



# U.S. Card Services

*Alfred F. Kelly, Jr.*

*Group President*

*Consumer, Small Business, and Merchant Services*

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# Focus of Today's Discussion

## *Key Proprietary AXP Segments*

- Individual Consumers
- Small Business Owners
- Middle Market Companies
- Large Corporations



# Agenda

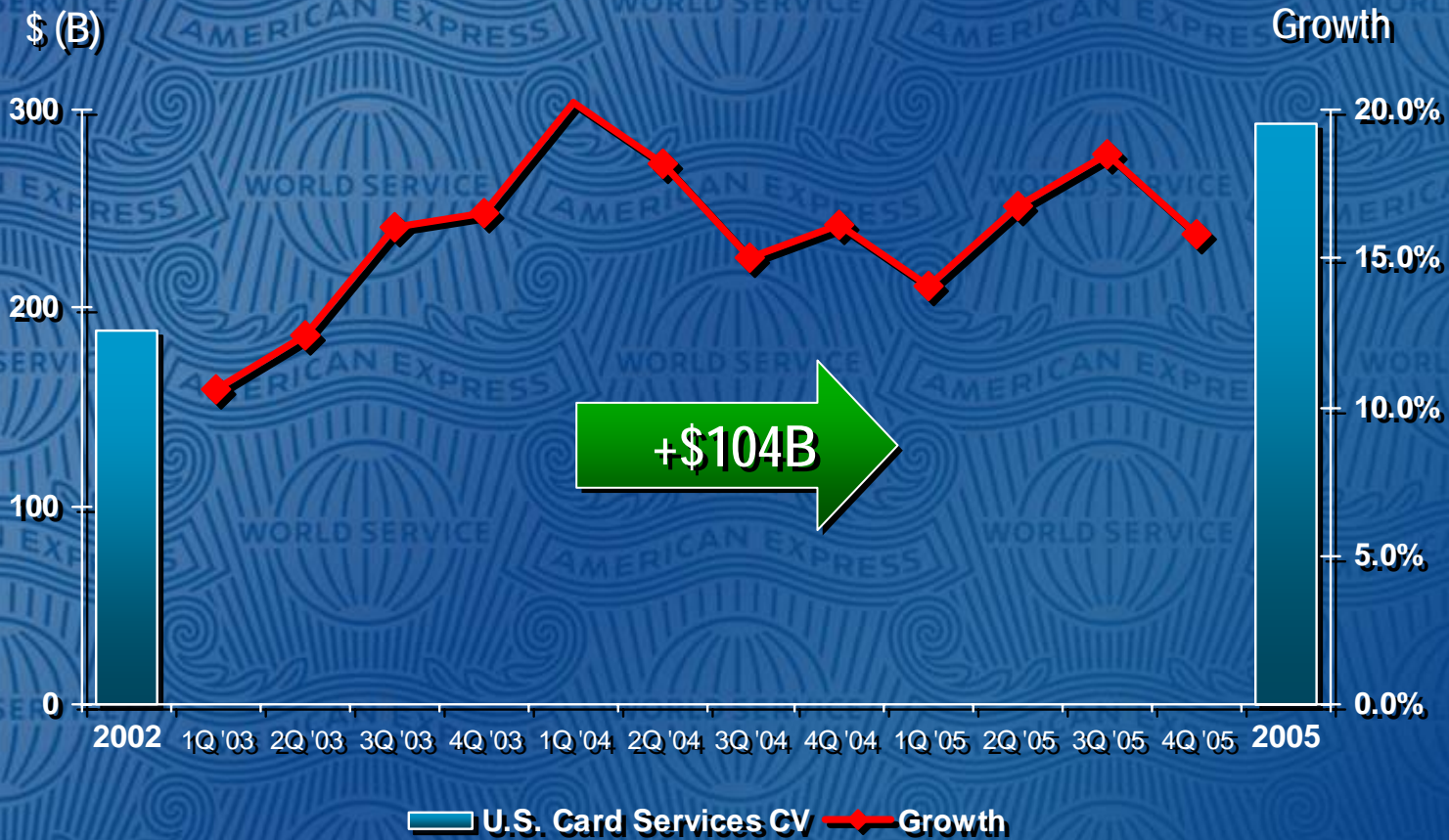


- **Growth Momentum**
- **Financial and Business Model**
- **Growth Prospects**



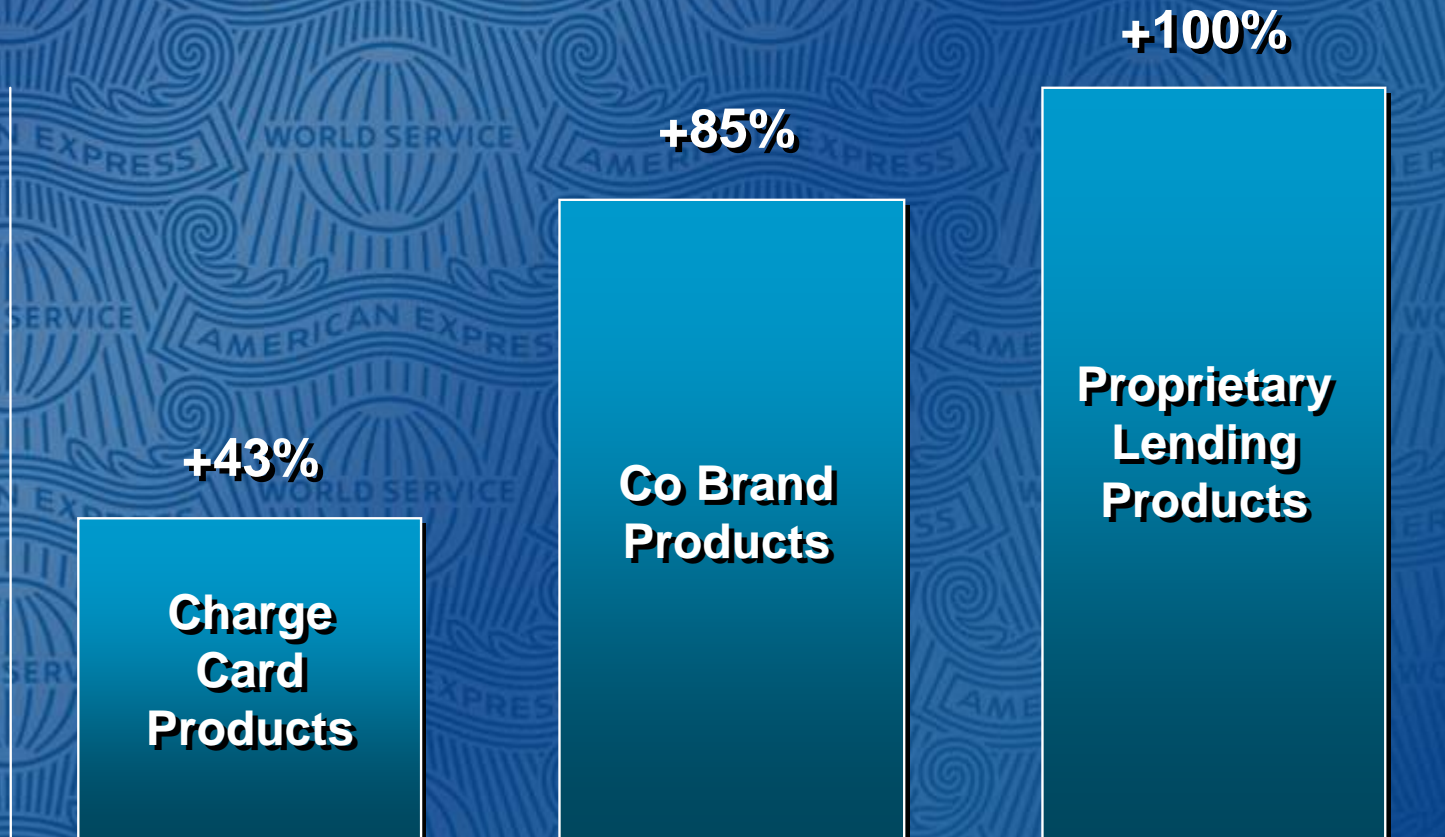
# Charge Volume Growth

*FY 2002 - FY 2005*



# Charge Volume Growth

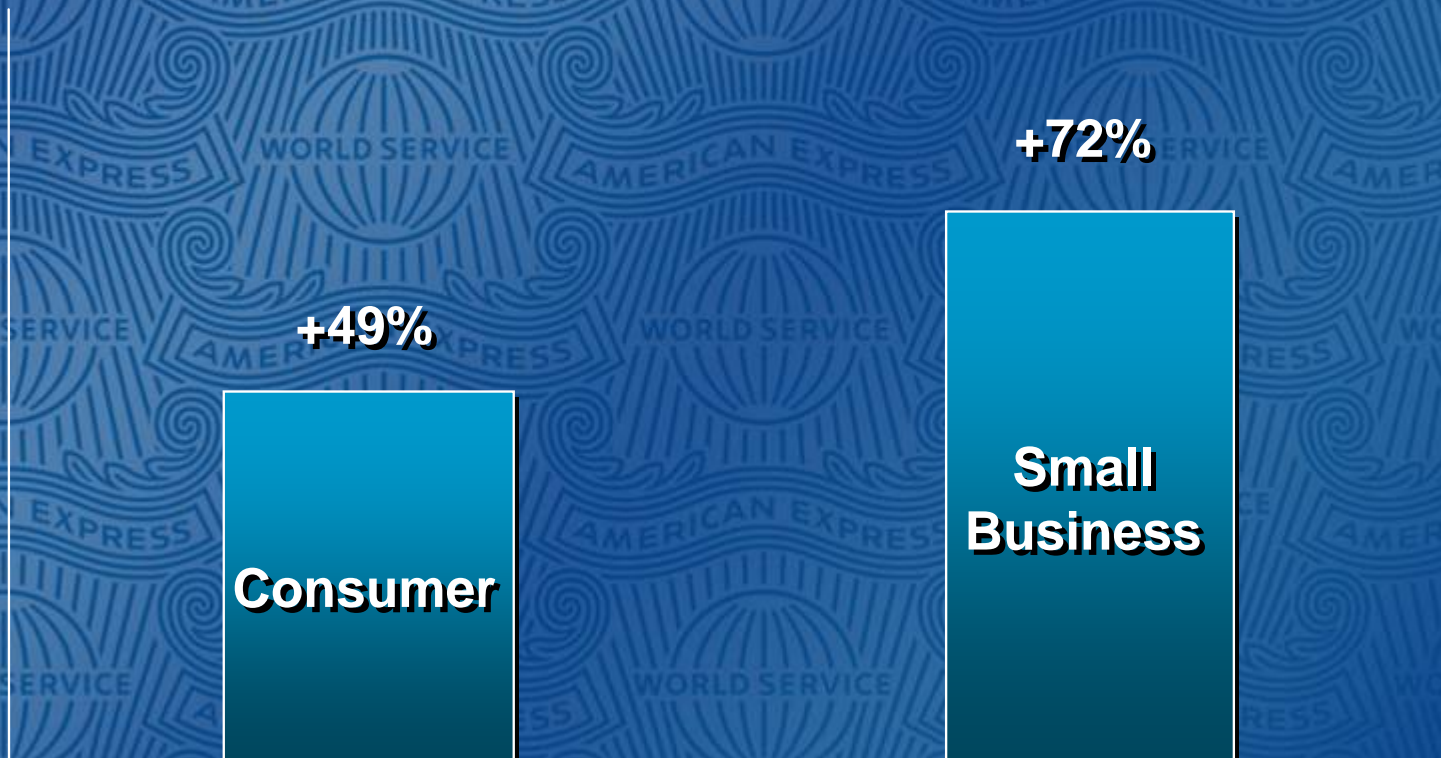
*Total Growth by Product Type: FY 2005 vs. FY 2002*





# Charge Volume Growth

*Total Growth by Customer Segment: FY 2005 vs. FY 2002*



# Charge Volume Growth

*Select Industries: YTD 9/30/05 vs. YTD 9/30/04*

17% Growth	▪ Entertainment	▪ Telecom
	▪ Home Goods / Improvement	▪ Government
	▪ Healthcare	▪ Quick Serve Restaurants
	▪ Oil	▪ Internet Retail
	▪ B2B	
	<b>Average Growth</b>	
	▪ Air	▪ Mail Order
	▪ Car Rental	▪ Drugstore
	▪ Lodging	▪ Supermarket
	▪ Cruise	▪ Specialty Retail
12% Growth	▪ Traditional Restaurants	





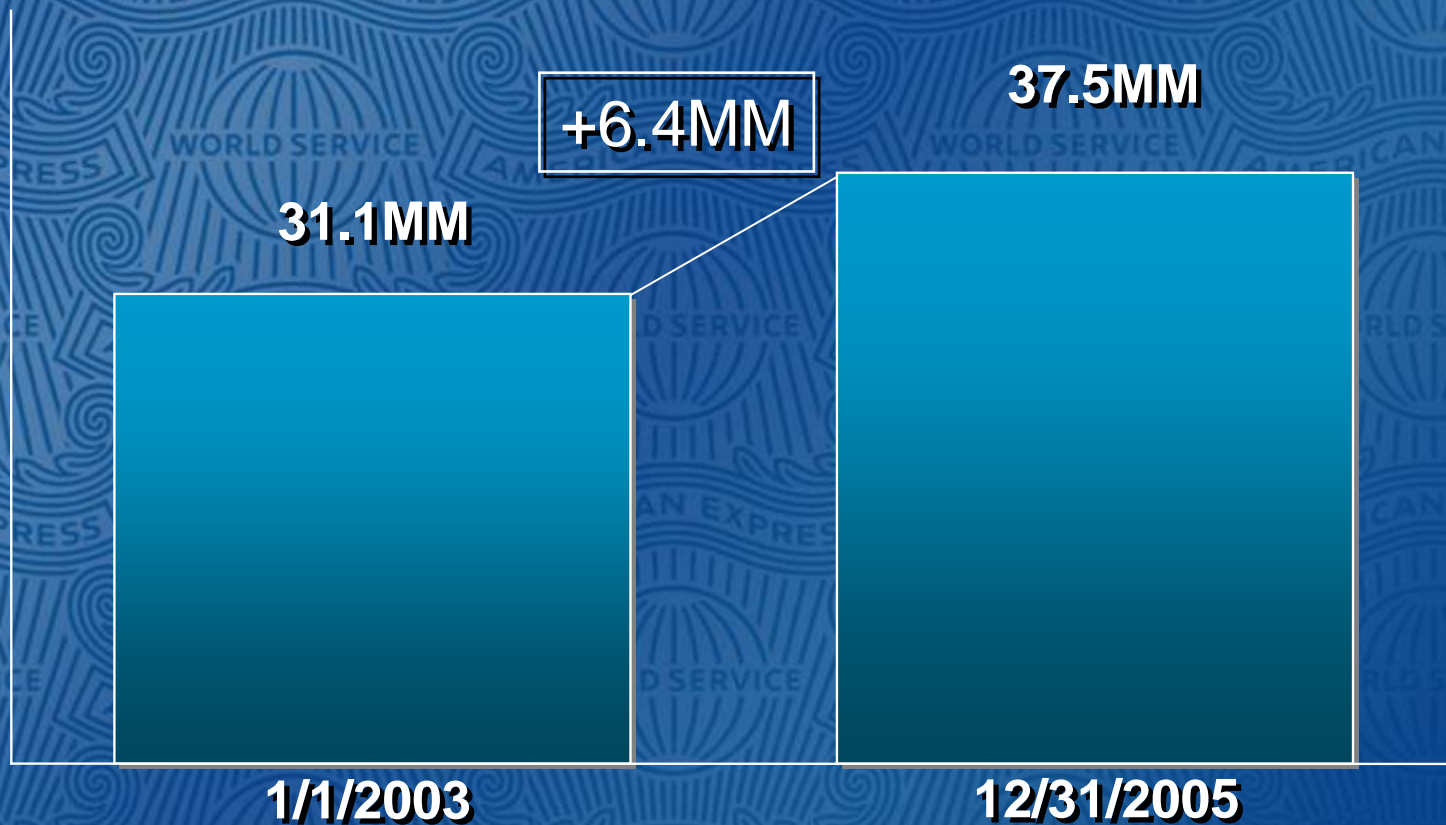
# Drivers of Charge Volume Growth: 2003 - 2005

- **New Card Acquisition**
- **Higher Average Spend per Account**
- **Advances in Coverage**



# New Cardmember Acquisition

*U.S. Card Services: Cards in Force*





# Drivers of Charge Volume Growth: 2003 - 2005

- **New Card Acquisition**
- **Higher Average Spend per Account**
- **Advances in Coverage**



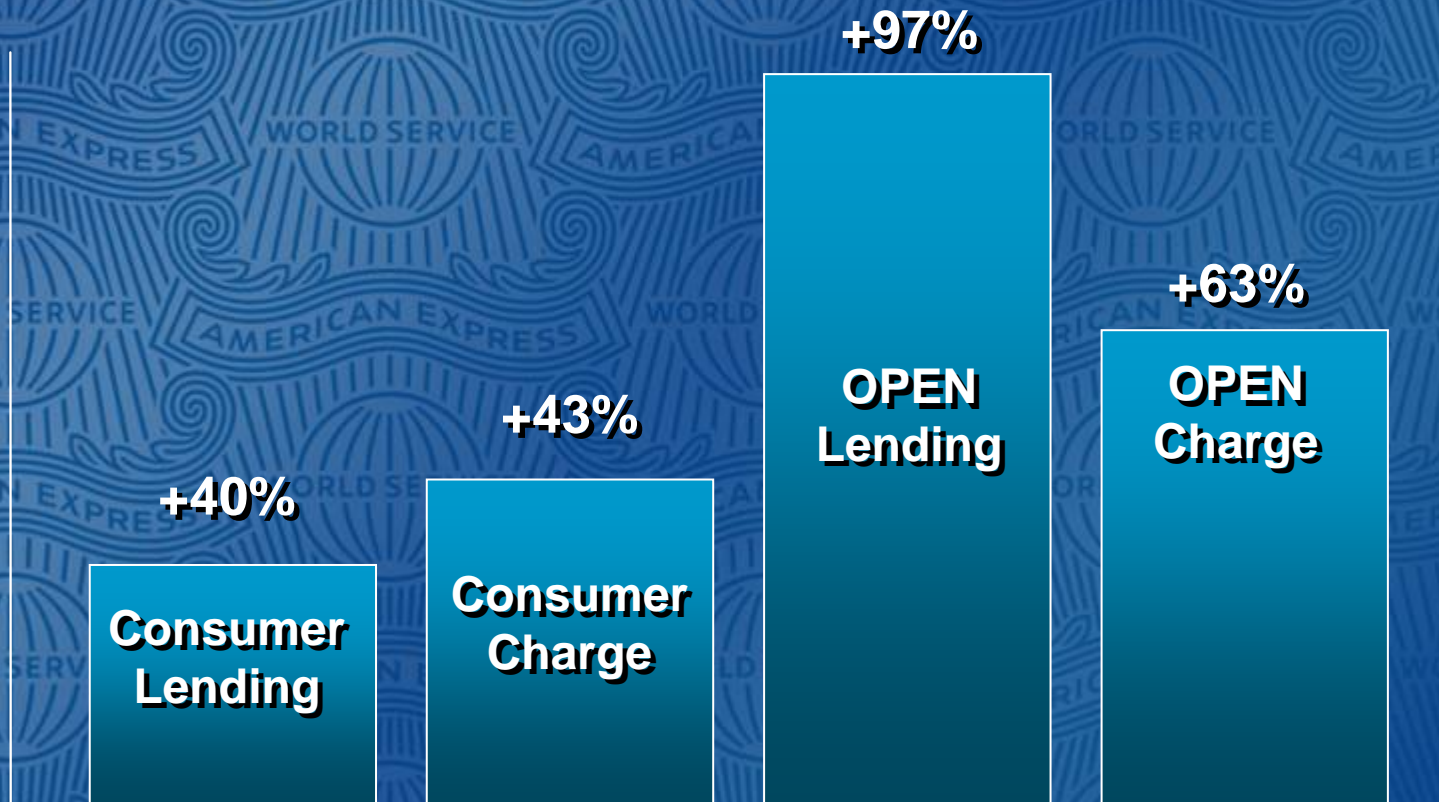
# Growth in Average Spend per Account

*Total Growth by Customer Segment: FY 2005 vs. FY 2002*



# Growth in Average Spend per Account

*Total Growth by Product Type: FY 2005 vs. FY 2002*





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# Growth in Average Spend per Account

*Total Growth by Premium Product: FY 2005 vs. FY 2002*



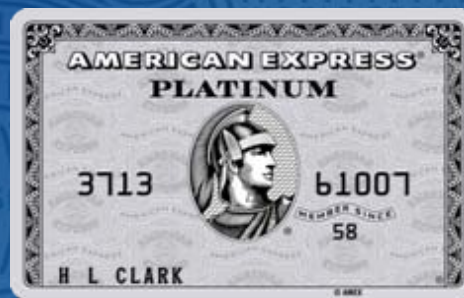
**+\$75K**



**+\$16K**



**+\$10K**



**+\$7K**



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# Drivers of Charge Volume Growth: 2003 - 2005

- **New Card Acquisition**
- **Higher Average Spend per Account**
- **Advances in Coverage**

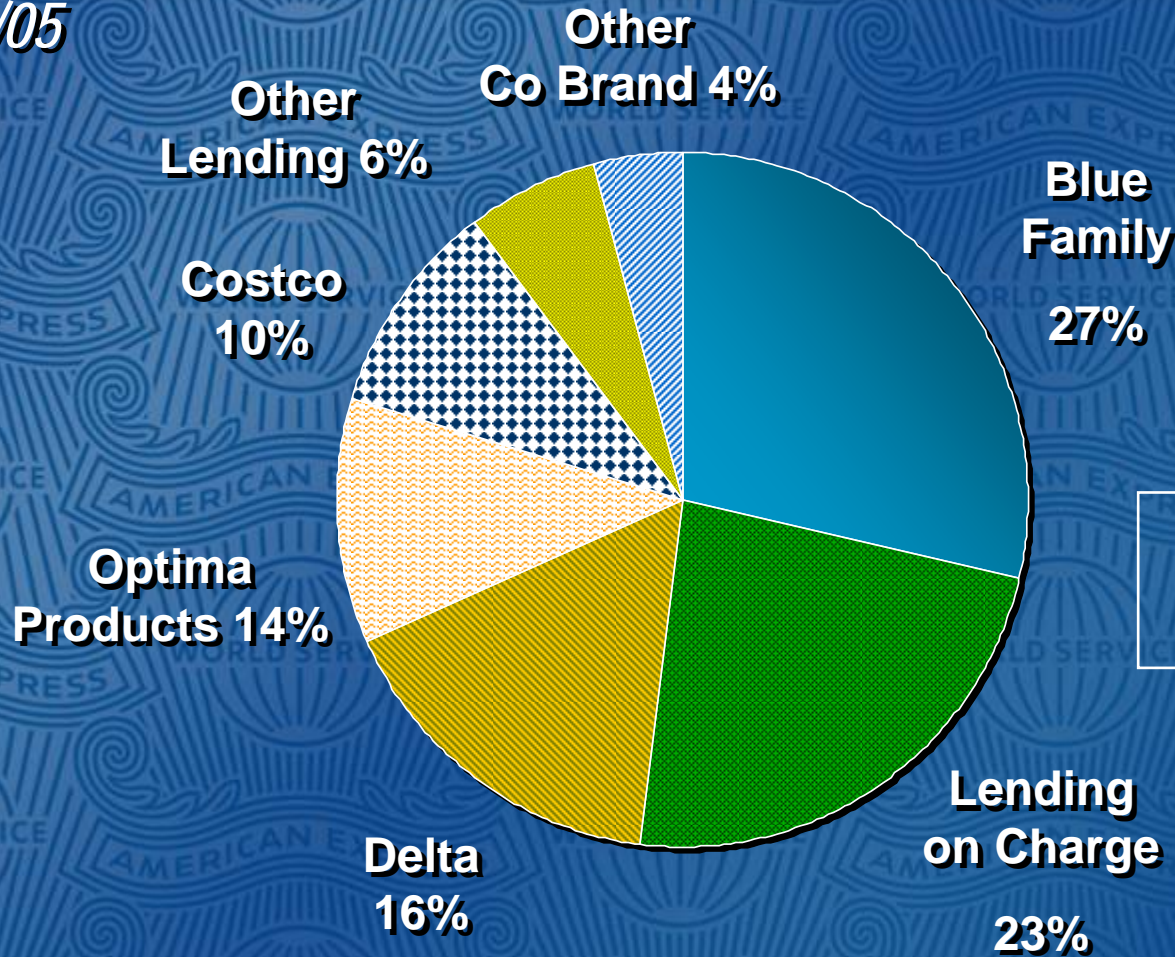


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# Managed Cardmember Loans

12/31/05



On a GAAP basis, total loans were \$24.8B, which were comprised of: Proprietary Lending (Blue Family, Optima Products, Other Lending) = 53%; Co Brand (Costco, Delta, Other Co Brand) = 27%; and Lending on Charge = 20%.



# Momentum

*2005*

- **Q3/Q4 New Cardmember Acquisition**

- Best two quarters of three year period



- **Q4 Charge Volume**

- Exceeded past record by \$6.6B



- **Attrition**

- 155bp improvement vs. FY 2002



# Momentum

2005

- **Charge Volume Growth**
  - Growing over strong 2004 and 2003
- **Managed Cardmember Loans\***
  - +\$6B vs. 2004
- **Average Transaction Size**
  - Up vs. 2003 – 2005 CAGR



\*On a GAAP basis, U.S. Card Services added \$5.2B in Cardmember Loans in 2005 vs. 2004.



# Share and Financial Outcomes

- **Share gain in consumer segment\***
- **5 times larger than next issuing competitor in small business segment\*\***
- **Revenue growth of 10%\*\*\***
- **Net income growth of 16%\*\*\***

\* Source: The Nilson Report; based on data as of 9/30/05 vs. data as of 12/31/02

\*\* Source: The Nilson Report; based on full year 2004 data

\*\*\* CAGR 2002 – 2005; on a GAAP basis, revenue increased at a CAGR of 11%

# Agenda



- **Growth Momentum**
- **Financial and Business Model**
- **Growth Prospects**



# Return on Capital



Return on Capital = ~40%

- Business model advantages
- Focus on Return on Capital levers

*Return on Capital = Net Income for consumer card and OPEN (small business) products / U.S. Card Services operating segment capital that is allocated to these products.*

# Components of Return on Capital

**Yield**

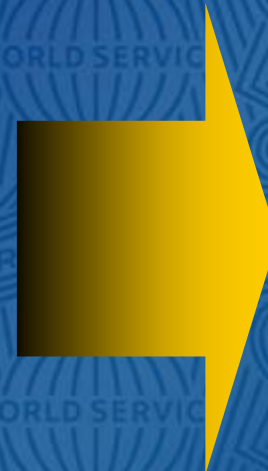
**Revenue /  
Assets**

**Leverage**

**Assets /  
Equity**

**Margin**

**Income /  
Revenue**



**Return  
on  
Capital**



# Components of Return on Capital: Yield

- **Spend-centric model**
- **Spend velocity**
- **Reducing AR days**
- **More variable pricing**
- **Investment optimization**

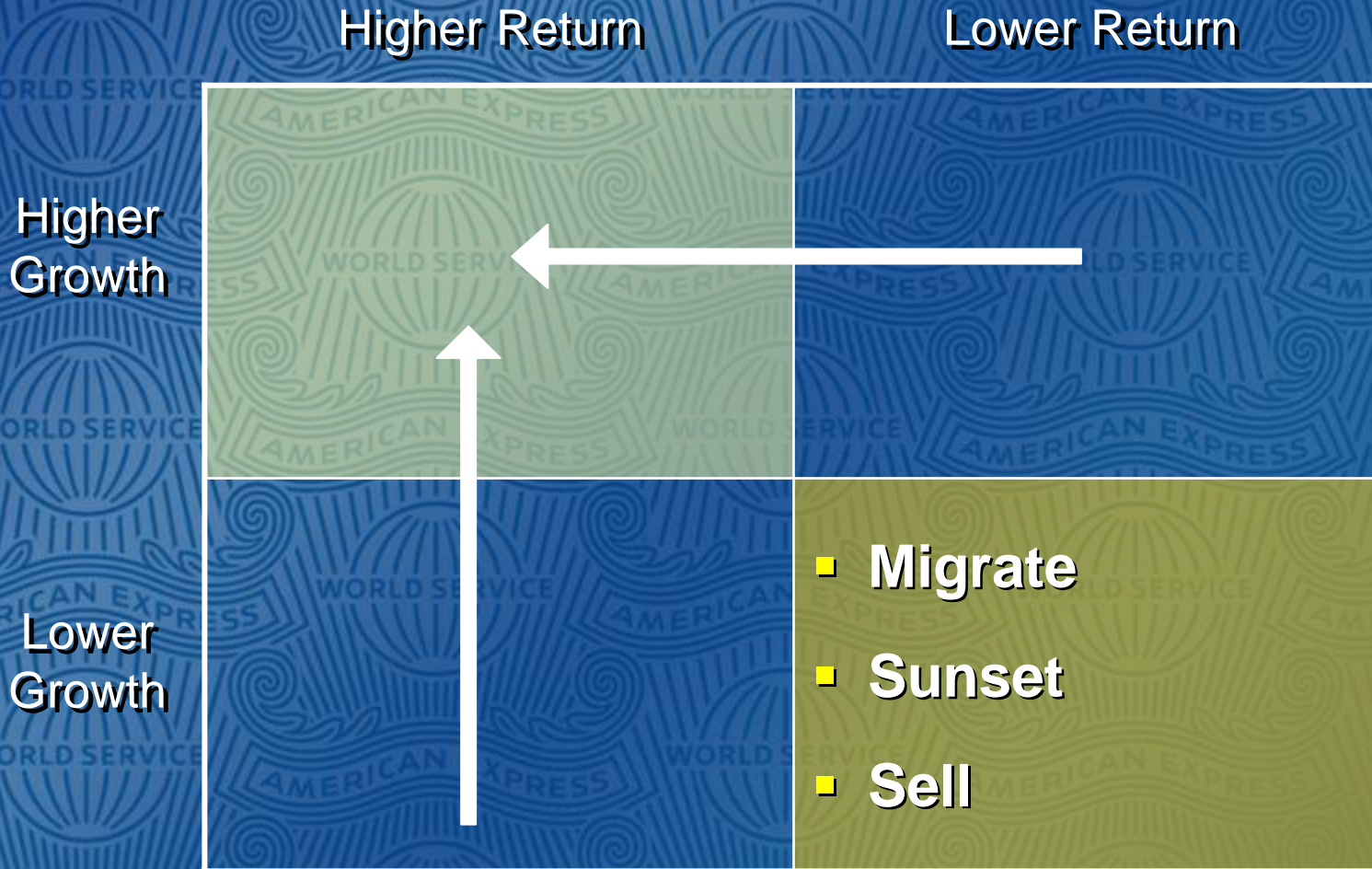
# Components of Return on Capital: Leverage



- **Business risk**
- **Portfolio mix**



# Balance Sheet Optimization



# Components of Return on Capital: Margin



- **Reengineering**
- **Six Sigma**
- **Expense management**



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# Agenda



- **Growth Momentum**
- **Financial and Business Model**
- **Growth Prospects**



# Marketplace Perspective

2003

- **Industry Challenges**
  - Acquisition
  - Lower APRs
  - Consolidation
- **AXP Challenges**
  - Coverage
  - Airline industry troubles
  - Reengineering capacity

... and for all, ability to grow share organically.

# Marketplace Perspective

*Today: Industry Challenges*

- **MasterCard IPO**
- **Integration Activities**
  - Bank of America/MBNA
  - Capital One/Hibernia
  - WAMU/Provident
- **Strategy Changes**
  - JP Morgan Chase targeting less creditworthy prospects
  - Capital One focusing less on card receivables



# Marketplace Perspective

*Today: Challenges to AXP U.S. Card Services*

- **Visa/MC conversions to Signature/World Card platforms**
- **Greater percentage of solicitations with rewards**
- **More issuers pursuing small businesses**
- **VISA Incentive Network**

# Leveraging Core Strengths

- **Spend-centric model**
- **Closed-loop network**
- **Superior risk and information capabilities**
- **Marketing prowess**



# The Upside Opportunity

*U.S. Spend FY 2004*

**AXP U.S.  
Card  
Services  
4%**



**Non-AXP  
96%**



# The Upside Opportunity



## *% of Plastic Penetration*

U.S. Consumer < 40%

International Consumer < 25%

U.S. Small Business < 15%

Global Middle Market < 10%



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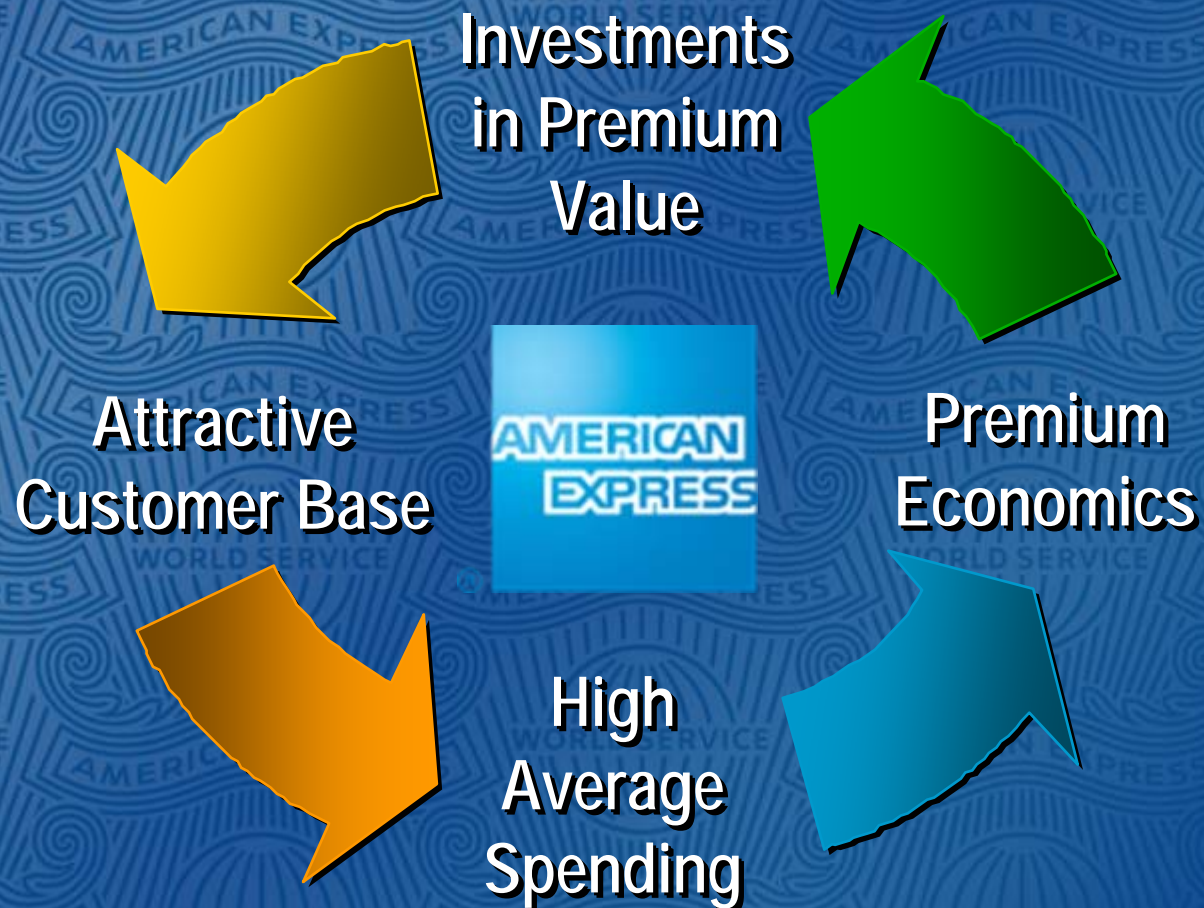


# Drivers of U.S. Card Growth

- 1. Focused Strategy**
- 2. Tried and True**
- 3. Integration Power**



# A Focused Strategy



# Drivers of U.S. Card Growth

- 1. Focused Strategy**
- 2. Tried and True**
- 3. Integration Power**



# The Tried and True: Rewards





# The Tried and True: Rewards

1/1/03 – 12/31/05

*A m e r i c a n E x p r e s s*®



- **Partners** **+50%**
- **Cards in Force enrolled** **+57%**
- **Spend earning MR points\*** **+77%**
- **Improvement in A/R Days\***

**Consumer: 2.5 days**

**OPEN: 1.2 days**

\*Full Year 2005 vs. Full Year 2002.



# The Tried and True: Partnerships

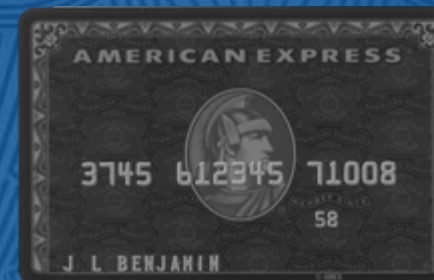
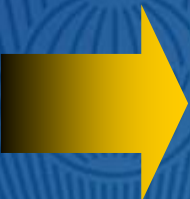
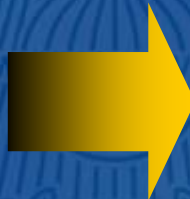


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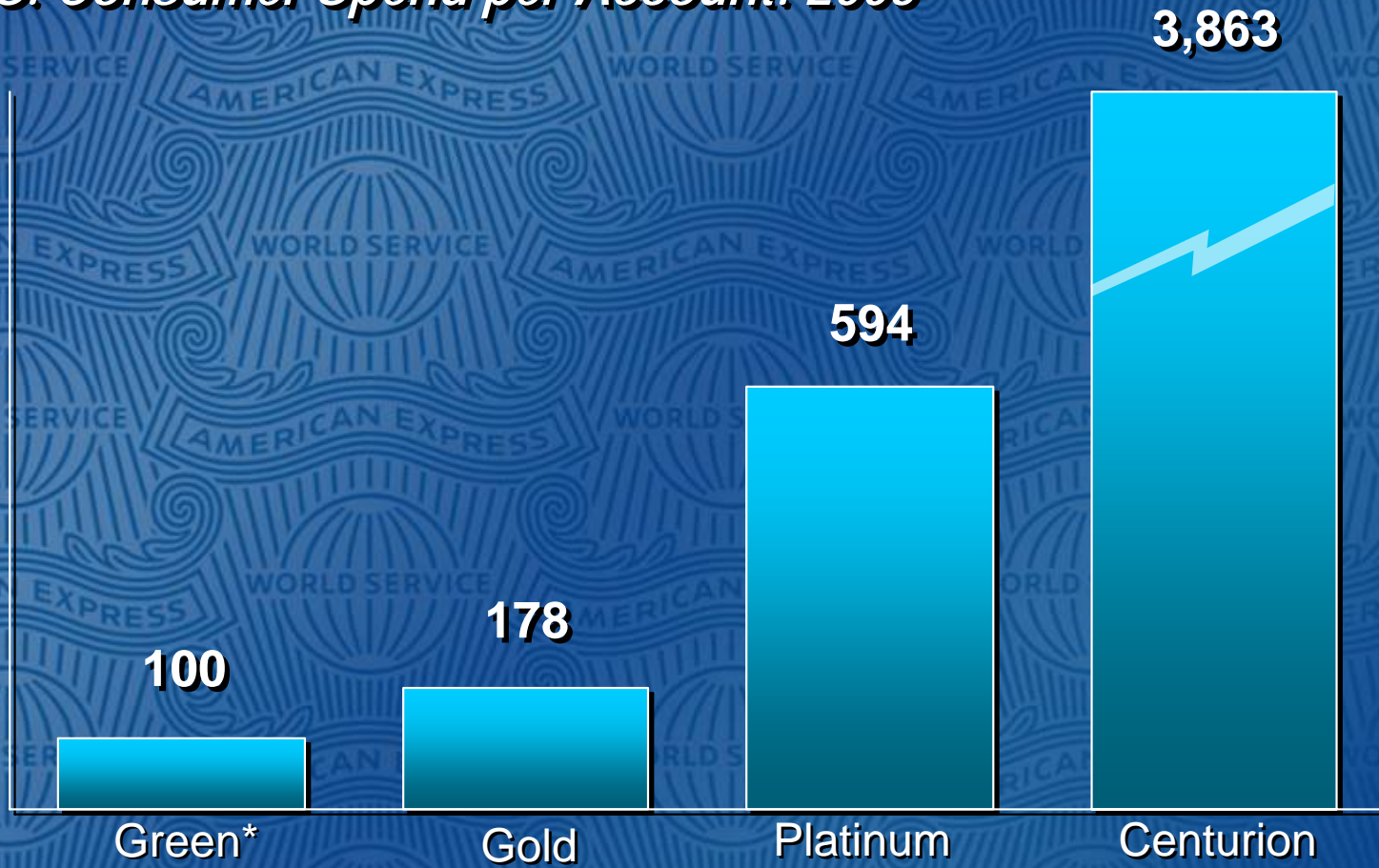


# The Tried and True: Upselling



# The Tried and True: Upselling

*U.S. Consumer Spend per Account: 2005*



\* Indexed to 100.



# The Tried and True: Deepening Relationships

**Global Travel Shield®**  
Brought to you by American Express

**Identity Protection**

BROUGHT TO YOU BY AMERICAN EXPRESS



**Sign & Travel<sup>SM</sup>**



**Extended  
Payment  
Option**



# The Tried and True: Additional Initiatives

- **Expanding merchant coverage**
- **Continuing to increase everyday spend**

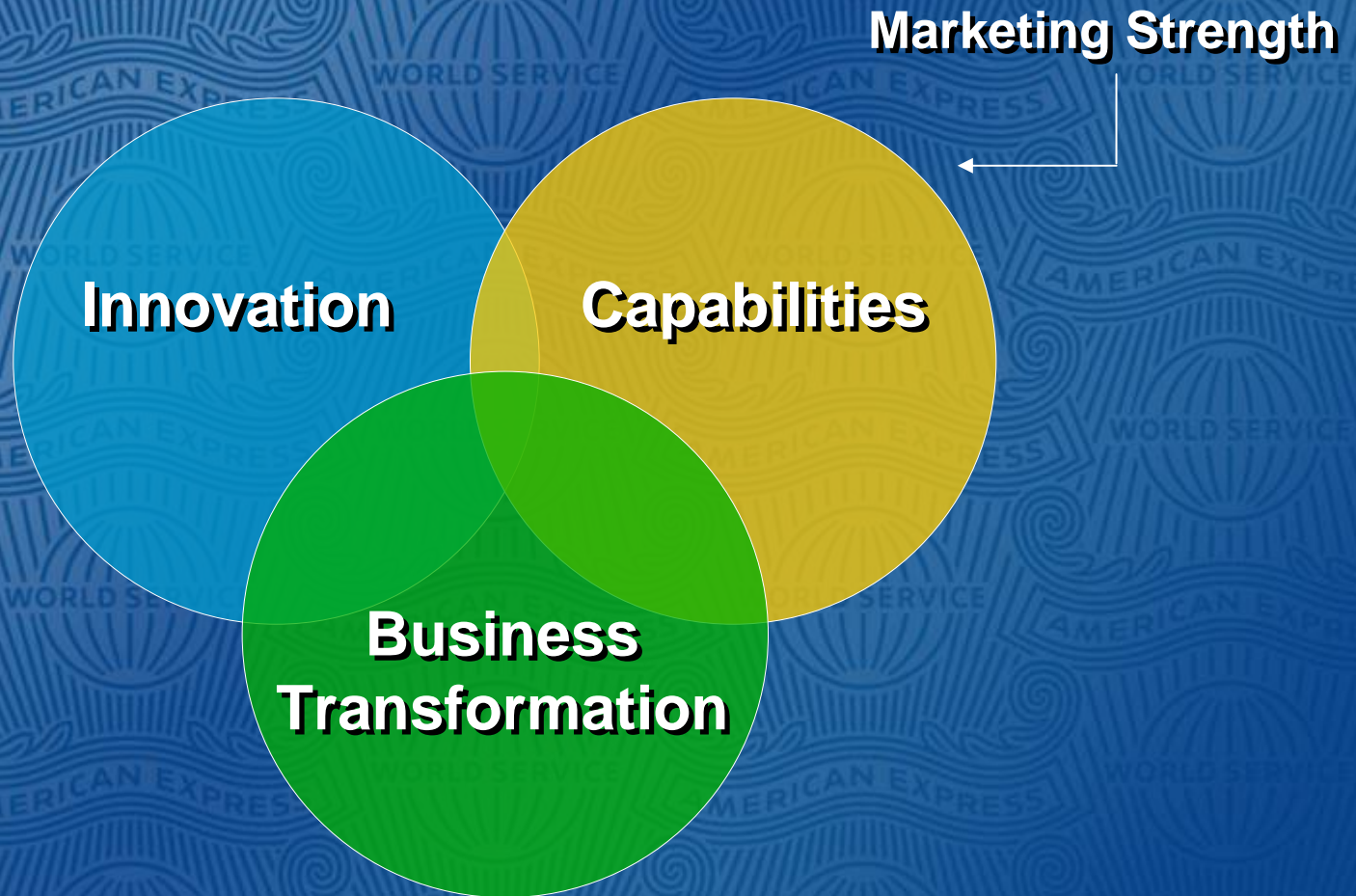




# Drivers of U.S. Card Growth

- 1. Focused Strategy**
- 2. Tried and True**
- 3. Integration Power**

# Integration Power





# Marketing Strength: JetBlue Co Brand



# Marketing Strength: Contactless Payments

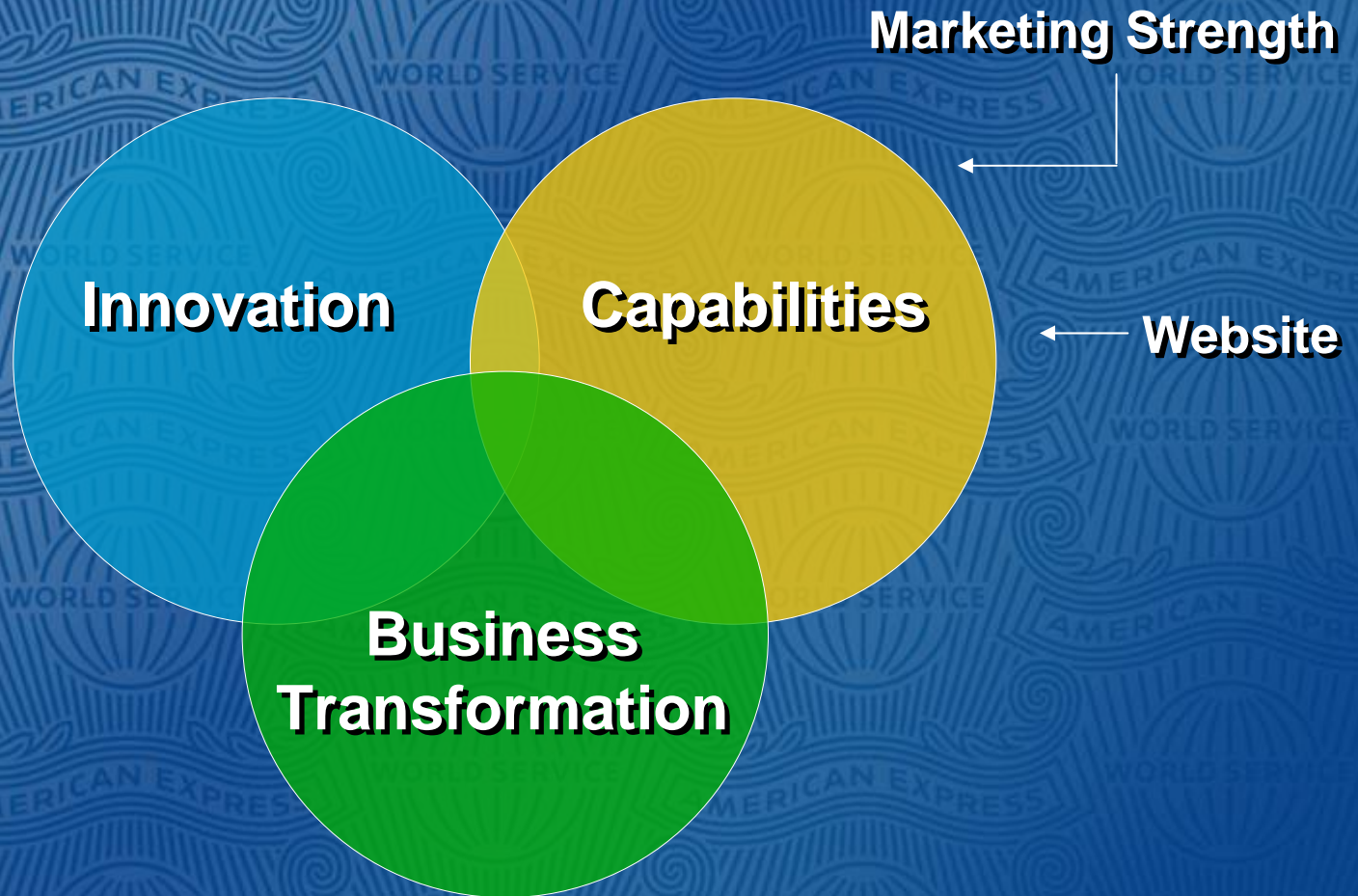




# Marketing Strength: New Products



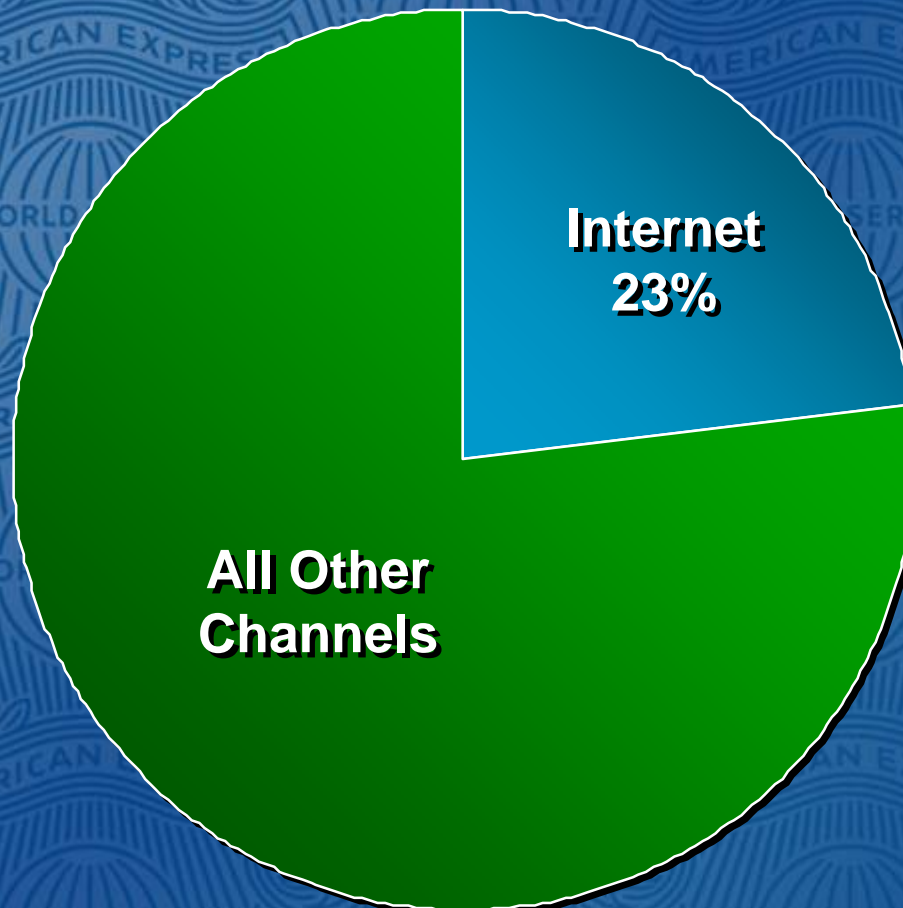
# Integration Power





# Website: New Cardmember Acquisition

*New Cards Acquired 2005*



# Website: Pay by Computer



American Express | Sign Up To Pay Your Bill Online - Microsoft Internet Explorer provided by American Express

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PERSONAL CARDS

Summary of Accounts Card Benefits Membership Rewards® Shopping Prepaid Cards Apply for a Card

Log In to My Account > Cards Center Main >

**SIGN UP TO PAY YOUR BILL ONLINE**

PAY YOUR BILL ONLINE

Paying your bill online should fit into your life, not the other way around.

Paying your bill online with American Express gives you a variety of options - you can choose to have your bill paid immediately or at a specified date in the future. This flexibility makes making payments a snap. Plus, the service is fee-free.

- **Receive instant payment confirmation.**  
Know that your payment will be noted on your account immediately.
- **Choose to schedule a future payment.**  
You choose the date your next bill will be paid. So you can manage your bills when you want, and have the payment transferred at a later date.
- **Easy to use.**  
Signing up is simple, and paying your bill is even easier.

And as you'd expect, secure encryption technology safeguards your information.

**IT'S EASY TO SIGN UP**

Please remember to have one of your personal checks handy for enrollment. You will need the routing and account numbers that appear on your check for reference.

ENROLL >

See a demonstration.

DEMO >

Log In to My Account > Cards Center Main >

**Access your account online**

- Review recent charges
- Pay your Card bill online

**Online Statements**

- Printable Statements
- E-mail Notifications

**Get a 0% Intro APR with Blue**

[+] FEEDBACK

[https://www124.americanexpress.com/cards?us\\_nu=globalbar](https://www124.americanexpress.com/cards?us_nu=globalbar) Internet



# Website: Membership Rewards Redemption



American Express Membership Rewards® - \$200 Saks Fifth Avenue Gift Certificate - Microsoft Internet Explorer provided by Americ

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Address http://www.membershiprewards.com/ProductDetail.aspx?clgid=3&catid=159&scatid=169&aid=54116 Go Links

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Summary of Accounts Card Benefits Membership Rewards® Shopping Apply for a Card

MEMBERSHIP REWARDS® Home

REWARD YOURSELF RIGHT NOW.

Available Points: 4,762

CART (0) items 0 points WISH LIST (0) items 0 points POINT SUMMARY

20,000 points

\$200 Saks Fifth Avenue Gift Certificate

Offer expires: 12/31/2006

SAKS FIFTH AVENUE

One of the world's premier specialty retailers, Saks Fifth Avenue offers discerning shoppers the very best in style, selection, and service. For the store nearest you, call 1-800-347-9177 or visit [www.saksfifthavenue.com](http://www.saksfifthavenue.com). Reward Code: 6FA12

How To Redeem Restrictions

How To Redeem back to top

1. When you choose your reward, just click **Add To Rewards Cart**.

2. You will receive a certificate within 10 business days.

3. Certificates come with instructions on how to redeem your reward from the participating retailer and partners.

Log Out

SEARCH FOR REWARDS

Keyword or Catalog Code GO

BROWSE

Shopping rewards

Fashion & Accessories

Retail Gift Certificates

Jewelry & Watches

Luggage

Apparel

REDEEM FOR THIS REWARD

To redeem points for this reward please enter a quantity between 1 and 999, and click "Add To Rewards Cart".

Quantity:

☐ I have read the [Restrictions](#)

ADD TO REWARDS CART

ADD TO WISH LIST

# Website: Redesign



## New Homepage

American Express Personal Finance, Credit Cards, Business Services, and Travel Services - Microsoft Internet Explorer provided

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User ID

Password

Select an Account:

Forgot ID or Password?

**IMPORTANT UPDATES**

- Shop Online with Confidence
- Introducing Ameriprise Financial

**THE BENEFITS OF MEMBERSHIP**

<b>SHOPAMEX(R)</b>	<b>MONITOR YOUR ACCOUNT</b>	<b>ADDITIONAL CARDS</b>	<b>FIND ANOTHER CARD</b>
--------------------	-----------------------------	-------------------------	--------------------------

**SIGN UP FOR ACCOUNT ALERTS**

**We'll keep you informed about your account.** Updates help you avoid late fees, know your balance, protect account security, and more.

**A choice of delivery options.** Receive Account Alerts via e-mail, mobile phone, pager, or PDA.

[FIND ANOTHER CARD](#) [Personal](#) [Small Business](#) [Corporate](#) [Prepaid](#)

**GIFT CARDS**

Give gift freedom with the **American Express® Gift Card.** Whether it's a great meal, an indulgent purchase, or a little entertainment, your loved ones can create their own memorable experience.

[Order Now](#)

**TRAVEL**

Enjoy world-class travel services and low web fares for the perfect vacation getaway.

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# Website: Membership Rewards as Payment

AMEX points for travel - Microsoft Internet Explorer provided by American Express

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Address http://leisure.americanexpress-travel.com/Promotions/0,,AMEX|2981|mkt\_main,00.html Go Links

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TRAVEL

Flights Hotels Cars Vacations Cruises Deals For Your Trip

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➔ Introducing a new way to redeem points for travel.

Travel anywhere. At any time. It's simple.

The Membership Rewards® program just got even better. In addition to providing access to over 20 airline and 250 hotel partners, now when you plan travel online with American Express, you can redeem Membership Rewards points to book your trip. You can now use points to book:

- **Flights** — Fly whenever you want — on virtually any airline you choose.
- **Hotels** — We guarantee you'll get the lowest rates. When searching, just look for "[Lowest Rates Guaranteed](#)".

**Here's how simple it is:**

1. Search for a flight or Lowest Rates Guaranteed Hotel.
2. Log into your American Express account to access the point balance of your Membership Rewards account.
3. On the Payment Page, see how many points you'll need for your travel selection.
4. Choose to redeem points for all of your trip or just part of it.

[Learn More](#)  
[Terms and Conditions](#)  
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**START YOUR SEARCH**

☒ Flights ☐ Hotels

From  To

☒ Round Trip ☐ One Way

Depart Feb 20 Return Feb 23

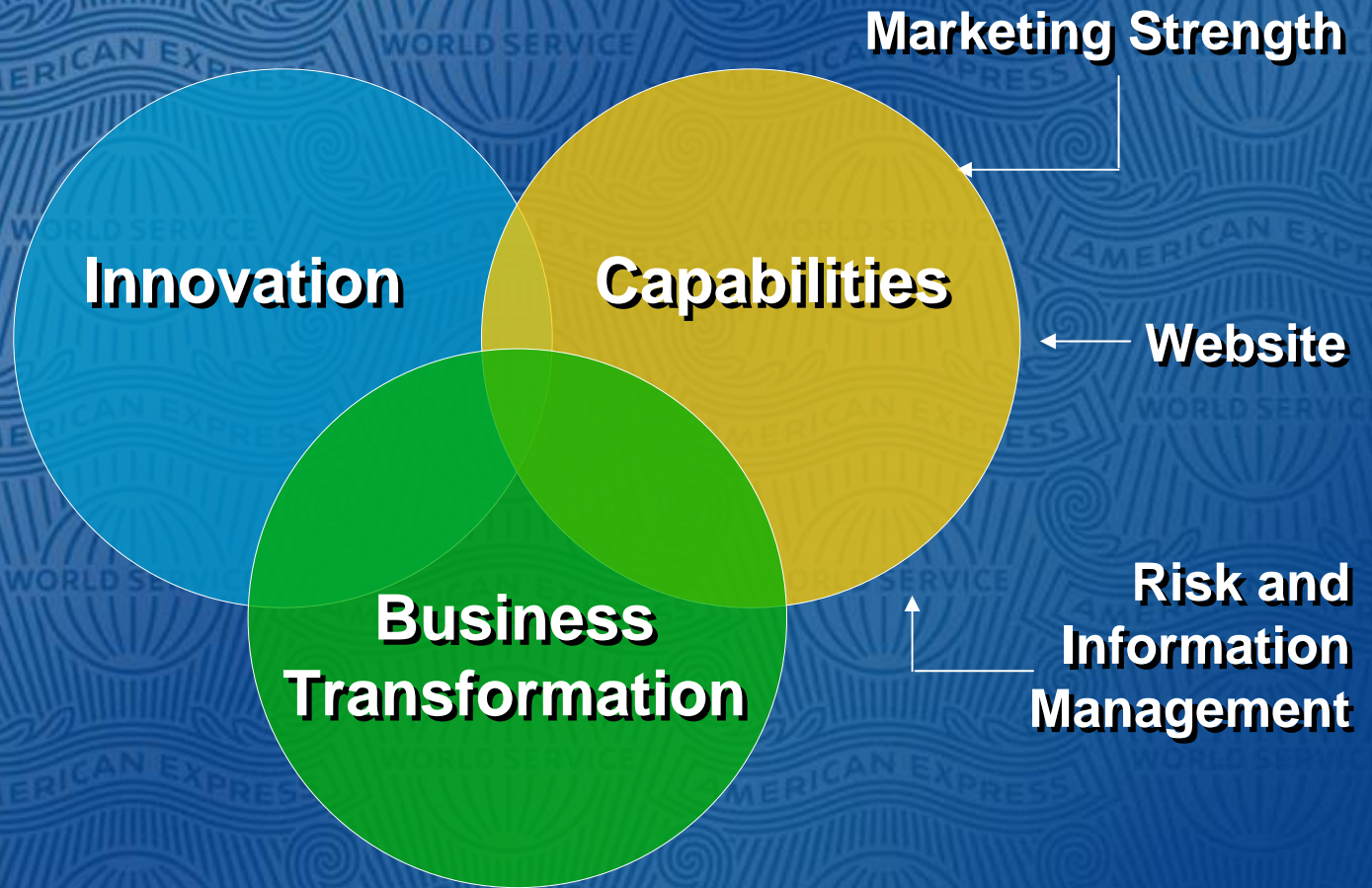
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**SEARCH**

American Express  
MEMBERSHIP  
REWARDS

Internet

# Integration Power

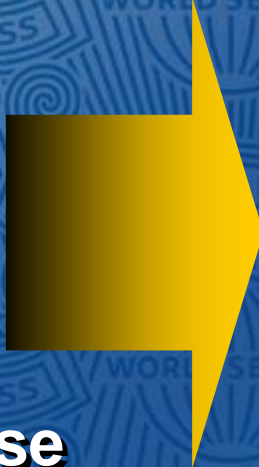




# Evolution of Information Management

## Before

- Basic analytics
- Basic modeling
- List production
- Marketing database



## Today

- Wide range of analytics
- Development of enabling capabilities
- New MIS
- Integration of all databases

# Information Management Advances

- **New prospecting models**
- **New cardmember matching logic**
- **More surgical marketing**
- **Leveraging closed loop**

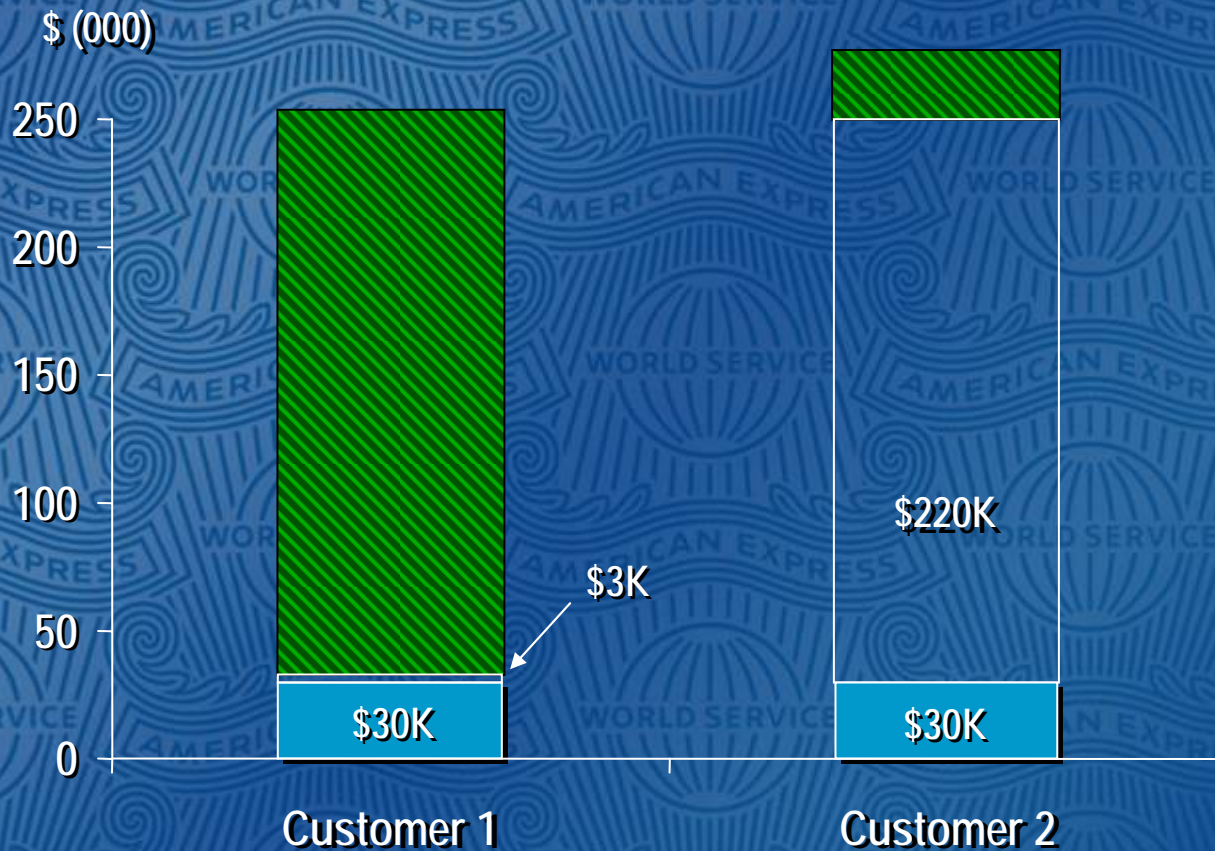


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# Risk and Information Management

## Share of Wallet

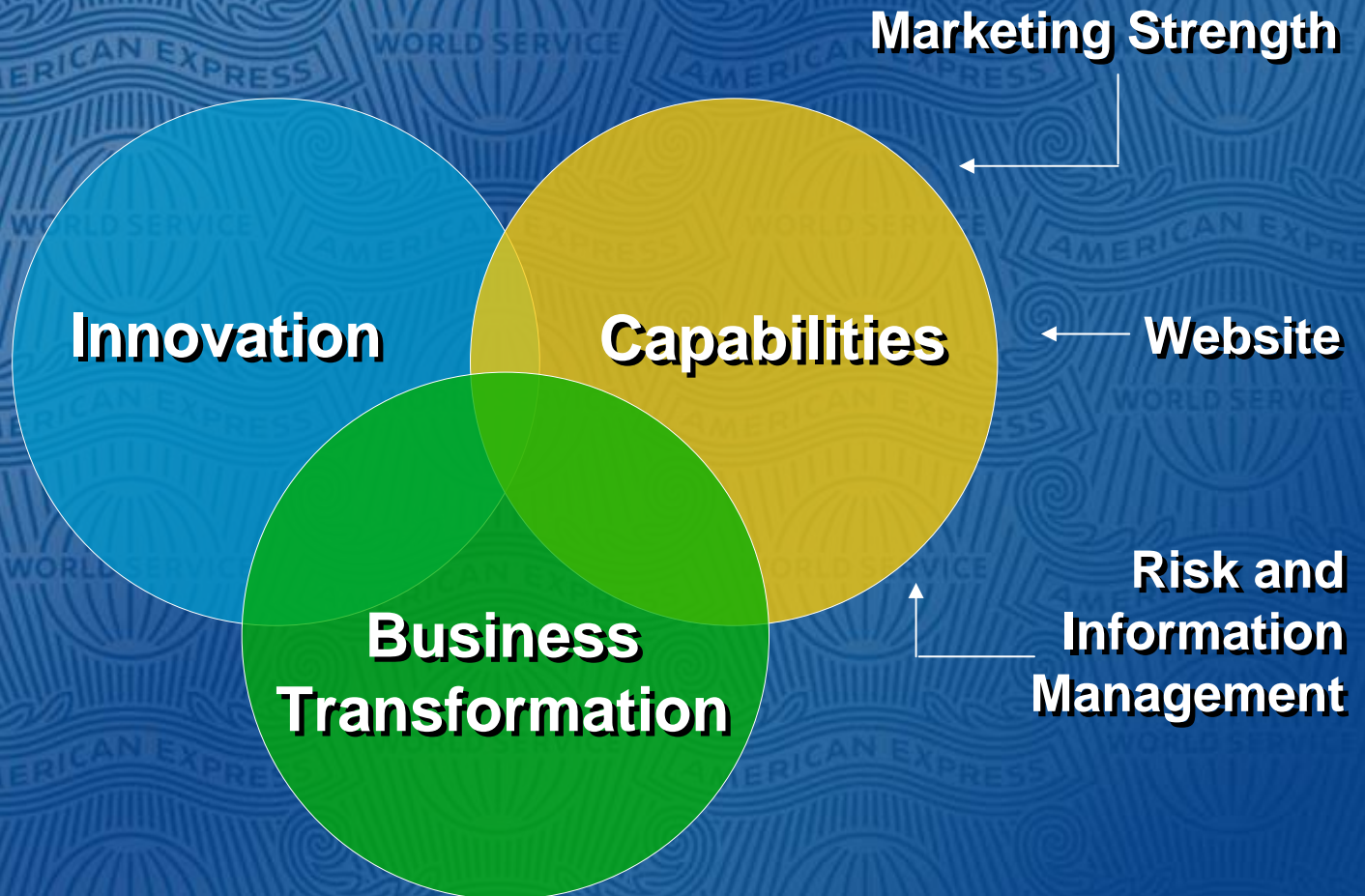




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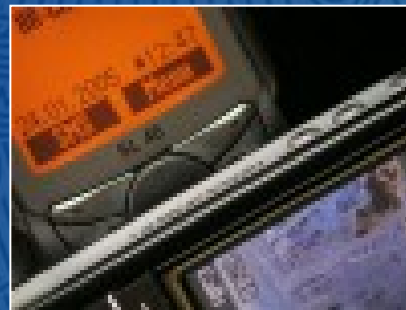
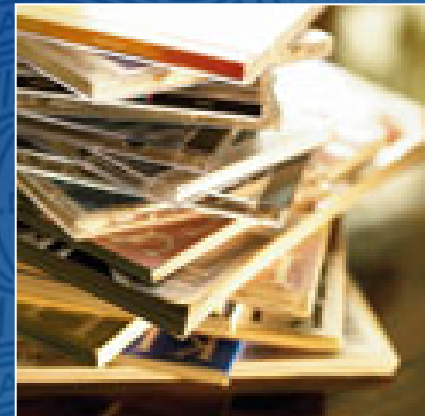


# Integration Power

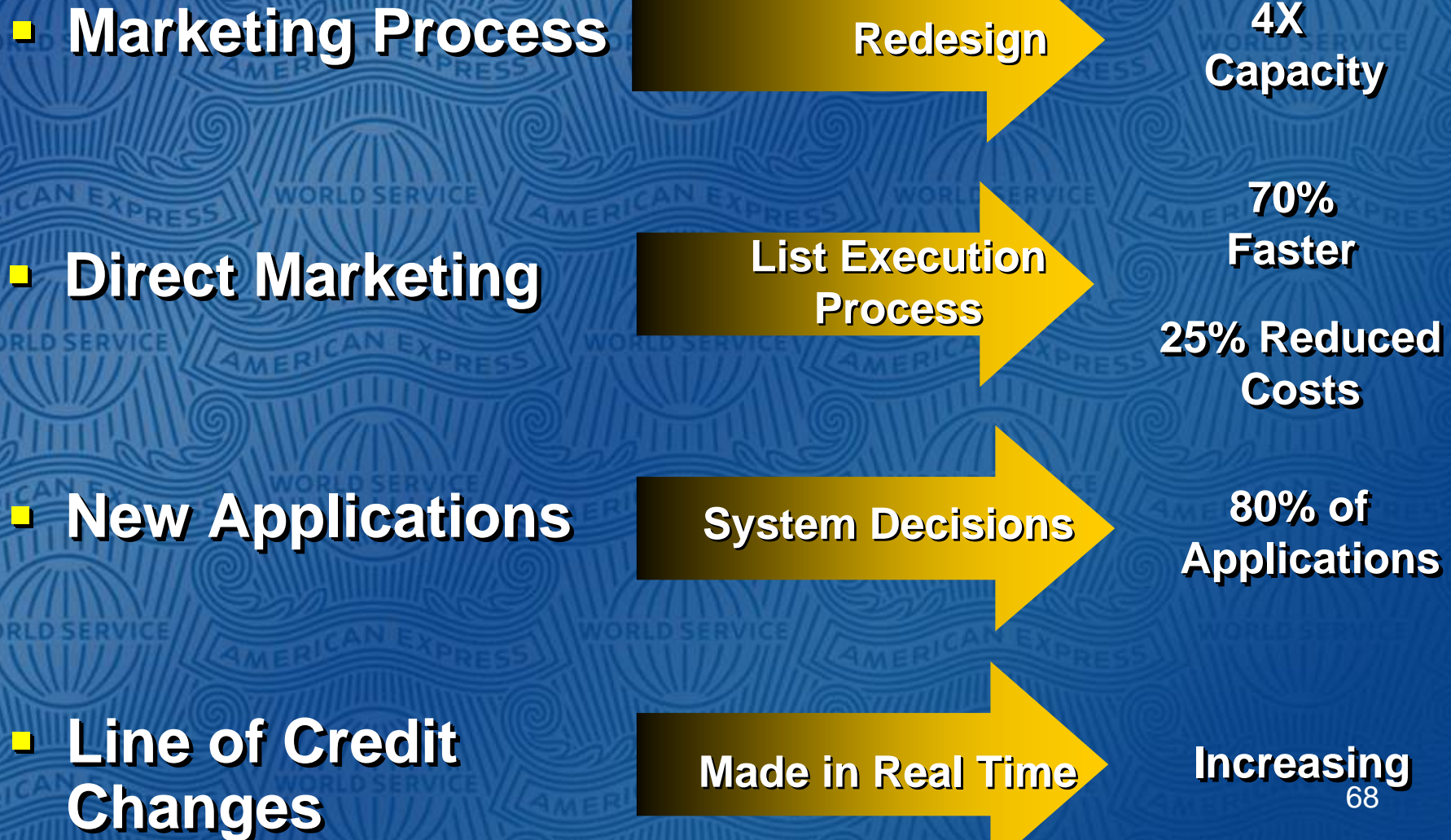




# Recurring Payments



# End to End Processes





# End to End Processes

- **Collections**

**Cases**

**40% Reduced**

**Costs**

**15% Reduced**

- **Customer Service Training**

**Training Time**

**30% Reduced**

**Costs**

**33% Reduced**

**Rep Satisfaction**

**Improving**

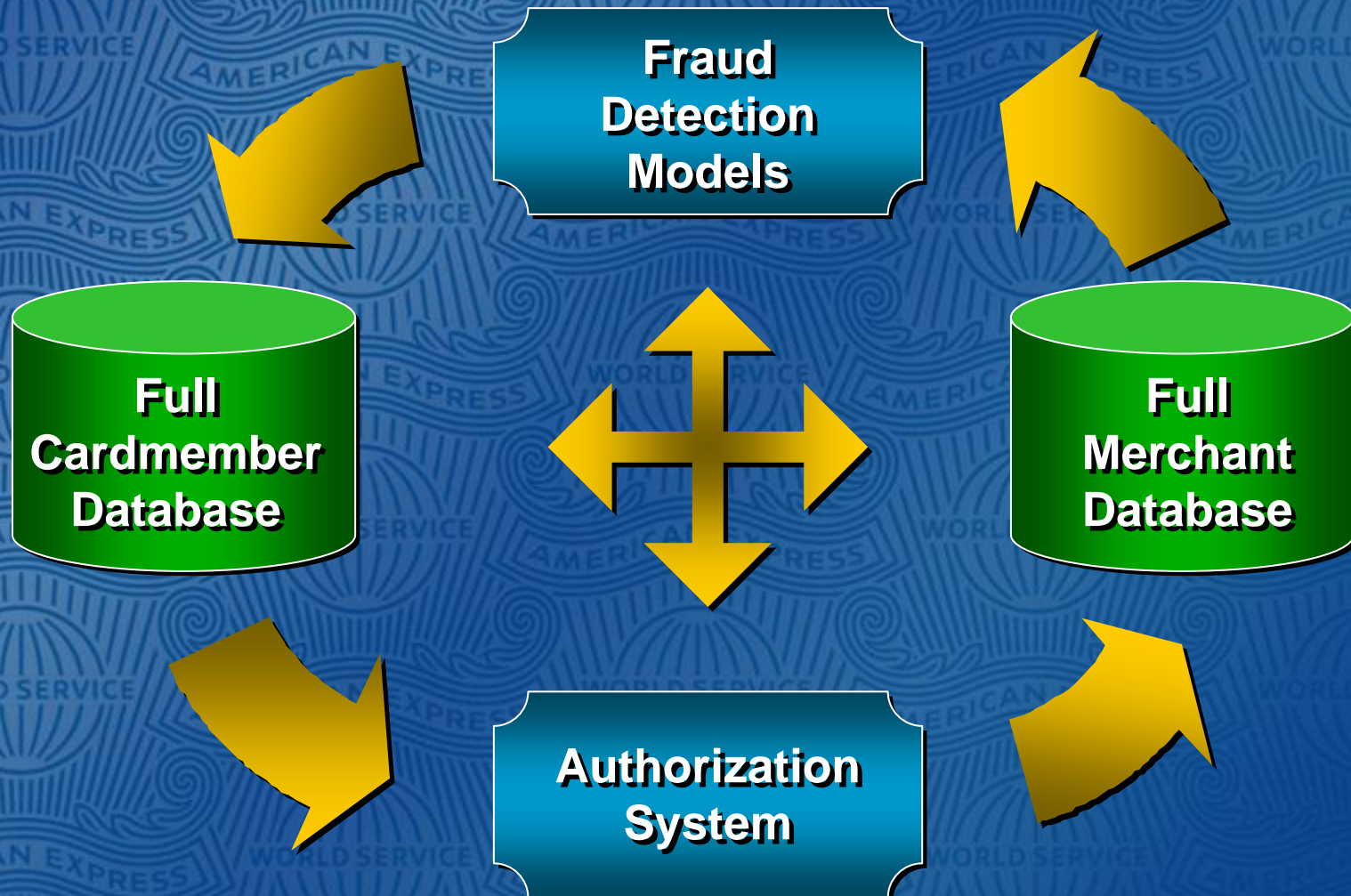
# Lending on Charge: OPEN Opportunity

*Percent of Customer Base Enrolled in Lending on Charge*





# Reducing Fraud



# Reducing Point of Sale Disruptions



**25%**



**# of  
Disruptions**

**40%**



**\$s  
Disrupted**



# No Pre-set Spending Limit



- No set line of credit
- Each transaction is underwritten
- Designed to drive spending

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# Appendix



## *Additional Information*

- On a managed basis, in the three-year period ending in 2005, cardmember loans for the U.S. Card Services operating segment increased by \$13.5B or a compounded annual growth rate of 12%.
- On a GAAP basis, in the three-year period ending in 2005, cardmember loans for the U.S. Card Services operating segment increased by \$9 billion or a compounded annual growth rate of 16%.



## **NOTE RELATING TO NON-GAAP FINANCIAL DISCLOSURES**

*This presentation contains certain non-GAAP financial disclosures, including the Company's pro forma return on equity, as well as information that is reported on a "managed" basis. Managed basis assumes no securitization transactions, i.e., all securitized loans and related income effects are reflected as if they were in the Company's balance sheet and income statement, respectively. Information relating to comparable GAAP financial measures may be found on the relevant slides both attached hereto and located on American Express Company's investor relations website at <http://ir.americanexpress.com>.*

## **INFORMATION RELATING TO FORWARD LOOKING STATEMENTS**

*This presentation includes forward-looking statements, which are subject to risks and uncertainties. The words "believe," "expect," "anticipate," "optimistic," "intend," "plan," "aim," "will," "may," "should," "could," "would," "likely," and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. The Company undertakes no obligation to update or revise any forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, the following: the Company's assumption that the full year 2005 final results will demonstrate that it gained share compared to its competitors with respect to card billed business volumes in the United States and internationally; the Company's ability to generate sufficient net income to achieve a return on equity on a GAAP basis of 28% to 30%; the Company's ability to grow its business and meet or exceed its return on shareholders' equity target by reinvesting approximately 35% of annually-generated capital, and returning approximately 65% of such capital to shareholders, over time, which will depend on the Company's ability to manage its capital needs and the effect of business mix, acquisitions and rating agency requirements; consumer and business spending on the Company's credit and charge card products and Travelers Cheques and other prepaid products and growth in card lending balances, which depend in part on the ability to issue new and enhanced card and prepaid products, services and rewards programs, and increase revenues from such products, attract new cardmembers, reduce cardmember attrition, capture a greater share of existing cardmembers' spending, sustain premium discount rates on its card products in light of regulatory and market pressures, increase merchant coverage, retain cardmembers after low introductory lending rates have expired, and expand the Global Network & Merchant Services business; the Company's ability to introduce new products, reward program enhancements and service enhancements on a timely basis during 2006; the success of the Global Network & Merchant Services business in partnering with banks in the United States, which will depend in part on the extent to which such business further enhances the Company's brand, allows the Company to leverage its significant processing scale, expands merchant coverage of the network, provides Global Network & Merchant Services' bank partners in the United States the benefits of greater cardmember loyalty and higher spend per customer, and merchant benefits such as greater transaction volume and additional higher spending customers; the continuation of favorable trends, including increased travel and entertainment*

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spending, and the overall level of consumer confidence; successfully cross-selling financial, travel, card and other products and services to the Company's customer base, both in the United States and abroad; the Company's ability to generate sufficient revenues for expanded investment spending, and the ability to capitalize on such investments to improve business metrics; the costs and integration of acquisitions; the success, timeliness and financial impact (including costs, cost savings and other benefits including increased revenues), and beneficial effect on the Company's operating expense to revenue ratio, both in the short-term and over time, of reengineering initiatives being implemented or considered by the Company, including cost management, structural and strategic measures such as vendor, process, facilities and operations consolidation, outsourcing (including, among others, technologies operations), relocating certain functions to lower-cost overseas locations, moving internal and external functions to the Internet to save costs, and planned staff reductions relating to certain of such reengineering actions; the Company's ability to generate at least \$1 billion in benefits from its reengineering initiatives in 2006; the Company's ability to control and manage operating, infrastructure, advertising and promotion expenses as business expands or changes, including the ability to accurately estimate the provision for the cost of the Membership Rewards program; the Company's ability to manage credit risk related to consumer debt, business loans, merchant bankruptcies and other credit trends and the rate of bankruptcies, which can affect spending on card products, debt payments by individual and corporate customers and businesses that accept the Company's card products and returns on the Company's investment portfolios; bankruptcies, restructurings or similar events affecting the airline or any other industry representing a significant portion of the Company's billed business, including any potential negative effect on particular card products and services and billed business generally that could result from the actual or perceived weakness of key business partners in such industries; the triggering of obligations to make payments to certain co-brand partners, merchants, vendors and customers under contractual arrangements with such parties under certain circumstances; a downturn in the Company's businesses and/or negative changes in the Company's and its subsidiaries' credit ratings, which could result in contingent payments under contracts, decreased liquidity and higher borrowing costs; risks associated with the Company's agreements with Delta Air Lines to prepay \$350 million for the future purchases of Delta SkyMiles rewards points; fluctuations in foreign currency exchange rates; fluctuations in interest rates, which impact the Company's borrowing costs, return on lending products; accuracy of estimates for the fair value of the assets in the Company's investment portfolio and, in particular, those investments that are not readily marketable, including the valuation of the interest-only strip relating to the Company's lending securitizations; the potential negative effect on the Company's businesses and infrastructure, including information technology, of terrorist attacks, disasters or other catastrophic events in the future; political or economic instability in certain regions or countries, which could affect lending and other commercial activities, among other businesses, or restrictions on convertibility of certain currencies; changes in laws or government regulations, including changes in tax laws or regulations that could result in the elimination of certain tax benefits; outcomes and costs associated with litigation and compliance and regulatory matters; deficiencies and inadequacies in the Company's internal control over financial reporting, which could result in inaccurate or incomplete financial reporting; and competitive pressures in all of the Company's major businesses. A further description of these and other risks, and uncertainties can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and its other reports filed with the SEC.