

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 Quarterly Thrift Financial Reports covering the years ended December 31, 2006, 2005 and 2004.

FSB issues OPEN from American Express (“OPEN”) and American Express co-branded revolving credit cards in the United States. FSB is also the issuer of certain OPEN charge cards. In addition, FSB has outstanding lines of credit in association with certain OPEN and consumer charge cards and offers unsecured loans to cardmembers in connection with its Extended Payment Option programs. The Extended Payment Option offers qualified United States cardmembers the option of extending payment for certain charges on the charge card.

In addition, FSB offers online banking services that provide consumers with 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 OPEN, Co-brand, and Consumer Banking assets of AECB and assumed certain AECB liabilities, including the retail 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 \$17.9 billion, \$13.3 billion and \$10.8 billion as of December 31, 2006, 2005 and 2004, respectively. FSB’s charge-offs, net of recoveries, as a percentage of average loans were 2.92 percent, 3.98 percent and 2.92 percent in 2006, 2005 and 2004, respectively. The reserve rate as a percentage of total loans was 2.15 percent, 2.60 percent and 3.41 percent as of December 31, 2006, 2005 and 2004, respectively. The delinquency rate as a percentage of total loans was 2.83 percent, 2.50 percent and 2.67 percent as of December 31, 2006, 2005 and 2004, respectively.

FSB funds its lending activities principally through the sale of certificates of deposits and through borrowings from banks and affiliates. As of December 31, 2006, 2005 and 2004, FSB had \$7.5 billion, \$7.9 billion and \$6.0 billion of certificates of deposit and other deposits outstanding, \$7.0 billion, \$4.1 billion and \$3.1 billion in bank notes outstanding and \$0.6 billion, \$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, 2006, 2005 and 2004, FSB’s portion of outstanding issuances was \$6.6 billion, \$7.1 billion and \$6.2 billion, respectively.

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Results of Operations

Years Ended December 31, 2006, 2005 and 2004

FSB reported earnings of \$795 million, \$493 million and \$339 million for the years ended December 31, 2006, 2005 and 2004, respectively. These earning levels were supported by loans outstanding of \$17.9 billion, \$13.3 billion and \$10.8 billion as of December 31, 2006, 2005 and 2004, respectively. In 2006, 2005 and 2004, return on average assets was 4.89 percent, 3.77 percent and 3.07 percent, respectively.

Interest income increased to \$1.9 billion in 2006 compared to \$1.6 billion in 2005 as a result of increased average loan balances and increased average yields on the portfolio due to an increasing interest rate environment in 2006. Interest income increased 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 an increasing interest rate environment in 2005.

Interest expense increased to \$635 million in 2006 compared to \$352 million in 2005 as a result of increased average deposit balances and higher effective cost of funds due to an increasing interest rate environment in 2006. Interest expense increased 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 \$465 million in 2006 compared to \$441 million in 2005 and \$284 million in 2004, reflecting higher average loan balances each year. At December 31, 2006, 2005 and 2004, FSB reserves as a percent of delinquencies were 76 percent, 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 as a percent of average loans for the years ended December 31, 2006, 2005 and 2004 was 2.92 percent, 3.98 percent and 2.92 percent, respectively.

Non-interest income and non-interest expense were \$3.3 billion and \$2.9 billion, \$2.3 billion and \$2.4 billion, and \$1.6 billion and \$1.4 billion in 2006, 2005 and 2004, respectively.

Income tax provision of \$471 million or 37.2 percent in 2006 compares unfavorably to 2005 income tax provision of \$275 million or 35.8 percent. The increase in the effective rate in 2006 reflected a higher combined state tax rate in 2006. Income tax provision was \$207 million or 37.9 percent in 2004. The reduction in the effective rate in 2005 reflected a lower combined state tax rate in 2005.

As of December 31, 2006, 2005 and 2004, FSB exceeded the Office of Thrift Supervision (“OTS”) “well-capitalized” levels for tier 1 core, total risk based and tier 1 risk based capital. The tier 1 core rates in 2006, 2005 and 2004 were 10.39 percent, 10.72 percent and 10.68 percent, respectively. The total tier 1 risk based rates in 2006, 2005 and 2004 were 12.20 percent, 12.62 percent and 11.58 percent, respectively. The tier 1 risk based rates in 2006, 2005 and 2004 were 10.94 percent, 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,		
	2006	2005	2004
Deposits liabilities:			
Less than one year	\$ 7,493	\$ 7,905	\$ 5,966
Greater than one year	-	11	23
Total	\$ 7,493	\$ 7,916	\$ 5,989
 Short-term indebtedness:			
Federal funds	\$ 641	\$ 845	\$ 1,063
Medium-term bank notes	3,000	1,750	1,452
Total	\$ 3,641	\$ 2,595	\$ 2,515
 Long-term indebtedness:			
Medium-term bank notes due after 1 year	\$ 4,000	\$ 2,350	\$ 1,600
 Shareholder's equity:			
Common shares	\$ -	\$ -	\$ -
Capital surplus	1,290	1,290	1,290
Retained earnings and OCI	877	481	117
Total shareholder's equity	\$ 2,167	\$ 1,771	\$ 1,407
Total capitalization	\$17,301	\$14,632	\$11,511

SELECTED FINANCIAL INFORMATION OF AMERICAN EXPRESS BANK, FSB

(in millions)

As of December 31,

	2006	2005	2004
Balance Sheet Data:			
Assets:			
Cash and cash equivalents	\$ 5	\$ 33	\$ 41
Investments	1,569	1,563	589
Loans	17,941	13,338	10,806
Reserves	(385)	(347)	(369)
Loans, net	17,556	12,991	10,437
Other assets	687	956	1,107
Total assets	\$19,817	\$15,543	\$12,174
Liabilities and Shareholder's Equity:			
Deposit liabilities	\$ 7,493	\$ 7,916	\$5,989
Federal funds purchased	641	845	1,063
Other borrowing	7,000	4,100	3,052
Total debt	15,134	12,861	10,104
Other liabilities	2,516	911	663
Total liabilities	17,650	13,772	10,767
Total shareholder's equity	2,167	1,771	1,407
Total liabilities and shareholder's equity	\$19,817	\$15,543	\$12,174

As of December 31,

	2006	2005	2004 (2)
Selected Ratios:			
Return on average assets	4.89%	3.77%	3.07%
Return on average shareholder's equity	39.47%	30.07%	22.89%
Tier 1 capital ratio	10.39%	10.72%	10.68%
Total risk based capital ratio	12.20%	12.62%	11.58%
Net charge-offs/average loans	2.92%	3.98%	2.92%
Reserves/past due & non-accrual loans (1)	76%	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,		
	2006	2005	2004
Operating Data:			
Interest income	\$ 1,943	\$ 1,596	\$ 811
Interest expense	635	352	110
Net interest income	1,308	1,244	701
Provision for loan losses	465	441	284
Income after provision for loan losses	843	803	417
Non-interest income	3,292	2,344	1,551
Non-interest expense	2,869	2,379	1,422
Net non-interest (expense) income	423	(35)	129
Pretax income	1,266	768	546
Income tax provision	471	275	207
Net income	\$ 795	\$ 493	\$ 339

(in millions)

	As of December 31,		
	2006	2005	2004 (1)
Key Statistics:			
Average assets	\$16,255	\$13,083	\$11,052
Average equity	2,014	1,639	1,483
Average loans	14,457	11,550	10,113
Risk-based assets (net)	18,443	14,051	11,736
Tier 1 capital	2,046	1,654	1,287
Total risk based capital	2,250	1,773	1,359
Past-due & non-accrual loans	508	334	289
Net charge-offs	422	460	295

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