

2Q 2007 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 2006 10-K report, already on file with the Securities and Exchange Commission.
- In the Second Quarter 2007 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 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 acting 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, and consistent with our usual process, 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 second quarter continued the strong business momentum we reported throughout 2006 and the first quarter of 2007. It reflects 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 second quarter of last year:
 - Net revenues grew 9%;
 - Income also increased 9%; and
 - Diluted EPS of \$0.88 rose 13%.
- In addition, ROE for the prior twelve months rose to 38%.
- Significant items this quarter, included:
 - A \$65MM tax benefit from the IRS related to the treatment of prior years' card fee income, and in light of this benefit we;
 - Increased marketing and promotion spending by \$68MM (\$42MM after-tax) above the level planned for the quarter.
- Last year's second quarter included:
 - A \$144MM (\$131MM after-tax) gain related to the sale of our card and merchant-related operations in Brazil; and
 - A \$62MM (\$40MM after-tax) charge associated with the Membership Rewards reserve model outside the U.S.
- In addition, both quarters included reengineering costs, which totaled \$8MM (\$5MM after-tax) this year versus \$53MM (\$34MM after-tax) last year.
- During the quarter and year to date, we returned 81% 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 9% revenue growth in the quarter reflects strong increases in discount revenue and cardmember lending finance revenue. However, overall revenue growth was suppressed by the negative impact within securitization income of higher credit losses following last year's unusually low levels, and substantially higher interest expense as we discussed with you last quarter.

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- One other point of clarification related to revenues: it generally appears that the 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 some cases revenues reflected are net of interest expense, as we report them, while in others, revenues before interest expense are included. Therefore, the consensus revenue figure reported by these services does not appear to be comparable with our reported revenues net of interest expense.
- As far as our 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 15% growth worldwide -- or 13% 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 10%.
- 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 9%.
- Outside the U.S., proprietary billed business grew 5% on an FX-adjusted basis. This was driven by 3% growth within our consumer and small business activities and 10% growth within Corporate Services.
 - As you know, these proprietary card comparisons outside the U.S. are negatively effected by last year's sale and transfer to three bank partners of our Brazilian operations as of June 30, and our Malaysian and Indonesian activities during 3Q '06.
 - Excluding the impact of these sales, the spending on proprietary cards rose 10% outside the U.S on an FX-adjusted basis.
- Within Global Network Services, billed business rose 62%, driven by continued triple-digit growth within the U.S., as well as robust growth outside of the U.S. Excluding the impact of the business transfers I just mentioned, GNS billed business growth was 41%. For those interested in learning more about our GNS business, I want to remind you that our Financial Community Meeting on August 1st will feature a presentation by Peter Godfrey, the President of GNS.
- Worldwide cards in force rose 10%. We added 2.3MM net new cards during the quarter and 7.8MM net new cards since last year. This reflects 5% growth versus last year in proprietary cards and 34% growth in network partner cards.

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- Spending per proprietary basic card grew 8% worldwide, even with the suppressing effect of the substantial card additions over the past few years.
- Despite strong growth in cards and a higher average fee per card of \$36 this year versus \$34 last year, our net card fee revenue decreased 6% this quarter. Consistent with the last three quarters, this reflects the reclassification of certain card acquisition-related costs which are now reported as contra-revenue within this line. Prior to the third quarter of last year, these costs had been included in operating expenses. This reclass suppressed the Consolidated Revenue growth rate by approximately 1%, but had no effect on net income and is not included in the average fee per card calculation.
- Our average discount rate was flat versus last year at 2.57% and, consistent with seasonal mix of spending trends, declined one basis point versus last quarter.
- Travel commissions and fees increased 2%, reflecting a 9% increase in travel sales.
- Worldwide lending balances on an owned basis rose 33%. On a managed basis, balances grew 21% on 23% growth in the U.S. and a 15% increase in our non-U.S. portfolios. This strong growth continues to reflect the attractive spending levels within our co-brand and other lending portfolios. It also reflects our successful acquisition efforts surrounding these products.
- Securitization income declined 11%, primarily due to an increase in write-offs versus last year's unusually low level.
- Cardmember lending finance revenue rose 38% on growth in the owned portfolio and a higher gross portfolio yield.
- Other interest income increased 41% primarily due to the recognition of interest associated with the Company's loan to Delta Air Lines.
- Interest costs increased 44%. This was due to a 56% increase in funding costs within the lending business, a 35% increase within the charge card and other line and 45% higher international banking expense. Much of this reflected volume increases within the business and higher market rates.
- However, as we discussed with you last quarter, interest expense was also driven by the expiration of some fixed rate debt and hedges at year end. 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 short term rates of approximately 5.3%. Consistent with the first quarter, this resulted in about \$60MM of incremental expense versus last year in the quarter that was solely related to the debt and hedges that expired.
- The "Marketing, Promotion, Rewards and Cardmember Services" line increased 9% including last year's \$62MM charge related to a higher redemption rate estimate within our Membership Rewards reserve model outside the U.S. Excluding this, the marketing and rewards costs increased approximately 14%.

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- Increases in the rewards costs continue to reflect our strong spending growth, higher redemption rates, and increasing cardmember participation.
- Within marketing and promotion, we continued to be selective and generally maintained the reduced spending we talked about last quarter within various product-specific advertising, creative development and market research initiatives. However, we did increase expenditures related to various acquisition, brand and loyalty oriented programs in light of the tax benefit realized during the quarter. Here, we were able to exercise our flexibility to invest an additional \$68MM in marketing programs.
- Although, it is worth noting that even without this additional investment our marketing expenses would still have been up significantly versus the first quarter, based on the strength of our business.
- Human resource expenses increased 4%, as merit increases, greater benefit and incentive costs and a higher number of employees were partially offset by lower severance costs this year.
- 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 Brazil gain and the reclass of card acquisition-related costs effective July 1, 2006, these expenses only rose 3%.
- The total provisions for losses and benefits increased 36% versus last year, as the lending provision increased by 57%, the charge provision rose by 21% and the international banking and other provision declined by 8%.
 - The increase in the lending provision was driven by higher loan volumes and increased past due and write-off rates, relative to the lower year ago levels that benefited from the impact of the 4Q '05 U.S. bankruptcy legislation.
 - The charge card provision rose 21%, reflecting growth in volumes and somewhat higher loss rates.
 - The decrease in the international banking and other provision was primarily due to lower certificate provisions and a reduction in merchant-related reserves this year.
- The consolidated tax rate of 26% for the quarter declined versus the 33% rate last year, primarily due to the card fee-related benefit mentioned earlier.

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 key business initiatives and maintaining substantial balance sheet strength.

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- 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.
- Additionally, credit-quality continues to be very strong. As expected, losses have trended upward post the U.S. bankruptcy reform benefit last year. However, credit quality remained well controlled during the quarter as we continued to see the positive impact of our historic focus on the premium sector and our rewards capabilities through top-tier write-off and past-due levels.
- 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 last quarter.
- 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.
- Our interest expense level for the remainder of the year is obviously dependent upon any further market rate fluctuations. However, assuming rates remain at current levels, the incremental interest expense over the next two quarters related to the funding that replaced the \$11B of fixed rate debt and hedges will be approximately \$130MM.
- Within the unhedged portion of our portfolio, assuming rates remain constant, we do not expect to have as unfavorable an impact during the remainder of 2007, since short-term market rates today are generally in line with where they were in the second half of last year.
- In addition, the beneficial provision impacts from the U.S. bankruptcy law change that we enjoyed last year, and the resulting grow over challenge this year, will be lower in the second half of 2007.
- 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.
- This quarter, you again have seen the impact of these flexibility plans, which focus on the more discretionary items within our operating expenses first and secondarily within our marketing expense base. Overall, expenses in the quarter were very well contained.
- In the first quarter we discussed the fact that we would have invested more in marketing and promotion activities if we had perfect foresight into the strength of our results during the latter part of the quarter.
- This quarter we became confident in our ability to realize the IRS benefit early enough to take advantage of some additional investment opportunities – although we were not able to spend the full \$65MM after-tax benefit.

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- While we continued to hold back spending within some of the less growth oriented investment areas we identified in the first quarter, we approved additional investments for various card acquisition, brand and loyalty related initiatives.
- For the remainder of 2007, we plan to continue to work to maximize 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.
- We will also look to continue to leverage our investment optimization and reengineering disciplines to allocate our resources to initiatives that will provide the greatest returns on our investments. This tactic, combined with the benefits of prior years' investments and strong top line growth, we believe, will help to continue to support our business momentum, while controlling expenses thoughtfully.
- 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.
- All of these enable us to deliver premium, differentiated offerings to our customers while driving incremental spend to our merchants. We believe these advantages and our position within the marketplace are not easily replicated by our competitors.
- We are also very optimistic about the broad growth opportunities within the payments 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. In particular, we've also highlighted opportunities within our consumer, small business, middle market, and GNS businesses.
- Given our recent business success and our strong track record of innovation, product development and customer-focused marketing, we believe that we are well-positioned to execute against these growth opportunities in a manner that appropriately balances our short, medium and long-term business and financial goals.
- Thanks for listening. We are now ready to take your questions.