

AMERICAN EXPRESS BANK, FSB

Business

American Express Bank, FSB (“FSB”) was incorporated under United States law as a federal savings bank in 2000 and received Federal Deposit Insurance Corporation (“FDIC”) insurance in the same year. Its principal office is located at 4315 South 2700 West, Salt Lake City, Utah 84184. FSB is a wholly-owned subsidiary of American Express Travel Related Services Company, Inc. (“TRS”). FSB commenced its current operations as American Express Bank, FSB in January 2004.

The information about FSB presented below is qualified in its entirety by reference to and should be read in conjunction with FSB’s Thrift Financial Reports for the years ended December 31, 2005 and 2004.

FSB issues OPEN from American Express (“OPEN”) and American Express co-branded revolving credit cards in the United States and owns most of the receivables arising from the use of these cards. FSB is also the issuer of certain OPEN charge cards. In addition, FSB has outstanding lines of credit in association with certain OPEN charge cards and offers unsecured loans to cardmembers in connection with its Sign & Travel and Extended Payment Option programs. The Sign & Travel program gives qualified United States cardmembers the option of extended payments for airline, cruise and certain travel charges that are purchased with the charge card. The Extended Payment Option offers qualified United States cardmembers the option of extending payment for certain charges on the charge card in excess of a specified amount.

In addition, FSB offers Consumer Banking, an online banking service that provides consumers with high-value products, such as ATM access with rebates on surcharges from other banks, competitive rates on deposits and lending products and the convenience of banking by the Internet, telephone, ATM or mail.

In April 2004, FSB entered into a transaction with an affiliate, American Express Centurion Bank “AECB”, wherein FSB acquired the OPEN, Co-Brand and Consumer Banking assets of AECB and assumed certain AECB liabilities including the retail deposit portfolio. The transaction was based on net book value and no gain or loss was recorded. Selected ratios and key statistics are calculated using FSB activity subsequent to this transaction.

In addition to earning finance charge revenues, FSB also receives revenue from cardmember fees and discount revenue from service establishments. The cardmember account is offered in different versions with a variety of features and terms, including co-branded cards, cards with differing rates, fees and grace periods, and cards with additional features such as rebates.

Total loans from lending activities were \$13.3 billion and \$10.8 billion as of December 31, 2005 and 2004, respectively. FSB’s charge-offs, net of recoveries, as a percentage of average loans was 3.98 percent and 2.92 percent in 2005 and 2004, respectively. The reserve rate as a percentage of total loans was 2.60 percent and 3.41 percent as of December 31, 2005 and 2004, respectively. The delinquency rate as a percentage of total loans was 2.50 percent and 2.67 percent as of December 31, 2005 and 2004, respectively.

FSB funds its lending activities principally through the sale of certificates of deposits to the public and to affiliates of TRS and through borrowings from banks and affiliates. As of December 31, 2005 and 2004, FSB had \$7.9 billion and \$6.0 billion of certificates of deposit and other deposits outstanding, \$4.1 billion and \$3.1 billion in bank notes outstanding and \$0.8 billion and \$1.1 billion in other borrowed funds and federal funds purchased, respectively. In 1996, TRS created the American Express Credit Account Master Trust, (the “Trust”) to securitize certain United States cardmember revolving credit loans. At December 31, 2005 and 2004, FSB’s portion of outstanding issuances was \$7.1 billion and \$6.2 billion, respectively.

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Results of Operations

Years Ended December 31, 2005 and 2004

FSB reported earnings of \$493 million and \$339 million for the years ended December 31, 2005 and 2004, respectively. This earnings level was supported by loans outstanding of \$13.3 billion and \$10.8 billion as of December 31, 2005 and 2004, respectively. In 2005 and 2004, return on average assets was 3.77 percent and 3.07 percent, respectively.

Interest income increased to \$1.6 billion in 2005 compared to \$811 million in 2004 as a result of 2005 including twelve months of activity compared to only eight months in 2004, increased average loan balances and increased average yields on the portfolio due to the increasing interest rate environment in 2005.

Interest expense increased to \$352 million in 2005 compared to \$110 million in 2004 as a result of 2005 including twelve months of activity compared to only eight months in 2004, increased average deposit balances and higher effective cost of funds due to an increasing interest rate environment in 2005.

Provision for loan losses increased to \$441 million in 2005 compared to \$284 million in 2004 reflecting the higher average loan balances in 2005. At December 31, 2005 and 2004, FSB reserves as a percent of delinquencies were 104 percent and 128 percent, respectively. Accounts are charged-off when six contractual payments become past due or earlier if the account is deemed uncollectible. The charge-off rate for the years ended December 31, 2005 and 2004 was 3.98 percent and 2.92 percent, respectively.

Non-interest income and non-interest expense increased to \$2.3 billion and \$2.4 billion from \$1.6 billion and \$1.4 billion, respectively, reflecting a full year's activity in 2005.

Income tax provision of \$275 million or 35.8 percent in 2005 compares favorably to 2004 of \$207 million or 37.9 percent. The reduction in the effective rate in 2005 reflected a lower combined state tax rate in 2005.

As of December 31, 2005 and 2004, FSB exceeded the Office of Thrift Supervision ("OTS") "well-capitalized" levels for tier 1, total risk based and tier 1 risk based capital. The tier 1 rates in 2005 and 2004 were 10.72 percent and 10.68 percent, respectively. The total risk based rates in 2005 and 2004 were 12.62 percent and 11.58 percent, respectively. The tier 1 risk based rates in 2005 and 2004 were 11.35 percent and 10.31 percent, respectively.

The selected financial information reflects restatement adjustments made to the 2004 financial information in the FSB's Thrift Financial Report as originally issued by FSB. FSB has agreements with its affiliates to provide various services such as operational support, data processing, marketing, legal and other services to FSB. In certain instances, these agreements were accounted for on the cash basis of accounting and have accordingly been restated to reflect these agreements on an accrual basis of accounting. The impact of this restatement to FSB for the year ended December 31, 2004 was a decrease of \$56 million to net income.

CAPITALIZATION OF AMERICAN EXPRESS BANK, FSB

The following table sets forth the consolidated capitalization of FSB:

(in millions)	As of December 31,	
	2005	2004
Deposits liabilities:		
Less than one year	\$ 7,905	\$ 5,966
Greater than one year	11	23
Total	\$ 7,916	\$ 5,989
Short-term indebtedness:		
Federal funds	\$ 845	\$ 1,063
Medium-term bank notes	3,300	1,702
Total	\$ 4,145	\$ 2,765
Long-term indebtedness:		
Medium-term bank notes due after 1 year	\$ 800	\$ 1,350
Shareholder's equity:		
Common stock	\$ -	\$ -
Capital surplus	1,290	1,290
Undivided profits and capital reserves	481	117
Total shareholder's equity	\$ 1,771	\$ 1,407
Total capitalization	\$14,632	\$11,511

SELECTED FINANCIAL INFORMATION OF AMERICAN EXPRESS BANK, FSB

(in millions)	As of December 31,	
	2005	2004
Balance Sheet Data:		
Assets:		
Cash and cash equivalents	\$ 33	\$ 41
Investments	1,563	589
Loans	13,338	10,806
Reserves	(347)	(369)
Loans, net	12,991	10,437
Other assets	956	1,107
Total assets	\$15,543	\$12,174
Liabilities and Shareholder's Equity:		
Deposit liabilities	\$ 7,916	\$ 5,989
Federal funds purchased	845	1,063
Other borrowings	4,100	3,052
Total debt	12,861	10,104
Other liabilities	911	663
Total liabilities	13,772	10,767
Total shareholder's equity	1,771	1,407
Total liabilities and shareholder's equity	\$15,543	\$12,174

(in millions)	As of December 31,	
	2005	2004 (2)
Selected Ratios:		
Return on average assets	3.77%	3.07%
Return on average shareholder's equity	30.07%	22.89%
Tier 1 capital ratio	10.72%	10.68%
Total risk based capital ratio	12.62%	11.58%
Net charge-offs/average loans	3.98%	2.92%
Reserves/past due & non-accrual loans (1)	104%	128%

(1) Past due and non-accrual loans are based on the Thrift Financial Report definitions for all balances that are 30 days past due and still accruing plus all non-accrual loans.

(2) Averages are calculated using the period May through December.

SELECTED FINANCIAL INFORMATION OF AMERICAN EXPRESS BANK, FSB

(in millions)	As of December 31,	
	2005	2004
Operating Data:		
Interest income	\$ 1,596	\$ 811
Interest expense	352	110
Net interest income	1,244	701
Provision for loan losses	441	284
Income after provision for loan losses	803	417
Non-interest income	2,344	1,551
Non-interest expense	2,379	1,422
Net non-interest (expense) income	(35)	129
Pretax income	768	546
Income tax provision	275	207
Net income	\$ 493	\$ 339

(in millions)	As of December 31,	
	2005	2004 (1)
Key Statistics:		
Average assets	\$13,083	\$11,052
Average equity	1,639	1,483
Average loans	11,550	10,113
Risk-based assets (net)	14,051	11,736
Tier 1 capital	1,654	1,287
Total risk based capital	1,773	1,359
Past-due & non-accrual loans	334	289
Net charge-offs	460	295

(1) Averages are calculated using the period May through December.