

## 2Q 2006 EARNINGS CONFERENCE CALL

### Talking Points: Ron Stovall

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- Welcome, we appreciate all of you joining us for today's discussion.
- Safe Harbor Reminder – The discussion today contains certain forward-looking statements about the Company's future financial performance and business prospects, which are subject to risks and uncertainties and speak only as of today. The words "believe," "expect," "anticipate," "optimistic," "intend," "plan," "aim," "will," "should," "could," "likely," and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements, including the Company's financial and other goals, are set forth within today's earnings press release, which was filed in an 8-K report, and in the Company's 2005 10-K report, already on file with the Securities and Exchange Commission.
- In the Second Quarter 2006 Earnings Release and Supplement, which are now posted on our website at [ir.americanexpress.com](http://ir.americanexpress.com) and on file with the SEC in an 8-K Report, we have provided information that compares and reconciles the Company's pro forma return on equity to be discussed today with our consolidated return on equity, as well as the U.S. Card Services segment's managed basis financial measures with the GAAP financial information, and we explain why these presentations are useful to management and to investors. We urge you to review that information in conjunction with today's discussion.
- Gary Crittenden, Executive Vice President and Chief Financial Officer of American Express, will provide some introductory remarks highlighting the key points related to today's announcement.
- Once he completes his remarks, we will turn to the moderator who will announce your opportunity to get into the queue for the Q&A period. Up until then, no one has actually registered to ask questions.
- While we will attempt to respond to as many of your questions as possible before we end the call, we do have a limited amount of time. Based on this, we ask that you limit yourself to one question at a time during the Q&A.
- With that, let me turn the discussion over to Gary.

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- Welcome and thank you for joining us today.
- As you have seen in the earnings documents distributed earlier today, our second quarter results reflect a continuation of the strong business momentum we reported throughout 2005 and in the first quarter of 2006, and the ongoing benefits of our investments in a broad range of business-building initiatives.
- When you compare our financial results from continuing operations for the second quarter to last year's results:
  - Total Revenues grew 14%;
  - Income increased 13%; and
  - Diluted EPS of \$0.78 rose 13%.
- In addition, reported ROE for the quarter was 30%. As you know, this calculation reflects net income and average equity over the prior twelve-month period, which includes the earnings and capital from our discontinued operations.
- Pro forma ROE, which is determined using the trailing twelve-month's income from continuing operations over average shareholders' equity during the period from September 30, 2005 through June 30, 2006 was 33%. This is the last quarter that we will report this pro-forma ROE since next quarter's reported calculation will already reflect a full year of post-spin off results.
- Second quarter results from continuing operations included two significant items that impacted the Income Statement.
  - A \$144MM (\$131MM after-tax) gain related to the completion of the sale of our card and merchant related operations in Brazil; and
  - A \$62MM (\$40MM after-tax) charge related to a higher redemption rate estimate within the non-U.S. Membership Rewards reserve model.
- The quarter also included \$53MM (\$34MM after-tax) of reengineering costs.
- The impact of the sale of our operations in Brazil has two components:
  - The \$131MM after-tax gain that I just referenced, which was reported within our continuing operations, and
  - A \$22MM after-tax loss which was reported within our discontinued operations.
- The discontinued operations loss reflects the impact of the sale of our Brazilian banking operations, a business from which we have exited within this market.
- The continuing operations gain reflects the sale of our card and merchant-related activities where we will maintain an active presence in Brazil, but will do so through our GNS partnerships. Because we sold both our card issuing and merchant-related activities, the

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gain was allocated between the International Card and Global Commercial Services and Global Network and Merchant Services segments accordingly.

- Since the sale closed on June 30<sup>th</sup>, the consolidated and segment P&Ls as well as quarter-to-date metrics still include the effects throughout the quarter of the businesses sold. However, balance sheet results and period-end metrics such as cards-in-force, have been adjusted to reflect the impact of the transaction.
- During the quarter, we returned 118% of total capital generated to our shareholders through share repurchases and dividends.
  - We repurchased a higher level of shares this quarter after our activity was reduced last year in light of the capital implications of the spin-off of Ameriprise. Since 1994, we have returned 68% of capital generated to shareholders, which is above our 65% long term target.
- In the quarter, the Board authorized a 25% increase in our quarterly dividend, raising it to \$0.15 per share, as well as the repurchase of up to 200 million additional common shares, to be repurchased over time, as market conditions allow.
- The strong revenue growth in the quarter reflects increases in discount revenue, cardmember lending net finance charge revenue, securitization income and various card-related fees, all of which reflect the excellent spending, lending and cards in force growth achieved during the quarter.
  - Each of our customer segments and major geographic regions contributed to this growth.
- Worldwide card billed business increased 16% versus last year on both a reported basis and an FX-adjusted basis.
- In our U.S. proprietary business:
  - Consumer spending grew 14%;
  - Small business spending rose 18%; and
  - Corporate Services volume improved by 15%.
- In total, U.S. non-T&E related volumes, which represented approximately 65% of U.S. billings, grew 16%, while T&E-related spending rose 13%.
- Outside the U.S., proprietary billed business growth was 15% on an FX-adjusted basis as we saw 15% growth within our consumer and small business activities and 17% growth within Corporate Services' volumes. In addition, we achieved double-digit growth within each major region around the globe.
- And finally, within Global Network Services, billed business rose 31%, driven by strong growth outside of the U.S., that again exceeded 20%, as well as robust growth within the

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U.S. Excluding the impact of the first quarter transfer of corporate card activities in certain emerging markets from GNS to the International Card and Global Commercial Services segment, billed business growth was even stronger.

- Worldwide cards in force grew 11%, marking the strongest quarterly growth rate since the second quarter of 2001. We added 1.9MM net new cards during the quarter and 7.1MM net new cards since last year, reflecting 6% growth versus last year in proprietary cards and 42% growth in network partner cards. If you adjust for the 1.3MM cards in Brazil transferred from the proprietary International Card business to GNS, proprietary growth was 7% and network card growth was 28%.
- Spending per proprietary basic card in force grew 7% worldwide, despite the suppressing effect of the substantial card additions over the past few years.
- During the quarter, our average discount rate was 2.57% versus 2.59% last year and 2.58% last quarter.
  - The decrease continues to reflect selective repricing initiatives and ongoing changes in the mix of spending between various merchant segments.
- Worldwide lending balances on an owned basis rose 29%. On a managed basis, balances grew 16% on 15% growth in the U.S. portfolio and a 21% increase outside the U.S. The net finance charge revenue as a percentage of average loans increased versus last quarter and last year. As you may remember, last quarter's reported rate was suppressed by costs related to higher than anticipated cardmember completion of consumer debt repayment programs. Over the past few years, we've seen this metric trend upward, despite the rising interest rate environment, reflecting our concentrated efforts to shift the lending receivable portfolio from fixed to variable pricing, as we have discussed previously.
- Securitization income rose 26% as a higher portfolio yield and substantially lower write-offs were partially offset by greater interest expense.
- Travel commissions and fees decreased 4%, reflecting lower average transaction fees due, in part, to the ongoing transition to on-line booking. Total travel sales were up 5%, despite a lower level of transactions, as U.S. consumer travel sales continued to grow rapidly--increasing 34%--and global corporate and international consumer sales rose 2%.
- Human resource expenses increased 1% versus last year as merit increases and greater benefit costs were partially offset by lower severance-related expenses.
- Marketing, promotion, rewards and cardmember services costs increased 16% reflecting both greater rewards costs and higher marketing and promotion expenses.
- Increases in rewards costs continue to reflect strong spending growth, higher redemption rates and increasing cardmember participation. In addition, the rewards expense growth reflected a decision to modify the ultimate redemption rate assumption within our non-U.S. Membership Rewards reserve model, in order to reflect more recent redemption trends.

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- In the first quarter, we spoke to you about rewards program changes over the last four to five years that have been geared toward enhancing program utilization levels, and have resulted in rising reward redemptions. As a result, you will recall, within the first quarter we modified the redemption rate assumption in our U.S. Membership Rewards reserve model to reflect redemption trends over the past five years. After completing the analysis of our non-U.S. programs during the second quarter, we are now making a similar modification in these models. We believe this modification appropriately captures the impact of reward program enhancements on the redemption rate by focusing the redemption rate assumption around five years of data, which incorporates a rich enough data set that is more reflective of current trends.
- The total provision for losses and benefits increased 16% as the lending provision and the investment certificate and other provision rose by 48% and 7%, respectively, while the charge card provision declined by 18%.
  - The increase in the lending provision was driven by higher loss rates outside the U.S., primarily in Taiwan, and increased loan volumes globally, partially offset by the favorable impact of lower bankruptcy-related charge-offs and strong credit quality in the U.S.
  - The charge card provision decline reflects improved loss rates versus last year, and improved results within our collections activities in the U.S., partially offset by higher volumes worldwide.
  - The growth in the other provision was due to higher interest rates on larger investment certificate balances.
- Interest expense increased 33%\* versus last year, driven by higher funding costs and a greater average receivable balance.
- Growth in the remaining operating expenses reflects the impact of increased volumes and last year's 9/11 insurance benefit, partially offset by this year's gain on the sale of our operations in Brazil and lower reengineering costs.
- The consolidated tax rate of 33% for the quarter increased from 23% last year. This year's rate reflects the relatively low effective tax rate on the Brazil gain, offset by higher tax expense due to uncertainty regarding the Company's ability to obtain tax benefits for certain expenses attributable to foreign subsidiaries. Last year's lower effective tax rate reflected the \$87MM benefit related to an IRS audit of previous years' tax returns.

#### Summary/Outlook:

- With that, let me conclude with a few final comments.

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\* Revised on August 4, 2006 from prior disclosure issued on July 24, 2006.

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- We again delivered strong revenue and earnings growth during the quarter while continuing to invest in the business and maintaining substantial balance sheet strength.
- This quarter's results continue to illustrate healthy momentum throughout our proprietary payments business, as well as our network business, and our competitive position is strong. This strength is evidenced by the gap between our spending and lending growth rates and our competitors' rates -- which persists despite the tougher comparison we face to our stronger growth rates in last year's quarter.
- To ensure that we are positioned to invest in growth opportunities, we continue to reengineer the business. While this will likely generate reengineering-related expenses from period-to-period, it will position us to continue to effectively control underlying operating expense growth.
- We've seen continued positive momentum in our Global Network Services business, where we delivered 31% billings and 42% cards in force growth this quarter, with strong contributions from both our U.S. and international network partners. This quarter in the U.S., we successfully launched our first cards as part of our partnership with Bank of America and USAA. Internationally, we continue to realize strong growth from our network relationships, which now span more than 100 countries. These businesses not only provide strong results in their own right, but also serve as an important complement to our proprietary business by expanding our breadth and depth of merchant coverage.
- We remain optimistic about the opportunities available within the payments industry. We believe that relatively low current levels of plastic penetration within the geographies and customer segments in which we operate provide significant opportunity for American Express to drive additional spending to our network, further penetrating cash and check payments.
  - As you know, even the more mature U.S. consumer segment still only has around 40% of total spending penetrated by plastic. Outside the U.S., within the U.S. small business segment, and within the global middle market sector, penetration rates are even lower.
- The strong card growth achieved over recent quarters, which has trended upwards from 7% in the first quarter of 2004 to 11% this quarter, demonstrates the benefits of our recent acquisition-related investments. This growth in cards provides volume growth potential over multiple years as these customer relationships mature and the expanded customer base further enhances AXP's market relevance.
- This card growth is particularly important in light of our ability to drive customer spending. AXP's vertically-integrated revenue model, which encompasses the issuer, acquirer and network revenue streams, and is enabled by our closed loop network, provides fundamental advantages versus other industry players who operate in only one or a few aspects of the payment industry value chain.

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- By focusing on leveraging the robust customer, transaction and merchant data our network provides, we believe that we can continue to create compelling products and services that operate like a discrete marketplace, by linking our cardmembers to merchant offers and helping to drive incremental spend.
- In summary, our recent business success, coupled with our strong track record of innovation, product development and customer-focused marketing, makes us confident that we are positioned to continue to drive attractive growth and returns into the future.
- Thanks for listening. We are now ready to take your questions.