

## 3Q 2007 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 2006 10-K report, already on file with the Securities and Exchange Commission.
- In the Third Quarter 2007 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 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.
- Dan Henry, 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 Dan.

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- Thanks Ron and thanks to everyone for joining the call today.
- I'm very pleased to address the results for this quarter. As Ron mentioned, I'll make some introductory remarks and then we will open the line to take your questions.
- As you've seen in the earnings documents, our third quarter results were a continuation of the strong business momentum we've reported throughout recent years. They reflect the benefits of our multi-year investments in a broad range of business-building initiatives.
- When you compare our results from continuing operations to the third quarter of last year:
  - Net revenues grew 11%;
  - Income increased 15%; and
  - Diluted EPS of \$0.90 rose 18%.
- In addition, ROE for the prior twelve months was 38%.
- Significant items this quarter included:
  - A \$41MM after-tax charge related to the American Express International Deposit Company investment portfolio resulting from the previously announced sale of American Express Bank Ltd.; and
  - A \$75MM tax benefit, primarily related to the resolution of prior years' tax items.
- Last year's third quarter included a \$24MM after-tax gain on the sale of our card-related operations in Malaysia and Indonesia.
- In addition, both quarters included reengineering costs which totaled approximately \$7MM after-tax in each period.
- During the quarter and year-to-date, we returned 84% and 85%, respectively, of total capital generated to our shareholders through share repurchases and dividends.
  - Since 1994, we have returned 70% of capital generated to shareholders, which is above our 65% long-term target.
- The 11% revenue growth in the quarter reflects strong double digit increases in a number of revenue categories, including discount revenue and cardmember lending finance revenue. As we discussed with you last quarter, overall revenue growth was suppressed somewhat by substantially higher interest expense.
- There is one other point I want to clarify related to revenue estimates that I pointed out last quarter, but continues to be an issue. It generally appears that the brokerage analysts' models detailing our revenues have been adjusted to reflect our revised income statement presentation. However, within the various services that report the analyst estimates, there seem to be inconsistencies in the revenues reflected for various analysts. In most cases, revenues reflected are net of interest expense, as we report them, while in others, revenues before

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interest expense seem to be included. Additionally, in some cases, revenue estimates are made on a managed rather than GAAP basis. Because of this, the consensus revenue figures reported by these services are not comparable to our reported GAAP revenues net of interest expense.

- For those who want to compare the Company's revenues from a managed perspective, you need to add the U.S. Card Services GAAP-to-managed adjustments shown in our earnings tables and supplement.
- As previously communicated, we revised our segment reporting this quarter to reflect the impact of our recent realignment of the Company into consumer and business-to-business organizations, and the agreement to sell American Express Bank to Standard Chartered. As a result of these events:
  - The previously reported International Card and Global Commercial Services segment is now reported as two separate segments: International Card Services and Global Commercial Services.
  - In addition, the results for American Express Bank have been removed from the Corporate and Other segment and are now reported within the Discontinued Operations line.
- Let me make a few observations related to the revised reporting:
  - As you have seen within our prior disclosures, our overall international business growth has been strong as the combination of our proprietary consumer, corporate services and Global Network Services businesses have strengthened the Company's position and potential throughout the major regions around the globe.
  - I would note that the relatively slower card and volume growth within International Card Services during recent quarters reflects a constrained level of investment during the past few years, in addition to the negative impact of the business sales in Brazil, Malaysia and Indonesia. As you know from our prior disclosures, difficult industry-wide credit conditions in certain markets, and our own restructuring activities, reduced acquisition and loyalty related investments outside the U.S.
  - Recent quarters reflect the more selective premium customer strategy the International Card Services management team has been focusing on. The benefits of that strategy shift are evident in the strong average cardmember spending growth and the higher average fee per card reported in the quarter. These results, in addition to increased investment levels, position us well for the future.
  - You'll note a tax credit in most quarters within International Card Services. This will likely continue as our internal tax allocation process reports within this segment the consolidated tax benefit arising from its ongoing non-U.S. funding activities.
  - Lastly, you'll see that segment capital and return on segment capital for International Card Services and Global Commercial Services include the impact from the allocation of the goodwill that previously resided within the old International Card and Global Commercial Services segment. The majority of the goodwill was attributable to business

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travel acquisitions. Consistent with generally accepted accounting principles, that goodwill has now been allocated to the two new segments based on the relative fair value of these segments. Our segment capital allocation methodology includes a dollar-for-dollar allocation for goodwill. I note this because it is important for you to understand that the returns on tangible equity within the International Card Services and Global Commercial Services segments are substantially higher than the reported returns which include the impact of this goodwill.

- As far as our consolidated results go, they were driven by excellent growth in cardmember spending, loans and cards-in-force.
- Billed business growth remained strong. Each of our customer segments and every geographic region contributed to the 16% growth worldwide -- or 14% growth on an FX-adjusted basis.
- Let me give you some more detail. In our U.S. proprietary business:
  - Consumer spending grew 12%;
  - Small business spending rose 15%; and
  - Corporate Services volume improved by 9%.
- In total, U.S. volumes for retail and everyday spend grew 15%. This category represented about 68% of U.S. billings. Travel & Entertainment related spending, which accounts for the remainder, rose 10%.
- Outside the U.S., proprietary billed business grew 10% on an FX-adjusted basis. This was driven by 7% growth within our consumer and small business activities and 15% growth within Corporate Services.
- Within Global Network Services, billed business rose 45%, driven by nearly 100% growth within the U.S., as well as continued robust growth outside of the U.S.
- Worldwide cards-in-force rose 11%. We added 2.5MM net new cards during the quarter and 8.2MM net new cards since last year. This reflects 6% growth versus last year in proprietary cards and 32% growth in network partner cards.
- Spending per proprietary basic card grew 8% worldwide, even with the suppressing effect of the substantial card additions over the past few years.
- Our average discount rate of 2.57% was flat versus last year and last quarter.
- With strong growth in cards and a higher average fee per card, net card fee revenue increased 13% this quarter.
- Travel commissions and fees increased 13%, reflecting a 16% increase in travel sales.

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- Once again, we saw our strong growth in Cardmember spending generate a high level of loan growth. Worldwide lending balances on an owned basis rose 32%. On a managed basis, balances grew 23% on 24% growth in the U.S. and a 17% increase in our non-U.S. portfolios. This strong growth continues to reflect the flow-through of particularly attractive spending levels within our co-brand, lending on charge, and other credit card relationships. It also reflects our successful acquisition efforts surrounding these products.
- Securitization income increased 2% as higher gains from issuances and a greater average balance of securitized loans offset higher write-offs and interest expense.
- Cardmember lending finance revenue rose 30% on growth in the owned portfolio.
- Interest expense increased 39%. This was due to a 40% increase in funding costs within the lending business and a 38% increase within the charge card and other interest expense line. Much of this reflected volume increases within the business, but also higher market rates, which as you know, rose during the third quarter as LIBOR-based rates and market spreads increased in reaction to the credit concerns that were pervasive throughout the markets.
- As we discussed with you last quarter, interest expense was also driven by the expiration of some fixed rate debt and hedges at the end of last year. Specifically, fixed rate debt and hedges within our U.S. card business declined by \$11B. The effective funding rate on that amount was 3.2%. It was replaced with funding based on higher market rates of approximately 5.4%. This resulted in about \$59MM of incremental expense in the quarter versus last year that was solely related to the debt and hedges that expired.
- Marketing, promotion, rewards and cardmember services expenses increased 14% reflecting higher volume-related reward costs and greater marketing and promotion expenses. Our marketing efforts this past quarter were somewhat more focused on spending outside the U.S., versus the U.S. oriented investment activities during the second quarter.
- Increases in the reward costs continue to reflect our strong spending growth, higher redemption rates, and increasing cardmember participation.
- Human resource expenses increased 11%, due to merit increases, greater benefit costs and a higher number of employees, primarily resulting from customer service initiatives and acquisitions within Corporate Services.
- Growth in the remaining operating expenses reflects the impact of increased volumes within our technology and cardmember servicing activities. However, excluding the impact of last year's gain on the sale of our Malaysian and Indonesian businesses, these expenses were flat.
- The total provisions for losses and benefits increased 25% versus last year, as the lending provision increased by 41%, the charge provision rose by 9% and the other provision was 5% higher.

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- The increase in the lending provision was driven by higher loan volumes and increased past due and write-off rates in our U.S. portfolio, relative to the lower year ago levels that benefited from the impact of the 4Q '05 bankruptcy legislation.
- The charge card provision rose 9%, reflecting growth in volumes and relatively stable credit indicators.
- The consolidated tax rate of 24% for the quarter declined versus the 29% rate last year, due to the \$75MM in tax benefits referenced earlier.

#### Summary/Outlook:

- With that, let me conclude with a few final comments.
- We again delivered strong revenue and earnings growth, and excellent returns, during the quarter while continuing to invest in key business initiatives and maintaining balance sheet strength.
- Business metric performance, like growth in billed business and loan balances, continued to be in the top tier of the industry. The gap between our growth rate and that of most major competitors demonstrates the effectiveness and ongoing benefits of our marketing and rewards investments over the past several years.
- Credit-quality continues to compare favorably to the industry. As expected, losses and past-due levels within the U.S. have trended higher post the bankruptcy reform benefit last year. However, credit quality indicators remain in line with historical ranges as we continued to benefit from our focus on the premium market sector and our rewards-oriented strategy.
- Needless to say, in light of some signs of stress within aspects of the environment and our strong receivables growth, we will continue to carefully monitor trends as we move forward.
- While our bottom line results were strong during the quarter, as expected, we continued to be negatively impacted by the near-term interest expense and provision grow-over challenges discussed with you in prior quarters.
- Within interest expense we saw the effect of the items I mentioned earlier, the \$11B reduction in our fixed rate debt and hedge positions, higher volumes and the generally higher market rates.
- The interest expense level for the fourth quarter is obviously dependent upon the credit market environment. Credit spreads remain wider for debt issuers across all rating classes. Our spreads which did not widen as much as other comparably-rated financial institutions in the third quarter, have since narrowed along with the rest of the market. For the remainder of 2007, if the more recent reduction in LIBOR benchmark rates persist, but the wider credit spreads continue, we believe our funding costs would not be materially different than what we shared with you last quarter.

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- As you know from our prior discussions, we have made considerable efforts over recent years to implement flexible business plans. These plans position us to “pull back” on spending when required by external economic factors or business performance. They also allow us to increase spending if the environment permits.
- As such, for the remainder of 2007, we plan to continue to work to target our marketing-related investments to further build upon our competitive strengths at a point where some competitors may be experiencing comparatively weaker business results.
- In addition to our flexibility measures, we remain focused on reengineering to maximize our ability to invest in key growth opportunities. While reengineering will likely generate some costs from period-to-period, it positions us to continue to effectively control underlying operating expense growth.
- Despite some of the near-term interest and provision pressures we see, we continue to have confidence in the outlook of our business for several reasons. Our position within the affluent and high spending cardmember sectors remains excellent. It is supported by our ability to leverage our direct merchant relationships, the unique information benefits of our closed loop network, and our attractive rewards programs.
- Given our business momentum and industry leading results in recent years, and our strong track record of innovation, product development and customer-focused marketing, we believe that we are well-positioned to execute against growth opportunities in a manner that continues to appropriately balance our short, medium and long-term business and financial goals.
- Thanks for listening. We are now ready to take your questions.