

## 3Q 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 Third 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 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 third quarter results reflect a continuation of the strong business momentum we reported throughout 2005 and the first half 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 third quarter to last year's results:
  - Net revenues grew 12%;
  - Income increased 11%; and
  - Diluted EPS of \$0.78 rose 13%.
- In addition, ROE for the quarter was 34%. As you know, the end of this quarter marks the one-year anniversary of the Ameriprise spin-off. Therefore, we are no longer reporting a pro-forma ROE since the reported metric, which is computed on a trailing 12-month basis, is now impacted to a much smaller degree by the results from discontinued operations.
- This quarter's results included \$33MM (\$24MM after-tax) of gains related to the sales of our card and merchant operations in Malaysia and Indonesia. These gains are fully allocated to the International Consumer & Global Commercial Services ("ICGCS") segment.
  - In conjunction with these sales, Independent Operator agreements were signed with Maybank in Malaysia and Bank Danamon in Indonesia. As a result, this quarter's results reflect the transfer of approximately 200K cards in force and the associated billed business from the ICGCS segment to the Global Network & Merchant Services ("GNMS") segment.
- While these sales and the sale of our Brazilian operations last quarter negatively impact the card results within ICGCS, the key underlying card metrics continue to be strong. This strength is not fully evident as the segment's revenue and income growth is negatively impacted by the international bank's results, which continue to be pressured by interest rates, and the corporate travel environment, which remains challenging.
- Last year's quarter included:
  - A \$105MM tax benefit from the resolution of a prior year tax item, and
  - A \$49MM (\$32MM after-tax) provision to reflect the estimated costs related to Hurricane Katrina.
- Both quarters also included reengineering costs, which totaled \$12MM (\$8MM after-tax) this year versus \$86MM (\$56MM after-tax) last year.

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- During the quarter, we returned 81% and year-to-date we have returned 97% of total capital generated to our shareholders through share repurchases and dividends.
  - We repurchased a higher level of shares this quarter, versus last year, as our activity was reduced last year in light of the capital implications of the Ameriprise spin-off.
  - Since 1994, we have returned 68% of capital generated to shareholders, which is above our 65% long term target.
- Before I delve further into the results, I want to address this quarter's reporting revisions within our U.S. Card Services segment. In order to best highlight the GAAP results and managed information for this business, we have presented and discussed the GAAP P&L and then provided a separate reconciliation of the GAAP to managed results for the line items significantly affected by our securitization activities. While this varies from our prior presentation, I think you will find that all of the important information we have provided historically is still available within this revised format.
- With regard to our results, the strong revenue growth in the quarter reflects increases in discount revenue, cardmember lending net finance charge revenue and securitization income, all of which reflect the excellent spending, lending and cards in force growth achieved during the quarter.
- Billed business growth remained strong despite the particularly high "grow-over" hurdle our 18% growth performance in 3Q '05 represented.
- Each of our customer segments and major geographic regions contributed to our card-related metric growth during the quarter.
- Worldwide card billed business increased 15% versus last year on a reported basis and 14% on an FX-adjusted basis.
- In our U.S. proprietary business:
  - Consumer spending grew 11%;
  - Small business spending rose 15%; and
  - Corporate Services volume improved by 14%.
- In total, U.S. non-T&E related volumes, which represented approximately 68% of U.S. billings, grew 15%, while T&E-related spending rose 11%.
- Outside the U.S., proprietary billed business growth was 10% on an FX-adjusted basis as we saw 9% growth within our consumer and small business activities and 14% growth within Corporate Services' volumes. In addition, excluding the impact of the sales of our Brazilian operations last quarter and our Malaysian and Indonesian operations this quarter, we achieved 14% FX-adjusted proprietary growth outside the U.S. and double-digit growth within each major region around the globe.
- And finally, within Global Network Services, billed business rose 62%, driven by strong growth outside of the U.S., as well as robust growth within the U.S. Excluding the impact of

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the transfer of the cards and spending associated with the independent operator agreements established within Brazil, Malaysia and Indonesia, billed business growth was 41%, as the underlying growth outside the U.S. again exceeded 20% and U.S.-related volumes more than doubled.

- Worldwide cards in force continued to grow at the highest level since the second quarter of 2001, increasing 11%. We added 2.1MM net new cards during the quarter and 7.5MM net new cards since last year, reflecting 5% growth versus last year in proprietary cards and 46% growth in network partner cards. If you adjust for the 1.5MM cards transferred from the proprietary International Card business to GNS, proprietary growth was 7% and network card growth was 30%.
- You will note that, despite strong growth in cards in force and a relatively flat average fee per card, our net card fee revenue decreased 10% this quarter. This reflects the reclassification, effective July 1, 2006, of certain card acquisition-related costs which are now reported as contra-revenue within the net card fee line, rather than as operating expenses. This reclassification suppressed total revenue growth by approximately one percent, but had no effect on net income and is not included in the average fee per card calculation.
- Spending per proprietary basic card in force grew 6% worldwide, despite the suppressing effect of the substantial card additions over the past few years.
- Our average discount rate remained flat to last quarter at 2.57% and declined one basis point versus last year.
  - 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 28%. On a managed basis, balances grew 16% on 15% growth in the U.S. portfolio and a 20% increase outside the U.S.
- The net finance charge revenue as a percentage of average loans increased versus last year and held steady versus last quarter.
- Securitization income rose 9% as a higher portfolio yield and lower write-offs were partially offset by greater interest expense and a lower level of securitized assets.
- Travel commissions and fees increased 1%, reflecting a 6% increase in travel sales, a moderately lower transaction level, and lower average transaction fees due, in part, to the ongoing transition to on-line booking. U.S. consumer travel sales continued to grow rapidly--increasing 24%--and global corporate and international consumer sales rose 2%.
- Human resource expenses increased 1% versus last year as merit increases and greater benefit and management incentive costs were partially offset by lower severance-related expenses and a lower level of employees.

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- Marketing, promotion, rewards and cardmember services costs increased 7% reflecting greater rewards costs, partially offset by moderately lower levels of marketing and promotion spending. Marketing expenses continued to reflect relatively high levels of spending related to various business-building initiatives but lower costs related to the Company's ongoing, global "My Life, My Card <sup>(SM)</sup>" advertising campaign, which was in a particularly active phase last year.
  - Increases in rewards costs continue to reflect strong spending growth, higher redemption rates and increasing cardmember participation.
- The total provision for losses and benefits increased 8% as the lending provision and the investment certificate and other provision rose by 13% and 70%, respectively, while the charge card provision declined by 14%.
  - The increase in the lending provision was driven by higher 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 a lower loss rate, Katrina-related reserves 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 36% 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 on outsourcing costs within our technology, cardmember servicing, and credit and collections activities.
- The consolidated tax rate of 29% for the quarter increased from 20% last year. Last year's lower effective tax rate reflected the \$105MM benefit related to an IRS audit of previous years' tax returns. This year's rate reflects various items which lowered the effective rate modestly.

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#### Summary/Outlook:

- With that, let me conclude with a few final comments.
- 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, where comparisons to notably high growth rates last year were particularly difficult.
- Growth within our network business accelerated even if you exclude the benefits of the Brazilian, Malaysian and Indonesian independent operator agreements.
- Our competitive position continues to be strong as growth in cardmember spending and borrowing was again at the top of the industry.
- Furthermore, our position among affluent cardmembers and high spenders remains strong and is continually supported by our focus on leveraging our direct merchant relationships, the unique information benefits of our closed loop network, and our attractive loyalty programs to deliver premium, differentiated offerings to our customers while driving incremental spend to our merchants. We also believe that these advantages and our position within the marketplace are not easily replicated by our competitors.
- As I mentioned, this quarter represents the one-year anniversary of the spin-off of Ameriprise. Over the last year, the Company has become even more focused around driving our spend-centric strategy and has delivered strong organic growth results while continuing to leverage some of our unique assets—including our brand, our closed loop network and our information management capabilities—to continue to identify and pursue high growth/high return opportunities within the payments industry.
- And we are optimistic about the growth opportunities within this industry. We've spoken to you in the past about the plastic penetration "upside" we see, given the relatively low levels of spending currently on plastic throughout the geographies and customer segments in which we operate. Our continued focus on growing merchant coverage, and targeting customers with compelling products and offers that drive their spending, will enable us to capture more of this spending on our network, supporting our organic growth objectives.
- We also feel uniquely positioned, given our vertically-integrated payments infrastructure, which encompasses the issuer, acquirer and network activities, to continue to innovate and drive our business toward new or "expanded" growth opportunities that meet or exceed the high growth/high return criteria established by the organic business.

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- Some of the immediate growth opportunities we see that both embody the spend-centric model and position us to drive growth and market share are:
  - Our GNS business, in which we have established a strong foundation through the network of bank partnerships we've forged outside of the U.S. over the past 10 years and the initial progress we've seen in signing and ramping-up bank partnerships within the U.S. This foundation, combined with the strong ROE profile of these activities, make us very optimistic about the business' future growth potential;
  - Our small business segment, particularly in the U.S., which is a \$2.2 trillion segment in which we have cultivated a market-leadership position, and in which plastic spend penetration is still less than 15%. The average spend within our small business segment is particularly high, driving considerable spend velocity and returns within this business, all of which make it an attractive segment on which to continue to focus.
  - Finally, our global middle market corporate business, also represents a significant opportunity given the high average spend and strong ROE profile of this charge-only business. This \$950 billion segment is less than 10% penetrated by plastic. We have made considerable progress in this area over the past several years, in particular by leveraging our dedicated sales force—a competitive advantage in this market—to acquire customers and drive their spending to our network. We will continue to invest in our middle market sales force, both in the U.S. and abroad, in order to further pursue the considerable growth opportunity the middle market represents.
- We are confident in our growth opportunities and we believe we are positioned well to execute against our business objectives and financial targets. However, we are also cognizant of the ongoing competitive pressures within the marketplace and the growth challenges within the economic environment. In particular, interest rate comparisons will become more difficult early next year as current hedges roll-off, and the beneficial provision-related factors from the U.S. bankruptcy law change that we are enjoying this year, will likely not be present next year.
- As a result, to ensure that we are positioned to continue to invest in growth opportunities, we remain intently focused on reengineering activities. 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. In addition, we continue to leverage our investment and balance sheet optimization disciplines to allocate capital efficiently and ensure that we are positioned to be able to continue to drive our organic growth as well as to capture the important growth opportunities we see on the horizon.

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- In summary, our recent business success and 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.