

## **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 April 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, 2007, 2006, and 2005. Note, however, certain amounts in 2006 and 2005 have been reclassified to conform to the 2007 presentation.

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 addition to earning cardmember lending finance 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.

## AMERICAN EXPRESS BANK, FSB

### Results of Operations

#### *Years Ended December 31, 2007, 2006, and 2005*

FSB's results of operations are based on financial information reported in its Thrift Financial Reports filed with the Office of Thrift Supervision (OTS).

FSB reported net income of \$876 million, \$795 million, and \$493 million for the years ended December 31, 2007, 2006, and 2005, respectively. The year-over-year increase in net income was primarily due to growth in FSB's average loan balance and discount revenue, offset by increased funding cost and rewards expense. In 2007, 2006, and 2005, return on average assets was 4.02 percent, 4.89 percent, and 3.77 percent, respectively.

Interest income increased to \$2.9 billion in 2007 compared to \$1.9 billion in 2006 and \$1.6 billion in 2005 as a result of increased average loan balances to \$18.9 billion in 2007 from \$14.5 billion in 2006 and \$11.6 billion in 2005 and increased average yields on the portfolio.

Interest expense increased to \$867 million in 2007 compared to \$635 million in 2006 and \$352 million in 2005 as a result of increased average deposit liabilities and bank notes to fund loan growth and enhance FSB's liquidity position coupled with higher effective cost of funds.

Provision for loan losses increased to \$1.1 billion in 2007 compared to \$465 million in 2006 and \$441 million in 2005 reflecting higher average loan balances each year and negative credit trends among U.S. consumers in the latter part of 2007. At December 31, 2007, 2006, and 2005, FSB's reserves as a percentage of delinquencies were 112 percent, 76 percent, and 104 percent, respectively. Loans are written off when management deems amounts to be uncollectible and is generally determined by the number of days past due. In general, loans in bankruptcy or owed by deceased individuals are written off upon notification, while other accounts are written off when 180 days past due. The net charge-off rates as a percentage of average loans for the years ended December 31, 2007, 2006, and 2005 were 4.18 percent, 2.92 percent, and 3.98 percent, respectively.

Non-interest income was \$3.8 billion, \$3.3 billion, and \$2.3 billion and non-interest expense was \$3.4 billion, \$2.9 billion, and \$2.4 billion, in 2007, 2006, and 2005, respectively. Non-interest income increased primarily due to higher discount revenue. Non-interest expense increased due to increased marketing and cardmember rewards.

Income tax provision and effective tax rate for the years ended December 31, 2007, 2006, and 2005 were \$507 million or 36.7 percent, \$471 million or 37.2 percent, and \$275 million or 35.8 percent, respectively.

At December 31, 2007, 2006, and 2005, FSB exceeded the OTS "well-capitalized" levels for tier 1 core, total risk-based and tier 1 risk-based capital. The tier 1 core capital ratios in 2007, 2006, and 2005 were 11.10 percent, 10.39 percent, and 10.72 percent, respectively. The total risk-based capital ratios in 2007, 2006, and 2005 were 12.80 percent, 11.32 percent, and 11.72 percent, respectively. The tier 1 risk-based capital ratios in 2007, 2006, and 2005 were 11.53 percent, 10.06 percent, and 10.46 percent, respectively. At December 31, 2007, the OTS "well-capitalized" levels for tier 1 core, total risk-based and tier 1 risk-based capital were 5.00 percent, 10.00 percent, and 6.00 percent, respectively.

### Liquidity and Capital Resources

FSB funds its lending activities principally through the sale of certificates of deposits and through borrowings from banks and affiliates. At December 31, 2007, 2006, and 2005, FSB had \$8.0 billion, \$7.5

billion, and \$7.9 billion of certificates of deposit and other deposits outstanding, \$11.3 billion, \$7.0 billion, and \$4.1 billion in bank notes outstanding and \$1.1 billion, \$641 million, and \$845 million in federal funds purchased, respectively.

FSB periodically securitizes Cardmember loans through the American Express Credit Account Master Trust (the "Lending Trust"). In a securitization structure like the Lending Trust (a revolving master trust), credit card accounts are selected and the rights to the current Cardmember loans, as well as future cash flows related to the corresponding accounts, are transferred to the trust for the life of the accounts. FSB is required to maintain an undivided interest in the transferred Cardmember loans, which is referred to as the "seller's interest," and is generally equal to the balance of all Cardmember loans transferred to the Lending Trust less the investors' portion of those assets. The "investors' interest" is created when the Lending Trust issues a security to a third party. The seller's interest received by FSB in consideration for the transfer of Cardmember loans is reflected in FSB's balance sheet as a component of Cardmember loans.

When the Lending Trust issues a security to a third party, a new investor interest is created. FSB removes the corresponding Cardmember loans from its balance sheet, recognizes a gain on sale and release of credit reserves and records an interest-only, or IO strip. From time to time, FSB may record other retained interests as well. The total investors' interest outstanding will change through new issuances and maturities. The seller's interest will change as a result of new trust issuances or maturities as well as new account additions, new charges on securitized accounts and collections. As seller's interest changes each period, the related allowance for loss will change as well. When a security matures, the Lending Trust uses a portion of the collections to repay the security, and as a result the investors' interest decreases. In the monthly period which contains a maturity, new charges on securitized accounts have historically been greater than the portion of the collections required to repay the maturing security, and therefore, seller's interest has increased in an amount greater than or equal to the decrease in investors' interest.

Under the terms of the Lending Trust, the occurrence of certain events could result in the trust being required to pay down the investor certificates and notes before their expected payment dates over an early amortization period. An example of such an event is the failure of the securitized assets to generate specified yields over a defined period of time. No such events occurred during 2007, 2006, or 2005, and FSB does not expect an early amortization trigger event to occur prospectively. However, if a paydown of the Lending Trust were to occur, the securitized loans would revert to FSB's balance sheet and FSB would be required to re-establish reserves and to derecognize the retained interests related to those securitizations. These events could have a negative impact on FSB's results of operations.

At December 31, 2007, 2006, and 2005, the total Cardmember loans held by the Lending Trust that had been transferred by FSB were \$11.5 billion, \$11.0 billion, and \$9.4 billion, respectively, of which \$7.4 billion, \$6.6 billion, and \$7.1 billion, respectively, had been sold and \$4.2 billion, \$4.4 billion, and \$2.3 billion, respectively, had been classified as seller's interest. FSB also retains a subordinated interest in the securitized Cardmember loans, an IO strip. At December 31, 2007, 2006, and 2005, the fair value of the IO strip was \$45 million, \$51 million, and \$45 million, respectively. The IO strip is recorded in other assets on FSB's balance sheet.

FSB sells its charge Card receivables on its non-interest bearing charge cards on a monthly basis to TRS and American Express Credit Corporation, a wholly-owned subsidiary of TRS.

## SELECTED FINANCIAL INFORMATION OF AMERICAN EXPRESS BANK, FSB

The following unaudited financial information of FSB for each of the years ended December 31, 2007, 2006 and 2005 was derived from the TFRs and should be read in conjunction therewith and with the detailed information contained elsewhere herein and incorporated by reference. Certain amounts in 2006 and 2005 have been reclassified to conform to the 2007 presentation.

(in millions)

	<b>For the Year-Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Operating Data:</b>			
Interest income	\$ 2,906	\$ 1,943	\$ 1,596
Interest expense	867	635	352
Net interest income	2,039	1,308	1,244
Provision for loan losses	1,126	465	441
Income after provision for loan losses	913	843	803
Non-interest income	3,844	3,292	2,344
Non-interest expense	3,374	2,869	2,379
Net non-interest (expense) income	470	423	(35)
Pretax income	1,383	1,266	768
Income tax provision	507	471	275
Net income	\$ 876	\$ 795	\$ 493

(in millions)

	<b>As of December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Balance Sheet Data:</b>			
<b>Assets:</b>			
Cash and cash equivalents	\$ 2,085	\$ 521	\$ 551
Investments	1,105	1,053	1,045
Loans	21,871	17,941	13,338
Reserves	(735)	(385)	(347)
Loans, net	21,136	17,556	12,991
Other assets	714	687	956
Total assets	\$ 25,040	\$ 19,817	\$ 15,543
<b>Liabilities and Shareholder's Equity:</b>			
Deposits liabilities	\$ 8,010	\$ 7,493	\$ 7,916
Federal funds purchased	1,138	641	845
Bank notes	11,290	7,000	4,100
Total debt	20,438	15,134	12,861
Other liabilities	1,723	2,516	911
Total liabilities	22,161	17,650	13,772
Total shareholder's equity	2,879	2,167	1,771
Total liabilities and shareholder's equity	\$ 25,040	\$ 19,817	\$ 15,543

**SELECTED FINANCIAL INFORMATION OF AMERICAN EXPRESS BANK, FSB**

(in millions)

	As of December 31,		
	2007	2006	2005
<b>Key Statistics:</b>			
Average assets	\$21,817	\$16,255	\$13,083
Average shareholder's equity	2,622	2,014	1,639
Average loans	18,902	14,457	11,550
Total Risk-weighted assets (net)	22,289	18,260	13,909
Tier 1 risk-based capital	2,768	2,046	1,654
Total risk based capital	2,853	2,067	1,630
Past-due & non-accrual loans	657	508	334
Net charge-offs	791	422	460

	As of December 31,		
	2007	2006	2005
<b>Selected Ratios:</b>			
Return on average assets <sup>(1)</sup>	4.02%	4.89%	3.77%
Return on average shareholder's equity <sup>(2)</sup>	33.41%	39.47%	30.07%
Tier 1 core capital ratio	11.10%	10.39%	10.72%
Total risk-based capital ratio	12.80%	11.32%	11.72%
Tier 1 risk-based capital ratio	11.53%	10.06%	10.46%
Net charge-offs / average loans <sup>(3)</sup>	4.18%	2.92%	3.98%
Reserves / past due & non-accrual loans <sup>(4)</sup>	112%	76%	104%
Reserves / loans	3.36%	2.15%	2.60%
Past due & non-accrual loans / loans	3.01%	2.83%	2.50%

- (1) Return on average assets is calculated by dividing net income by average assets. The OTS defines average assets as each month during the year's average month-to-month divided by total months in the year.
- (2) Return on average shareholder's equity is calculated by dividing net income by average shareholder's equity. The OTS defines average shareholder's equity as each month during the year's average month-to-month divided by total months in the year.
- (3) Net charge-offs / average loans is calculated by dividing gross charge-offs less recoveries by full year average loans.
- (4) Past due and non-accrual loans is based on the TFR definition, i.e. all balances that are 30 days past due and still accruing plus all non-accrual loans.

**CAPITALIZATION OF AMERICAN EXPRESS BANK, FSB**

The following table sets forth the consolidated capitalization of FSB at December 31, 2007, 2006, and 2005. The table should be read in conjunction with FSB's Quarterly Thrift Supervision Reports incorporated by reference herein.

(in millions)	As of December 31,		
	2007	2006	2005
<b>Deposits liabilities:</b>			
Total	\$ 8,010	\$ 7,493	\$ 7,916
<b>Short-, medium- and long-term indebtedness:</b>			
Federal funds purchased	\$ 1,138	\$ 641	\$ 845
Bank notes	11,290	7,000	4,100
Total	\$ 12,428	\$ 7,641	\$ 4,945
<b>Shareholder's equity:</b>			
Common shares	\$ -	\$ -	\$ -
Capital surplus	1,290	1,290	1,290
Undivided profits and capital reserves	1,589	877	481
Total shareholder's equity	\$ 2,879	\$ 2,167	\$ 1,771
Total capitalization	\$ 23,317	\$ 17,301	\$ 14,632