speed of pay, and in some cases higher annual fees.
- We have grown the size and profitability of both our charge and lending small business customer base. We have long had scale in our charge card portfolio, which generates very high average cardmember spending. Now, we are well along in building a formidable lending portfolio via Delta, Blue, and our multiple OPEN Network credit card products. In fact, over the first half of this year, our small business credit card charge volume grew 30 percent.
- While we have had significant growth in lending balances on stand-alone credit cards, cardmembers holding multiple cards are still extremely important. In fact, charge cardmembers who have a “linked” lending relationship, meaning they also have a credit card or are enrolled in a Lending-On-Charge feature, account for more than 40 percent of all consumer spending and a substantial portion of all consumer accounts receivable, on a managed basis.
- Even with all the growth in lending products, charge cards in our U.S. consumer and small business portfolios combined still accounted for more than 70 percent of total spending in the first half of 2003.

As a result of this evolution in business mix, driven by our strategy, the make-up of our cardmember base is stronger and more diversified than ever.

Before I leave this section, I want to make a quick statement about Net Interest Yield. Net Interest Yield is an outcome metric driven by a variety of activities that are going on during a given period of time. With that in mind, our yield in the second quarter was 90 basis points lower than 2002, reflecting:

- Better than expected volumes from our balance transfer initiatives;
- Investments in new card acquisitions, which come with introductory rates; and
- Better than industry credit performance, resulting in a smaller number of cardmembers and accounts receivable at default levels.

I would also point out that the 8.9 percent level is comfortably within our historical range. Now let me turn to **the key areas we’re focused on to achieve our growth ambitions.**

- **Driving Spend.** As Ken pointed out, this is the most fundamental element of our spend-driven model. All of our activities -- in marketing, authorizations, servicing, advertising and product development -- have a primary objective of driving profitable spend and winning a greater share of our customer’s wallet.
- **Managing Credit.** Credit is our largest expense and it represents the fundamental cycle of activities that allows us to continually expand our prospect universe, acquire more target cardmembers, and ensure that spending turns into quality accounts receivable and, most

important, profit for our shareholders. I'll come back to this topic, but, rest assured, credit represents a set of business processes that we monitor carefully and continually strive to improve.

- Delivering A First Class Customer Experience. Again, customers are attracted to the American Express commitment to service excellence.
- Improving Our Capabilities. We strive to improve all aspects of our infrastructure through reengineering, Six Sigma and the utilization of new technology. For example, over the last two or so years, we have:
  - Enhanced our fraud models, resulting in better performance, with more than a 50 percent improvement in the fraud write-off rate since 1999.
  - Dramatically improved our front-end screens in customer service, which has lowered our unit costs. Additionally, a new training simulator we developed, combined with the new front-end screens, has reduced training time for new reps by nearly 25 percent.
  - Improved our external mail acquisition process, which has expanded the number of names we can mail to and significantly reduced the days required to get mail out the door.
  - Introduced new lending pricing flexibility, which has dramatically enhanced our ability to quickly adjust an individual cardmember's APR.

So, similar to our business model and strategy, our areas of focus to facilitate growth are clear. Our people understand them, they believe in them and they are committed to them. Now, let me turn to some of the **proven tactics we are using to drive our growth**.

This is the virtuous circle slide Ken referenced. Against each of the circles on this slide, we have a rich set of tactics available to us that have worked well in the past, and have further upside potential. Most of these tactics radiate from the core of our business model – our brand-driven, spend-centric model supported by an excellent customer experience. Let me just highlight a few.

- Cobrand Products – such as Costco, Delta, Starwood and Hilton.
- Proprietary Products – including our charge cards and Blue from American Express. Blue was introduced less than four years ago and we have already enhanced it twice -- first by adding Membership Rewards Options in 2002 and, this year, through a line extension via Blue Cash.
- Lending on Charge – Sign & Travel and the Extended Payment Option.
- Partner Programs, such as Membership Rewards and our OPEN Everyday Savings Program.
- Card Migrations, cross-sells and up-sells.
- And, Early Engagement – which is stimulating activation and usage as early in a cardmember's tenure as possible.

Time will not allow me to share the details with you on each of these tactics, but let me touch on a number of them.

Membership Rewards continues to work well for us. Today, the U.S. program has 134 partners, of which only one-third are in travel industries. In fact, for the first six months of this year, close to half of the redemption transactions were with non-travel partners -- a shift from 20 percent only five years ago. Among our most familiar non-travel partners are:

- The Home Depot;
- Linens-N-Things;
- Saks Fifth Avenue;
- Ticketmaster; and
- The Gap.

These non-travel partners add to program's attractiveness and help improve its overall economics.

In its 12<sup>th</sup> year, the Membership Rewards Program continues to lift spend almost immediately upon enrollment. Historically, on average, enrollees lifted spending 25 – 30 percent in their first year of enrollment. If we look at the 2001 vintage of Personal and Gold charge card enrollees in their first year after enrollment, their spending lift was even better than our historical experience.

We were much later to the game in leveraging Membership Rewards with small business owners because this segment already had higher levels of average spending. But beginning in late 2001 -- and really accelerating through 2002 and the first six months of 2003 -- we have been much more aggressive in offering Membership Rewards to small business customers. And, we have been successful. A sample of small business owners who enrolled in Membership Rewards in 2002 lifted their average monthly spending by more than 30 percent in the first six months alone.

We continue to talk to new potential partners and will further enhance and enrich this cornerstone loyalty program.

Now let me talk about Delta. It has indeed been a very challenging time in the airline industry and, therefore, you might expect that our Delta cobrand product line would have struggled. This is not the case. Our partners at Delta have had to reduce capacity, and their Revenue Passenger Miles as of June are down almost 12 percent since pre-9/11. Despite these challenges, our companies have worked very closely together to maximize the success of our cobrand products and, driven by our "double miles on everyday spending," performance has been excellent. If we look at Delta credit cards, for both consumer and small business, for the first six-months of 2003 vs. the same period in 2001, we have:

- Grown spending by 35 percent; and
- Grown managed\* accounts receivable by 34 percent.

Again, this growth is particularly impressive given that the environment over the past eight quarters has been characterized by a terrible and pronounced downturn in the airline industry. Obviously in the six-to-nine months following 9/11, we dramatically pulled back on acquisition.

At a time when Citibank has said publicly that they expect only slow growth in the American cobrand portfolio, we are bullish on the upside for our Delta product line because:

- Our product line-up is strong.
- Our joint marketing and cross-company cooperation is as good as it has ever been. Our relationship is structured as a win-win, causing shared motivation for success.
- We only recently began leveraging Delta in the small business segment.
- And, we have Delta SkyMiles credit cards in the hands of less than one-quarter of the active Delta SkyMiles frequent flyer list. And, when the airline industry rebounds, even a bit, we will see an increase in higher ticket travel transactions and Delta will be able to increase the number of Delta SkyMiles enrollees, thus increasing our marketing base.

Now, I'll touch on Lending-On-Charge. This is an umbrella term for a few features that allow charge cardmembers to extend some payments over time. We have talked to you in the past about Sign & Travel and the Extended Payment Option for our consumer charge products. These enrollment-based features have worked very well. As a reminder, Sign & Travel enrollees, will see their air, hotel, car rental and cruise transactions listed in a separate section of their charge card statement. They can choose to pay these charges in full, or over time. Similarly, the Extended Payment Option allows enrollees to extend payment on charges greater than \$200.

These programs have contributed a substantial amount of receivables – and today represent approximately one quarter of all U.S. consumer card managed\* lending receivables. These features provide convenience and flexibility to our customers, at an attractive margin to us.

Lending-on-Charge managed\* receivables in our consumer base more than doubled over the last five years and we still have good upside potential.

There is also excellent upside available to us in the small business segment. We only introduced the Extended Payment Option to OPEN Network charge cardmembers 21 months ago. We have already enrolled more than 160,000 cardmembers, and their receivables represent 7 percent of the total credit card receivables in the OPEN Network. If we can match our levels of consumer card penetration, we could reach more than \$1 billion in small business receivables, again at an attractive margin.

Up-selling, the process of migrating cardmembers up the color hierarchy in our charge card product line, continues to work very well. Examples include moving Personal cardmembers to Gold, Gold to Platinum and, on request of the card member and after meeting a high-spending threshold, Platinum to Centurion. As customers move up the product hierarchy, their profitability increases dramatically because they:

- Pay us a higher fee;
- Spend more; and
- Attrite at a slower rate.

Since the beginning of 2001, we have up-sold more than three-quarters-of-a-million cardmembers, and benefited from the related increases in spending. This is an update from what I shared with you in 2001 and clearly illustrates that we have been able to maintain consistent levels of spending increases per account as we move customers up the product hierarchy.

While I'm talking about the consumer charge card, I should comment on two topics:

- The 2002 fee increases for Platinum and Centurion; and
- The early performance of our new charge cards with rewards built in.

Last June we increased the Consumer Platinum card fee to \$395 from \$300. At the same time we added several benefits to the Platinum card including:

- Access to the Delta Airport Clubs;
- Access to Amtrak's Club Acela Lounges;
- Special privileges at Equinox Fitness Clubs;
- Access to SONY's VIP Shopping Service; and
- Special deals with several retailers including Neiman Marcus and Ferragamo.

We have now completed the renewal cycle and have exceeded our expectations. The vast majority of Platinum card members renewed at the higher fee; a small number of card members moved to another American Express card; and overall, we experienced a minor up tick in voluntary attrition among Platinum card members. During this same period, we added 55,000 new Platinum card accounts at the new \$395 annual fee.

Our April 2002 increase on Centurion cards was different. Our goal was to reset the price because we felt that the higher fee was more than warranted given the benefits and personalized service levels that we deliver. We also wanted to slow the growth trajectory to ensure that servicing stayed at the highest levels.

We "grandfathered" existing cardmembers, for the time being, at the launch annual fee of \$1,000. We raised the annual fee to \$2,500 for new Centurion card members. As a result of the fee increase, we saw an expected drop in unsolicited requests for Centurion cards. That said, we have still added more than 3,200 new Centurion card members at the higher fee.

Relative to the new rewards-based charge card products, it is too early to draw a conclusion. The "headlines" to-date are that:

- The prospects that we have attracted are spending at higher levels than expected;
- New cardmembers' immediate spend engagement with us is much higher than that of average new charge cardmembers without Membership Rewards.
- We have fallen somewhat short of the number of prospects we hoped to attract; and
- The overall economics are a bit better than we expected.

We will continue to promote our range of charge card products to both consumers and small business owners.

That said, I want to take a minute and talk to you about one of the investment decisions with which we continually wrestle. That is the trade-off between growing total ending cards-in-force and growing the number of highest-quality cards. Many of you who follow our company are fond of counting cards. It is an easy number to follow and understand, but we all know that every card is far from equal in its performance and its contribution to profit. Let me highlight a simple example to bring to life our challenge.

-- Assume a \$1 million pool for acquisition activity and a hypothetical acquisition cost per card of \$50 for a fee-free consumer credit card and a corresponding \$100 cost per card for a small business charge card.

-- In simply looking at cards-in-force, the math is obvious. For \$1 million, we can bring in 100 percent more consumer credit cards than OPEN Network charge cards.

-- If you then overlay spending – the core of our business model – the situation gets a little more complex. Assume we index the consumer credit card at 100 for a year. An OPEN Network charge card spends seven times that amount.

-- This slide shows you that our charge volume over three years is 350 percent higher if we allocate 100 percent of the investment pool to OPEN Network charge cards.

-- So, in this simple example, 50 percent fewer new cards yield 350 percent higher spend. In reality, we have a much wider mix within our new card acquisition activities driven from our investment pool, as our intention is to balance relevance with the best possible economics.

-- And, all of this is before considering other, more complicating, factors that enter into our acquisition decisions, such as:

- The customer need and what is the most appropriate card to offer;
- Annual fees that can be earned;
- Attrition assumptions;
- Our ability to cross-sell other products and features; and
- Our ability to drive receivables from the spending; among other factors.

As I look ahead and we continue to put even more emphasis on incentives to drive spending, we are likely in both the individual consumer and small business segments, in some quarters and some years, to pursue more higher-quality acquisitions at a higher cost per card. So, in some quarters and in some years, U.S. contributions to the absolute level of growth in ending cards-in-force will be lower. However, our contribution to spend volume will continue to grow at attractive levels.

Let me make a few comments on other products.

Blue from American Express continues to perform very well and adding Membership Rewards Options to this product has been a big win. In 2001, I provided an update on Blue and we've experienced even stronger growth since that time. If you look at the Blue portfolio for the first six months of 2003 compared to the same period in 2001, we have grown spending and managed\* accounts receivable by more than 40 percent.

In fact, Blue now represents about 19 percent of our total managed\* U.S. lending receivables and we have been very comfortable with the credit performance on this product. Early vintage Blue products have write-off rates that are much better than early vintage Platinum Optima cards, which were our primary proprietary credit card before Blue. FICO levels of new Blue customers have been consistent and strong throughout the four years we have offered the product, and in fact were slightly higher in the first six-months of 2003.

In late 2001/early 2002, to drive spending on Blue, we introduced a fee-free version of Membership Rewards. This feature is very similar to our basic Membership Rewards Program, except that when you redeem points, it costs two points for each mile in an airline frequent flyer program. Our experience shows that when a Blue customer enrolls in Membership Rewards Options, their spending lifts. Because this is a relatively new feature on Blue, it's too early to draw a definitive conclusion about how big the spend lift is.

Just a few months ago, we decided to take the concept and content of our Up to 5 percent Cash Rebate card and move it to Blue in a line extension called Blue Cash. This was made more natural because of the introduction of the Membership Rewards Options program on the original Blue product.

Without a big advertising and marketing push to-date, we have well over a half a million cash rebate cards now, between Blue Cash and the original Up to 5 percent Cash Rebate card, and they are performing very well. With our Up to 5 percent Cash Rebate card, we have seen a 75 percent average monthly spend increase vs. the original Blue from American Express. And, by combining the cash rebate value proposition with Blue, we are extending the appeal and relevance of the product and attracting more customers from our target market.

Starwood and Hilton, while not huge, have grown very nicely over the past year, and we plan to selectively leverage both products in the future. In the first six-months of 2003 compared with the same period a year ago, across these two portfolios, we have grown charge volume and managed\* accounts receivable by approximately 50 percent.

Costco represents a product line and relationship that we have made great progress in leveraging, and, in which we continue to have lots of upside.

- Costco stores are growing and management remains committed to growth. Same store sales are up 4 percent year-to-date, and they have added 24 new stores in the U.S. in the last 18 months. They have publicly stated plans to add 12 additional warehouses by the end of 2003.
- We are the only general purpose plastic accepted at Costco Warehouses and, to date, only 9 percent of Costco members carry our cobrand card -- although many more use other American Express cards.
- We have brought Costco a significant number of high-quality new members.
- Cards acquired for American Express via Costco warehouses represent one of our lower cost per card acquisition channels.
- Our business relationship with Costco is very strong, and we continue to improve our ability to market together. This relationship will only get bigger and stronger.

Finally, in the context of our discussion on proven tactics, let me speak to credit. For us, risk management is as much a growth lever as it is an important control lever. Our risk management philosophy is to continually grow our knowledge of the economy, demographics, prospects and customers so that we can design and price our products for the inherent level of risk.

Once we acquire a cardmember, our goal is to book as much spending as possible, and to have dynamic controls in place to quickly curtail or shut down spending if there is a change in

circumstances. In short, our approach is profit maximization vs. risk minimization. This approach is a critical underpinning of both our lending and charge card product lines. Within lending, it allows an appropriate optimization between product price and available line of credit. In addition, it provides lasting competitive advantage to our charge card products, with their no-preset-spending limits.

Last year, approximately 140,000 consumer and small business card accounts spent more than \$100,000. Additionally, nearly 35,000 accounts spent more than \$250,000. In total, these customers spent more than \$38 billion. This is charge volume that is much easier for us to attract with our no-preset-spending-limit charge cards, than it is for our competitors.

Our risk management environment is strong and differentiated for several reasons.

First, our people and their corresponding experience. Our chief credit officer is a 27-year company veteran who has a deep understanding of risk, business economics and the related analytics of our consumer, small business, institutional and merchant customers. Our risk team is comprised of seasoned and highly-educated individuals who have accumulated centuries of experience. The top 30 people alone in our risk organization have more than 325 years of experience at American Express.

Second, is our customer-level approach to managing credit. Based on our multiple card strategy, we strive to manage credit at the customer level vs. the product level.

Third, is our charge card product line and its implications on credit. On the charge card, we underwrite every single transaction and, because of our closed loop network and our models, we can understand patterns that allow us to make more informed authorization decisions. This results in increased share of wallet, but it also provides excellent credit control.

The charge card's 30-day pay-in-full nature provides an early warning signal across the entire customer relationship relative to any trouble. We carefully track remittance patterns, and when a pattern is broken, we quickly look to assess if there is an issue. If there is, we can take action on a credit card product the customer might also own. Our competitors do not have the same early warning system, and a troubled customer can hide from the issuer for months simply by making the minimum payment.

Fourth, is our closed loop and the competitive advantage it provides in controlling both credit and fraud. This is based on three benefits:

- Having a good understanding of the merchant's risk environment;
- The information we receive at point-of sale; and,
- Our ability to have direct communication with the merchant.

For example, our direct relationships with both cardmembers and merchants enable us to provide a verification service for mail order and Internet merchants. If a merchant is suspicious that a purchase may be fraudulent, the merchant can call a special unit. We will then contact the cardmember to verify the legitimacy of the purchase before the goods are shipped.

This service helps our merchant partners by preventing lost inventory to fraud and avoiding chargebacks. And, we prevent cardmembers from having to deal with a fraudulent transaction on their bill.

And finally, as both Ken and I have mentioned, our emphasis on rewards has been a big positive for our credit quality. Customers with accumulated reward points don't want to lose them. The Membership Rewards Program acts as a carrot to encourage cardmembers to spend and to pay us, and as a stick in negotiating point recovery for cardmembers who have gone delinquent.

To further illustrate the impact of Membership Rewards on credit, I thought it might be helpful to look at the relationship between the growth in charge card spending and charge card loss provision. This chart shows that, if you go back to 1995 when we launched Membership Rewards, total U.S. consumer and small business charge card spending has increased by 67 percent, while the loss provision for those segments decreased 6 percent over the same period.

So, as you can see, we have a wide array of excellent, proven tactics and tools available to us for growth.

Now let me turn to the final topic -- **new or relatively new tactics that will also drive future growth**. I will touch on a few tactics that are under way and not terribly sensitive from a competitive point of view. You can be sure, though, that we have other ideas and tactics in the works for the future.

- Coverage expansion represents enormous upside for our business. My colleagues in our Establishment Services business are focused on increasing our coverage in key geographies and cracking new industries that historically have not accepted general purpose plastic at all. For example, the wholesale category for the small business segment, rent and health care for individual consumers, and recurring billing, represent large areas for growth.
- Extending our successful multiple card strategy to relationships that begin with a credit card, rather than a charge card. Now we will work to get credit card customers -- both proprietary and cobrand -- to take a second credit card product to help them compartmentalize their spending and we are testing the cross-sell of a charge card to select credit cardmembers.
- The multiple card strategy extensions will be part of our overall effort to win additional spend and accounts receivable from our higher spending credit cardmembers. And, we know that the opportunity exists and it is large. When we look at the credit bureaus, we see that our consumer and small business Delta and Costco credit card customers alone hold billions of dollars in revolving balances on competitor products.
- In looking ahead, another area of intensified focus will be our very highest spending small business and individual consumer customers. This includes Platinum and Centurion card members, but extends well beyond these two products; particularly in the small business owners segment, where there are a meaningful number of very high spenders.

We think we have done a very good job providing relevant products to these customers. But our plan is to take our entire business for our highest spending customers to the next level. Our goal with this focus is partly to recognize their special levels of contribution but, at its core, our primary objective is to drive increased loyalty and capture an ever-higher share of wallet.

We have also engaged in a concerted effort to treat these customers in special ways. This approach is not a branded, marketed, external program, but it is the way we serve these customers.

We have a very results-oriented culture. If we set goals, and measure progress, we achieve results. We have begun to measure and track our interactions with our high-spending customers at many touchpoints. This year we are even rating our Service Network employees on customer satisfaction levels among this key group of cardmembers, in addition to the satisfaction levels of our total customer base.

We are also measuring our progress in migrating already very good customers to higher spending levels. Our experience has proven that there is tremendous upside in loyalty marketing, and we plan to take it to a new level for our “excellent” customers.

- Another area of intense focus is customer retention. This has been an important process for us for years and something that has worked well. But, after a close examination last year, we determined that:
  - Our measurement process could be even more robust and insightful;
  - Our process had a bias for saving all cards vs. a differentiated focus on cards that represent “good” spending;
  - Our process was too mechanical and not segmented enough; and
  - Too many “save” opportunities were not getting to our special expert units.

In short, we have had a very good process, but we are pushing to take it to new levels. We have assembled a strong team and we are charting a course to make our customer retention process even more effective.

Just to give you a sense of the upside here, if we can improve attrition among our average customers by simply 100 basis points, we can retain almost \$1 billion in annual spending.

So, in closing on this section, we will have new opportunities to drive future growth. These opportunities will come in the form of:

- Coverage Expansion;
- New and enhanced capabilities; and
- Intensified focus on driving current processes to the next level.

Additionally, we will always be exploring new channels, new partnerships and new or enhanced product opportunities.

## **Summary**

Now, a few quick, but important summary points.

Ken started this discussion with an overview of the basic spend model which is the core of our payments business. It begins with:

- An attractive cardmember base;
- With higher average spending;
- Driving premium economics;
- Which creates a pool of investment dollars from which we can initiate actions to drive the continuous advancement of this virtuous circle.

Over the last 50 minutes or so, I have attempted to illustrate that in the U.S. consumer and small business owner segments, we have a focused strategy, supported by a rich set of initiatives for

driving growth grounded on this model. There are a number of proven levers available to us and we will continue to seek to create new and more effective levers. We also track our progress carefully and constantly reevaluate the allocation of our investment dollars. Among the allocation options we continually consider are:

- Consumer vs. small business;
- New card acquisition vs. loyalty initiatives;
- Product A vs. Product B vs. Product C;
- Investing in marketing vs. investing in a capability enhancement; and
- There are many others as you peel the onion back just a little bit.

We have a lot of excellent choices and we spend time carefully determining the best course of action at different points in time.

That said, I have reviewed the levers for two segments of our U.S. card business. In the U.S., we also have a strong position and many good growth and investment opportunities in Corporate Card segments. If you then consider all of the markets we operate in around the world, we have an exponentially higher number of opportunities for growth.

It is the assets and actions available to us, and the range of places in which we have the ability to invest, that gives us the confidence that we can continue to prosper.

Thanks and now we will open up the session to Q&A.

## 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.*