

1Q 2008 EARNINGS CONFERENCE CALL

Talking Points: Ron Stovall

- 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 2007 10-K report, already on file with the Securities and Exchange Commission.
- In the First Quarter 2008 Earnings Release and Supplement, which are now posted on our website at ir.americanexpress.com and on file with the SEC in an 8-K Report, we have provided information that describes the Company's managed basis and other non-GAAP financial measures and the comparable 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.
- As you've seen in the earnings documents, despite the more difficult economic environment, our first quarter results reflect a continuation of strong business growth on a relative basis, and the benefit of our diversified business portfolio. Our multi-year investments in a broad range of business-building initiatives again yielded industry leading performance for the quarter, as they have over the past few years.
- As expected, earnings for the quarter were somewhat below last year. Our strong revenue growth was offset by the impact of the more difficult U.S. credit environment and higher marketing spending compared to lower amounts in 2007.
- As we discuss the results, it's important to keep in mind that the translation of foreign currency significantly impacted reported revenue and expense growth rates -- increasing each by 3%.
- When you compare our results from continuing operations to the first quarter of last year:
 - Net revenues grew 11%;
 - While income decreased 11%; and
 - Diluted EPS of \$0.84 decreased 7%.
- ROE was 36%.
- For those who follow revenue consensus estimates, you know that each quarter there has been some noise around the way the consensus is tabulated by some reporting services. This continues to be the case as it is computed in a way that it is likely to be above our reported numbers.
- Let me remind you that last year's first quarter included a \$50 million after-tax benefit from the initial adoption of SFAS No. 155 and a \$39 million after-tax pension-related gain. Both of these contributed to the year-over-year decline in income.
- During the quarter we returned 38% of total capital generated to our shareholders through share repurchases and dividends.
 - We slowed our share repurchase program during the quarter, in order to allow the capital generated through earnings to help fund the recent acquisition of GE's Corporate Payment Services business.
 - 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 double digit growth in a number of categories, including discount revenue, cardmember lending finance revenue, card fee revenue and commissions & fees. Additionally, revenue growth reflected the benefit of lower interest rates.

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- Revenue continued to be driven by solid growth in cardmember spending, loans and cards-in-force.
- Given the weaker economic environment, worldwide billed business growth for the quarter was particularly strong, at 14%, or 11% on an FX-adjusted basis, which as you know is the more important indicator of the underlying health of our business volumes.
- In our U.S. proprietary business:
 - Consumer spending grew 7% for the quarter;
 - Small business spending increased 11%; and
 - Corporate Services volume rose by 8%.
 - These growth rates, while far better than the industry, are 300 basis points lower than the growth rates in the fourth quarter of 2007.
- In total, U.S. volumes for retail and everyday spend grew 11%. This category represented about 68% of U.S. billings. Travel & Entertainment related spending, which accounts for the remainder, rose 8%.
- Outside the U.S., proprietary billed business grew 22% on a reported basis. This translated to an increase of 10% on an FX-adjusted basis, reflecting 9% growth within our consumer and small business activities, and a 10% increase within Corporate Services. These growth rates have held up well outside of the U.S.
- Within Global Network Services, billed business rose 50%, driven by continued robust growth both in and outside of the U.S.
- Worldwide cards-in-force rose 10%. We added 1.6 million net new cards during the quarter and 8.1 million net new cards since last year. This reflects 5% growth versus last year in proprietary cards and 33% growth in network partner cards.
- Spending per proprietary basic card rose 6% worldwide, or 3% on an FX-adjusted basis, even with the suppressing effect of the substantial card additions over the past few years.
- Our average discount rate of 2.57% decreased one basis point from last year, but increased versus last quarter, reflecting the typical seasonal impact of lower retail-related business volumes in the first quarter.
- Net card fee revenue increased 17%, due to card growth as well as a higher average fee per card.
- Travel commissions and fees increased 13%, driven by a 16% increase in travel sales.
- Worldwide lending balances on an owned basis rose 17%. On a managed basis, balances grew 19% on 18% growth in the U.S. and 23%, or 13% FX-adjusted, growth within our non-U.S. portfolios.

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- This is a slower growth rate in U.S. managed loans than recent quarters due to:
 - The initial impact from various credit-related actions such as targeted line reductions for higher risk customer segments, industries or geographies, and increased efforts in our credit and collection areas; and
 - The flow-through of slower spending growth within our co-brand, lending on charge, and other credit card relationships.
 - These were partially offset by a slowdown in payment rates, consistent with the weaker economic environment.
- Securitization income decreased 3% as higher finance charge and fee revenue, driven by higher securitized loans and a lower cost of funds, were more than offset by higher write-offs and a smaller increase in the valuation of the interest-only strip this year versus last year, which was mostly due to last year's SFAS No. 155 adoption gain.
- Cardmember lending finance revenue rose 19% on growth in the owned portfolio.
- Interest expense increased 9%. This was due to an 8% increase in funding costs within the lending business and a 10% increase within the charge card and other interest expense line. These increases reflected loan and business volume growth, which were partially offset by benefits related to the decrease in the LIBOR benchmark rate.
- Marketing, promotion, rewards and cardmember services expenses increased 20%, reflecting greater marketing investments versus a relatively low level of marketing spending last year, as well as higher volume-related reward costs.
- Human resource expenses increased 13%, reflecting last year's pension gain, merit increases, greater benefit costs and a 4% higher employee level, primarily related to various customer service and sales force related initiatives, in addition to last year's corporate travel acquisition.
- Growth in the remaining operating expenses reflects the impact of increased volumes within our technology and cardmember servicing activities, and shows that underlying operating expenses continue to be well controlled.
- The total provisions for losses and benefits increased 48% versus last year, as the charge provision rose by 65%, the lending provision increased by 41%, and the other provision was 51% higher.
 - The lending and charge provisions increased due to higher write-off and delinquency rates, reflecting the more difficult U.S. credit environment, and loan and business volume growth worldwide.
 - The other provision rose on greater merchant-related provisions in 1Q '08 compared to a Delta-related provision benefit in 1Q '07.

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- The consolidated tax rate of 28% for the quarter reflected the resolution of certain prior year tax items, compared to a 32% rate last year.

Summary/Outlook:

- With that, let me conclude with a few final comments.
- 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.
- Business growth also benefited from relatively stronger growth within our Global Network Services and non-U.S. consumer and commercial card activities, reflecting the benefits of the diversity of our business segments and business models and the balance within our results.
- While losses and past-due levels within the U.S. lending portfolio have trended higher, our credit quality indicators compare favorably to the industry and continue to reflect the benefits from our focus on the premium market sectors. As we've discussed before, our write-off rate calculations include principal, accrued interest and accrued fees, versus the principal-only calculations that our competitors generally publish and utilize. This serves to overstate our comparable rate by about 20%.
- Overall, our first quarter metrics demonstrates that business performance was dimensionally consistent with the 2008 plan that we discussed back in January.
- We believe we are managing credit effectively in this difficult environment, although our actions are suppressing spend volume growth somewhat and will negatively impact credit metrics in the near term.
- The managed U.S. cardmember lending write-off rate rose from 4.3% in the fourth quarter to 5.3% in the first quarter. I want to point out that the rate in March was higher than the average for the quarter. Therefore, we expect that loan loss rates will be higher in the second quarter than in the first quarter. In addition, the combined impact of our actions and the current environmental conditions will likely cause loan growth to be slower than the 16% growth assumed in our initial plan.
- We do not plan to update our view of our metric trends, as they continually evolve and will likely vary from our original plan assumptions as we progress through the year.
- However, our performance, together with the flexibility inherent in our business model, affirms our belief that we are still tracking to the reported EPS growth assumption of 4-6% that we discussed earlier in the year.
- This expectation is based on an economic environment that is consistent with, or moderately worse than, what we have experienced to-date. If conditions were to significantly deteriorate from here we would likely be more focused on the medium to long-term strength of the franchise, versus our short-term objectives.

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- Our strategy continues to be centered on positioning us to continue to gain profitable share regardless of environmental conditions. And, in light of this difficult environment, we believe we are prudently balancing risk against profitability and growth.
- As we've discussed with you before, our ultimate goal is to continue to ensure that American Express navigates through these challenging economic conditions in the best position possible, relative to our payments competitors and relative to the overall industry.
- We will continue to be guided by our long-term on-average-and-over-time financial objectives. Since we set our targets in 1993 we have generally performed consistent with those goals and, in fact, have out-performed them in recent years.
- Given our industry leading results, and the product, customer and geographic breadth of our franchise, we believe 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.