FORM 10-K

Annual report pursuant to section 13 and 15(d)

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AMERICAN EXPRESS CO

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File No. 1-7657

American Express Company
(Exact name of registrant as specified in its charter)

New York	**13-4922250**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
World Financial Center 200 Vesey Street New York, New York	**10285**
(Address of principal executive offices)	**(Zip Code)**

Registrant' s telephone number, including area code: (212) 640-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares (par value $0.20 per Share)	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant' s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of June 30, 2005, the aggregate market value of the registrant' s voting shares held by non-affiliates of the registrant was approximately $66.0 billion based on the closing sale price as reported on the New York Stock Exchange.

As of February 21, 2006, there were 1,237,661,285 common shares of the registrant outstanding.

Documents Incorporated By Reference

Parts I, II and IV: Portions of Registrant' s 2005 Annual Report to Shareholders.

Part III: Portions of Registrant' s Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Shareholders to be held on April 24, 2006.

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PART I*

ITEM 1. BUSINESS

INTRODUCTION

Overview

American Express Company, together with its consolidated subsidiaries ("American Express," the "Company," "we," "us" or "our"), is a leading global payments, network and travel company that offers its products and services throughout the world. We were founded in 1850 as a joint stock association. We were incorporated in 1965 as a New York corporation.

Our headquarters are located in New York, New York in lower Manhattan. We also have offices in other locations in North America, as well as throughout the world.

Effective September 30, 2005, we realigned our operating segments to reflect the spin-off to our shareholders of our American Express Financial Advisors business unit (now known as Ameriprise Financial, Inc. ("Ameriprise")). We now have four operating segments: Global Network & Merchant Services, U.S. Card Services, International Card & Global Commercial Services and Corporate & Other, each of whose businesses we will describe below.

Securities Exchange Act Reports and Additional Information

We maintain an Investor Relations Web site on the Internet at http://ir.americanexpress.com. We make available free of charge, on or through this Web site, our annual, quarterly and current reports and any amendments to those reports as soon as reasonably practicable following the time they are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). To access these, just click on the "SEC Filings" link under the caption "Financial Information & Filings" found on our Investor Relations homepage.

You can also access our Investor Relations Web site through our main Web site at www.americanexpress.com by clicking on the "About American Express" link, which is located at the bottom of our homepage. Information contained on our Investor Relations Web site and our main Web site is not incorporated by reference into this report or any other report filed with or furnished to the SEC.

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* Some of the statements in this report constitute forward-looking statements. You can identify forward-looking statements by words such as "believe," "expect," "anticipate," "optimistic," "intend," "plan," "aim," "will," "may," "should," "could," "would," "likely," "estimate," "predict," "potential," or "continue" or other similar expressions. We discuss certain factors that affect our business and operations and factors that may cause our actual results to differ materially from these forward-looking statements under "Item 1A. Risk Factors" below. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

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2005 Highlights

2005 was a year of growth and change for our Company. We achieved record earnings driven by strong growth in spending on our charge and credit card products. At the same time, we were able to invest in our future growth by substantially increasing our spending on business-building activities, which resulted in growth in Cardmember spending and cards-in-force.

Compared with 2004, we delivered:

revenues of $24.3 billion, up 10.5% from $22.0 billion;

income from continuing operations of $3.2 billion, up 19.9% from $2.7 billion;

net income of $3.7 billion, up 8.4% from $3.4 billion;

diluted earnings per share based on income from continuing operations of $2.56, up 22.5% from $2.09;

diluted earnings per share of $2.97, up 10.8% from $2.68; and

return on equity of 25.4%, compared with 22.0%.

During the year, we also began a new chapter in our Company' s history. On September 30, 2005, we completed the tax-free spin-off of the common stock of Ameriprise through a pro-rata dividend to our common shareholders. Ameriprise is in the business of providing financial planning, asset management and insurance services. Ameriprise' s results are reported as a discontinued operation in our Consolidated Financial Statements through the spin-off date. We believe the Ameriprise spin-off gives us the opportunity to focus on our higher growth, higher-returning payments and network services business and places us in a better position to capitalize on potential growth opportunities. This transaction is described in more detail below and on pages 24, 33, 66 and 73-74 of our 2005 Annual Report to Shareholders, which description is incorporated herein by reference.

This report describes American Express as presently structured and operated.

For a complete discussion of our 2005 financial results, including financial information regarding each of our four operating segments, see pages 24-101 of the Company' s 2005 Annual Report to Shareholders, which are incorporated herein by reference. For a summary of the Company and our operating segments, and a discussion of our principal sources of revenue, see pages 24-26 and pages 66-68 of the 2005 Annual Report to Shareholders.

Products and Services

We provide a variety of products and services worldwide, including, among others:

global card network services;

charge card and credit cards for consumers and businesses worldwide;

consumer and small business lending products;

American Express® Travelers Cheques and Gift Cards;

business expense management products and services;

business travel and travel management services;

consumer travel services;

merchant acquiring and transaction processing;

point-of-sale and back-office products and services for merchants;

banking services to individuals and financial institutions outside the United States; and

magazine publishing.

In certain countries we have granted licenses to partially-owned affiliates and unaffiliated entities to offer some of these products and services.

Our general purpose card network and card issuing businesses are global in scope. We are a world leader in providing charge and credit cards to consumers, small businesses and corporations. These cards, which include cards issued by American Express as well as cards issued by third-party banks and other institutions that are accepted on the American Express network (collectively, “Cards”), are currently issued in over 45 currencies. In 2005, our worldwide billed business (spending on American Express® cards, including Cards issued by third parties) was $484.4 billion. Our Cards permit Cardmembers to charge purchases of goods and services in most countries around the world at the millions of merchants that accept cards bearing our logo. We added a net total of 5.6 million cards in 2005, bringing total worldwide Cards-in-force to 71.0 million (including Cards issued by third parties).

Spend-Centric Model is Competitive Advantage

We believe that our “spend-centric” business model (in which we focus primarily on generating revenues by driving spending on our Cards and secondarily by finance charges and fees) has significant competitive advantages. Card issuers generate the majority of their income through some combination of customer spending (which generates payments from merchants for card transactions), lending (which generates finance charges on revolving credit balances) and customer fees. We have strength in all three revenue streams, and we have a competitive edge in spending. On average, U.S. Cardmembers spend close to four times as much on their American Express Cards as they do on MasterCard and VISA cards. For merchants, our Cardmembers’ higher spending represents greater value to them in the form of higher sales and loyal customers, which gives us the ability to earn a premium discount rate. As a result, we can generate higher revenues from spending and have the flexibility to offer more attractive rewards and other incentives to keep customers spending more on their Cards and offer marketing programs to merchants to enable them to attract high-spending Cardmember customers. This, in turn, drives more business to merchants that accept our Card products. This business model, along with our closed loop network, in which we are both the card issuer and the merchant acquirer, gives us a competitive advantage that we seek to leverage to provide more value to Cardmembers, merchants and Card-issuing partners.

Our business as a whole has not experienced significant seasonal fluctuations, although travel sales tend to be highest in the second quarter; Travelers Cheque sales and Travelers Cheques outstanding tend to be greatest each year in the summer months, peaking in the third quarter, and Card billed business tends to be moderately higher in the fourth quarter than in other quarters.

GLOBAL NETWORK & MERCHANT SERVICES

Global Network Services

We operate a global general purpose charge and credit card network through our Global Network Services ("GNS") business. Network functions include operations, service delivery, systems, authorization, clearing, settlement and brand advertising and marketing; the development of new and innovative products for the network; and establishing and enhancing relationships with merchants globally.

Since May 1996, we have been pursuing a strategy of inviting U.S. banks and other institutions to issue Cards on the American Express network, building on a business strategy we have implemented successfully in a number of countries outside the United States, where we have many banks and other financial institutions issuing Cards on the American Express network. By leveraging our global infrastructure and the appeal of the American Express brand, we aim to broaden our Cardmember and merchant base for our network worldwide. Our GNS business has established 97 card-issuing or merchant acquiring arrangements with banks and other institutions in over 100 countries.

A key asset of our network is the American Express brand, which is one of the world' s most highly recognized and respected brands. Cards bearing our logo are issued by our principal operating subsidiary (American Express Travel Related Services Company, Inc. ("TRS")) and certain of its subsidiaries and also by third-party institutions, and are accepted at all merchant locations worldwide that accept American Express branded Cards. In addition, depending on the product, Cards bearing our logo may also be accepted at all ATM locations worldwide that accept Cards. TRS and its subsidiaries issue the vast majority of Cards on our network.

GNS focuses on partnering with qualified third-party financial institutions who choose to issue Cards accepted on our global network. Although we customize our network arrangements to the particular market and our partner' s requirements, as well as to our strategic plans in that marketplace, all GNS arrangements are designed to help issuers develop products for their highest-spending and most affluent customers and to support the value of American Express Card acceptance to merchants. We choose to partner with institutions who share a core set of attributes such as commitment to high quality standards, strong marketing expertise and compatibility with the American Express brand, and we require adherence to our product, brand and service standards*.

* The use of the term "partner" or "partnering" does not mean or imply a formal legal partnership.

Our GNS arrangements fall into three main categories. The first and most common type of GNS arrangement is known as a network card license (“NCL”) (which we formerly referred to as a non-proprietary license). At the end of 2005, we had 50 of these arrangements in place. In an NCL arrangement, we grant the third-party financial institution a license to issue American Express branded Cards. We generally pursue these arrangements in markets where we already have a strong, well established local business. In an NCL arrangement, American Express maintains the responsibility to acquire and service the merchants in the local market that accept Cards. The NCL issuer owns the customer relationships for all Cards it issues, provides customer service to its Cardmembers, transaction authorization, billing and credit management, is responsible for the marketing of the Cards, and designs the Card product features (including rewards and other incentives for Card holders), subject to meeting certain standards. We operate the Merchant network and route and process Card transactions from the merchant’ s point of sale through submission to the issuer, and settle with issuers. The NCL is the model that we have implemented with banks in the United States. Examples of NCL arrangements include our relationships with MBNA America Bank, N.A. (“MBNA”), Citibank, Bank of America, Lloyd’ s TSB Bank (in the United Kingdom) and Industrial and Commercial Bank of China.

GNS’ revenues in NCL arrangements are derived from the level of Cardmember spending, royalties and fees charged to the Card issuer based on charge volume, and our provision of value-added services such as Cardmember insurance products and other Card features and benefits for the issuer’ s Cards. As indicated above, the NCL issuer bears the credit risk for the issued Cards, as well as the Card marketing and acquisition costs, Cardmember fraud risks and costs of rewards and other loyalty initiatives. We bear the risk arising from the GNS partner’ s potential failure to meet its settlement obligations to us. We mitigate this risk by partnering with issuers whom we believe are financially sound and will meet their obligations, and by monitoring their financial health, their compliance with the terms of their relationship with us and the political and economic environment in which they operate. In addition, we generally require NCL issuers to post a letter of credit, bank guarantee or other collateral to reduce this risk.

The second type of GNS arrangement is known as an independent operator (“IO”) arrangement. As of the end of 2005, we had over 40 of these arrangements around the world. Under this type of arrangement, we license our bank partner to issue local currency Cards in the particular market(s) in which it is located, where, in the large majority of these arrangements, they also serve as the local merchant acquirer and processor. Our local IO partner owns the customer relationships and credit risk for the issued Cards, and makes the decisions about which customers will be issued Cards. Similar to the NCL-type of arrangement, GNS generates revenues in IO arrangements from fees paid by the IO partner derived from the number of Cards it issues, the level of Cardmember spending on those, Cards, royalties and total charge volume on all Cards at merchants with whom the IO partner has an agreement to accept Cards. Our IO partner is responsible for transaction authorizations, billing, pricing, Cardmember servicing and funding Card receivables.

We typically establish IO arrangements in markets where we have not built a significant local currency Card business of our own. The IO partner’ s local presence and relationships help the American Express network reach merchant coverage goals more quickly, and operate at economic scales and cost levels that would be difficult for us to achieve on our own. Examples of countries where we have entered into IO arrangements include Denmark, Ecuador, Greece, South Korea, Pakistan, Croatia, Peru and Vietnam.

The third type of GNS arrangement is a joint venture. We have utilized this type of arrangement in Switzerland, Belgium and several other countries. In these markets, TRS joins with a third party to establish a separate business in which TRS has a significant ownership stake. The joint venture typically signs new merchants to the American Express network and issues local currency Cards locally that carry our logo. In a joint venture arrangement, the joint venture assumes the Cardmember credit risk, and bears the operating and marketing costs. The economics of the joint venture are similar to our proprietary Card issuing business, which we discuss below under "U.S. Card Services," and we receive a portion of the joint venture' s income depending on the level of our ownership interest.

Gross revenues we receive per dollar spent on a Card issued by a GNS partner are lower than those from our proprietary card issuing business. However, because the GNS partner is responsible for most of the operating costs and risk of its card issuing business, our expenses are lower than those in our proprietary card issuing business. The GNS business model generates an attractive earnings stream and risk profile that requires a lower level of capital support. The return on equity in our GNS business can thus be significantly higher than that of our proprietary card issuing business. Because the majority of GNS costs are fixed, the GNS business is highly scalable. GNS partners benefit from their association with the American Express brand and their ability to gain attractive revenue streams and expand and differentiate their product offerings with innovative marketing programs.

In 2005, we entered into new GNS relationships with 14 financial institutions. GNS partners launched over 50 new products during 2005, bringing the total number of American Express-branded GNS partner products to approximately 450. Outside the United States, we have signed a number of agreements over the past year in markets such as China, Russia, the United Kingdom, South Korea and Hungary. The GNS business now has over 90 partners representing over 100 geographic markets.

Some of the highlights of our GNS business outside the United States in 2005 include:

- implementation of an exclusive agreement with the Russian Standard Bank for it to issue and market Russian ruble- or U.S. dollar-denominated American Express® Centurion® line Card products in Russia (the first of these Cards was launched in December 2005);
- implementation of the launch of the first Baiduri American Express Cards in Brunei, through our network relationship with the Baiduri Bank;
- the launch of the first American Express Cards in Bulgaria through our network relationship with Postbank, the exclusive issuer of our Cards in that country, as well as the exclusive acquirer of new merchants for our card network in that country;
- the launch of the first American Express Cards in Latvia through our network relationship with Parex Banka, the exclusive issuer of our Cards in that country, as well as the exclusive acquirer of new merchants for our card network in that country;

an agreement with Barclaycard under which it will be the exclusive merchant acquirer and processor of American Express Card transactions in select African countries, including Kenya, Botswana, Gambia, Ghana, Malawi, Seychelles, Tanzania, Uganda and Zambia;

an agreement with Lloyds TSB for it to create and issue its own range of credit cards in the United Kingdom utilizing the American Express Network;

an agreement with OTP Bank, Hungary' s largest consumer bank, for it to become the exclusive issuer of Cards in that country, as well as the exclusive acquirer of merchants for our card network in that country;

an agreement with Standard Chartered Bank for it to create and issue its own range of credit card products in Hong Kong utilizing the American Express Network;

the launch in Hong Kong by Development Bank of Singapore of Cards utilizing the American Express Network, one of the first instances in which a GNS partner issued Cards outside its home country;

an agreement with Shinhan Card for it to issue American Express Cards in South Korea;

an agreement with Banco Patagonia for it to issue American Express Cards, denominated in both pesos and U.S. dollars, in Argentina;

the launch in Romania of our branded Cards through Bancpost, one of that country' s leading banks; and

an agreement with Nuevo Banco Commercial in Uruguay for it to issue cards for use on the American Express Network, as well as acquire new merchants for our card network in that country.

In contrast to the situation outside the United States, where banks and other qualified institutions have issued Cards on our network for many years, until 2004 no major U.S. banks had issued Cards in the United States on the American Express global Merchant network. This situation was the result of rules and policies of Visa U.S.A. and Visa International Service Association (together, "VISA") and MasterCard, Incorporated and MasterCard International, Inc. (together, "MasterCard") in the United States, which mandated expulsion of members who issued American Express branded Cards. No bank was willing to risk forfeiting membership in VISA and/or MasterCard to issue cards on our network.

However, as a consequence of the decision in a lawsuit filed in October 1998 by the U.S. Department of Justice against VISA and MasterCard in which such rules and policies were found to violate the U.S. antitrust laws, these rules and policies were finally repealed in late 2004 after the U.S. Supreme Court declined to hear VISA' s and MasterCard' s appeal of the lower courts' rulings against them. The Supreme Court' s decision not to hear the appeals marked the end of VISA' s and MasterCard' s rules that prevented their member banks from issuing cards on competitive networks and cleared the way for implementation of the trial court' s order requiring the repeal of the illegal rules. We view this decision as a major victory for U.S. consumers as well as U.S. banks because it opened the door to more vigorous network competition and more innovative card products and services.

For American Express, the conclusion of the litigation brought by the Justice Department meant that we were now able to open our network to other card issuers in the United States, just as we have done internationally. Building a network business in the United States that operates in addition to our proprietary card business provides us with new and substantial opportunities for growth. We have acted on this decision by entering into several GNS arrangements in the United States:

In January 2004, we entered into an agreement with MBNA America Bank, N.A., which began to issue Cards accepted on our network in the fourth quarter of 2004 after the Supreme Court' s action.

In December 2004, we entered into an agreement with Citibank, N.A., which led to the launch of Cards in December 2005.

In April 2005, we entered into an agreement with Juniper Bank, a member of the Barclays Group, pursuant to which it will issue Cards on our network to be offered to U.S. wealth management clients of UBS.

In May 2005, we entered into an agreement with USAA Federal Savings Bank under which it will issue credit Cards that will be accepted on our network beginning in the second quarter of 2006.

In December 2005, we entered into an agreement with Bank of America under which it will issue and market Cards that will be accepted on our network beginning in 2006.

Also in December 2005, we entered into an agreement with HSBC Bank Nevada, N.A. under which it will issue credit Cards in the United States that will be accepted on our network.

In January 2006, we announced an agreement with GE Consumer Finance under which GE Money Bank will issue Cards that will be accepted on our network, with the first product to be offered under the agreement being the Dillard' s American Express Card, a co-branded card to be issued by GE Money Bank in conjunction with Dillard' s, the fashion apparel and home furnishings retailer.

In addition, in November 2004, we filed a lawsuit against VISA, MasterCard and certain of their member banks seeking monetary damages resulting from the illegal rules that were struck down in the U.S. Department of Justice lawsuit discussed above. (You can read more about this lawsuit in the "Legal Proceedings" section of this report below.)

With approximately 450 different Card products launched on our network so far by our bank partners, GNS is an increasingly important business that is strengthening our market presence, driving more transaction volume onto our merchant network and increasing the number of merchants accepting the American Express Card. In total, the GNS business has added over 10.8 million new Cards to our network (net of attrition). Since 1999, Cards-in-force issued by the GNS business have grown at a compound annual growth rate of 25%. Outside the United States, approximately 45% of new Cards issued in 2005 were cards issued by one of our GNS partners, and GNS partners brought nearly two-thirds of all new merchants into our network during the year. Spending on these Cards has grown at a compound annual rate of 21% since 1999 and totaled $24 billion in 2005.

Local regulations governing the issuance of charge and credit cards have not been a significant factor impacting our arrangements with banks and qualifying financial institutions in any country in which such arrangements exist, because such banks and institutions generally are already licensed to issue general purpose cards. Accordingly, our GNS partners have generally not had difficulty in obtaining appropriate government authorization in the markets in which we have chosen to enter into GNS arrangements. As a network service provider to regulated U.S. banks, our GNS business is subject to review by the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

Competition

Our network competes with other charge and credit card networks, including, among others, VISA, MasterCard, Diners Club (which, in the United States, has been folded into the network operated by MasterCard), Discover, a business unit of Morgan Stanley (primarily in the United States), and JCB Co., Ltd. (primarily in Asia). The principal competitive factors that affect the network business include:

the number of cards-in-force and amount of spending on these Cards;

the quantity and quality of the establishments where the Cards can be used;

the economic attractiveness to card issuers and merchant acquirers of participating in the network;

the success of marketing and promotional campaigns;

reputation and brand recognition;

innovation in systems, technology and product offerings;

the quality of customer service; and

the security of Cardmember and merchant information.

Global Merchant Services

We operate a global merchant services business, which includes signing merchants to accept Cards (merchant acquisition) and accepting and processing Card transactions and paying merchants (transaction processing) that accept Cards for purchases made by Cardmembers with Cards (“Charges”). We also provide point-of-sale and back-office products and services and marketing programs to merchants.

Our objective is to achieve merchant coverage so that Cardmembers are able to use the Card wherever and however they desire, as well as to increase coverage in key geographic areas and in new industries that have not, to date, accepted general purpose credit and charge cards as a means of payment. We add new merchants to our network through a number of sales channels: a proprietary sales force, third-party sales agents, strategic alliances with banks, the Internet, telemarketing and inbound “Want to Honor” calls (i.e., merchants desiring to accept the Card contacting us directly).

Since the early 1990s, we have significantly expanded the number of merchants that accept our Card products as well as the kinds of businesses that accept the Card. In recent years, we have focused our efforts on increasing the use of our Cards for everyday spending. In 1990, 64% of our U.S. billings came from the travel and entertainment sectors and 36% came from retail and other sectors. That proportion has now been more than reversed. In 2005, U.S. non-travel and entertainment billings represented 68% of the U.S. billed business on American Express Cards. This shift resulted from the growth, over time, in the types of merchants who began to accept charge and credit cards in response to consumers' increased desire to use these cards for more of their purchases, and our focus on expanding Card acceptance to meet Cardmembers' needs.

During 2005, we continued our efforts to encourage consumers to use the Card for everyday spending. We increased the number and types of merchants in retail and everyday spending categories that accept the Card, such as quick-serve restaurants, retail stores, supermarkets and gas stations.

During 2005 we also continued our drive of bringing Card acceptance to industries where cash or checks are the predominant form of payment. For example, in the area of apartment rentals TRS signed an agreement with KSI Management Corporation, a manager of residential rental properties in the D.C. metropolitan area, to allow residents to charge their monthly rent payments directly to their American Express Cards. In addition, United Healthcare has agreed to accept the Card for health and medical insurance premiums. Card acceptance at hotels and conference centers for business meetings and events and business-to-business purchases are other examples of new industries in which the Card is now accepted, and which have the potential to increase our average Cardmember spending.

As in prior years, during 2005, we continued to grow merchant acceptance of Cards around the world and to refine our approach to calculating merchant coverage in accordance with changes in the marketplace. Globally, acceptance of general purpose charge and credit cards continues to increase, including merchants in industries that have not traditionally accepted charge and credit cards. Management estimates that, as of the end of 2005, our merchant network in the United States accommodated more than 90% of Cardmembers' general purpose charge and credit card spending, and our international merchant network accommodated over 80% of our Cardmembers' general purpose charge and credit card spending.

We earn "discount" revenue from fees charged to merchants for accepting Cards as payment for goods or services sold. The merchant discount is the fee charged to the merchant for accepting Cards and is generally expressed as a percentage of the amount charged on a Card. The merchant discount is generally deducted from the amount of the payment that the "merchant acquirer" (in most cases, TRS or one of its subsidiaries) pays to a merchant for charges submitted. A merchant acquirer is the entity that contracts for Card acceptance with the merchant, accepts transactions from the merchant, pays the merchant for these transactions and submits the transactions through the American Express network to the appropriate Card issuer for billing to the Cardmember. When a Cardmember presents the Card for payment, the merchant creates a record of charge for the transaction and submits it to the merchant acquirer for payment. To the extent that TRS or one of its subsidiaries is the merchant acquirer, the merchant discount is recorded by us as discount revenue at the time the transaction is captured.

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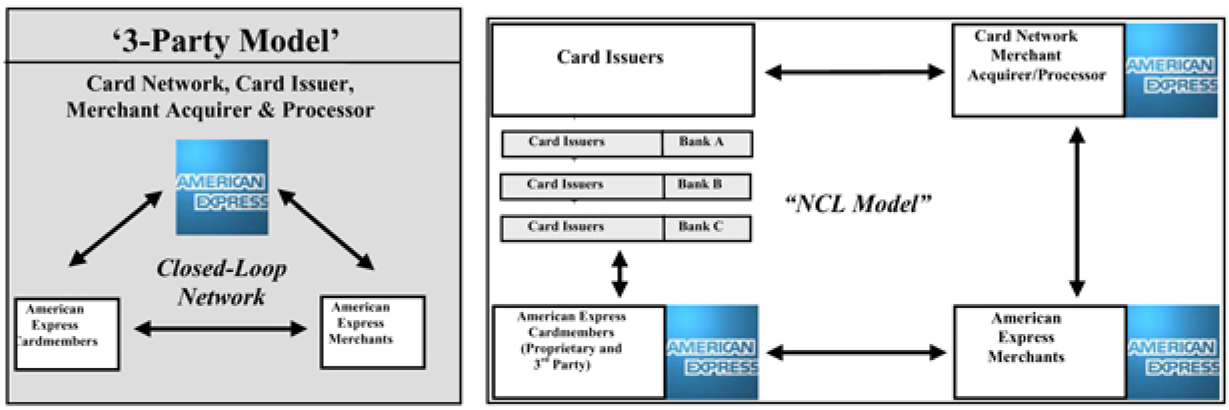
Where we act as the merchant acquirer and the Card presented at a merchant is issued by a third-party bank or financial institution, such as in the case of some of our GNS arrangements, we will make financial settlement to the merchant and receive the discount revenue. In our role as the operator of the card network, we will also receive financial settlement from the Card issuer, who retains an issuer rate (i.e., the individually negotiated amount that card issuers receive for transactions charged on our network with Cards that they issue, which is usually expressed as a percentage of the charged amount). The difference between the discount revenue (received by us in the form of the merchant discount) and the issuer rate received by the card issuer generates a return to us. Where we are the Card issuer and the merchant acquirer is a third-party bank or financial institution, we receive an issuer rate in our settlement with the merchant acquirer, which is recorded by us as discount revenue.

The following diagrams depict the relationships among the parties in a point-of-sale transaction effected on the American Express network where we act as both the Card issuer and merchant acquirer (the "3-Party Model") and under an NCL arrangement where third-party financial institutions in the United States act as the Card issuer (the "NCL Model"):



The level of the merchant discount rate that we charge is principally determined by the value we deliver to the merchant and generally represents a premium over other cards. We deliver value to the merchant through higher spending Cardmembers relative to cards issued on competing card networks, the overall higher volume of spending by all Cardmembers, marketing programs and Cardmembers' insistence on using their Cards when enrolled in rewards or other Card loyalty programs.

The merchant discount rate varies with the industry in which the merchant does business, the charge volume, the timing and method of payment to the merchant, the method of submission of charges and, in certain instances, the geographic scope of the Card acceptance agreement signed with us (local or global), and the average charge amount. In 2005, as in prior years, we experienced some reduction in our global weighted average merchant discount rate, principally reflecting the impact of selective repricing initiatives, continued changes in the mix of business resulting from the growth in lower rate "everyday spend" merchant categories and volume-related pricing discounts. We expect that the effect of these factors will likely continue to result in some erosion over time of the weighted average merchant discount rate.

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While most merchants understand our merchant discount rate pricing in relation to the value provided, we do encounter a relatively small number of merchants that accept our Cards, but tell their customers that they prefer to accept another type of payment and, consequently, suppress use of the Card. We devote significant resources to respond to this issue. We have made progress by: concentrating on acquiring merchants where Cardmembers want to use the Card; continuing to enhance the value we provide by programs such as "American Express Selects^{SM}," which enables merchants to gain valuable exposure and additional sales by making online offers, such as discounts on purchases available to Cardmembers on a Web site maintained by us; providing better and earlier communication of our value proposition; and, when necessary, by canceling merchants who suppress the use of our Card products.

Merchant satisfaction is a key goal of our Global Merchant Services business. We focus on understanding and addressing factors that influence merchant satisfaction, executing programs that increase Card usage at merchants and strengthening our relationships with merchants through an expanding roster of services that help them meet their business goals. We offer a full range of point-of-sale solutions, including integrated point-of-sale terminals and direct links that allow our merchant partners to accept American Express Cards, as well as bankcards, debit cards and checks. Virtually all proprietary point-of-sale solutions support direct processing (i.e., direct connectivity) to American Express, which lowers a merchant' s cost of Card acceptance and avoids any payment delays caused by a third party. During 2004, we launched Business Savings for all U.S. merchants that accept American Express Cards, which provides them with ways to reduce expenses for shipping, computers and marketing services through pre-negotiated discounts at select partners. This past year we introduced Costco to the program with a membership offer to merchants accepting our Cards.

We continue to focus our efforts on the fast-growing recurring billing industry through Automatic Bill Payment, a product that allows merchants to bill Cardmembers on a regular basis for recurring charges such as insurance premiums, newspaper subscriptions, health club memberships, commutation costs and cable TV service. We have also made modifications to our host authorization system to approve more transactions and reduce Cardmember inconvenience at the point-of-sale without a corresponding increase in fraud or credit losses.

Wherever we manage both the acquiring relationship with merchants and the Card-issuing side of the business there is a "closed loop," which distinguishes our network from the bankcard networks in that there is access to information at both ends of the Card transaction. We maintain a direct relationship with both our Cardmembers and our merchants, and we handle all key aspects of those relationships. Our relationships allow us to analyze information on Cardmembers' spend. This enables us to provide targeted marketing for merchants and special offers to Cardmembers through a variety of channels, subject to compliance with our privacy policy and legal requirements. We protect the confidentiality of this data, and comply with strict privacy, firewall and applicable legal requirements. We work closely with our Card issuing bank partners to maintain key elements of this closed loop, which permits them to customize marketing efforts, deliver greater value to their Cardmembers and help us to direct increased business to merchants who accept the Card.

Some of our competitors have attempted to replicate our closed loop structure, such as VISA' s recently-launched Visa Incentive Network. Although it remains to be seen how effective VISA will be, efforts by VISA and other card networks to replicate the closed loop speak both to its value, as well as the intense competitive environment in which we operate.

As the merchant acquirer, we have certain contingent liabilities that arise if a billing dispute between a Cardmember and a merchant is settled in favor of the Cardmember. Drivers of this liability are returns in the normal course of business, disputes over fraudulent charges, the quality or non-delivery of goods and services and billing errors. Typically, we offset the amount due to the Cardmember against the merchant' s current or future submissions for payment. We can realize losses when offsetting submissions cease, such as when the merchant commences a bankruptcy proceeding or goes out of business. We actively monitor our merchant base to assess the risk of this exposure. When appropriate, we will take action to reduce the net exposure to a given merchant by either holding cash reserves funded through cash holdbacks from a merchant or lengthening the time between when the merchant submits a charge for payment and when we pay the merchant. We also establish reserves on our balance sheet for these contingencies.

In some markets outside the United States, particularly in the United Kingdom, third-party processors and some bankcard acquirers have begun to offer merchants the capability of converting credit card transactions from the local currency to the currency of the cardholder' s residence (i.e., the cardholder' s billing currency) at the point-of-sale, and submitting the transaction in the cardholder' s billing currency, thus bypassing the traditional foreign currency conversion process of the card network. This practice is known as "dynamic currency conversion." If a merchant utilizes a dynamic currency conversion process, the merchant and processor share any fee assessed or spread earned for converting the transaction at the point of sale, thus reducing or eliminating revenue for card issuers and card networks relating to the conversion of foreign charges to the cardholder' s billing currency. This practice is not widespread, and it is uncertain to what extent consumers will prefer to have foreign currency transactions converted by merchants in this way. Our policy generally requires merchants to submit charges and be paid in the currency of the country in which the transaction occurs, and we convert the transaction to the Cardmember' s billing currency. We are continuing to review the potential impact of dynamic currency conversion, including considering whether and to what extent we should develop our own dynamic currency conversion process.

Regulation

In recent years, regulators in several countries have focused on the fees involved in the operation of card networks, including the fees merchants are charged to accept cards. Regulators in the United Kingdom, European Union, Australia, Mexico and Switzerland, among others, have conducted, and are continuing to conduct, investigations into the way bankcard network members collectively set the "interchange," which is the fee paid by the bankcard merchant acquirer to the card-issuing bank. The interchange fee is generally the largest component of the merchant discount rate charged to merchants by the merchant acquirer for bankcard charges. Although the regulators' focus has primarily been on VISA and MasterCard as the dominant card networks, government regulation of the bankcard associations' pricing could ultimately affect all networks. Downward movement of interchange and merchant discount fees may affect the relative economic attractiveness to card issuers and merchant acquirers of participation in a particular network. Lower interchange or merchant discount revenue may lead card issuers to look for other sources of revenue such as annual card fees, as well as to reduce costs by scaling back or eliminating rewards programs. In certain countries where regulations have forced our competitors to lower their fees, we have made adjustments to our own fee arrangements with merchants to reflect local competitive trends. For example, reductions in bankcard interchange mandated by the Reserve Bank of Australia in 2003 have resulted in lower merchant discount rates for VISA and MasterCard. As a result of changes in the marketplace, we have reduced our own merchant discount rates in Australia, although we have nevertheless been able to increase billed business and the number of merchants accepting our Cards. In addition, under legislation enacted in Argentina, a merchant acquirer is required to charge the same merchant discount rate to all merchants in the same industry category, and merchant discount rates cannot exceed 3%. In the event governmental or regulatory activity to limit interchange continues or increases, our revenues and profitability could be adversely affected.

Regulators have also considered the industry practice of prohibiting merchants from passing the cost of merchant discount fees along to consumers through surcharges on card purchases. Although some countries, such as the United Kingdom, and more recently, Australia, permit merchants to levy a surcharge on credit card purchases, there has to date been a relatively low overall incidence of surcharging, as merchants do not want to risk offending customers or losing them to competitors that do not assess surcharges for credit card purchases.

U.S. CARD SERVICES

As a significant part of its proprietary Card issuing business, TRS and its U.S. banking subsidiaries issue a wide range of Card products and services to consumers and small businesses in the United States. Our consumer travel business, which provides travel services to Cardmembers and other consumers, complements our core Card business as does our travelers check and prepaid services business. The proprietary Card business offers a broad set of card products to attract our target customer base. Core elements of our strategy are:

- focusing on acquiring and retaining high-spending, creditworthy Cardmembers across multiple groups;
- designing card products with features that appeal to specific customer segments;
- the use of strong incentives to drive spending on our various card products, including our Membership Rewards® program and other rewards features;
- the use of loyalty programs such as Delta SkyMiles®, sponsored by our cobrand and other partners to drive spending;
- the development and nurturing of wide-ranging relationships with cobrand and other partners;
- a multi-card strategy (having multiple card products in customers' wallets); and
- high-quality customer service.

Consumer and Small Business Services

We and our licensees offer individual consumer charge cards such as the American Express Card, the American Express® Gold Card, the Platinum Card®, and the ultra-premium Centurion® Card; revolving credit cards such as Blue from American Express®, Blue Cash® Card from American Express and the Optima® Card, among others; and a variety of cards sponsored by and cobranded with other corporations and institutions, such as the Delta SkyMiles® Credit Card from American Express, the American Express® Platinum Cash Rebate Credit Card and True Earnings℠ Card exclusively for Costco Members and the Hilton HHonors Platinum Credit Cards from American Express.

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Charge Cards

Our charge Cards, which carry no pre-set spending limits, are primarily designed as a method of payment and not as a means of financing purchases of goods or services. Charges are approved based on a variety of factors including a Cardmember' s account history, credit record and personal resources. Cardmembers generally must pay the full amount billed each month, and no finance charges are assessed. Charge Card accounts that are past due are subject, in most cases, to a delinquency assessment and, if not brought to current status, may be canceled. The no-preset-spending limit and pay-in-full nature of these products attract high-spending Cardmembers who want to use a charge Card to facilitate larger payments.

The Sign & Travel® program gives qualified U.S. Cardmembers the option of extended payments for airline, cruise and certain travel charges that are purchased with our charge cards. The Extended Payment Option offers qualified U.S. Cardmembers the option of extending payment for certain charges on the charge Card in excess of a specified amount.

Revolving Credit Cards

We and our licensees also offer a variety of revolving credit Cards. These Cards have a range of different payment terms, grace periods and rate and fee structures. Since late 1994, when we began aggressively expanding our credit card business, our lending balance growth has been among the top tier of card issuers. Much of this growth has been due to the breadth of our lending products, such as Blue from American Express®, Blue Cash from American Express and the Delta SkyMiles Credit Card from American Express, as well as the increased number of charge Cardmembers who have taken advantage of our "lending on charge" options (such as the Sign & Travel and Extended Payment Option programs described above).

Among other products introduced in 2005, we launched:

the IN: Chicago℠ Card and IN: LA℠ Card which, like our IN:NYC® Card, target younger Cardmembers residing in those cities by offering rewards tied to each city' s restaurants, clubs and in-demand events;

the Blue Sky Credit Card for consumers, which enables Cardmembers to earn points that can be redeemed toward savings on any flight, hotel, car rental or cruise charges; and

One from American Express℠, a card that enables Cardmembers to save automatically with every purchase through the Savings Accelerator℠ plan, a benefit in which we contribute 1% of the Cardmember' s purchases to an FDIC-insured interest-bearing savings account that is opened in the customer' s name and may be accessed online.

In addition, we began issuing throughout the United States Blue from American Express® with the ExpressPay℠ feature, a contactless technology providing customers with secure, signatureless payment. ExpressPay is a recently developed payment feature that consists of a secure computer chip powered by radio frequency technology. Blue from American Express also has a magnetic strip and functions as a traditional credit card.

During 2005, we also announced an agreement with WellChoice, Inc., the parent company of Empire Blue Cross Blue Shield, to offer a healthcare payment solution that includes a consumer-directed health plan, a Health Savings Account (HSA) from American Express Bank, FSB (“AEBFSB”) and a new card product providing access to HSA funds, the American Express HealthPay Plus℠ Card, which will enable employees in company-sponsored health insurance plans to pay for qualified medical expenses from the funds in their HSA.

Cobrand Cards

We issue Cards under cobrand agreements with selected commercial firms in the United States. Examples of new or enhanced cobrand products introduced in 2005 include:

- the SkyPoints℠ Credit Card, a new cobranded credit card with our longtime partner, Delta Air Lines, that enables Cardmembers to earn points that can be redeemed toward discounts, in the form of a statement credit from American Express, on Delta airline tickets;
- the JetBlue® Card from American Express, a cobranded credit card with JetBlue Airways, which allows Cardmembers to earn Award Dollars convertible to points in JetBlue’ s Flight Gratitude program, TrueBlue®; and
- the launch of The Knot Credit Card from American Express and The Nest Credit Card from American Express, two cobrand cards created through an alliance with The Knot, Inc., which provide rewards points, discounts and other offers for couples as they plan their weddings and begin to build their lives together.

The competition among card issuers and networks for attractive cobrand card partnerships is quite intense because they can generate high-spending loyal cardholders. The duration of our cobrand arrangements generally ranges from five to ten years. Cardmembers earn rewards provided by the partners’ respective loyalty programs based upon their spending on the cobrand cards, such as frequent flyer miles, hotel loyalty points and cash back. We make payments to our cobrand partners, which can be significant, based primarily on the amount of Cardmember spending and corresponding rewards earned on such spending and, under certain arrangements, on the number of accounts acquired and retained. We expense amounts due under cobrand arrangements in the month earned. Payment terms vary by arrangement, but are monthly or quarterly. Generally, once we make payment to the cobrand partner, as described above, the partner is solely liable for providing rewards to the Cardmember under the cobrand partner’ s own loyalty program. As the issuer of the cobrand card, we retain all the credit risk with the Cardmember and bear the receivables funding and operating expenses for such cards. The cobrand partner retains the risk associated with the miles, points or other currency earned by the Cardmember under the partner’ s loyalty program.

Bank Distribution of Proprietary Cards

We also issue Cards that are marketed under distribution arrangements with banks. Such bank distribution agreements involve the offering of a standard product (issued by TRS or one of its subsidiaries) to customers of the bank, generally with the bank' s logo on the Card. In a bank distribution arrangement, we make payments to the bank partners that are primarily based on the number of accounts acquired and retained through the arrangement and the amount of Cardmember spending on such Cards. The duration of such arrangements generally ranges from five to seven years.

For example, during 2005 we announced an alliance with Guaranty Bank to distribute co-branded cards to Guaranty' s small business customers throughout its branch network in Texas and California.

American Express Centurion Bank and American Express Bank, FSB as Issuers of Certain Cards

Our revolving credit Cards in the United States are issued by American Express Centurion Bank ("Centurion Bank"), which uses direct and other remote marketing channels to market its products, and AEBFSB, which markets through in-person selling and third-party cobrand partners. Both banks are wholly owned subsidiaries of TRS.

Centurion Bank is a Utah-chartered industrial loan company regulated, supervised and regularly examined by the Utah Department of Financial Institutions and the Federal Deposit Insurance Corporation ("FDIC"). Centurion Bank is an FDIC-insured depository institution. AEBFSB is a federal savings bank regulated and supervised by the federal Office of Thrift Supervision ("OTS"), a division of the United States Department of the Treasury. AEBFSB is an FDIC-insured depository institution. Among the activities of Centurion Bank and AEBFSB that are regulated at the federal level are their respective anti-money laundering compliance activities. We have taken steps to maintain compliance programs for anti-money laundering and other requirements consistent with applicable standards. You can find a further discussion of the anti-money laundering initiatives affecting us under "Corporate and Other" below.

Centurion Bank is subject to the risk-based capital adequacy requirements promulgated by the FDIC. Under these regulations, a bank is deemed to be well-capitalized if it maintains a tier one risk-based capital ratio of at least 6%, a total risk-based capital ratio of at least 10% and a leverage ratio of at least 5%. Based on Centurion Bank' s tier one risk-based capital, total risk-based capital and leverage ratios, Centurion Bank was considered to be well-capitalized as of December 31, 2005.

AEBFSB is subject to the risk-based capital adequacy requirements promulgated by the OTS. Under these regulations, a federal savings bank is deemed to be well-capitalized if it maintains a tier one risk based capital ratio of at least 6%, a total risk based capital ratio of at least 10%, and a tier one core capital ratio of at least 5%. Based on AEBFSB' s tier one risk-based capital, total risk-based capital and tier one core capital ratios, AEBFSB was considered to be well-capitalized at December 31, 2005.

Card Pricing and Account Management

Certain of our Cards, particularly charge Cards, charge an annual fee that varies based on the type of Card and the number of Cards for each account. We also offer many revolving credit Cards with no annual fee but on which we assess finance charges for revolving balances. Depending on the product, we also charge Cardmember fees to participate in rewards programs, for account performance (e.g., late fees) or for certain services (e.g., additional copies of account statements). We apply standards and criteria for creditworthiness to each Cardmember through a variety of means both at the time of initial solicitation or application and on an ongoing basis during the Card relationship. We use sophisticated credit models and techniques in our risk management operations and believe that our strong risk management capabilities provide us with a competitive advantage.

Membership Rewards® Program

The Membership Rewards program from American Express is the largest card-based rewards program in the world, with over 1,300 redemption partners. The program allows Cardmembers to earn one point for virtually every dollar charged on eligible, enrolled American Express® Cards. Many Cards, including the Preferred Rewards Green, Preferred Rewards Gold, Platinum Card® or Centurion® Card, offer the ability to earn double bonus points for purchases in the following Everyday Spend categories: supermarkets, gas stations, drugstores, U.S. Postal Services and wireless phone bill payments. Membership Rewards points are redeemable in a wide selection of reward categories, including travel, retail merchandise, entertainment, shopping and recreation gift certificates, experiences, financial services and charity rewards. Enrollees may also customize their own redemption experience through the program' s Your Reward® option. Points have no expiration date, and there is no limit on the number of points one can earn.

During 2005, we announced a new Membership Rewards program benefit allowing Cardmembers to use Membership Rewards points to book travel directly on the American Express travel Web site without blackout dates or restrictions for airlines, hotels or cruises. We also continued to add new Membership Rewards partners to the U.S. program, including Bombardier SkyJet and Flexjet, which allow Cardmembers to redeem points for private jet travel, Loews Hotels, Abercrombie & Kent and ESPN Golf Schools.

The Membership Rewards program provides travel rewards with access to 21 airline partners, 13 of which offer Cardmembers the ability to transfer points directly into their airline frequent flier programs, numerous hotel partners and six luxury cruise lines.

When a Cardmember enrolled in the Membership Rewards program uses the Card, we establish balance sheet reserves in connection with estimated future reward redemptions for rewards earned to date. When a Membership Rewards program enrollee redeems a reward using Membership Rewards points, we make a payment to the Membership Rewards program partner providing the reward pursuant to contractual arrangements. Because of higher charge volumes and greater redemption rates, the expense of the program has increased both in the United States and internationally over the past several years and continues to grow.

Despite the increasing costs of the Membership Rewards program as penetration and usage expand, it plays a vital role in our profitability. The program continues to be an important driver of Cardmember spending and loyalty. We believe, based on historical experience, that Cardmembers enrolled in rewards programs yield higher spend, stronger credit performance and greater profit for us. For the three-year period through the end of 2005, the number of Cards enrolled in the Membership Rewards program increased by 57% and total spending by Membership Rewards participants increased by 77%. By offering a broader range of redemption choices, we have given our Cardmembers more flexibility in the use of their rewards points and favorably affected our average cost per point. We continually seek to optimize the overall economics of the program and make changes to enhance its value to Cardmembers.

Cardmember Special Services and Programs

Throughout the world, our Cardmembers have access to a variety of fee-free and fee-based special services and programs, depending on the type of Cards they have and their country of residence. Examples of these special services and programs include:

- the Membership Rewards program;
- Global Assist® Hotline;
- Buyer' s Assurance Plan;
- Car Rental Loss and Damage Insurance;
- Travel Accident Insurance;
- Purchase Protection Plan;
- Best Value Guarantee;
- Emergency Card Replacement;
- Return Protection;
- Manage Your Card Account Online;
- Automatic Bill Pay;
- Emergency Check Cashing Privileges;
- Automatic Flight Insurance;
- Premium Baggage Protection;
- Assured Reservations;
- Online Fraud Protection Guarantee;
- Credit Card Registry;
- Credit Bureau Monitoring and Credit Insurance services; and
- Identity Theft Assistance.

This past year we also promoted a new installment of the "My WishList" program, with a specific focus on home improvement and decorating. My WishList is part of the American Express Selects program, serving Cardmembers with valuable merchant retail, dining and travel offers and merchants with business-building programs through our Cardmember base.

Certain Cards provide Cardmembers with access to additional services, such as a Year-End Summary of Charges Report, Private Jet Services Program and Premium Seats and Luxury Suites program for sports and concerts.

We offer the Platinum Card, a charge Card which provides access to additional and enhanced travel, financial, insurance, personal assistance and other services. In addition, we offer the Centurion Card®, an ultra-premium charge card providing highly personalized customer service and an array of travel, lifestyle and financial benefits. For example, in 2005 we provided Centurion members with access to Exclusive Resorts, LLC, with over 150 multi-million dollar residences in nearly 30 of the top global destinations.

OPEN from American Express℠

In addition to our U.S. consumer Card business, through AEBFSB we are also a leading provider of financial services to small businesses (firms that generally have less than 100 employees and/or sales of $10 million or less), a key growth area in the United States. OPEN from American Express℠ ("OPEN") offers small business owners a wide range of tools, services and savings designed to meet their evolving needs, including:

charge and credit Cards;

access to credit lines and loans up to $100,000;

discounts at select suppliers of business services and products, including car rentals, hotel stays, package shipping, office supplies, telecommunications, printing and photocopying services and other business services;

expense management reporting;

enhanced online account management capabilities;

retail and travel protections such as baggage insurance; and

travel services.

During 2005, we continued to expand the breadth of products and services offered by OPEN by, among other things, introducing four new Cards:

the Platinum Business Premium Cash Rebate Card, a fee-free credit card that offers cash back on all purchases;

the Business FreedomPass℠ Credit Card for small businesses, which enables Cardmembers to earn points that can be redeemed toward savings on any flight, hotel, car rental or cruise charges;

the Delta Skypoints Credit Card for small businesses, to attract flyers with a preference to fly Delta and who are looking for flexible rewards with low redemption rates; and

the Business Gold Rewards Card, a charge Card for small business owners that offers savings and rewards through automatic enrollment in Membership Rewards.

As mentioned above, we also announced an agent bank alliance between Guaranty Bank and OPEN from American Express under which Guaranty Bank will market Cards with both the Guaranty Bank and American Express brands to its small business customers throughout its branch network in Texas and California. We also partnered through OPEN with Count-Me-In and Women' s Leadership Exchange Team to commence a national award program for women entrepreneurs, providing loans, networking and coaching to founding women in business.

These programs are in addition to *OPEN Savings®*, which is a program that offers automatic savings for OPEN customers simply by using their American Express Business card. These savings may be combined with any existing discounts or offers. During 2005, we expanded OPEN Savings by signing new partners and expanding relationships with existing ones in various categories: business services – FedEx Kinko's, Administaff (human resources outsourcing), Business Filings (incorporation and tax filings), Logoworks (logo design services); dining – Ruby Tuesday's; gifts – American Express Gift Card discounts; lodging – Hyatt Hotels, Courtyard by Marriott, Fairfield Inn by Marriott, Springhill Suites by Marriott and Wingate Inns; and healthcare – United Health Allies (subscription healthcare discounts).

Competition – Card Issuing Business

Our proprietary Card business encounters substantial and intense competition. As a card issuer, we compete in the United States with financial institutions (such as Citibank, Bank of America, JPMorgan Chase, MBNA and Capital One Financial) that are members of the VISA and/or MasterCard associations and that issue general purpose credit cards, primarily under revolving credit plans, on one or both of those systems, and the Morgan Stanley affiliate that issues the Discover Card on the Discover Business Services network. We also encounter limited competition from businesses that issue their own cards or otherwise extend credit to their customers, such as retailers and airline associations, although these cards are not generally substitutes for our Cards because of their limited acceptance. Because of continuing consolidations among banking and financial services companies and credit card portfolio acquisitions by major card issuers, there are now a smaller number of significant issuers and the largest issuers have continued to grow using their greater resources, economies of scale and brand recognition to compete.

Competing card issuers offer a variety of products and services to attract cardholders including premium cards with enhanced services or lines of credit, airline frequent flyer program mileage credits, cash rebates and other reward or rebate programs, "teaser" promotional interest rates for both credit card acquisition and balance transfers, and cobranded arrangements with partners that offer benefits to cardholders.

Most financial institutions that offer demand deposit accounts also issue debit cards to permit depositors to access their funds. Use of debit cards for point-of-sale purchases has grown as most financial institutions have replaced ATM cards with general purpose debit cards bearing either the VISA or MasterCard logo. As a result, the volume of transactions made with debit cards in the United States has continued to increase significantly and, in the United States, has grown more rapidly than credit and charge card transactions. Debit cards are marketed as replacements for cash and checks, and transactions made with debit cards are typically for small dollar amounts. The ability to substitute debit cards for credit and charge cards is limited because the consumer must have sufficient funds in his or her demand deposit account to cover the transaction in question. For example, larger purchases or delayed purchases may not be appropriate for debit cards. We do not currently issue point-of-sale debit cards for use on the American Express network.

The principal competitive factors that affect the card-issuing business are:

the features and the quality of the services, including rewards programs, provided to Cardmembers;

- the number, spending characteristics and credit performance of Cardmembers;
- the quantity and quality of the establishments that accept a card;
- the cost of Cards to Cardmembers;
- pricing, payment and other Card account terms and conditions;
- the number and quality of other payment instruments available to Cardmembers;
- the nature and quality of expense management data capture and reporting capability;
- the success of targeted marketing and promotional campaigns;
- reputation and brand recognition;
- the ability of issuers to implement operational and cost efficiencies; and
- the quality of customer service.

Financing Activities

American Express Credit Corporation, a wholly owned subsidiary of TRS, along with its subsidiaries ("Credco"), purchases the majority of charge Card receivables arising from the use of Cards issued in the United States and in certain currencies outside the United States. Credco finances the purchase of receivables principally through the issuance of commercial paper and the sale of medium- and long-term notes. Centurion Bank and AEBFSB finance their revolving credit receivables, in part, through the sale of short- and medium-term notes and certificates of deposit in the United States. TRS, Centurion Bank and AEBFSB also fund receivables through asset securitization programs. The cost of funding Cardmember receivables and loans is a major expense of Card operations. (You can find a discussion of TRS' and Centurion Bank's securitization and other financing activities on page 26, page 29, pages 35-40 and pages 46-48 under the caption "Financial Review," and Note 5 on pages 77-79 of the Company's 2005 Annual Report to Shareholders, which portions we incorporate herein by reference.)

Regulation – Card Issuing Business

The charge card and consumer lending businesses are subject to extensive regulation. In the United States, the business is subject to a number of federal laws and regulations, including:

- the Equal Credit Opportunity Act (which generally prohibits discrimination in the granting and handling of credit);
- the Fair Credit Reporting Act and the Fair and Accurate Credit Transactions Act ("FACT Act") (which, among other things, regulates use by creditors of consumer credit reports and credit prescreening practices and requires certain disclosures when an application for credit is rejected);
- the Truth in Lending Act ("TILA") (which, among other things, requires extensive disclosure of the terms upon which credit is granted), including the amendments to TILA that were adopted through the enactment of the Fair Credit and Charge Card Disclosure Act (which mandates certain disclosures on credit and charge card applications);
- the Fair Credit Billing Act (which, among other things, regulates the manner that billing inquiries are handled and specifies certain billing requirements); and
- the Electronic Funds Transfer Act (which regulates disclosures and settlement of transactions for electronic funds transfers including those at ATMs).

Certain federal privacy-related laws and regulations govern the collection and use of customer information by financial institutions (see “Corporate and Other” below). Federal legislation also regulates abusive debt collection practices. In addition, a number of states, the European Union, and many foreign countries in which we operate have significant consumer credit protection, disclosure and privacy-related laws (in certain cases more stringent than the laws in the United States). The application of bankruptcy and debtor relief laws affect us to the extent that such laws result in amounts owed being classified as delinquent and/or charged off as uncollectible. Card issuers and card networks are subject to anti-money laundering and anti-terrorism legislation, including, in the United States, the USA PATRIOT Act. (For a discussion of this legislation and its effect on our business, see “Corporate and Other” below.)

Centurion Bank, AEBFSB and our other bank entities are subject to a variety of laws and regulations applicable to financial institutions. Changes in such laws and regulations or in the regulatory application or judicial interpretation thereof could impact the manner in which we conduct our business and the costs of compliance. The regulatory environment in which our Card and lending businesses operate has become increasing complex and robust. More recently, regulators (as well as various consumer advocacy groups) have begun to focus increasing attention on the types and levels of fees charged by card issuers for, among other things, late payments, returned checks, payments by telephone, copies of statements and the like. We regularly review and, as appropriate, refine our business practices in light of existing and anticipated developments in laws, regulations and industry trends so we can continue to manage our business prudently and consistent with regulatory requirements and expectations.

In January 2003, the Federal Financial Institutions Examination Council (the “FFIEC”), an interagency body composed of the principal U.S. federal entities that regulate banks and other financial institutions, issued new guidance to the industry on credit card account management and loss allowance practices (the “Guidance”). The Guidance covers five areas: (i) credit line management, (ii) over-limit practices, (iii) minimum payment and negative amortization practices, (iv) workout and forbearance practices, and (v) certain income (fee) recognition and loss allowance practices. The Guidance is generally applicable to all institutions under the supervision of the federal bank regulatory agencies that comprise the FFIEC, although it is primarily the result of the identification by bank regulators in their examinations of other credit card lenders practices deemed by them to be inappropriate, particularly, but not exclusively, with regard to subprime lending programs. At present, we do not have any lending programs that target the subprime market. The Guidance has not had any material impact on our businesses or practices, and we do not believe that the Guidance will have any material impact on our practices in the future.

Global Travelers Cheques and Prepaid Services

We have been in the business of issuing and selling travelers checks since 1891. Today, that business is operated through our Global Travelers Cheques and Prepaid Services Group (“TCPS”). TCPS also issues a variety of other prepaid products, including gift cards, Cheques for Two®, Gift Cheques and the Be My Guest® dining card. Through our joint venture with Maritz Inc., American Express Incentive Services L.L.C., we offer various incentive prepaid products, including the Corporate Gift Cheque, the Incentive Funds Card and several points-based incentive cards.

We sell the American Express® Travelers Cheque ("Travelers Cheque" or "Cheque") as a safe and convenient alternative to cash. It has no expiration date and is payable when presented for the purchase of goods or services, or for redemption. Travelers Cheques are available in nine currencies, including Euros. We also issue and sell other forms of paper travelers checks: American Express® Gift Cheques, available in U.S. and Canadian dollars, are designed for gift-giving in the United States and Canada, and the American Express Cheque-Secure Funds, available in dollars and Euros, is offered in certain countries as a safe way to keep cash at home.

In 2005, TCPS continued to offer two prepaid gift cards in the United States: the American Express Gift Card ("Gift Card"), which can be used in the United States at retail and restaurant establishments that accept American Express Cards, and the Be My Guest® Card, specifically designed for dining at all restaurants in the United States that accept the American Express Card. During 2005, TCPS expanded sales of Gift Cards through shopping malls and thousands of retail establishments, including major national drug store and supermarket chains.

In 2005, we also continued to offer the Travelers Cheque Card ("TCC"), a reloadable, prepaid card marketed as a plastic form of our Travelers Cheque. During 2005, the TCC was sold in the United States, the United Kingdom and Germany, in U.S. dollars, British pounds sterling and Euros, respectively, for use worldwide, for both online and in-person purchases and at ATMs (ATM fees apply) that accept the American Express Card. TCC holders have access to the same customer service and security provided to holders of Travelers Cheques, including card replacement or refund if the Card is lost or stolen (usually within 24 hours) and passport replacement and credit card cancellation assistance. Because the Card is not linked to a bank account and pre-loaded funds are refundable, many consumers view it to be a safe payment option for travel.

We sell American Express paper and plastic prepaid card products through a variety of channels. We sell these products ourselves directly to consumers via phone and the Internet. Travelers Cheques and Gift Cheques are sold primarily through a broad network of selling outlets worldwide, including American Express travel offices, independent travel agents, financial institutions, and many other financial, travel and commercial businesses. Many of the same sellers also sell our prepaid cards. We sometimes compensate selling outlets for their sales.

In 2005, we expanded our Gift Card retail distribution network significantly to include malls and large national retail chains – such as Safeway Supermarkets, Eckerd and Rite Aid pharmacies. These sellers display our Gift Cards on merchandise racks – a very different way for American Express to sell cards.

Prepaid cards provide us with several benefits:

Prepaid cards offer the opportunity to expand our Travelers Cheque business model. We are diversifying our product portfolio, expanding our sales network, and diversifying our revenue streams. As in the case of a traditional paper Travelers

Cheque, we benefit from the float on a prepaid card. In addition, we collect purchasing fees, reload fees, discount revenues, and, where permitted by applicable law, service fees.

Prepaid cards offer an opportunity to bring additional customers into the American Express franchise.

We invest the proceeds from sales of our Travelers Cheques and prepaid cards issued by TRS predominantly in highly rated debt securities consisting primarily of intermediate- and long-term state and municipal obligations.

Regulation – Travelers Cheques and Prepaid Cards

As an issuer of travelers checks, we are regulated in the United States under the "money transmitter" laws of most states. These laws require travelers check (and, where applicable, prepaid card) issuers to obtain licenses, to meet certain safety and soundness criteria, to hold outstanding proceeds of sale in highly rated and secure investments, and to provide detailed reports. Many states audit licensees annually. In addition, travelers check issuers are required by the laws of many states to comply with state unclaimed and abandoned property laws under which issuers must pay to states the face amount of any travelers check that is uncashed or unredeemed after 15 years. A few states have amended their abandoned property laws to apply to prepaid cards. In the past few years, some states have enacted laws pertaining to the issuance and the sale of gift cards. Some of these laws restrict the fees that consumers can be charged and the expiration dates of the cards. We continue to monitor state legislative activity in this area very closely to ensure we comply with all applicable regulation, which varies from state to state. In certain states where regulation has made it impossible for us to offer Gift Cards profitably, we have been required to limit or withdraw from selling these cards. Federal anti-money laundering regulations require, among other things, the registration of traveler check issuers as "Money Service Businesses" and compliance with anti-money laundering recording and reporting requirements by issuers and selling outlets. At this time, stored value issuers and redeemers, while considered to be "Money Service Businesses," are not required to register. Outside the United States, there are varying licensing and anti-money laundering requirements, including some that are similar to those in the United States.

Competition – Travelers Checks and Prepaid Cards

Travelers Cheques compete with a wide variety of financial payment products, including cash, foreign currency, checks, other brands of travelers checks, and, increasingly, debit and ATM cards, as well as credit and charge cards (even though travelers checks and prepaid cards are not substitutes for charge and credit cards) and, to a limited extent, competing prepaid cards. The principal competitive factors affecting the travelers check and prepaid card industry are:

- the number and location of merchants willing to accept the form of payment;
- the availability to the consumer of other forms of payment;
- the amount of fees charged to the consumer;
- the compensation paid to, and frequency of settlement by, selling outlets;
- the accessibility of sales and refunds for the products;

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the success of marketing and promotional campaigns; and

the ability to service the customer satisfactorily, including for lost or stolen instruments.

Our prepaid cards (cards that can be used at many different unaffiliated locations) compete with all of the same payment methods; however, gift cards compete primarily with cash, checks and store-specific gift cards.

American Express Consumer Travel Network – USA

The American Express Consumer Travel Network – USA provides travel, financial and Cardmember services to consumers through American Express-owned travel service offices, call centers and participating American Express Representatives (independently-owned travel agency locations that operate under the American Express brand). U.S. Consumer Travel has distinguished itself in the luxury marketplace through its Platinum Travel Services and Centurion Travel Services, which provide programs such as the International Airline Program, which offers two-for-one fares on certain international first and business class tickets, and the Fine Hotels & Resorts program, a luxury hotel program offering room upgrades and value-added amenities. Other premium programs developed by Consumer Travel for Centurion and Platinum Cardmembers include Cruise Privileges, Centurion and Platinum Destinations Vacations and the Private Jets Program.

In addition, the Consumer Travel business operates a wholesale travel business in the United States through our Travel Impressions subsidiary. (A wholesaler purchases inventory, such as hotel rooms, from suppliers and then resells the services to the customer at retail prices that the wholesaler determines.) Our wholesale travel business packages American Express Vacations and distributes travel packages through other retail travel agents and private label brands for third parties in the United States. Consumer Travel also provides Membership Rewards program cruise and tour fulfillment, fee-free American Express Travelers Cheques, and foreign exchange services.

Our Consumer Travel Web site, americanexpress.com/travel, which is operated by Travelocity, offers customized booking tools for cruises and American Express Vacations packages, last-minute bargains and special promotional offers. It also offers a full range of travel rates and discounts on airfares, hotels, last-minute deals, as well as cruises and full vacation packages, with optional transfers, sight-seeing tours and insurance. The Web site also offers an American Express Travel Office locator and Travel Specialist finder tools for those customers who prefer to book their travel offline. In 2005, we launched a new feature that enables Cardmembers to redeem Membership Rewards points for some categories of travel through both this Web site and our call centers.

We also attracted eleven new members with 62 locations last year to our representative network, including The Travel Authority, Inc., a regional travel management company serving individual, corporate and group travelers in 45 locations.

TRS' worldwide travel network of more than 2,200 retail travel locations is important in supporting the American Express brand and providing customer service throughout the world.

Competition – Consumer Travel Network – USA

American Express Consumer Travel competes with traditional "brick and mortar" travel agents, online travel agents and travel suppliers that distribute their products to consumers directly via the internet or telephone-based customer service centers. In recent years we have experienced increasing competition from online travel agents utilizing the merchant business model, which is a model under which the agent receives inventory (hotel rooms, airline seats, car rentals, destination services) from suppliers at negotiated rates. The agent then determines the retail price paid by the customer and processes the transactions as the merchant of record for the transaction. We believe the merchant model was particularly effective during the years following the September 11, 2001 terrorist attacks when travel volumes were depressed and suppliers tended to make greater amounts of their inventory available to agencies utilizing this model.

New competition has also emerged in the past few years in the form of several software companies that offer robotic searches of other Web sites to direct consumers to the site that offers the lowest prices according to the customer' s search parameters.

INTERNATIONAL CARD & GLOBAL COMMERCIAL SERVICES

Global Commercial Services

Through our Global Commercial Services ("GCS") group, we provide expense management services to more than 100,000 firms worldwide through our Corporate Card program, Corporate Purchasing Solutions and Business Travel Services. GCS is both the leading issuer of commercial cards and the largest corporate travel management company in the United States, serving nearly 70% of the Fortune 500, along with tens of thousands of mid-sized companies. During 2005, we added or retained several major Corporate Card clients in the United States and internationally, including Procter & Gamble, Xerox and Bearing Point. GCS offers three primary products and services:

- Corporate Card, issued to individuals through a corporate account established by their employer and designed primarily for travel and entertainment spending;
- Corporate Purchasing Solutions, an account established by a company to pay for everyday business expenses such as office and computer supplies; and
- Business Travel, which helps businesses manage their travel expenses through a variety of travel-related products and services.

Corporate Card and Corporate Purchasing Solutions

The American Express® Corporate Card is a charge card that individuals may obtain through a corporate account established by their employer for business purposes. Through the Corporate Card program, companies can manage their travel, entertainment and purchasing expenses and improve negotiating leverage with suppliers, among other benefits. We use our direct relationships with merchants to offer Corporate Card clients superior data about company spending, as well as streamlined dispute resolution. We issue local currency Corporate Cards in 36 countries, which we distribute through proprietary operations and partner banks, and international dollar Corporate Cards in 85 countries.

In 2005, we announced the renewal and expansion of the British Airways American Express Corporate Card program, including the launch of a new cobrand corporate card targeted at small- to medium-sized businesses. This new corporate cobrand adds to the existing cobranded British Airways American Express credit cards targeted at the consumer market.

Corporate Purchasing Solutions ("CPS") helps large and middle market companies manage their everyday spending. CPS is used by corporations to buy everyday goods and services, such as office supplies and industrial supplies and equipment, in 24 markets around the world. This type of spending by corporations is less susceptible to economic downturns than traditional travel and entertainment spending and helps diversify the spending mix on our Cards.

GCS is a leading provider of expense management services to global, multinational and large businesses worldwide. GCS established the Global Business Partnerships group, which serves a highly select group of Fortune 100 companies that have globalized their approach to travel and entertainment expense management and have structured their purchasing requirements in a global manner to more effectively manage and optimize their investments in travel and entertainment, as well as everyday corporate expenses.

In addition, our GCS business provides Corporate Card and travel expense management services to middle market companies (defined in the United States as firms with annual revenues of $10 million to $1 billion) worldwide, including in the United States, Canada, the United Kingdom, France, Sweden, Germany, Australia, Singapore, Mexico and India. GCS is focused on continuing to expand its business with midsize companies, which we believe present us with significant growth opportunities. Businesses of this size often do not have corporate card programs. However, once enrolled in the program, midsized companies, which usually do not have well-defined purchasing programs, will typically put a significant portion of their business spending (both travel and entertainment and non-T&E, such as office supplies) on the Card because they can gain control, savings and employee benefits. In 2005, our GCS business invested in a wide range of marketing programs and product enhancements, and added sales staff to generate more Card and travel business with midsize firms. In support of this strategy, GCS offers the Savings at Work℠ program in the United States, as well as similar programs globally, which provide companies with discounts on everyday business products and services, such as car rentals, hotels and restaurants.

With the increased focus on cost containment by firms, we have experienced significant growth over the past few years in the Corporate Meeting Card, which helps both U.S.-based and international companies control company meeting expenses. The Corporate Meeting Card provides clients with a tool to capture such spending and provides company meeting planners with a tool to simplify the meetings payment process and access to data to negotiate with suppliers. GCS also offers the Corporate Defined Expense Program. This product allows companies to set a maximum amount to be charged on a Card before expiration and permits them to segregate spending data for specific purposes on projects. It is designed for companies that want to allocate funds for a specific purpose, such as employee relocations or training.

During 2005 we also partnered with a group of major hotel companies in North America and Europe, including Hilton, Hilton International and Marriott, to offer our corporate clients secure Web-based access to enhanced data regarding their employees' lodging spend.

GCS also offers American Express @ Work®, a secure, web-based suite of online tools that enables Corporate Card, CPS and Corporate travel customers to perform account review and servicing and access management reports on a 24/7 basis through a single user interface. This suite helps companies manage expenses and manipulate spend data more efficiently than offline alternatives, while decreasing the costs associated with servicing. These products enable companies to review, combine and manipulate Corporate Card, Corporate Travel and Corporate Purchasing Solutions data. One of the products also allows companies to reconcile the data with its internal accounting system.

Competition – Global Commercial Card Business

Competition in the commercial card (Corporate Card and CPS) business is increasingly intense at both the card network and card issuer levels. At the network level, Diners Club (which, as mentioned above, has been folded into the network operated by MasterCard in the United States and Canada) remains a significant global competitor. In addition, both VISA and MasterCard have increased efforts to support card issuers such as U.S. Bank, JPMorgan Chase, GE Capital Financial Inc. and Citibank (in the United States and globally), who are willing to build and support data collection and reporting necessary to satisfy customer requirements. In the past few years, MasterCard has promoted enhanced web-based support for its corporate card issuing members, and VISA International supported the creation of a joint venture by a number of its member banks from around the world to compete against us and Diners Club for the business of multinational companies. The key competitive factors in the commercial card business are, in addition to the factors cited above under "U.S. Card Services – Competition – Card Issuing Business;"

- the ability to capture and deliver detailed transaction data and expense management reports;
- the number and types of businesses that accept the cards;
- pricing;
- the range and innovativeness of products and services to suit business needs;
- quality of customer services; and
- global presence.

International Proprietary Consumer Card Business

We issue our charge and credit card products in numerous countries around the globe. Although our geographic scope is widespread, we generally do not have significant share in the markets in which we operate. We focus primarily on those markets that we believe offer us the greatest financial opportunity.

TRS continued to bolster its international proprietary Card business through the launch of numerous new or enhanced Card products during 2005. These are cards that we issue, either on our own or, as further described below, as cobrands with partnering institutions. This past year, among other new proprietary products, we announced or launched:

the Mini Excitement American Express Card, a cobrand card with BMW, aimed at a lifestyle-oriented demographic in Germany;

the American Express Singapore Airlines PPS Club Platinum Credit Card, designed exclusively for Singapore Airlines most frequent first and business class travelers;

a distribution agreement with Oriental Financial Group to distribute consumer and commercial cards in Puerto Rico;

new Platinum Credit Cards in Australia, Brazil, Hong Kong and Mexico;

the Nectar Credit Card from American Express, a consumer and small-business credit card in the United Kingdom, cobranded with Loyalty Management UK, the owners and operators of Nectar, the largest loyalty program in that country; and

the American Express AeroMexico Credit Card, the first cobrand credit card issued by American Express in Mexico.

We offer many of the same programs in our international proprietary card issuing business as we do in our U.S. proprietary issuing business. For example, as in the United States, we offer various flexible payment options similar to our Sign & Travel program and our Extended Payment Option to Cardmembers in several international markets.

Also, as in the United States, we issue Cards internationally under distribution agreements with banks. See "U.S. Card Services – Bank Distribution of Proprietary Cards" for a description of these types of arrangements. Another example of our distribution partnerships is affinity cards with fraternal, professional, educational and other organizations. For instance, we have been successful in penetrating the affinity card segment in Australia, where we issue cards with the majority of the largest professional associations in that country. In Australia, affinity cards are a substantial part of our total revolving portfolio and contribute to our proprietary consumer lending activities.

As in the United States, rewards programs are a strong driver of Cardmember spending in the international consumer business. We have more than 1,200 redemption partners across our international business, with an average of 70 partners in each country; fewer than 30% of these partners are in the travel industry. Cardmembers can redeem their points with more than 25 airlines and 28 hotel chains. Our redemption options include travel, retail merchandise, entertainment, shopping and recreation gift certificates, experiences, financial services and charity rewards. In 2005, we signed over 200 new Membership Rewards partners outside the United States and continued to enhance our rewards programs in several markets, offering more flexible choices that enable Cardmembers to redeem points more quickly. Significantly, in selected markets we launched TravelKey, which allows Cardmembers to book flights and vacations with virtually any airline to any destination without restrictions, and enhanced the Membership Rewards Web site to offer easier online redemption.

Competition – International Proprietary Consumer Card

Internationally, our proprietary card-issuing business is subject to competition from multinational banks, such as Citibank, HSBC and Banco Santander, as well as many local banks and financial institutions. Globally, we view Citibank and HSBC as our strongest competitors as they offer card products in a large number of markets.

Global Travel Services

GCS Global Travel Services consists of American Express Business Travel, Membership Travel Services International, Travel Services Network International and Global Foreign Exchange Services.

American Express Business Travel provides globally integrated solutions, both online and offline, to help organizations optimize their travel investments and service their traveling employees. These solutions include travel reservation advice and booking transaction processing; travel expense management policy consultation; supplier negotiation and consultation; management information reporting, data analysis and benchmarking; and group and incentive travel services.

Business Travel services customers directly in 36 key markets worldwide, of which 31 are proprietary operations and five are managed through joint ventures. In addition, Business Travel also serves customers in other relevant markets through franchise partnerships. In 2005, Global Travel processed approximately $19 billion worth of travel spend globally.

In 2005, we were awarded the corporate travel business of several new clients including Total SA, Sun Microsystems, Ericsson, and Johnson & Johnson.

Business Travel continues to modify its economic model and invest in new products, services and technologies to enhance the value that we deliver to our customers and address ongoing travel industry challenges and opportunities. For example, we have substantially reduced our reliance on commission revenues from suppliers (such as airlines or hotels), and now generate revenues primarily from customers who pay for the services that we provide. We have comprehensive cost-saving travel management offerings for our clients, including webfare guarantees for the small- and mid-sized segments in the United States, a travel management loyalty program with double Membership Rewards points for individual travelers and automatic ticket refunds for the same segments in the United States and select international markets. We also offer customers best fares, savings and benefits through supplier programs such as the Preferred Extras Hotel Program and through our advisory services, which provide consulting solutions in all areas of travel and entertainment expense management. Business Travel also offers the TravelBahn® Distribution Solution, a proprietary distribution solution alternative that provides access to airline inventory and fares for American Express Business Travel customers with a number of carriers in North America and in select international markets. Business Travel offers a range of other solutions to our customers that provide them with savings, control, services and traveler care.

In 2005 Business Travel expanded the range of travel services available to our business clients with the introduction of new, innovative and enhanced solutions. We launched TrackPoint, a global security solution that allows organizations to locate their travelers in times of unexpected events and crises. The Preferred Extras Hotel Program, first launched in the United States in 2004, was expanded globally in 2005, to provide our clients with the best available rates and benefits at more than 10,000 hotels located in 3,400 cities worldwide, and Business Travel enhanced and expanded the availability of other Preferred Extras supplier value programs that deliver savings and traveler benefits to our small and mid-size customers. Global Travel Shield® and Visa & Passport provide a comprehensive set of travel insurance products for domestic and international travel and passport, visa and document preparation and processing services for international travel.

Business Travel accelerated numerous reengineering initiatives in 2005, including rationalizing our network, standardizing platforms and processes and implementing new technology solutions to increase the flexibility of our business model, increase productivity, reduce costs and enhance the quality of customer service globally. Business Travel has also moved many of its business processes and customer servicing online, marking a decade of online business travel service, with more than six million online transactions during 2005. In the United States, 36% of all of GCS' business travel transactions were processed online, and while lower than in the United States, online penetration rates in the United Kingdom, Canada, Mexico and Australia have been increasing in recent years.

Membership Travel Services International provides premium travel and lifestyle, as well as concierge services, a unique benefit that exemplifies the customer experience provided to Platinum and Centurion Card customers, through 27 exclusively dedicated international call centers. The Travel Service Network International manages customer relationships on our behalf through over 2,200 Travel Service locations in over 140 countries and territories worldwide. We are expanding our network presence worldwide through franchising, nearly tripling the size of our international franchise network in the past four years alone.

Global Foreign Exchange Services consists of retail and wholesale foreign exchange services and International Payments. Our retail foreign exchange business has a presence in many of our travel offices, as well as in proprietary standalone bureaus located in several major cities. On a selective basis, American Express has divested some of these proprietary locations and concentrated the retail foreign exchange business in 17 of the world' s major international airports, including London' s Heathrow, the Aeroports de Paris and Changi Airport in Singapore. For corporate clients, our International Payments online payment product allows companies and banks to make cross-border payments in more than 35 foreign currencies at competitive exchange rates. Wholesale banknote services are also provided to select financial institutions and travel-related companies.

Competition – Global Travel Services

Business Travel continues to face intense competition in the United States and internationally from numerous traditional and online travel management companies, as well as from direct sales by airlines and other travel suppliers. Competition among travel management companies is mainly based on price, service, convenience, global capabilities and proximity to the customer. In 2005, Business Travel was impacted by increasingly intense price competition, as well as the restructuring of the business. In addition, competition comes from corporate customers themselves, as some companies have become accredited as in-house corporate travel agents.

In January 2006, significant changes were announced to the ownership and network structure of three of the major traditional travel management companies – Business Travel International, TQ3 and Navigant International, Inc. – realigning the shape of the industry. Similarly, some of the major online travel management companies also structurally changed in 2005 as Cendant Corp. integrated Orbitz with Travelport, its travel management company and InterActive Corp. spun off Expedia, Inc. More change in the industry is expected to follow. Each of these changes to the competitive environment in the industry may result in additional challenges to our business that could have a competitive impact.

In 2005, U.S.-based online travel agencies continued to expand their offerings and marketing efforts beyond their traditional target customer set, with increasing focus on corporate travel. Orbitz/Travelport, Expedia and Travelocity have all begun to pursue midsized and larger corporate travel customers in North America. While the majority of the online agencies' efforts to penetrate the managed corporate travel sector has to date occurred in the United States, it is likely that they will focus more of their efforts to expand into key, developed international markets in the future.

Since 1995, travel agents have received reduced levels of revenue from airlines, and this trend is expected to continue. The airline industry has been under severe financial pressure in recent years and, as a result, has increased its efforts to reduce distribution expenses. In March 2002, U.S. airlines and some international carriers stopped paying "base" commissions to travel agents for tickets sold in the United States and Canada on all domestic and international travel. Subsequently, airlines in many international markets followed suit. In addition, low-cost carriers have begun to target business travelers to help fuel their growth, putting further strain on the ability of the traditional carriers to remain competitive. Low-cost carriers do not rely on travel agents to distribute their products and services. The traditional carriers have also increased the number of transactions they book directly through their Web sites and other means. These trends have reduced the revenue opportunities for travel agents because they do not receive distribution revenue from directly booked transactions.

Overall, intense competition among travel management companies, the ongoing trends of airline direct sales, rise of low-cost carriers and ongoing reductions in or elimination of airline commissions and fees continue to put pressure on revenue for travel agents. We believe that the restructuring of our business model over the last few years, transitioning many of our services online and reducing other costs, and our global presence have helped us to balance these revenue pressures.

American Express Bank

American Express Bank ("AEB") serves affluent and high net worth individuals and financial institutions through over 70 locations in 45 countries and regions worldwide. AEB's operations are conducted primarily through our indirect wholly owned subsidiary, American Express Bank Ltd., and its subsidiaries. AEB serves financial institutions worldwide and individual clients outside the United States. The following discussion relating to AEB generally does not distinguish between U.S.- and non-U.S.-based activities.

AEB' s two primary business lines are Global Wealth Management ("GWM"), which incorporates The Private Bank and Financial Advisory Services, and the Financial Institutions Group ("FIG"). The Private Bank focuses on delivering an extensive range of investment management, trust and estate planning and banking services, including secured lending, to high net worth individuals. Financial Advisory Services provides a wide variety of local, domestic saving and investment products to affluent individuals in Hong Kong, Singapore, India, Mexico, Indonesia, The Philippines and Germany.

FIG provides financial institution clients with a wide range of correspondent banking products, including international payments processing (wire transfers and checks), trade-related payments and financing, cash management, loans, extensions of credit and investment products. AEB also distributes mutual funds through its financial institution clients. In addition, AEB provides treasury and capital market products and services to its customers, including foreign exchange, foreign exchange options and other derivatives and interest rate risk management products.

Over the past several years, AEB has undertaken a strategy of exiting its corporate banking business to focus on growing its consumer and financial institutions businesses. Corporate clients now represent less than 1% of AEB' s total loan portfolio. These changes align AEB' s businesses more closely with those of our other business units and position AEB to play a more important role in the delivery of financial services on a global basis.

AEB continues to work with other parts of American Express to cross-sell a range of payment, lending and financial service products and build deeper relationships with consumer and small business customers in key international markets. AEB markets its Private Bank services to a highly selective group of Cardmembers outside the United States. AEB offers credit products such as installment loans and revolving lines of credit to both Cardmembers and non-Cardmembers in Germany, United Kingdom, Canada, Mexico, Hong Kong, India, Japan, Australia, Singapore and Taiwan. AEB also issues deposit certificates denominated in U.S. dollars, Euros, pounds sterling and Australian dollars through American Express International Deposit Company in the Cayman Islands.

AEB' s worldwide headquarters is located in New York City. It maintains an international banking agency in New York City and facility offices in San Francisco, San Diego and Los Angeles, California. Its wholly owned Edge Act subsidiary, American Express Bank International ("AEBI"), is headquartered in Miami, Florida, and has branches in New York City and Miami.

Risks – Banking Services

The global nature of AEB' s business activities is such that concentrations of credit to geographic regions are not unusual. AEB continually monitors and actively manages its credit concentrations to reduce the associated risk. The Private Bank' s loans are generally secured by liquid, marketable collateral. FIG controls its exposures by generally limiting its relationships to the top tier banks in the countries in which it does business and by capitalizing on its expertise in trade credit, which generally has a lower risk profile. At December 31, 2005, AEB had significant investments in certain on- and off-balance sheet financial instruments, which were primarily represented by deposits with banks, securities, loans, forward contracts, contractual amounts of letters of credit (standby and commercial) and guarantees. The counterparties to these financial instruments were primarily unrelated to AEB, and principally consisted of consumers to whom AEB has extended loans, banks and other financial institutions and foreign government agencies operating geographically within the Asia/Pacific region, Europe, North America, Latin America, the Indian Subcontinent and Middle East/Africa.

AEB’ s earnings are sensitive to interest rates because the maturity of liabilities does not, generally, match the maturity of assets. AEB invests excess liquidity in high grade fixed income investment securities and maintains mandatory investment portfolios in a number of countries as required by central banks. AEB monitors and controls interest rate risk through a rigorous Earnings at Risk process both on a country and global level. AEB manages the duration/maturity mismatch of assets and liabilities through adjusting the duration/maturity of assets and/or by using derivatives. On occasion, AEB may decide to mismatch in anticipation of a change in future interest rates in accordance with guidelines. AEB sells foreign exchange, interest rate and equity products to its customer base and may decide to take short-term proprietary trading positions as a result of this business. The foreign exchange, interest rate and equity risk is managed at the branch and global level through a comprehensive Value at Risk process. AEB manages counterparty credit exposure on foreign exchange and interest rate derivatives through a dynamic mark-to-market and potential future exposure process, in which the current fair value and potential future exposure are calculated and managed against counterparty loan equivalent limits. You can find more information on AEB’ s management of its foreign exchange risk and use of derivative financial instruments under the caption “American Express Company Risk Management – Market Risk Management Process” and in Note 10 to the Company’ s Consolidated Financial Statements on pages 44-45 and pages 83-84, respectively, of our 2005 Annual Report to Shareholders, which portions of such reports are incorporated herein by reference.

Because AEB conducts significant business in emerging market countries and in countries that are less politically and economically stable than the United States or those in Western Europe, its Private Banking, Financial Advisory Services and FIG activities may be subject to greater credit and compliance risks than are found in more well-developed jurisdictions. AEB continually monitors its exposures in such jurisdictions, and regularly evaluates its client base to identify potential legal risks as a result of clients’ use of AEB’ s banking services.

Competition – Banking Services

The banking services of AEB are subject to vigorous competition everywhere AEB operates. Competitors include local and international banks whose assets often exceed those of AEB, other financial institutions (including certain other subsidiaries of ours) and, in certain cases, governmental agencies.

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Regulation – Banking Services

American Express Banking Corp. ("AEBC") is a New York investment company organized under Article XII of the New York Banking Law and is a wholly owned direct subsidiary of American Express. American Express Bank Ltd. ("AEBL") is a wholly owned direct subsidiary of AEBC. AEBC, AEBL and AEBL' s global network of offices and subsidiaries are subject to continuous supervision and examination by the New York State Banking Department ("NYSBD") pursuant to the New York Banking Law. AEBC does not directly engage in banking activities. AEBL' s branches, representative offices and subsidiaries are licensed and regulated in the jurisdictions in which they do business and are subject to the same local requirements as other competitors that have the same license.

Since AEBC and AEBL do not do business in the United States, except as may be incidental to their activities outside the United States, our affiliation with AEBC and AEBL neither causes us to be subject to the provisions of the Bank Holding Company Act of 1956, as amended, nor requires us to register as a bank holding company under Regulation Y promulgated by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). AEBC and AEBL are not members of the Federal Reserve System, are not subject to supervision by the FDIC, and are not subject to any of the restrictions imposed by the Competitive Equality Banking Act of 1987 other than anti-tie-in rules with respect to transactions involving products and services of certain of its affiliates. AEBC and AEBL are not financial holding companies under the Gramm-Leach-Bliley Act.

The NYSBD requires AEBC, on a consolidated basis, to monitor its financial condition and maintain risk-based and leverage capital in accordance with minimum thresholds established by the NYSBD. At year-end 2005, AEB had Tier One, Total and Leverage capital (as those terms are defined under the Federal Reserve Board' s risk-based capital guidelines) that exceeded the minimum standards established by the NYSBD. Additionally, AEB is not anticipated to be required to comply on a consolidated basis with the Advanced Internal Ratings Based Approach incorporated in the Basel II Capital Accord Framework published in June, 2004. AEB monitors developments with respect to the implementation of the Basel II Capital Accord in jurisdictions where its branch and subsidiary network is located.

In recent years, U.S. and foreign regulatory authorities, together with international organizations, have raised increasing concerns over the ability of criminal organizations and corrupt persons to use global financial intermediaries to facilitate money laundering. In the United States, the Secretary of the Treasury has issued regulations pursuant to the USA PATRIOT Act of 2001 (the "Patriot Act") that specifically impact certain money laundering prevention activities of entities involved, as AEBL is, in correspondent and private banking activities. Compliance efforts to combat money laundering remain a high priority for AEBL and it may increase these efforts to address further regulations expected under the Patriot Act as well as other evolving supervisory standards and requirements in jurisdictions in which AEBL does business.

CORPORATE & OTHER

Our Corporate and Other segment consists of the Company' s corporate functions and auxiliary businesses, including American Express Publishing.

Brand

Our brand and its attributes – trust, security, integrity, quality and customer service – are key assets of the Company. We continue to focus on the brand by educating employees about these attributes and by incorporating them into our programs, products and services. Our brand has been rated one of the most valuable brands in the world in various surveys, and we believe it provides us with a significant competitive advantage. We believe our brand and its attributes are critical to our success and we invest heavily in managing, marketing and promoting it. (We account for our expenses in managing our brand in the Global Network & Merchant Services segment.) In addition, we place significant importance on trademarks and servicemarks, and diligently protect our intellectual property rights around the world.

American Express Publishing

Through American Express Publishing, we publish luxury lifestyle magazines such as Travel+Leisure®, T+L Family, a supplement to Travel+Leisure, T+L Golf®, Food & Wine® and Departures®; travel resources such as SkyGuide®; business resources such as the American Express Appointment Book and SkyGuide Executive Travel, a business traveler supplement; a variety of general interest, cooking, travel, wine, financial and time management books; branded membership services; a growing roster of international magazine editions; as well as directly sold and licensed products. American Express Publishing also has a custom publishing group and is expanding its service-driven Web sites such as: travelandleisure.com, foodandwine.com, departures.com, tlgolf.com, tlfamily.com and skyguide.net. We have an agreement with Time Inc. under which it manages our publishing business and we share revenues relating to this business.

Service and Technology Infrastructure

We continue to make significant investments, both in the United States and internationally, in our card systems and infrastructure to allow faster introduction and greater customization of products. We also are using technology to develop and improve our service capabilities to continue to deliver a high quality customer experience. For example, we maintain a service delivery platform that our employees use in the card business to support a variety of customer servicing and account management activities such as account maintenance, updating of Cardmember information, the addition of new cards to an account and resolving customer satisfaction issues. In international markets, we are building flexibility and enhancing our global platforms and capabilities in revolving credit, our full service banking platform called Wealthview, and consumer payment options.

We continued to leverage the internet to lower costs and improve service quality. During 2005, we expanded the number of services and capabilities available to customers online and increased their utilization. For example, within the United States, approximately 80% of our card servicing call volume can now be handled online. We now have more online interactions with U.S. customers than we do by telephone or in person. Our online Card sales grew steadily in 2005 as well.

At year-end, customers enrolled approximately 13 million Cards in our "Manage Your Card Account Service." This service enables Cardmembers to review and pay their American Express bills electronically, view and service their Membership Rewards program accounts and conduct various other functions quickly and securely online. We now have an online presence in 36 markets, including 10 GNS markets.

We have devoted substantial resources to our global technology platforms and have undertaken significant efforts to protect and manage our proprietary systems and the data collected and stored on our systems. In this vein, we have continued to focus on ways to secure our systems from "hackers" and other unauthorized users.

In 2002, we outsourced most of our technology operations work to IBM. This arrangement, which has a seven-year term with options to extend, enables us to benefit from IBM' s expertise while lowering our information technology costs. IBM has taken on responsibility for managing most of our day-to-day technology operations functions, including mainframe, midrange and desktop systems; web hosting; database administration; help desk services and data center operations. Our internal IT organization continues to retain the Company' s technology competencies, including information technology strategy, information security, managing strategic relationships with technologies' partners, developing and maintaining applications and databases and managing the technology portfolios of our businesses.

We are also, for commercial purposes, exploring ways to exploit certain proprietary applications that we have developed. In 2005, we entered into an agreement with Solver, a Microsoft Certified Partner, to license and sell our patented investment optimization resource allocation methodology and software platform to Fortune 1000 companies.

Regulation – General

Most aspects of our business are subject to rigorous regulation by U.S. Federal and state regulatory agencies and securities exchanges and by non-U.S. government agencies or regulatory bodies and securities exchanges. Certain of our public disclosure, internal control environment and corporate governance principles are subject to the Sarbanes-Oxley Act of 2002 and related regulations and rules of the SEC and the New York Stock Exchange, Inc. New laws or regulations or changes to existing laws and regulations (including changes in interpretation or enforcement) could materially adversely affect our financial condition or results of operations. As a global financial institution, to the extent that different regulatory systems impose overlapping or inconsistent requirements on the conduct of our business, we face complexity and additional costs in our compliance efforts.

We use information about our customers to develop and make available relevant, personalized products and services. Our customers are given choices about how we use and disclose their information, and we give them notice regarding the measures we take to safeguard this information. Regulatory activity in the areas of privacy and data protection continues to increase worldwide, spurred by advancements in technology and related concerns about the rapid and widespread dissemination and use of information. We are working with other participants in the payments industry to address security issues in general, including exploring ways to strengthen the safeguards undertaken to prevent the compromise of Cardmember information at the point of sale.

The Gramm-Leach-Bliley Act ("GLBA") became effective on July 1, 2001. GLBA provides for disclosure of a financial institution's privacy policies and practices and affords customers the right to "opt out" of the institution's disclosure of their personal financial information to unaffiliated third parties (with limited exceptions). This legislation does not preempt state laws that afford greater privacy protections to consumers, and several states have adopted such legislation. For example, in 2003 California enacted that state's Financial Information Privacy Act. We will continue our efforts to safeguard the data entrusted to us in accordance with applicable law and our internal data protection policies, including taking steps to reduce the potential for identity theft, while seeking to collect and use data properly to achieve our business objectives.

The Fair Credit Reporting Act of 1970 ("FCRA") regulates the disclosure of consumer credit reports by consumer reporting agencies and the use of consumer credit report information by banks and other companies. FCRA was significantly amended by the enactment in December 2003 of the Fair and Accurate Credit Transactions Act (the "FACT Act"). The FACT Act requires any company that receives information concerning a consumer from an affiliate to permit the consumer to opt out from having that information used to market the company's products to the consumer. The FACT Act further amends the FCRA by adding several new provisions designed to prevent or decrease identity theft and to improve the accuracy of consumer credit information. New duties are imposed on both consumer reporting agencies and on businesses that furnish or use information contained in consumer credit reports. For example, a furnisher of information is required to implement procedures to prevent the reporting of any information that it learns is the result of identity theft. Also, if a consumer disputes the accuracy of information provided to a consumer reporting agency, the furnisher of that information must conduct an investigation and respond to the consumer in a timely fashion. The FACT Act also requires grantors of credit that use consumer credit report information in making a determination to offer a borrower credit on terms that are "materially less favorable" than the terms offered to most of the lender's other customers to notify the borrower that the terms are based on a consumer credit report. In such a case the borrower is entitled to receive a free copy of the report from the consumer reporting agency. Beginning August 1, 2005, grantors of credit using pre-screened consumer credit report information in credit solicitations were required to include an enhanced notice to consumers that they have the right to opt out from receiving further pre-screened offers of credit. The Company is continuing to evaluate the effect of the FACT Act and the implementing regulations on the Company's business operations or its ability to provide personalized services to its customers.

In the United States, the Patriot Act of 2001 was enacted in October 2001 in the wake of the September 11, 2001 terrorist attacks. The Patriot Act substantially broadened existing anti-money laundering legislation and the extraterritorial jurisdiction of the

United States. The Patriot Act contains a wide variety of provisions aimed at fighting terrorism, including provisions aimed at impeding terrorists' ability to access and move funds used in support of terrorist activities. Among other things, the Patriot Act requires federal regulators, led by the Secretary of the Treasury, to regulate or take other steps to require financial institutions to establish anti-money laundering programs that meet certain standards, including expanded reporting and enhanced information gathering and recordkeeping requirements. While American Express has long maintained anti-money laundering programs in our businesses, the Secretary of the Treasury has issued regulations under the Patriot Act applicable to certain of our business activities conducted within AEB, TRS and their affiliates, prescribing minimum standards for such anti-money laundering programs, and we have enhanced existing programs and developed and implemented new ones in response to these new regulations. For example, in April 2002, the U.S. Treasury issued draft regulations applicable to operators of credit card networks (such as VISA, MasterCard, Diners Club, Discover and American Express) that would require credit card networks to have risk-based programs to screen institutions that are licensed to issue cards or acquire merchants on their networks. As a result, we developed and implemented a program for our GNS business, and in 2004 completed our screening of existing licensed institutions and will apply the screening under this program to all new licensing relationships. We have also developed and implemented a Customer Identification Program applicable to many of our businesses, and have enhanced our Know Your Customer and Enhanced Due Diligence programs in others. We intend to take steps to comply with any additional regulations that are adopted. In addition, we will take steps to comply with anti-money laundering initiatives adopted in other jurisdictions in which we conduct business.

We have significant operations in the European Union, including a number of regulated businesses. We monitor developments in EU legislation, as well as in the other markets in which we operate, to ensure that we are in a position to comply with all applicable legal requirements, including European Union directives applicable to credit institutions, insurance intermediaries and other financial institutions.

FOREIGN OPERATIONS

We derive a significant portion of our revenues from the use of our card products, Travelers Cheques, travel and other financial products and services in countries outside the United States and continue to broaden the use of these products and services outside the United States. (For a discussion of our revenue by geographic region, see Note 19 to our Consolidated Financial Statements, which you can find on pages 95-98 of our Annual Report to Shareholders and which is incorporated herein by reference.) Our revenues can be affected by political and economic conditions in these countries (including the availability of foreign exchange for the payment by the local card issuer of obligations arising out of local Cardmembers' spending outside such country, for the payment of card bills by Cardmembers who are billed in other than their local currency, and for the remittance of the proceeds of Travelers Cheque sales). For example, in February 2006, we announced that we had temporarily suspended the issuance of new Cards in Taiwan due to concerns over rising bad debts throughout Taiwan's consumer finance industry. Substantial and sudden devaluation of local Cardmembers' currency can also affect their ability to make payments to the local issuer of the card in connection with spending outside the local country. The majority of AEB's revenues are derived from business conducted in countries outside the United States. Some of the risks attendant to those operations include currency fluctuations and changes in political, economic and legal environments in each such country.

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As a result of our foreign operations, we are exposed to the possibility that, because of foreign exchange rate fluctuations, assets and liabilities denominated in currencies other than the United States dollar may be realized in amounts greater or less than the United States dollar amounts at which they are currently recorded in our Consolidated Financial Statements. Examples of transactions in which this may occur include the purchase by Cardmembers of goods and services in a currency other than the currency in which they are billed; the sale in one currency of a Travelers Cheque denominated in a second currency; foreign exchange positions held by AEB as a consequence of its client-related foreign exchange trading operations; and, in most instances, investments in foreign operations. These risks, unless properly monitored and managed, could have an adverse effect on our operations. For more information on how we manage risk relating to foreign exchange, see "Risk Management – Market Risk Management Process" on pages 44-45 of our Annual Report to Shareholders, which information is incorporated herein by reference.

DISCONTINUED OPERATIONS

Effective September 30, 2005, we completed the spin-off of our financial advisors business through the distribution of 100% of the shares of our subsidiary, Ameriprise Financial, Inc. (formerly, American Express Financial Corporation). We distributed one share of Ameriprise common stock for every five shares of American Express common stock held by a shareholder outstanding as of the record date for the distribution.

We no longer own any shares of Ameriprise, and Ameriprise is an independent, publicly-traded company. Ameriprise's common stock is listed on the New York Stock Exchange, Inc. (NYSE) and is traded under the symbol "AMP."

No action was required by American Express shareholders to receive their Ameriprise common stock, and American Express shareholders were not required to surrender any American Express shares or pay anything, other than any taxes due on cash received in lieu of fractional share interests.

In addition, in the third quarter of 2005, we completed certain dispositions (including the sale of our American Express Tax and Business Services, Inc. ("TBS") subsidiary to H&R Block, Inc.) for cash proceeds of approximately $190 million.

Ameriprise's and TBS' results are reported as discontinued operations in our Consolidated Financial Statements.

You can find more information regarding the spin-off and the sale of TBS on page 24 and page 33 of our Annual Report to Shareholders and in Note 2 to the Consolidated Financial Statements of the Company, appearing on pages 73-74 of the Company's Annual Report to Shareholders, which information is incorporated herein by reference.

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SEGMENT INFORMATION AND CLASSES OF SIMILAR SERVICES

You can find information regarding the Company' s operating segments, geographic operations and classes of similar services in Note 19 to the Consolidated Financial Statements of the Company, which appears on pages 95-98 of the Company' s 2005 Annual Report to Shareholders, which Note is incorporated herein by reference.

EXECUTIVE OFFICERS OF THE COMPANY

Set forth below is a list of all our executive officers as of March 1, 2006. None of our executive officers has any family relationship with any other executive officer, and none of our executive officers became an officer pursuant to any arrangement or understanding with any other person. Each executive officer has been elected to serve until the next annual election of officers or until his or her successor is elected and qualified. Each officer' s age is indicated by the number in parentheses next to his or her name.

KENNETH I. CHENAULT -	Chairman and Chief Executive Officer; Chairman and Chief Executive Officer, American Express Travel Related Services Company, Inc.

Mr. Chenault (54) has been Chairman since April 2001 and Chief Executive Officer since January 2001. Prior thereto he had been President and Chief Operating Officer of the Company since February 1997. He has also been Chairman of TRS since April 2001 and Chief Executive Officer of TRS since February 1997.

L. KEVIN COX -	Executive Vice President, Human Resources

Mr. Cox (42) has been Executive Vice President, Human Resources and Quality of the Company since April 2005. Prior thereto he had been Executive Vice President of the The Pepsi Bottling Group since September 2004. Prior thereto, he had been Senior Vice President, Human Resources since March 1999.

GARY L. CRITTENDEN -	Executive Vice President and Chief Financial Officer; Head of Global Network Services

Mr. Crittenden (52) has been Executive Vice President and Chief Financial Officer since June 2000 and Head of Global Network Services since June 2005.

EDWARD P. GILLIGAN -	Group President, American Express International & Global Corporate Services

Mr. Gilligan (46) has been Group President, American Express International & Global Corporate Services since July 2005. Prior thereto, he had been Group President, Global Corporate Services since June 2000 and Group President, Global Corporate Services & International Payments, since July 2003.

JOHN D. HAYES -	Executive Vice President, Global Advertising and Brand Management and Chief Marketing Officer

Mr. Hayes (51) has been Executive Vice President, Global Advertising and Brand Management since May 1995 and Chief Marketing Officer of the Company since August 2003.

ALFRED F. KELLY, JR. -

Group President, Consumer, Small Business and Merchant Services

Mr. Kelly (47) has been Group President, Consumer, Small Business and Merchant Services since October 2005. Prior thereto, he had been Group President, U.S. Consumer and Small Business Services since June 2000.

LOUISE M. PARENT -

Executive Vice President and General Counsel

Ms. Parent (55) has been Executive Vice President and General Counsel since May 1993.

THOMAS SCHICK -

Executive Vice President, Corporate Affairs and Communications

Mr. Schick (59) has been Executive Vice President, Corporate Affairs and Communications since March 1993.

STEPHEN SQUERI -

Executive Vice President and Chief Information Officer

Mr. Squeri (46) has been Executive Vice President and Chief Information Officer since May 2005. Prior thereto, he had been President, Global Commercial Card – Global Corporate Services since January 2002 and President, Establishment Services – United States and Canada, from July 2000 through December 2001.

EMPLOYEES

We had approximately 65,800 employees on December 31, 2005.

ITEM 1A. RISK FACTORS

This section highlights specific risks that could affect our Company and its businesses. You should carefully consider each of the following risks and all of the other information set forth in this Annual Report on Form 10-K. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our Company. However, the risks and uncertainties our Company faces are not limited to those described below. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.

If any of the following risks and uncertainties develops into actual events or the circumstances described in the risks and uncertainties occur, these events or circumstances could have a material adverse effect on our business, financial condition or results of operations. These events could also have a negative effect on the trading price of our securities.

We face increasingly intense competitive pressure on the prices we charge merchants who accept our cards for payment for goods and services.

Unlike our competitors in the payments industry who rely on high revolving credit balances to drive profits, our business model is focused on cardmember spending. Discount revenue, which represents fees charged to merchants when cardmembers use their cards to purchase goods and services on our network, is primarily driven by billed business volumes and is our largest single revenue source. In recent years, we have been under market pressure to provide volume discounts and undertake other repricing initiatives. This pressure arises, in part, due to the regulatory pressure on our competitors outside the United States. If we continue to experience a decline in the average discount rate we charge merchants or are unable to sustain premium discount rates on our cards without experiencing overall volume growth or an increase in merchant coverage, our revenues and profitability could be materially and adversely affected.

We may not be able to increase consumer and business spending and borrowing on our travel related services products or manage the costs of our Cardmember benefits intended to stimulate such use.

Our business is characterized by the high level of spending by our Cardmembers. Increasing consumer and business spending and borrowing on our travel related services products, particularly credit and charge cards and Travelers Cheques and other prepaid products, and growth in card lending balances, depend in part on our ability to develop and issue new or enhanced card and prepaid products and increase revenues from such products. It also depends on our ability to attract new cardmembers, reduce Cardmember attrition, increase merchant coverage, and capture a greater share of customers' total spending on cards issued on our network both in the United States and in our international operations. One of the ways in which we attract new Cardmembers is through our Membership Rewards program, as well as other Cardmember benefits. We may not be able to cost effectively manage and expand Cardmember benefits, including containing the growth of marketing, promotion and rewards expenses. If we are not successful in increasing consumer and business spending or in managing the costs of our Cardmember benefits, our revenues and profitability could be negatively affected.

Our brand and reputation are key assets of our Company and our business may be affected by how we are perceived in the marketplace.

Our brand and its attributes are key assets of the Company. Our ability to attract and retain consumer Cardmembers and corporate clients is highly dependent upon the external perceptions of our level of service, business practices and financial condition. Negative perceptions or publicity regarding these matters could damage our reputation among existing and potential Cardmembers and corporate clients, which could make it difficult for us to attract new Cardmembers and maintain existing ones. Adverse developments with respect to our industry may also, by association, negatively impact our reputation, or result in greater regulatory or legislative scrutiny. Although we monitor developments for areas of potential risk to our reputation and brand, negative perceptions or publicity could materially and adversely affect our revenues and profitability.

An increase in account data breaches and fraudulent activity using our cards could lead to reputational damage to our brand and could reduce the use and acceptance of our charge and credit cards.

We and other third parties store Cardmember account information in connection with our charge and credit cards. Criminals are using increasingly sophisticated methods to capture various types of information relating to Cardmembers' accounts, including Membership Rewards accounts, to engage in illegal activities such as fraud and identity theft. As outsourcing and specialization become a more acceptable way of doing business in the payments industry, there are more third parties involved in processing transactions using our cards. If data breaches or fraud levels involving our cards were to rise, it could lead to regulatory intervention (such as mandatory card reissuance) and reputational and financial damage to our brand, which could reduce the use and acceptance of our cards, and have a material adverse impact on our business.

Our reengineering and other cost control initiatives may not prove successful and we may not realize all or a significant portion of the benefits that we intended.

We have regularly undertaken, and are currently considering undertaking, a variety of efforts to reengineer our business operations in order to achieve significant cost savings and other benefits (including continuing to reinvest such savings in key areas such as marketing and promotion), enhance revenue-generating opportunities and improve our operating expense to revenue ratio both in the short-term and over time. These efforts include cost management, structural and strategic measures such as vendor, process, facilities and operations consolidation, outsourcing functions (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 these reengineering actions. If we do not successfully achieve these efforts in a timely manner or if we are not able to capitalize on these efforts, we may not realize all or a significant portion of the benefits that we intended. Failure to achieve these benefits could have a negative effect on our financial condition and results of operations.

We have agreements with business partners in a variety of industries, including the airline industry, that represent a significant portion of our billed business. We are exposed to the risk of downturns in these industries, including bankruptcies of our partners, and the possible obligation to make payments to our partners.

In the ordinary course of our business we enter into different types of contractual arrangements with business partners in a variety of industries. For example, we have partnered with Costco to offer cobranded cards for consumers and small businesses, and through our Membership Rewards program we have partnered with businesses in many industries, most notably the airline industry, to offer benefits to Cardmember participants. The airline industry represents a significant portion of our billed business and in recent years has undergone bankruptcies, restructurings and other similar events. In particular, we are exposed to risk under our agreements with Delta Air Lines, which were restructured in connection with Delta's filing for protection under Chapter 11 of the Bankruptcy Code. For additional information relating to the agreements with Delta, see "Financial Review – Airline Industry Matters" on page 53 of our Annual Report to Shareholders. In addition, under some types of these contractual arrangements, upon the occurrence of certain triggering events, we may be obligated to make payments to certain cobrand partners, merchants, vendors and customers. If we are not able to effectively manage the triggering events, we could unexpectedly have to make payments to these partners, which could have a negative effect on our financial condition and results of operations. We are also exposed to risk if we are not able to effectively manage bankruptcies, restructurings and other similar events that may occur in the airline industry or any other industry representing a significant portion of our billed business, including any potential negative effects 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.

Our risk management policies and procedures may not be effective.

We must effectively 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 our card products. Credit risk is the risk of loss from obligor or counterparty default. We are exposed to both consumer credit risk, principally from Cardmember receivables, and our other consumer lending activities and institutional credit risk. While consumer credit risk is more closely linked to general economic conditions rather than borrower-specific events like institutional credit risk, both expose us to a risk of loss. Third parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Country, regional and political risks are components of credit risk. Rising delinquencies and rising rates of bankruptcy are often precursors of future write-offs and may require us to increase our reserve for loan losses. Higher write-off rates and an increase in our reserve for loan losses may adversely affect our profitability and the performance of our securitizations, and may increase our cost of funds.

Although we make estimates to provide for credit losses in our outstanding portfolio of loans and receivables, these estimates may not be accurate. In addition, the information that we use in managing our credit risk may be inaccurate or incomplete. Although we regularly review our credit exposure to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to foresee or detect, such as fraud. We may also fail to receive full information with respect to the credit risks of our customers.

We must also effectively manage market risk to which we are exposed. Market risk represents the loss in value of portfolios and financial instruments due to adverse changes in market variables. We are exposed to market risk from interest rates in our card business. Changes in the interest rates at which we borrow and lend money affect the value of our assets and liabilities. If the rate of interest we pay on our borrowings increases more than the rate of interest we earn on our loans, our net finance charge revenue, and consequently our net income, could fall.

We must also accurately estimate the fair value of the assets in our investment portfolio and, in particular, those investments that are not readily marketable, including the valuation of the interest-only strip (commonly referred to as the I/O strip) arising from our securitization of charge and credit card receivables.

Finally, we must also manage the operational risks to which we are exposed. We consider operational risk to be the risk of not achieving our business objectives due to failed processes, people or information systems, or from the external environment, such as natural disasters. Operational risks include the risk that we may not accurately estimate the expense provision for the cost of our Membership Rewards program, as well as the risk that we are unable to manage a downturn in our businesses and/or negative changes in our and our subsidiaries' credit ratings, which could result in contingent payments under contracts, decreased liquidity and higher borrowing costs.

Although we have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future, our hedging strategies and other risk management techniques may not be fully effective. See "Financial Review – Risk Management" on pages 42-45 of our Annual Report to Shareholders for a discussion of the policies and procedures we use to identify, monitor and manage the risks we assume in conducting our businesses. Management of credit, market and operational risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

Adverse currency fluctuations and foreign exchange controls could decrease revenue we receive from our international operations.

During 2005, over 30% of our revenue was generated from activities outside the United States. We are exposed to foreign exchange risk from our international operations, and some of the revenue we generate outside the United States is subject to unpredictable and indeterminate fluctuations if the values of other currencies change relative to the U.S. dollar. Resulting exchange gains and losses are included in our net income. Furthermore, we may become subject to exchange control regulations that might restrict or prohibit the conversion of our other revenue currencies into U.S. dollars. The occurrence of any of these events or circumstances could decrease the revenues we receive from our international operations and have a material adverse effect on our business.

Our access to financing, including securitizations, may be limited.

In general, the amount, type and cost of our funding, including financing from other financial institutions and the capital markets, directly impacts our expense in operating our business and growing our assets and therefore, can positively or negatively affect our financial results.

A number of factors could make such financing more difficult, more expensive or unavailable on any terms both domestically and internationally (where funding transactions may be on terms more or less favorable than in the United States), including, but not limited to, financial results and losses, changes within our organization, specific events that adversely impact our reputation, changes in the activities of our business partners, disruptions in the capital markets, specific events that adversely impact the financial services industry, counter-party availability, changes affecting our assets, our corporate and regulatory structure, interest rate fluctuations, ratings agencies' actions, general economic conditions and the legal, regulatory, accounting and tax environments governing our funding transactions. In addition, our ability to raise funds is strongly affected by the general state of the U.S. and world economies, and may become increasingly difficult due to economic and other factors. Also, we compete for funding with other financial institutions, some of which are publicly traded. Competition from these institutions may increase our cost of funds.

In addition, we periodically securitize Cardmember receivables and loans arising from our card business. Securitization involves the legal sale of beneficial interests in Cardmember receivables and loan balances to a trust, which in turn issues securities to third-party investors collateralized by the transferred receivables and loans, and our receipt of the proceeds from the issuance of such securities. Although the markets for securitized credit and charge card receivables and loans is large and well-established, if these markets experience difficulties, we may be unable to securitize our receivables or to do so at favorable pricing levels. If we were unable to continue to securitize our loan receivables at desired levels, we would use alternative funding sources to meet our liquidity needs. If we were unable to find cost-effective and stable alternatives, it could negatively impact our liquidity and potentially subject us to certain risks. These risks would include an increase in our cost of funds, an increase in the allowance for loan losses and the provision for possible credit losses as more loans would remain on our consolidated balance sheet, and lower loan growth.

In addition, the occurrence of certain events may cause the securitization transactions to amortize earlier than scheduled, which would accelerate the need for an alternate source of funding.

For a further discussion of our liquidity and funding needs, see "Financial Review – Funding Strategy" on pages 35-40 in the Annual Report to Shareholders.

If we are not able to invest successfully in, and compete at the leading edge of, technological developments across all our businesses, our revenue and profitability could be negatively affected.

Our industry is subject to rapid and significant technological changes. In order to compete in our industry, we need to continue to invest in technologies across all areas of our business, *e.g.*, transaction processing, data management, customer interactions and communications, travel reservations systems, prepaid products, multi-application smart cards and risk management and compliance systems. We rely in part on third parties, including some of our competitors and potential competitors, for the development of and access to new technologies. We expect that new services and technologies applicable to the payments industry will continue to emerge, and these new services and technologies may be superior to, or render obsolete, the technologies we currently use in our cards and networks. In addition, our ability to adopt new services and technologies that we develop may be inhibited by a need for industry-wide standards or by resistance from cardmembers or merchants to such changes in addition to patent rights held by competitors or others. Our future success will depend, in part, on our ability to develop or adapt to technological changes and evolving industry standards.

Our operating results may suffer because of substantial and increasingly intense competition worldwide in the payments industry.

The payments industry is highly competitive. Some of our competitors have developed, or may develop, substantially greater financial and other resources than we have, may offer a wider range of programs and services than we offer or may use more effective advertising and marketing strategies to achieve broader brand recognition or merchant acceptance than we have. We may not continue to be able to compete effectively against these threats. In addition, our competitors may be more efficient in introducing innovative products, programs and services than we are. As a result, our revenue or profitability may decline.

Banks, card issuers and card network operators generally are the subject of increasing global regulatory focus, which may impose costly new compliance burdens on our company and lead to decreased transaction volumes through our network.

We are subject to regulations that affect banks and the payments industry in the many countries in which our charge and credit cards are used and where we conduct banking activities. In particular, we are subject to numerous regulations applicable to financial institutions in the United States and abroad. Regulation of the payments industry has increased significantly in recent years. For example, we are subject to the regulatory requirements of the Patriot Act, which substantially broadened existing anti-money laundering legislation and the extraterritorial jurisdiction of the United States. The Patriot Act required us to create and implement comprehensive anti-money laundering programs that meet certain standards, including expanded reporting and enhanced information gathering and record-keeping requirements. Increased regulatory focus in this area could result in additional obligations or restrictions with respect to the types of products and services that we may offer to consumers, the countries in which our charge and credit cards may be used and where we provide private and correspondent banking services, and the types of cardholders and merchants who can obtain or accept our charge and credit cards.

The U.S. Congress is also presently considering regulatory initiatives in the areas of Internet gambling, Internet prescription drug purchases and copyright and trademark infringement, among others, that could impose additional compliance burdens on our company. Many U.S. states are also considering a variety of similar legislation. If implemented, these initiatives may require us to monitor, filter, restrict, or otherwise oversee various categories of charge and credit card transactions, thereby increasing our costs or decreasing our transaction volumes. Various regulatory agencies are also considering regulations covering identity theft, account management guidelines, disclosure rules, security, and marketing that would impact us directly, in part due to increased scrutiny of our underwriting standards. These new requirements may restrict our ability to issue charge and credit cards or partner with other financial institutions, which could decrease our transaction volumes. In some circumstances, new regulations could have the effect of limiting our ability to offer new types of charge or credit cards or restricting our ability to offer existing cards, such as stored value cards, which could materially and adversely reduce our revenues and revenue growth.

In addition, in 2004, a number of regulations were issued implementing the Fair and Accurate Credit Transactions Act that, among other things, makes permanent the preemptive effect of several key provisions of the Fair Credit Reporting Act that could have a material impact on our business.

Regulators and Congress have also increased their scrutiny of our pricing of credit. Any legislative or regulatory restrictions on our ability to price credit freely could result in reduced amounts of credit available to our cardmembers, which could materially and adversely affect our transaction volume and revenues.

Increased regulatory focus on our Company, such as in connection with the matters discussed above, may increase our compliance costs or result in a reduction of transactions processed on our networks, which could materially and adversely impact our financial performance.

Existing and proposed regulation in the areas of consumer privacy and data use and security could decrease the number of charge and credit cards issued and could increase our costs.

We are also subject to regulations related to privacy and data use and security in the jurisdictions in which we do business, and we could be negatively impacted by these regulations. For example, in the United States, we are subject to the Federal Trade Commission' s information safeguards rule under the Gramm-Leach-Bliley Act. The rule requires that each financial institution develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution' s size and complexity, the nature and scope of the financial institution' s activities, and the sensitivity of any customer information at issue. In 2005, there was a heightened legislative and regulatory focus on data security, including requiring consumer notification in the event of a data breach. In the United States, there are a number of bills pending in Congress and there have been several congressional hearings to address these issues. Congress will likely consider data security/data breach legislation in 2006 that, if implemented, could affect our Company.

In addition, a number of states have enacted security breach legislation, requiring varying levels of consumer notification in the event of a security breach, and several other states are considering similar legislation. In Europe, the European Parliament and Council have passed European Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data (commonly referred to as the Data Protection Directive), which obligates the controller of an individual' s personal data to take the necessary technical and organizational measures to protect personal data. The Data Protection Directive has been implemented through local laws regulating data protection in European Union member states. Regulation of privacy and data use and security in these and other jurisdictions may increase our costs for issuing charge and credit cards, which may decrease the number of cards we issue. Any additional regulations in these areas may also increase our costs to comply with such regulations, which could materially and adversely affect our profitability. Finally, failure to comply with the privacy and data use and security laws and regulations to which we are subject could result in fines, sanctions or other penalties, which could materially and adversely affect our results of operations and overall business.

Global economic, political and other conditions may adversely affect trends in consumer spending and in travel.

Our business depends heavily upon the overall level of spending using our credit and charge cards, and we are not insulated from the effects of economic cycles. A sustained deterioration in general economic conditions, particularly in the United States or Europe, or increases in interest rates in key countries in which we operate, may adversely affect our financial performance by reducing the number or average purchase amount of transactions involving our charge and credit cards and result in increasing delinquencies and credit losses. Political or economic instability in certain regions or countries could also affect our commercial or other lending activities, among other businesses, or result in restrictions on convertibility of certain currencies. In addition, our travel network may be adversely affected by world geopolitical and other conditions. Travel expenditures are sensitive to business and personal discretionary spending levels and tend to decline during general economic downturns.

Terrorist attacks, disasters or other catastrophic events may have a negative effect on our business. Because of our proximity to the World Trade Center, our headquarters were damaged as a result of the terrorist attacks of September 11, 2001. Similar events or other disasters or catastrophic events in the future could have a negative effect on our businesses and infrastructure, including our information technology systems. Because we derive a portion of our revenues from travel related spending, our business will be sensitive to safety concerns, and thus may decline during periods in which travelers become concerned about safety issues or when travel might involve health-related risks.

If our global network systems are disrupted or we are unable to process transactions efficiently or at all, our revenue or profitability would be materially reduced.

Our transaction authorization, clearing and settlement systems may experience service interruptions as a result of fire, natural disasters, power loss, disruptions in long distance or local telecommunications access, fraud, terrorism or accident. A natural disaster or other problem at our facilities could interrupt our services. Additionally, we rely on third-party service providers for the timely transmission of information across our global network. If a service provider fails to provide the communications capacity or services we require, as a result of natural disaster, operational disruption, terrorism or any other reason, the failure could interrupt our services, adversely affect the perception of our brands' reliability and materially reduce our revenue or profitability.

We rely on third-party providers of various computer systems and other services integral to the operations of our businesses. These third parties may act in ways that could harm our business.

We outsource to third-party providers many of our computer systems and other services that are integral to the operations of our businesses. We are subject to the risk that certain decisions are subject to the control of our third-party service providers and that these decisions may adversely affect our activities. We cannot be certain that our third-party vendors will perform their obligations as expected.

Special Note About Forward-Looking Statements

We have made various statements in this report that may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be made in our other reports filed with the SEC, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements. Forward-looking statements are subject to risks and uncertainties, including those identified above, which could cause actual results to differ materially from such statements. 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. We caution you that the risk factors described above are not exclusive. There may also be other risks that we are unable to predict at this time that may cause actual results to differ materially from those in 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. We undertake no obligation to update publicly or revise any forward-looking statements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are in a 51-story, 2.2 million square foot building located in lower Manhattan. This building, which is on land leased from the Battery Park City Authority for a term expiring in 2069, is one of four office buildings in a complex known as the World Financial Center. We have a 49% ownership interest in the building. In 2002, an affiliate of Brookfield Financial Properties acquired the 51% interest in the building that had previously been owned by Lehman Brothers Holdings Inc. We also lease space in the building from Brookfield.

Other owned or leased principal locations include: the American Express Service Centers in Fort Lauderdale, Florida; Phoenix, Arizona; Greensboro, North Carolina; Salt Lake City, Utah; and the Amex Canada Inc. headquarters in Markham, Ontario, Canada; and service centers located in Mexico City, Mexico; Sydney, Australia; Gurgaon, India and Brighton, United Kingdom.

In December 2004, several of our subsidiaries entered into an agreement to sell and lease back a total of six real properties located in the United States to designated affiliates of The Inland Real Estate Group, Inc. ("Inland") and closed on the sale of five of those properties. The five properties sold in December 2004 were the American Express Service Centers in Fort Lauderdale, Florida; Greensboro, North Carolina; and Phoenix, Arizona; the American Express Data Center in Minneapolis; and the American Express Finance Center in Phoenix. The remaining property subject to this sale agreement was the American Express Service Center in Salt Lake City and the sale of that facility closed in March 2005. In January 2005, one of our Canadian subsidiaries closed on the sale and leaseback of the Amex Canada headquarters property referred to above in Markham, Ontario, Canada. These sale and leaseback transactions have enabled us to monetize the value of these properties and use the proceeds for re-investment in our businesses. Additionally, in July 2005, we completed a sale and leaseback, with affiliates of Wachovia Corporation, of two additional properties located in Phoenix, Arizona.

At each closing of a property that has been sold and leased back, the purchaser of the property leased the relevant property back to one of our subsidiaries for a ten-year term, with an option given to us to renew the lease for up to six renewal terms of five years each. The leases are net leases whereby each American Express entity that leases back the property is responsible for all costs and expenses relating to the property (including maintenance, repair, utilities, operating expenses and insurance costs) in addition to annual rent. The sale leaseback transactions will not materially impact our financial results in any year. Gains resulting from completed sale and leaseback transactions will be amortized over the initial ten-year lease periods. We continue to consider whether sale-leaseback transactions are appropriate for other properties that we currently own.

In February 2000, we entered into a ten-year agreement with Trammell Crow Corporate Services, Inc. for facilities, project and transaction management and other related services. The agreement covers North and South America and parts of Europe and Asia.

Generally, we and our subsidiaries lease the premises we occupy in other locations. We believe that the facilities we own or occupy suit our needs and are well maintained.

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are involved in a number of legal and arbitration proceedings, including class actions, concerning matters arising in connection with the conduct of their respective business activities. The Company believes it has meritorious defenses to each of these actions and intends to defend them vigorously. The Company believes that it is not a party to, nor are any of its properties the subject of, any pending legal or arbitration proceedings that would have a material adverse effect on the Company' s consolidated financial condition, results of operation or liquidity. However, it is possible that the outcome of any such proceedings could have a material impact on results of operations in any particular reporting period as the proceedings are resolved. Certain legal proceedings involving the Company are described below.

Corporate Matters

Beginning in mid-July 2002, 12 putative class action lawsuits were filed in the United States District Court for the Southern District of New York. In October 2002, these cases were consolidated under the caption In re American Express Company Securities Litigation. These lawsuits allege violations of the federal securities laws and the common law in connection with alleged misstatements regarding certain investments in high-yield bonds and write-downs in the 2000-2001 timeframe. The purported class covers the period from July 18, 1999 to July 17, 2001. The actions seek unspecified compensatory damages as well as disgorgement, punitive damages, attorneys' fees and costs, and interest. On March 31, 2004, the Court granted the Company' s motion to dismiss the lawsuit. Plaintiffs have appealed the dismissal to the United States Court of Appeals for the Second Circuit.

In January 2006, a purported class action captioned Paula Kritzman, individually and on behalf of all others similarly situated v. American Express Retirement Plan et al. was filed in the U.S. District Court for the Southern District of New York. The plaintiff alleges that when the American Express Retirement Plan (the "AXP Plan") was amended effective July 1, 1995, to convert from a final average pay formula to a "cash balance" formula for the calculation of benefits, the terms of the amended AXP Plan violated the Employee Retirement Income Security Act, as amended ("ERISA"), in at least the following ways: (i) the AXP Plan violated ERISA' s prohibition on reducing rates of benefit accrual due to the increasing age of a plan participant; (ii) the AXP Plan violated ERISA' s prohibition on forfeiture of accrued benefits; and (iii) the AXP Plan violated ERISA' s present value calculation rules. The plaintiff seeks, among other remedies, injunctive relief entitling the plaintiff and the purported class to benefits that are the greater of (x) the benefits to which the members of the class would have been entitled without regard to the conversion of the benefit payout formula of the AXP Plan to a cash balance formula and (y) the benefits under the AXP Plan with regard to the cash balance formula. The plaintiff also seeks pre- and post-judgment interest and attorneys fees and expenses.

In November 2004, the Company filed a lawsuit captioned American Express Travel Related Services Company, Inc. v. VISA USA Inc., MasterCard International, Inc. et al. in the U.S. District Court for the Southern District of New York. The lawsuit seeks unspecified monetary damages against VISA, MasterCard and eight major banks that are members of the two card associations for the business lost as a result of the illegal, anticompetitive practices of the card associations that effectively locked the Company out of the bank-issued card business in the United States. The lawsuit follows the U.S. Supreme Court' s October 2004 decision not to hear an appeal from VISA and MasterCard that sought to overturn a lower court ruling that found the two card associations in violation of U.S. antitrust laws. Since filing the action, TRS has voluntarily dismissed its claims against the following bank defendants: Bank of America, N.A., Bank of America Corporation (including its subsidiaries Fleet Bank (RI), N.A. and Fleet National Bank), Household Bank, N.A., Household International, Inc. and USAA Federal Savings Bank.

U.S. Card Services and Global Merchant Services Matters

The Company has been named in a number of purported class actions in which the plaintiffs allege an unlawful antitrust tying arrangement between the Company' s charge cards, credit cards and debit cards in violation of various state and federal laws, including the following: (i) Cohen Rese Gallery et al. v. American Express Company et al., U.S. District Court for the Northern District of California (filed July 2003); (ii) Italian Colors Restaurant v. American Express Company et al., U.S. District Court for the Northern District of California (filed August 2003); (iii) DRF Jeweler Corp. v. American Express Company et al., U.S. District Court for the Southern District of New York (filed December 2003); (iv) Hayama Inc. v. American Express Company et al., Superior Court of California, Los Angeles County (filed December 2003); (v) Chez Noelle Restaurant v. American Express Company et al., U.S. District Court for the Southern District of New York (filed January 2004); (vi) Mascari Enterprises d/b/a Sound Stations v. American Express Company et al., U.S. District Court for the Southern District of New York (filed January 2004); (vii) Mims Restaurant v. American Express Company et al., U.S. District Court for the Southern District of New York (filed February 2004); and (viii) The Marcus Corporation v. American Express Company et al., U.S. District Court for the Southern District of New York (filed July 2004). The plaintiffs in these actions seek injunctive relief and an unspecified amount of damages. Upon motion to the Court by the Company, the venue of the Cohen Rese and Italian Colors actions was moved to the U.S. District Court for the Southern District of New York in December 2003. Each of the above-listed actions (except for Hayama) is now pending in the U.S. District Court for the Southern District of New York. On April 30, 2004, the Company filed a motion to dismiss all the actions filed prior to such date that were pending in the U.S. District Court for the Southern District of New York. A decision on that motion is pending. In addition, the Company has asked the Court in the Hayama action to stay that action pending resolution of the motion in the Southern District of New York. The Company filed a motion to dismiss the action filed by The Marcus Corporation, which was denied in July 2005. Nonetheless, the Company continues to believe that it has meritorious defenses and will continue to vigorously defend against this action.

In December 2004, a purported class action captioned National Supermarkets Association, Inc., Mascari Enterprises, Inc. d/b/a Sound Stations, and Bunda Starr Corp. d/b/a Brite Wines and Spirits v. MBNA America Bank, N.A., MBNA Corp., Citibank (South Dakota) N.A. and Citigroup, Incorporated, was filed in the United States District Court for the Southern District of New York. The action is a lawsuit related to the antitrust tying actions described in the preceding paragraph. Although the Company is not named as a defendant, the plaintiffs in this action are also plaintiffs in the direct actions against American Express described in the preceding paragraph. This lawsuit alleges that, by agreeing to issue American Express branded cards, MBNA and Citibank have conspired with the Company in the alleged wrongful tying arrangement described in the preceding paragraph. The Company believes this lawsuit is without merit and is contrary to the Department of Justice' s successful efforts to render unenforceable Visa' s and MasterCard' s rules that prevented banks from issuing American Express branded cards in the United States. The Company also believes that this lawsuit is susceptible to the same defenses available to the Company in the direct actions filed against it, which are described in the preceding paragraph. The Company has intervened in this action and has filed a motion to have the case dismissed.

The Company has been named in several purported class actions in various state courts alleging that the Company violated the respective state' s laws by wrongfully collecting amounts assessed on converting transactions made in foreign currencies to U.S. dollars and/or failing to properly disclose the existence of such amounts in its Cardmember agreements and billing statements. The plaintiffs in the actions seek, among other remedies, injunctive relief, money damages and/or attorneys' fees on their own behalf and on behalf of the putative class of persons similarly situated. In December 2005, the U.S. District Court for the Southern District of Florida granted final approval of a nationwide class action settlement to resolve all lawsuits and allegations with respect to the Company' s collection and disclosure of fees assessed on transactions made in foreign currencies in the case captioned Lipuma v. American Express Bank, American Express Travel Related Services Company, Inc. and American Express Centurion Bank (filed in August 2003). The settlement approved by the Court calls for the Company to (a) deposit $75 million into a fund that will be used to reimburse class members with valid claims, make certain contributions to charitable organizations to be identified later and pay attorneys' fees and (b) make certain changes to the disclosures in its Cardmember agreements and billing statements regarding its foreign currency conversion practices (which it has already done). The Company had previously established reserves to cover the payment that will be made to reimburse class members and pay attorneys' fees. The Court' s approval order enjoins all other proceedings that make related allegations pending a final approval hearing including, but not limited to the following cases: (i) Environmental Law Foundation, et al. v. American Express Company, et al., Superior Court of Alameda County, California (filed March 2003); (ii) Rubin v. American Express Company and American Express Travel Related Services Company, Inc., Circuit Court of Madison County, Illinois (filed April 2003); (iii) Angie Arambula, et al. v. American Express Company, et al., District Court of Cameron County, Texas, 103rd Judicial District (filed May 2003); (iv) Fuentes v. American Express Travel Related Services Company, Inc. and American Express Company, District Court of Hidalgo County, Texas (filed May 2003); (v) Wick v. American Express Company, et al., Circuit Court of Cook County, Illinois (filed May 2003); (vi) Bernd Bildstein v. American Express Company, et al., Supreme Court of Queens County, New York (filed June 2003); (vii) Janowitz v. American Express Company, et al., Circuit Court of Cook County, Illinois (filed September 2003); (viii) Paul v. American Express Company, et al., Superior Court of Orange County, California (filed January 2004); and

(ix) Ball v. American Express, et al., Superior Court of San Joaquin, California (filed August 2004). The Court' s approval of the settlement has been appealed by several attorneys purporting to represent the interests of objectors to the settlement to the U.S. Court of Appeals for the Eleventh Circuit.

In July 2004, a purported class action captioned Ross, et al. v. American Express Company, American Express Travel Related Services and American Express Centurion Bank was filed in the United States District Court for the Southern District of New York. The complaint alleges that the Company conspired with Visa, MasterCard and Diners Club in the setting of foreign conversion rates and in the inclusion of arbitration clauses in certain of their cardmember agreements. The suit seeks injunctive relief and unspecified damages. The class is defined as "all Visa, MasterCard and Diners Club general purpose cardholders who used cards issued by any of the MDL Defendant Banks...." American Express cardholders are not part of the class. In September 2005, the Court denied the Company' s motion to dismiss the action and preliminarily certified an injunction class of Visa and MasterCard cardholders to determine the validity of Visa' s and MasterCard' s cardmember arbitration clauses. American Express has filed a motion for reconsideration with the Court.

In August 2005 a purported class action captioned Performance Labs Inc. v. American Express Travel Related Services Company, Inc. ("TRS"), MasterCard International Incorporated, Visa USA, Inc. et al. was filed in the U. S. District Court for the District of New Jersey. The action has been transferred to the U.S. District Court for the Eastern District of New York. The complaint alleges that the Company' s policy prohibiting merchants from imposing restrictions on the use of American Express cards that are not imposed equally on other forms of payment violates U.S. antitrust laws. The suit seeks injunctive relief. TRS has moved to dismiss the complaint and that motion is pending. In addition, the Company has learned that two additional purported class actions that make allegations similar to those made in the Performance Labs action have also been filed: 518 Restaurant Corp. v. American Express Travel Related Services Company, Inc., MasterCard International Incorporated, Visa USA, Inc. et al. (filed in August 2005 in the United States District Court for the Eastern District of Pennsylvania) and Lepkowski v. American Express Travel Related Services Company, Inc., MasterCard International Incorporated, Visa USA, Inc. et al. (filed in October 2005 in the U.S. District Court for the Eastern District of New York). The plaintiffs in such actions seek injunctive relief. At present, TRS has not been served with the complaints in either of these actions. The 518 Restaurant Corp. action was voluntarily withdrawn without TRS' ever having been served with the complaint in the case. The complaint in the Lepowski action has yet to be served on TRS. Although the Lepowski action remains pending in the U.S. District Court for the Eastern District of New York, both it and the Performance Labs case have been consolidated in the U.S. District Court for the Eastern District of New York for pre-trial purposes in a larger multi-district litigation involving other named defendants not affiliated with TRS; however, the claims asserted against TRS are limited to those described above.

In January 2006, in a matter captioned Hoffman, et al. v. American Express Travel Related Services Company, Inc., No. 2001-02281, Superior Court of the State of California, County of Alameda, the Court certified a class action against TRS. Two classes were certified: (1) all persons who held American Express charge cards with billing addresses in California who purchased American Express' fee-based travel-related insurance plans from September 6, 1995, through a date to be determined; and (2) all persons who held American Express charge cards with billing addresses in states other than California and who purchased American Express fee-based travel-related insurance plans from September 6, 1995, through a date to be determined. Plaintiffs allege that American Express violated California and New York law by allegedly billing customers for flight and baggage insurance that they did not receive. American Express denies the allegations and intends to seek an appeal of the class certification order.

International Matters

In July 2003, a motion to authorize a class action captioned Option Consommateurs and Normand Painchaud v. Amex Bank of Canada et al. was filed in the Superior Court of Quebec, District of Montreal. The motion, which also names as defendants Citibank Canada, MBNA Canada, Diners Club International, Capital One and Royal Bank of Canada, alleges that the defendants have violated the Quebec Consumer Protection Act ("QCPA") by imposing finance charges on credit card transactions prior to 21 days following the receipt of the statement containing the charge. It is alleged that the ("QCPA") provisions which require a 21-day grace period prior to imposing finance charges applies to credit cards issued by Amex Bank of Canada in Quebec and that finance charges imposed prior to this grace period violate the Act. The proposed class seeks reimbursement of all finance charges imposed in violation of the Act, CDN$200 in punitive damages per class member, interest and fees and costs.

In November 2004, a motion to authorize a class action captioned Sylvan Adams v. Amex Bank of Canada was filed in the Superior Court of Quebec, District of Montreal. The motion alleges that prior to December 2003, Amex Bank of Canada charged a foreign currency conversion commission on transactions to purchase goods and services in currencies other than Canadian dollars and failed to disclose the commissions in monthly billing statements or solicitations directed to prospective cardmembers. The proposed class claims reimbursement of all foreign currency conversion commissions, CDN$1,000 in punitive damages per class member, interest and fees and costs. The plaintiff has consented to a stay of this action pending resolution of certain issues in other pending cases.

In May 2005, Amex Bank of Canada was added as a defendant to a motion to authorize a class action captioned Option Consommateurs and Joel-Christian St-Pierre v. Bank of Montreal et al. filed in the Superior Court of Quebec, District of Quebec. The motion, which also names as defendants Royal Bank of Canada, Toronto-Dominion Bank, HSBC Bank of Canada, among others, alleges that the defendants violated the Quebec Consumer Protection Act ("QCPA") by imposing finance charges on credit card transactions prior to 21 days following the receipt of the statement containing the charge. It is alleged that the QCPA provisions, which require a 21-day grace period prior to imposing finance charges, applies to credit cards issued by Amex Bank of Canada in Quebec and that finance charges imposed prior to this grace period violate the QCPA. The proposed class seeks reimbursement of all finance charges imposed in violation of the QCPA, CDN$100 in punitive damages per class member, interest and fees and costs.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matters to a vote of our security holders during the last quarter of our fiscal year ended December 31, 2005.

PART II

ITEM 5. MARKET FOR COMPANY' S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Our common stock trades principally on The New York Stock Exchange under the trading symbol AXP. As of December 31, 2005, we had 55,409 common shareholders of record. You can find price and dividend information concerning our common stock in Note 21 to the Consolidated Financial Statements, which can be found on page 99 of our 2005 Annual Report to Shareholders, which Note is incorporated herein by reference. You can find information on securities authorized for issuance under our equity compensation plans under the captions "Executive Compensation – Share Plans" and "– Equity Compensation Plan Information" to be contained in the Company' s definitive 2006 proxy statement for our Annual Meeting of Shareholders that is scheduled to be held on April 24, 2006. The information to be found under such captions is incorporated herein by reference. Our proxy statement for the Annual Meeting is expected to be filed with the SEC in March 2006 (and, in any event, not later than 120 days of the close of our most recently completed fiscal year).

(b) Not applicable.

(c) The table below sets forth the information with respect to purchases of our common stock made by or on behalf of the Company during the quarter ended December 31, 2005.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1-31, 2005				
Repurchase program (1)	–	–	–	43,798,723
Employee transactions (2)	6,381	47.88	N/A	N/A
November 1-30, 2005				
Repurchase program (1)	2,539,100	51.20	2,539,100	41,259,623
Employee transactions (2)	924,352	52.61	N/A	N/A
December 1-31, 2005				

Repurchase program (1)	1,356,400	51.59	1,356,400	39,903,223
Employee transactions (2)	162,455	52.50	N/A	N/A
Total				
Repurchase program (1)	3,895,500	51.33	3,895,500	
Employee transactions (2)	1,093,188	52.57	N/A	

(1) Our Board of Directors authorized the repurchase of 120 million shares of common stock in November 2002. At present, there are approximately 39.9 million shares remaining under such authorization. Such authorization does not have an expiration date, and at present, there is no intention to modify or otherwise rescind such authorization. Since September 1994, we have acquired 530.1 million shares of our common stock under various Board authorizations to repurchase up to an aggregate of 570 million shares, including purchases made under agreements with third parties.

(2) Includes: (a) shares delivered by or deducted from holders of employee stock options who exercised options (granted under our incentive compensation plans) in satisfaction of the exercise price and/or tax withholding obligation of such holders and (b) restricted shares withheld (under the terms of grants under our incentive compensation plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares. Our incentive compensation plans provide that the value of the shares delivered or attested to, or withheld, shall be the average of the high and low price of the Company' s common stock on the date the relevant transaction occurs.

(3) Share purchases under publicly announced programs are made pursuant to open market purchases or privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices we deem appropriate.

ITEM 6. SELECTED FINANCIAL DATA

The "Consolidated Five-Year Summary of Selected Financial Data" appearing on page 101 of the Company' s 2005 Annual Report to Shareholders is incorporated herein by reference.

ITEM 7. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The information set forth under the heading "Financial Review" appearing on pages 24-56 of the Company' s 2005 Annual Report to Shareholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the headings "Risk Management" appearing on pages 42-45 and Note 10 to the Consolidated Financial Statements on pages 83-84 of the Company' s 2005 Annual Report to Shareholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The "Report of Independent Registered Public Accounting Firm" (PricewaterhouseCoopers LLP), the "Report of Independent Registered Public Accounting Firm" (Ernst & Young LLP), the "Consolidated Financial Statements" and the "Notes to Consolidated Financial Statements" appearing on pages 58-100 of the Company' s 2005 Annual Report to Shareholders are incorporated herein by reference.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

The Company' s management, with the participation of the Company' s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company' s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company' s disclosure controls and procedures are effective.

There have not been any changes in the Company' s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company' s fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company' s internal control over financial reporting.

"Management' s Report on Internal Control over Financial Reporting," which sets forth management' s evaluation of internal control over financial reporting, and the "Reports of Independent Registered Public Accounting Firms," appearing on pages 57-60 of the Company' s 2005 Annual Report to Shareholders, are incorporated herein by reference.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEMS 10, 11, 12 and 13. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY; EXECUTIVE COMPENSATION; SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS; CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We expect to file with the SEC, in March 2006 (and, in any event, not later than 120 days after the close of our last fiscal year), a definitive proxy statement, pursuant to Regulation 14A of the SEC in connection with our Annual Meeting of Shareholders to be held April 24, 2006, which involves the election of directors. The following information to be included in such proxy statement is incorporated herein by reference:

paragraph 10, sentence 1 included under the caption "Corporate Governance – Summary of the Corporate Governance Principles;"

information under the caption “Corporate Governance – Board Meetings;”

information included in the table under the caption “Corporate Governance – Membership on Board Committees;”

information under the caption “Corporate Governance – Compensation and Benefits Committee;”

information under the caption “Corporate Governance – Nominating and Governance Committee;”

information included under the caption “Corporate Governance – Audit Committee;”

information included under the caption “Compensation of Directors;”

information included under the caption “Ownership of Our Common Shares;”

information included under the caption “Items to be Voted on by Shareholders – Item 1 – Election of Directors;”

information included under the caption “Executive Compensation” (excluding the Report of the Compensation and Benefits Committee, which precedes the Summary Compensation Table, and excluding the information under the caption “Performance Graph”);

information under the caption “Certain Transactions;” and

information under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” (to the extent such disclosure would be required).

In addition, the information regarding executive officers called for by Item 401(b) of Regulation S-K may be found under the caption “Executive Officers of the Company” in this report.

We have adopted a set of Corporate Governance Principles, which together with the charters of the five standing committees of the Board of Directors (Audit; Compensation and Benefits; Executive; Nominating and Governance; and Public Responsibility) and our Code of Conduct (which constitutes the Company’s code of ethics), provide the framework for the governance of the Company. A complete copy of our Corporate Governance Principles, the charters of each of the Board committees, the Code of Conduct (which applies not only to our Chief Executive Officer, Chief Financial Officer and Comptroller, but also to all other employees of the Company) and the Code of Business Conduct for the Members of the Board of Directors may be found by clicking on the “Corporate Governance” link found on our Investor Relations Web site at http://ir.americanexpress.com. You may also access our Investor Relations Web site through the Company’s main Web site at www.americanexpress.com by clicking on the “About American Express” link, which is located at the bottom of the Company’s homepage. (Information from such sites is not incorporated by reference into this report.) You may also obtain free copies of these materials by writing to our Secretary at the Company’s headquarters.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information set forth under the heading “Item 2 – Selection of Independent Registered Public Accountants – Audit Fees;” “– Audit-Related Fees;” “– Tax Fees;” “– All Other Fees;” “– Services to Associated Organizations;” and “– Policy on Pre-

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Approval of Services Provided by Independent Registered Public Accountants," which will appear in the Company' s definitive proxy statement in connection with our Annual Meeting of Shareholders to be held April 24, 2006, is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements:

The financial statements filed as a part of this report are listed on page F-1 hereof under "Index to Financial Statements Covered by Reports of Independent Registered Public Accounting Firms," which is incorporated herein by reference.

2. Financial Statement Schedules:

The financial statement schedules required to be filed in this report are listed on page F-1 hereof under "Index to Financial Statements Covered by Reports of Independent Registered Public Accounting Firms," which is incorporated herein by reference.

3. Exhibits:

The list of exhibits required to be filed as exhibits to this report are listed on pages E-1 through E-6 hereof under "Exhibit Index," which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN EXPRESS COMPANY

March 6, 2006

/s/ Gary L. Crittenden
Gary L. Crittenden
Executive Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the date indicated.

/s/ Kenneth I. Chenault Kenneth I. Chenault Chairman, Chief Executive Officer and Director	/s/ Peter Chernin Peter Chernin Director
/s/ Gary L. Crittenden Gary L. Crittenden Executive Vice President and Chief Financial Officer	/s/ Peter R. Dolan Peter R. Dolan Director
/s/ Joan C. Amble Joan C. Amble Executive Vice President and Comptroller	/s/ Vernon E. Jordan, Jr. Vernon E. Jordan, Jr. Director
/s/ Daniel F. Akerson Daniel F. Akerson Director	/s/ Jan Leschly Jan Leschly Director
/s/ Charlene Barshefsky Charlene Barshefsky Director	/s/ Richard A. McGinn Richard A. McGinn Director
/s/ William G. Bowen William G. Bowen Director	/s/ Edward D. Miller Edward D. Miller Director

/s/ Ursula M. Burns	/s/ Frank P. Popoff
Ursula M. Burns Director	Frank P. Popoff Director
	/s/ Robert D. Walter
	Robert D. Walter Director

March 6, 2006

AMERICAN EXPRESS COMPANY

I NDEX TO FINANCIAL STATEMENTS
COVERED BY REPORTS OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRMS

(Items 15(a)(1) and 15(a)(2) of Form 10-K)

Schedules:

All other schedules for American Express Company and subsidiaries have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the respective financial statements or notes thereto.

*   *   *

The Consolidated Financial Statements of American Express Company (including the reports of independent registered public accounting firms) listed in the above index, which are included in the Annual Report to Shareholders for the year ended December 31, 2005, are hereby incorporated by reference. With the exception of the pages listed in the above index, unless otherwise incorporated by reference elsewhere in this Annual Report on Form 10-K, the 2005 Annual Report to Shareholders is not to be deemed filed as part of this report.

C ONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements (Form S-8 No. 2-46918, No. 2-59230, No. 2-64285, No. 2-73954, No. 2-89680, No. 33-01771, No. 33-02980, No. 33-28721, No. 33-33552, No. 33-36442, No. 33-48629, No. 33-62124, No. 33-65008, No. 33-53801, No. 333-12683, No. 333-41779, No. 333-52699, No. 333-73111, No. 333-38238, and No. 333-98479; Form S-3 No. 2-89469, No. 33-43268, No. 33-50997, No. 333-32525, No. 333-45445, No. 333-47085, No. 333-55761, No. 333-51828, No. 333-113768, and No. 333-117835) of American Express Company of our report dated February 27, 2006, relating to the consolidated financial statements, management' s assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 27, 2006, relating to the financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

New York, New York
February 27, 2006

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C ONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report on Form 10-K of American Express Company of our reports dated February 18, 2005, except for notes 2 and 19, as to which the date is February 27, 2006, with respect to the consolidated financial statements of American Express Company, included in the 2005 Annual Report to Shareholders of American Express Company (the "Company").

Our audits also included the financial statement schedules of American Express Company listed in Item 15(a). These schedules are the responsibility of the Company' s management. Our responsibility is to express an opinion based on our audits. In our opinion the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 No. 2-46918, No. 2-59230, No. 2-64285, No. 2-73954, No. 2-89680, No. 33-01771, No. 33-02980, No. 33-28721, No. 33-33552, No. 33-36442, No. 33-48629, No. 33-62124, No. 33-65008, No. 33-53801, No. 333-12683, No. 333-41779, No. 333-52699, No. 333-73111, No. 333-38238, and No. 333-98479; Form S-3 No. 2-89469, No. 33-43268, No. 33-50997, No. 333-32525, No. 333-45445, No. 333-47085, No. 333-55761, No. 333-51828, No. 333-113768, and No. 333-117835) and in the related Prospectuses of our report dated February 18, 2005, except for notes 2 and 19, as to which the date is February 27, 2006, with respect to the consolidated financial statements of American Express Company incorporated herein by reference, and our report in the preceding paragraph with respect to the financial statement schedules of American Express Company included in this Annual Report on Form 10-K of American Express Company.

/s/ Ernst & Young LLP

New York, New York
February 27, 2006

Report of Independent Registered Public Accounting Firm
on
Financial Statement Schedules

To the Board of Directors
of American Express Company:

Our audit of the consolidated financial statements, of management' s assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated February 27, 2006 appearing in the 2005 Annual Report to Shareholders of American Express Company (which report, consolidated financial statements and assessment are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules as of and for the year ended December 31, 2005, listed in Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
New York, New York
February 27, 2006

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AMERICAN EXPRESS COMPANY AND CONSOLIDATED SUBSIDIARIES

SCHEDULE I–CONDENSED FINANCIAL INFORMATION OF THE COMPANY

CONDENSED STATEMENTS OF INCOME

(Parent Company Only)
(millions)

	Years Ended December 31,		
	2005	**2004**	**2003**
Revenues	$183	$220	$185
Expenses:			
Interest	336	427	383
Human resources	145	105	99
Other	198	186	121
Total	679	718	603
Pretax loss	(496)	(498)	(418)
Income tax benefit	(195)	(205)	(159)
Net loss before equity in net income of subsidiaries and affiliates	(301)	(293)	(259)
Equity in net income of subsidiaries and affiliates	3,522	2,979	2,594
Income from continuing operations	3,221	2,686	2,335
Income from discontinued operations, net of tax	513	830	665
Cumulative effect of accounting change related to discontinued operations, net of tax	–	(71)	(13)

Net income	$3,734	$3,445	$2,987

See Notes to Condensed Financial Information of the Parent Company on page F-9.

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AMERICAN EXPRESS COMPANY AND CONSOLIDATED SUBSIDIARIES

SCHEDULE I–CONDENSED FINANCIAL INFORMATION OF THE COMPANY

CONDENSED BALANCE SHEETS

(Parent Company Only)
(millions, except share amounts)

	December 31,	
	2005	2004
ASSETS		
Cash and cash equivalents	$3	$3
Investment	30	–
Equity in net assets of subsidiaries and affiliates of continuing operations	10,955	9,765
Accounts receivable and accrued interest, less reserves	45	6
Land, buildings and equipment - at cost, less accumulated depreciation: 2005, $32; 2004, $82	29	47
Due from subsidiaries	4,853	6,033
Other assets	204	261
Equity in net assets of subsidiaries and affiliates of discontinued operations	–	6,466
Total assets	$16,119	$22,581
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and other liabilities	$309	$424
Long-term debt	5,242	5,740
Due to subsidiaries	19	397

Total liabilities	5,570	6,561
Shareholders' equity:		
Common shares, $.20 par value, authorized 3.6 billion shares; issued and outstanding 1,241 million shares in 2005 and 1,249 million shares in 2004	248	250
Additional paid-in capital	8,652	7,316
Retained earnings	1,788	8,196
Accumulated other comprehensive (loss) income, net of tax:		
Net unrealized securities gains	137	760
Net unrealized derivatives gains (losses)	143	(142)
Foreign currency translation adjustments	(400)	(344)
Minimum pension liability	(19)	(16)
Total accumulated other comprehensive (loss) income	(139)	258
Total shareholders' equity	10,549	16,020
Total liabilities and shareholders' equity	$16,119	$22,581

See Notes to Condensed Financial Information of the Parent Company on page F-9.

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AMERICAN EXPRESS COMPANY AND CONSOLIDATED SUBSIDIARIES

SCHEDULE I–CONDENSED FINANCIAL INFORMATION OF THE COMPANY

CONDENSED STATEMENTS OF CASH FLOWS

(Parent Company Only)
(millions)

	Years Ended December 31,		
	2005	**2004**	**2003**
Cash Flows from Operating Activities:			
Net income	$3,734	$3,445	$2,987
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Equity in net income of subsidiaries and affiliates – continuing operations	(3,522)	(2,979)	(2,594)
– discontinued operations	(513)	(830)	(665)
Cumulative effect of accounting change related to discontinued operations, net of tax	–	71	13
Dividends received from subsidiaries and affiliates	3,224	2,110	1,354
Dividends received from discontinued operations	–	1,325	334
Other operating activities, primarily with subsidiaries	(1,066)	(76)	(2,380)
Net cash provided by (used in) operating activities	1,857	3,066	(951)
Cash Flows from Investing Activities:			
Purchase of investments	(30)	–	–
Purchase of land, buildings and equipment	(8)	(10)	(19)

Net cash used in investing activities	(38)	(10)	(19)
Cash Flows from Financing Activities:			
Issuance of American Express common shares	1,129	1,055	348
Repurchase of American Express common shares	(1,853)	(3,578)	(1,391)
Dividends paid	(597)	(535)	(471)
Net (decrease) increase in debt	(498)	1	2,994
Redemption of intercompany debentures	–	–	(515)
Net cash (used in) provided by financing activities	(1,819)	(3,057)	965
Net decrease in cash and cash equivalents	–	(1)	(5)
Cash and cash equivalents at beginning of year	3	4	9
Cash and cash equivalents at end of year	$3	$3	$4

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest (net of amounts capitalized) in 2005, 2004 and 2003 was $246 million, $174 million and $182 million, respectively. Net cash received for income taxes in 2005, 2004 and 2003 was $160 million, $384 million and $152 million, respectively.

See Notes to Condensed Financial Information of the Parent Company on page F-9.

AMERICAN EXPRESS COMPANY AND CONSOLIDATED SUBSIDIARIES

SCHEDULE I–CONDENSED FINANCIAL INFORMATION OF THE COMPANY

NOTES TO CONDENSED FINANCIAL INFORMATION OF THE COMPANY

(Parent Company Only)

1. Principles of Consolidation

The accompanying condensed financial statements include the accounts of American Express Company (the “Parent Company”) and, on an equity basis, its subsidiaries and affiliates. Parent Company revenues and expenses, other than human resources expenses and interest expense on long-term debt, are primarily related to intercompany transactions with subsidiaries and affiliates. These financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes thereto of American Express Company and its subsidiaries (the “Company”).

On September 30, 2005, the Company completed the spin-off of Ameriprise Financial, Inc. (Ameriprise), formerly known as American Express Financial Corporation, the Company’ s financial planning and financial services business, with the distribution of Ameriprise common stock to the Company’ s shareholders in a tax-free transaction for U.S. federal income tax purposes. The net assets distributed to shareholders have been treated as a dividend and charged to retained earnings. In addition, during the third quarter of 2005, the Company completed certain dispositions including the sale of American Express Tax and Business Services, Inc. (TBS), its tax, accounting and consulting business. The operating results and assets and liabilities related to Ameriprise and certain dispositions (including TBS) prior to disposal have been reflected as discontinued operations in the condensed financial information.

Effective January 1, 2004, the Company adopted the American Institute of Certified Public Accountants Statement of Position 03-1, “Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts” (SOP 03-1). The adoption of SOP 03-1 as of January 1, 2004 resulted in a cumulative effect of accounting change which related to discontinued operations, and reduced first quarter 2004 results by $71 million ($109 million pretax).

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, “Consolidation of Variable Interest Entities,” as revised (“FIN 46”) which addresses consolidation by business enterprises of variable interest entities. The consolidation of FIN 46-related entities resulted in a cumulative effect of accounting change, related to discontinued operations, that reduced 2003 net income through a non-cash charge of $13 million ($20 million pretax).

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2. Long-term debt consists of (millions):

	December 31,	
	2005	2004
1.85% Convertible Debentures due December 1, 2033	$2,000	$2,000
3 3/4% Notes due November 20, 2007	748	747
4 3/4% Notes due June 17, 2009	499	499
4 7/8% Notes due July 15, 2013	995	994
5 1/2% Notes due September 12, 2006	1,000	1,001
6 7/8% Notes due November 1, 2005	–	499
	$5,242	$5,740

Aggregate annual maturities of long-term debt for the five years ending December 31, 2010 are as follows (millions): 2006, $1,000; 2007,$748; 2008, $0; 2009, $499; 2010, $0; and thereafter, $2,995.

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AMERICAN EXPRESS COMPANY AND CONSOLIDATED SUBSIDIARIES

SCHEDULE II −VALUATION AND QUALIFYING ACCOUNTS

THREE YEARS ENDED DECEMBER 31, 2005
(millions)

	Reserve for credit losses, loans and discounts			Reserve for doubtful accounts receivable		
	2005	2004	2003	2005	2004	2003
Balance at beginning of period	$1,084	$1,121	$1,226	$863	$918	$923
Additions:						
Charges to income	1,381	1,188	1,336	1,563 (a)	1,213 (a)	1,307 (a)
Recoveries of amounts previously written-off	148	94	61	−	−	−
Deductions:						
Charges for which reserves were provided	(1,516)	(1,319)	(1,502)	(1,418)	(1,268)	(1,312)
Balance at end of period	$1,097	$1,084	$1,121	$1,008	$863	$918

(a) Before recoveries on accounts previously written-off, which are credited to income (millions): 2005 - $202, 2004 - $196 and 2003 - $223.

EXHIBIT INDEX

The following exhibits are filed as part of this Annual Report. The exhibit numbers preceded by an asterisk (*) indicate exhibits electronically filed herewith. All other exhibit numbers indicate exhibits previously filed and are hereby incorporated herein by reference. Exhibits numbered 10.1 through 10.24, 10.27 through 10.34 and 10.38 through 10.42 are management contracts or compensatory plans or arrangements.

3.1 Company' s Restated Certificate of Incorporation (incorporated by reference to Exhibit 4.1 of the Company' s Registration Statement on Form S-3, dated July 31, 1997 (Commission File No. 333-32525)).

3.2 Company' s Certificate of Amendment of the Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

3.3 Company' s By-Laws, as amended through January 24, 2005 (incorporated by reference to Exhibit 3.1 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657) dated November 22, 2004 (filed January 28, 2005)).

4. The instruments defining the rights of holders of long-term debt securities of the Company and its subsidiaries are omitted pursuant to Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Company hereby agrees to furnish copies of these instruments to the SEC upon request.

10.1 American Express Company 1989 Long-Term Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 1996).

10.2 American Express Company 1989 Long-Term Incentive Compensation Plan Master Agreement, dated February 27, 1995 (incorporated by reference to Exhibit 10.4 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated November 22, 2004 (filed January 28, 2005)).

10.3 Amendment dated February 28, 2000 of American Express Company 1989 Long-Term Incentive Compensation Plan Master Agreement dated February 27, 1995 (incorporated by reference to Exhibit 10.2 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.4* American Express Company 1998 Incentive Compensation Plan, as amended through July 25, 2005.

10.5 American Express Company 1998 Incentive Compensation Plan Master Agreement, dated April 27, 1998 (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 2004).

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10.6 Amendment of American Express Company 1998 Incentive Compensation Plan Master Agreement, dated April 27, 1998 (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

*10.7 Form of award agreement for executive officers in connection with Performance Grant awards (a/k/a Incentive Award) under the American Express Company 1998 Incentive Compensation Plan, as amended.

*10.8 Form of award agreement for executive officers in connection with Portfolio Grants under the American Express Company 1998 Incentive Compensation Plan, as amended.

10.9 Description of Compensation Payable to Non-Management Directors (incorporated by reference to Exhibit 10.1 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated November 21, 2005 (filed January 13, 2006)).

10.10 American Express Company Deferred Compensation Plan for Directors, as amended through July 28, 2003 (incorporated by reference to Exhibit 10.3 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated November 22, 2004 (filed January 28, 2005)).

10.11 Description of American Express Company Pay-for-Performance Deferral Program (incorporated by reference to Exhibit 10.2 of the Company' s Current Report on Form 8-K (Commission File No. l-7657), dated November 22, 2004 (filed January 28, 2005)).

10.12 American Express Company 2006 Pay-for-Performance Deferral Program Guide (incorporated by reference to Exhibit 10.1 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated November 21, 2005 (filed November 23, 2005)).

10.13 American Express Company 2005 Pay-for-Performance Deferral Program Guide (incorporated by reference to Exhibit 10.10 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 2004).

10.14 American Express Company 1983 Stock Purchase Assistance Plan, as amended (incorporated by reference to Exhibit 10.6 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1988).

10.15 American Express Company Retirement Plan for Non-Employee Directors, as amended (incorporated by reference to Exhibit 10.12 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1988).

10.16 Certificate of Amendment of the American Express Company Retirement Plan for Non-Employee Directors dated March 21, 1996 (incorporated by reference to Exhibit 10.11 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1995).

10.17 American Express Key Executive Life Insurance Plan, as amended (incorporated by reference to Exhibit 10.12 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1991).

10.18 Amendment of American Express Company Key Executive Life Insurance Plan (incorporated by reference to Exhibit 10.3 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 1994).

10.19 Amendment of American Express Company Key Executive Life Insurance Plan (incorporated by reference to Exhibit 10.4 of the Company' s Quarterly report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.20 American Express Key Employee Charitable Award Program for Education (incorporated by reference to Exhibit 10.13 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1990).

10.21 American Express Directors' Charitable Award Program (incorporated by reference to Exhibit 10.14 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1990).

10.22 American Express Company Salary/Bonus Deferral Plan (incorporated by reference to Exhibit 10.20 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1988).

10.23 Amendment of American Express Company Salary/Bonus Deferral Plan (incorporated by reference to Exhibit 10.4 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 1994).

10.24 Amendment of American Express Salary/Bonus Deferral Plan (incorporated by reference to Exhibit 10.5 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.25 Tax Allocation Agreement, dated May 27, 1994, between Lehman Brothers Holdings Inc. and the Company (incorporated by reference to Exhibit 10.2 of Lehman Brothers Holdings Inc.' s Transition Report on Form 10-K (Commission File No. 1-9466) for the transition period from January 1, 1994 to November 30, 1994).

10.26 American Express Company 1993 Directors' Stock Option Plan, as amended (incorporated by reference to Exhibit 10.11 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.27 American Express Senior Executive Severance Plan Effective January 1, 1994 (as amended and restated through May 1, 2000) (incorporated by reference to Exhibit 10.10 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.28 Amendments to the American Express Senior Executive Severance Plan, effective November 26, 2001 (incorporated by reference to Exhibit 10.30 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the year ended December 31, 2001).

10.29 Amendment of Long-Term Incentive Awards under the American Express Company 1979 and 1989 Long-Term Incentive Plans (incorporated by reference to Exhibit 10.6 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 1994).

10.30 Amendments of (i) Long-Term Incentive Awards under the American Express Company 1979 and 1989 Long-Term Incentive Plans, (ii) the American Express Senior Executive Severance Plan, (iii) the American Express Supplemental Retirement Plan, (iv) the American Express Salary/Bonus Deferral Plan, (v) the American Express Key Executive Life Insurance Plan and (vi) the IDS Current Service Deferred Compensation Plan (incorporated by reference to Exhibit 10.37 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1997).

10.31 American Express Company Supplemental Retirement Plan Amended and Restated Effective March 1, 1995 (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 1999).

10.32 Amendment to American Express Company Supplemental Retirement Plan Amended and Restated Effective March 1, 1995 (incorporated by reference to Exhibit 10.3 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.33 American Express Directors' Stock Plan (incorporated by reference to Exhibit 4.4 of the Company' s Registration Statement on Form S-8, dated December 9, 1997 (Commission File No. 333-41779)).

10.34 American Express Annual Incentive Award Plan (incorporated by reference to Exhibit 10.6 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.35 Agreement dated February 27, 1995 between the Company and Berkshire Hathaway Inc. (incorporated by reference to Exhibit 10.43 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1994).

10.36 Agreement dated July 20, 1995 between the Company and Berkshire Hathaway Inc. and its subsidiaries (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 1995).

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10.37 Amendment dated September 8, 2000 to the agreement dated February 27, 1995 between the Company and Berkshire Hathaway Inc. (incorporated by reference to Exhibit 99.3 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657) dated January 22, 2001).

10.38 Description of a special grant of a stock option and restricted stock award to Kenneth I. Chenault, the Company' s President and Chief Operating Officer (incorporated by reference to Exhibit 10.2 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended June 30, 1999).

10.39 American Express Company 2003 Share Equivalent Unit Plan for Directors, as adopted and effective April 28, 2003 (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2003).

10.40 Description of 2005 Base Salaries of Named Executive Officers (incorporated by referenced to Exhibit 10.37 of the Company' s Annual Report for Form 10-K (Commission File No. 1-7656) for the fiscal year ended December 31, 2004).

*10.41 Description of 2006 Base Salary of Louise M. Parent, Executive Vice President and General Counsel of the Company.

10.42 Letter sent by American Express Company to James Cracchiolo, Chairman and Chief Executive Officer of Ameriprise Financial, Inc. (formerly, American Express Financial Corporation) (incorporated by reference to Exhibit 10.2 of Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated August 24, 2005 (filed August 30, 2005)).

10.43 Separation and Distribution Agreement between American Express Company and Ameriprise Financial, Inc., dated August 24, 2005 (incorporated by reference to Exhibit 10.1 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated August 24, 2005 (filed August 30, 2005)).

10.44 Employee Benefits Agreement, dated as of September 30, 2005, by and between American Express Company and Ameriprise Financial, Inc. (incorporated by reference to Exhibit 10.1 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated October 6, 2005).

10.45 Tax Allocation Agreement, dated as of September 30, 2005, by and between American Express Company and Ameriprise Financial, Inc. (incorporated by reference to Exhibit 10.2 of the Company' s Current Report on Form 8-K (Commission File No. 1-7656), dated October 6, 2005).

*12 Computation in Support of Ratio of Earnings to Fixed Charges.

*13 Portions of the Company’ s 2005 Annual Report to Shareholders that are incorporated herein by reference.

16 Letter from Ernst & Young LLP regarding change in certifying accountant (incorporated by reference to Exhibit 16.1 of the Company’ s Current Report on Form 8-K (Commission File No. 1-7657), dated November 22, 2004 (as amended by the Company’ s Current Report on Form 8-K/A (Commission File No. 1-7657), dated November 22, 2004 (filed December 9, 2004 and the Company’ s Current Report on Form 8-K/A (Commission File No. 1-7657), dated November 22, 2004 (filed March 10, 2005)).

*21 Subsidiaries of the Company.

*23.1 Consent of PricewaterhouseCoopers LLP (contained on page F-3 of this Annual Report on Form 10-K).

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*31.2 Certification of Gary L. Crittenden, Chief Financial Officer, pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

Commission File No. 1-7657

American Express Company

(Exact name of Company as specified in charter)

EXHIBITS

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EXHIBIT INDEX

The following exhibits are filed as part of this Annual Report. The exhibit numbers preceded by an asterisk (*) indicate exhibits electronically filed herewith. All other exhibit numbers indicate exhibits previously filed and are hereby incorporated herein by reference. Exhibits numbered 10.1 through 10.24, 10.27 through 10.34 and 10.38 through 10.42 are management contracts or compensatory plans or arrangements.

3.1 Company' s Restated Certificate of Incorporation (incorporated by reference to Exhibit 4.1 of the Company' s Registration Statement on Form S-3, dated July 31, 1997 (Commission File No. 333-32525)).

3.2 Company' s Certificate of Amendment of the Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

3.3 Company' s By-Laws, as amended through January 24, 2005 (incorporated by reference to Exhibit 3.1 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657) dated November 22, 2004 (filed January 28, 2005)).

4. The instruments defining the rights of holders of long-term debt securities of the Company and its subsidiaries are omitted pursuant to Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Company hereby agrees to furnish copies of these instruments to the SEC upon request.

10.1 American Express Company 1989 Long-Term Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 1996).

10.2 American Express Company 1989 Long-Term Incentive Compensation Plan Master Agreement, dated February 27, 1995 (incorporated by reference to Exhibit 10.4 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated November 22, 2004 (filed January 28, 2005)).

10.3 Amendment dated February 28, 2000 of American Express Company 1989 Long-Term Incentive Compensation Plan Master Agreement dated February 27, 1995 (incorporated by reference to Exhibit 10.2 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.4* American Express Company 1998 Incentive Compensation Plan, as amended through July 25, 2005.

10.5 American Express Company 1998 Incentive Compensation Plan Master Agreement, dated April 27, 1998 (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 2004).

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10.6 Amendment of American Express Company 1998 Incentive Compensation Plan Master Agreement, dated April 27, 1998 (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

*10.7 Form of award agreement for executive officers in connection with Performance Grant awards (a/k/a Incentive Award) under the American Express Company 1998 Incentive Compensation Plan, as amended.

*10.8 Form of award agreement for executive officers in connection with Portfolio Grants under the American Express Company 1998 Incentive Compensation Plan, as amended.

10.9 Description of Compensation Payable to Non-Management Directors (incorporated by reference to Exhibit 10.1 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated November 21, 2005 (filed January 13, 2006)).

10.10 American Express Company Deferred Compensation Plan for Directors, as amended through July 28, 2003 (incorporated by reference to Exhibit 10.3 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated November 22, 2004 (filed January 28, 2005)).

10.11 Description of American Express Company Pay-for-Performance Deferral Program (incorporated by reference to Exhibit 10.2 of the Company' s Current Report on Form 8-K (Commission File No. l-7657), dated November 22, 2004 (filed January 28, 2005)).

10.12 American Express Company 2006 Pay-for-Performance Deferral Program Guide (incorporated by reference to Exhibit 10.1 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated November 21, 2005 (filed November 23, 2005)).

10.13 American Express Company 2005 Pay-for-Performance Deferral Program Guide (incorporated by reference to Exhibit 10.10 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 2004).

10.14 American Express Company 1983 Stock Purchase Assistance Plan, as amended (incorporated by reference to Exhibit 10.6 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1988).

10.15 American Express Company Retirement Plan for Non-Employee Directors, as amended (incorporated by reference to Exhibit 10.12 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1988).

10.16 Certificate of Amendment of the American Express Company Retirement Plan for Non-Employee Directors dated March 21, 1996 (incorporated by reference to Exhibit 10.11 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1995).

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10.17 American Express Key Executive Life Insurance Plan, as amended (incorporated by reference to Exhibit 10.12 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1991).

10.18 Amendment of American Express Company Key Executive Life Insurance Plan (incorporated by reference to Exhibit 10.3 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 1994).

10.19 Amendment of American Express Company Key Executive Life Insurance Plan (incorporated by reference to Exhibit 10.4 of the Company' s Quarterly report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.20 American Express Key Employee Charitable Award Program for Education (incorporated by reference to Exhibit 10.13 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1990).

10.21 American Express Directors' Charitable Award Program (incorporated by reference to Exhibit 10.14 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1990).

10.22 American Express Company Salary/Bonus Deferral Plan (incorporated by reference to Exhibit 10.20 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1988).

10.23 Amendment of American Express Company Salary/Bonus Deferral Plan (incorporated by reference to Exhibit 10.4 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 1994).

10.24 Amendment of American Express Salary/Bonus Deferral Plan (incorporated by reference to Exhibit 10.5 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.25 Tax Allocation Agreement, dated May 27, 1994, between Lehman Brothers Holdings Inc. and the Company (incorporated by reference to Exhibit 10.2 of Lehman Brothers Holdings Inc.' s Transition Report on Form 10-K (Commission File No. 1-9466) for the transition period from January 1, 1994 to November 30, 1994).

10.26 American Express Company 1993 Directors' Stock Option Plan, as amended (incorporated by reference to Exhibit 10.11 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.27 American Express Senior Executive Severance Plan Effective January 1, 1994 (as amended and restated through May 1, 2000) (incorporated by reference to Exhibit 10.10 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

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10.28 Amendments to the American Express Senior Executive Severance Plan, effective November 26, 2001 (incorporated by reference to Exhibit 10.30 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the year ended December 31, 2001).

10.29 Amendment of Long-Term Incentive Awards under the American Express Company 1979 and 1989 Long-Term Incentive Plans (incorporated by reference to Exhibit 10.6 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 1994).

10.30 Amendments of (i) Long-Term Incentive Awards under the American Express Company 1979 and 1989 Long-Term Incentive Plans, (ii) the American Express Senior Executive Severance Plan, (iii) the American Express Supplemental Retirement Plan, (iv) the American Express Salary/Bonus Deferral Plan, (v) the American Express Key Executive Life Insurance Plan and (vi) the IDS Current Service Deferred Compensation Plan (incorporated by reference to Exhibit 10.37 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1997).

10.31 American Express Company Supplemental Retirement Plan Amended and Restated Effective March 1, 1995 (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 1999).

10.32 Amendment to American Express Company Supplemental Retirement Plan Amended and Restated Effective March 1, 1995 (incorporated by reference to Exhibit 10.3 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.33 American Express Directors' Stock Plan (incorporated by reference to Exhibit 4.4 of the Company' s Registration Statement on Form S-8, dated December 9, 1997 (Commission File No. 333-41779)).

10.34 American Express Annual Incentive Award Plan (incorporated by reference to Exhibit 10.6 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2000).

10.35 Agreement dated February 27, 1995 between the Company and Berkshire Hathaway Inc. (incorporated by reference to Exhibit 10.43 of the Company' s Annual Report on Form 10-K (Commission File No. 1-7657) for the fiscal year ended December 31, 1994).

10.36 Agreement dated July 20, 1995 between the Company and Berkshire Hathaway Inc. and its subsidiaries (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended September 30, 1995).

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10.37 Amendment dated September 8, 2000 to the agreement dated February 27, 1995 between the Company and Berkshire Hathaway Inc. (incorporated by reference to Exhibit 99.3 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657) dated January 22, 2001).

10.38 Description of a special grant of a stock option and restricted stock award to Kenneth I. Chenault, the Company' s President and Chief Operating Officer (incorporated by reference to Exhibit 10.2 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended June 30, 1999).

10.39 American Express Company 2003 Share Equivalent Unit Plan for Directors, as adopted and effective April 28, 2003 (incorporated by reference to Exhibit 10.1 of the Company' s Quarterly Report on Form 10-Q (Commission File No. 1-7657) for the quarter ended March 31, 2003).

10.40 Description of 2005 Base Salaries of Named Executive Officers (incorporated by referenced to Exhibit 10.37 of the Company' s Annual Report for Form 10-K (Commission File No. 1-7656) for the fiscal year ended December 31, 2004).

*10.41 Description of 2006 Base Salary of Louise M. Parent, Executive Vice President and General Counsel of the Company.

10.42 Letter sent by American Express Company to James Cracchiolo, Chairman and Chief Executive Officer of Ameriprise Financial, Inc. (formerly, American Express Financial Corporation) (incorporated by reference to Exhibit 10.2 of Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated August 24, 2005 (filed August 30, 2005)).

10.43 Separation and Distribution Agreement between American Express Company and Ameriprise Financial, Inc., dated August 24, 2005 (incorporated by reference to Exhibit 10.1 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated August 24, 2005 (filed August 30, 2005)).

10.44 Employee Benefits Agreement, dated as of September 30, 2005, by and between American Express Company and Ameriprise Financial, Inc. (incorporated by reference to Exhibit 10.1 of the Company' s Current Report on Form 8-K (Commission File No. 1-7657), dated October 6, 2005).

10.45 Tax Allocation Agreement, dated as of September 30, 2005, by and between American Express Company and Ameriprise Financial, Inc. (incorporated by reference to Exhibit 10.2 of the Company' s Current Report on Form 8-K (Commission File No. 1-7656), dated October 6, 2005).

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EXHIBIT 10.4

AMERICAN EXPRESS COMPANY
1998 INCENTIVE COMPENSATION PLAN
(as amended through July 25, 2005)

1. PURPOSE. The purpose of the 1998 Incentive Compensation Plan (the "Plan") is to promote shareholder value by providing appropriate incentives to employees of American Express Company (the "Company") and its affiliates and certain other individuals who perform services for the Company and its affiliates.

2. ADMINISTRATION. The Plan shall be administered solely by the Compensation and Benefits Committee (the "Committee") of the Board of Directors (the "Board") of the Company, as such Committee is from time to time constituted, or any successor committee the Board may designate to administer the Plan. The Committee may delegate any of its powers and duties to appropriate officer(s) of the Company in accordance with guidelines established by the Committee from time to time.

The Committee has all the powers vested in it by the terms of the Plan set forth herein, such powers to include exclusive authority (except as may be delegated as permitted herein) to select the employees and other individuals to be granted awards under the Plan ("Awards"), to determine the type, size and terms of the Award to be made to each individual selected, to modify the terms of any Award that has been granted, to determine the time when Awards will be granted, to establish performance objectives, to make any adjustments necessary or desirable as a result of the granting of Awards to eligible individuals located outside the United States and to prescribe the form of the instruments embodying Awards made under the Plan. The Committee is authorized to interpret the Plan and the Awards granted under the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations which it deems necessary or desirable for the administration of the Plan. The Committee (or its delegate as permitted herein) may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award in the manner and to the extent the Committee deems necessary or desirable to carry it into effect. Any decision of the Committee (or its delegate as permitted herein) in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. The Committee may act only by a majority of its members in office, except that the members thereof may authorize any one or more of their members or any officer of the Company to execute and deliver documents or to take any other action on behalf of the Committee with respect to Awards made or to be made to Plan participants. No member of the Committee and no officer of the Company shall be liable for anything done or omitted to be done by him, by any other member of the Committee or by any officer of the Company in connection with the performance of duties under the Plan, except for his own willful misconduct or as expressly provided by statute.

3. PARTICIPATION. (a) Affiliates. If an Affiliate (as hereinafter defined) of the Company wishes to participate in the Plan and its participation shall have been approved

by the Committee, the board of directors or other governing body of the Affiliate shall adopt a resolution in form and substance satisfactory to the Committee authorizing participation by the Affiliate in the Plan with respect to its employees or other individuals performing services for it. As used herein, the term "Affiliate" means any entity in which the Company has a substantial direct or indirect equity interest, as determined by the Committee in its discretion.

An Affiliate participating in the Plan may cease to be a participating company at any time by action of the Board or by action of the board of directors or other governing body of such Affiliate, which latter action shall be effective not earlier than the date of delivery to the Secretary of the Company of a certified copy of a resolution of the Affiliate' s board of directors or other governing body taking such action. If the participation in the Plan of an Affiliate shall terminate, such termination shall not relieve it of any obligations theretofore incurred by it under the Plan, except as may be approved by the Committee.

(b) Participants. Consistent with the purposes of the Plan, the Committee shall have exclusive power (except as may be delegated as permitted herein) to select the employees and other individuals performing services for the Company and its Affiliates who may participate in the Plan and be granted Awards under the Plan. Eligible individuals may be selected individually or by groups or categories, as determined by the Committee in its discretion. No non-employee director of the Company or any of its Affiliates shall be eligible to receive an Award under the Plan.

4. AWARDS UNDER THE PLAN. (a) Types of Awards. Awards under the Plan may include one or more of the following types, either alone or in any combination thereof: (i) "Stock Options," (ii) "Stock Appreciation Rights," (iii) "Restricted Stock," (iv) "Performance Grants" and (v) any Award providing benefits similar to (i) through (iv) designed to meet the requirements of non-US jurisdictions. Stock Options, which include "Nonqualified Stock Options" and "Incentive Stock Options" or combinations thereof, are rights to purchase common shares of the Company having a par value of $.20 per share and stock of any other class into which such shares may thereafter be changed (the "Common Shares"). Nonqualified Stock Options and Incentive Stock Options are subject to the terms, conditions and restrictions specified in Paragraph 5. Stock Appreciation Rights are rights to receive (without payment to the Company) cash, Common Shares, other Company securities (which may include, but need not be limited to, any equity or debt security of the Company or an Affiliate, or any combination thereof ("Other Company Securities")) or property, or other forms of payment, or any combination thereof, as determined by the Committee, based on the increase in the value of the number of Common Shares specified in the Stock Appreciation Right. Stock Appreciation Rights are subject to the terms, conditions and restrictions specified in Paragraph 6. Shares of Restricted Stock are Common Shares which are issued subject to certain restrictions pursuant to Paragraph 7.

Performance Grants are contingent awards subject to the terms, conditions and restrictions described in Paragraph 8, pursuant to which the participant may become entitled to receive cash, Common Shares, Other Company Securities or property, or other forms of payment, or any combination thereof, as determined by the Committee.

(b) MAXIMUM NUMBER OF SHARES THAT MAY BE ISSUED. The maximum number of Common Shares and other equity securities of the Company that may be issued under the Plan is 170,000,000, plus the number of shares remaining available for new awards under the 1989 Plan on April 27, 1998, which number will not exceed 53,910,000. In addition, commencing April 27, 1998, Common Shares or other equity securities of the Company subject to awards outstanding under the 1989 Plan or granted under the 1998 Plan which are recovered or not issued by the Company will be available for issuance under the 1998 Plan, as follows: (i) shares related to Awards issued under the 1998 Plan or the 1989 Plan that are forfeited, terminated, canceled, acquired by the Company or expire unexercised; (ii) shares surrendered or withheld to pay the exercise price of Awards issued under the 1998 Plan or the 1989 Plan or to satisfy the tax withholding obligations under these Awards; and (iii) shares originally linked to Awards that are actually settled in cash or consideration other than Common Shares or other equity securities. Limits on the number of Restricted Stock Award grants are described in Paragraph 7(d).

For purposes of counting shares against the share reserve under the 1998 Plan on the date of grant, Awards denominated solely in common shares (such as Stock Options and Restricted Stock) and other Awards or securities that may be exercised for or convertible into common shares will be counted against the 1998 Plan reserve on the date of grant of the Award based on the maximum number of shares underlying the Award, as determined by the Committee. Equity securities other than Common Shares issued pursuant to the 1998 Plan which are not exercisable for or convertible into Common Shares will be counted based on the number of shares issued. Common Shares and other equity securities of the Company issued pursuant to the Plan may be either authorized but unissued shares, treasury shares, reacquired shares or any combination thereof.

(c) RIGHTS WITH RESPECT TO COMMON SHARES AND OTHER SECURITIES.

(i) Unless otherwise determined by the Committee in its discretion, a participant to whom an Award of Restricted Stock has been made (and any person succeeding to such a participant' s rights pursuant to the Plan) shall have, after issuance of a certificate or the entry on behalf of a participant of an uncertificated book position on the records of the Company' s transfer agent and registrar for the number of Common Shares awarded and prior to the expiration of the Restricted Period or the earlier cancellation or repurchase of such Common Shares as herein provided, ownership of such Common Shares, including the right to vote the same and to receive dividends or other distributions made or paid with respect to such Common Shares (provided that such Common Shares, and any new, additional or different shares, or Other Company Securities or property, or other forms of consideration which the participant may be entitled to receive with respect to such Common Shares as a result of a stock split, stock dividend or any other change in the corporate or capital structure of the Company, shall be subject to the restrictions hereinafter described as determined by the Committee in its discretion), subject, however, to the options, restrictions and limitations imposed thereon pursuant to the Plan. Notwithstanding the foregoing, a participant with whom an Award agreement is made to issue Common Shares in the future shall have no rights as a shareholder with respect to Common Shares related to such agreement until the book entry is made, or the certificate is issued on his behalf.

(ii) Unless otherwise determined by the Committee in its discretion, a participant to whom a grant of Stock Options, Stock Appreciation Rights, Performance Grants or any other Award is made (and any person succeeding to such a participant' s rights pursuant to the Plan) shall have no rights as a shareholder with respect to any Common Shares or as a holder with respect to other securities, if any, issuable pursuant to any such Award until the date of the issuance of a stock certificate to him or the entry on his behalf of an uncertificated book position on the records of the Company' s transfer agent and registrar for such Common Shares or other instrument of ownership, if any. Except as provided in Paragraph 16, no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, securities, other property or other forms of consideration, or any combination thereof) for which the record date is prior to the date such book entry is made or a stock certificate or other instrument of ownership, if any, is issued.

(iii) The Committee may, in its discretion, subject any Award and the economic value derived by a participant therefrom, to forfeiture by the participant upon the occurrence of certain events as determined by the Committee.

5. STOCK OPTIONS. The Committee may grant Stock Options either alone, or in conjunction with Stock Appreciation Rights, Performance Grants or other Awards, either at the time of grant or by amendment thereafter. The Committee may grant Incentive Stock Options to any employee provided the terms of such grants comply with the provisions of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, and the regulations thereunder, and that any ambiguities in construction shall be interpreted in order to effectuate that intent. Each Stock Option (referred to herein as an 'Option') granted under the Plan shall be evidenced by an instrument in such form as the Committee shall prescribe from time to time in accordance with the Plan and shall comply with the following terms and conditions, and with such other terms and conditions, including, but not limited to, restrictions upon the Option or the Common Shares issuable upon exercise thereof, as the Committee, in its discretion, shall establish:

(a) The option price shall be equal to or greater than the fair market value of the Common Shares subject to such Option at the time the Option is granted, as determined by the Committee; but in no event will such option price be less than the par value of such Common Shares. The Committee in its discretion shall establish the expiration date of an Option provided that, except as provided in Subparagraph (c)(iii)(B) below, in no event shall the expiration date be later than ten years from the date of grant of the Option.

(b) The Committee shall determine the number of Common Shares to be subject to each Option. The number of Common Shares subject to an outstanding Option may be reduced on a share-for-share or other appropriate basis, as determined by the Committee, to the extent that Common Shares under such Option are used to calculate the cash, Common Shares, Other Company Securities or property, or other forms of payment, or any combination thereof, received pursuant to exercise of a Stock Appreciation Right attached to such Option, or to the extent that any other Award granted in conjunction with such Option is paid.

(c) The Option shall not be exercisable:

(i) for at least six months after the date of grant, except as the Committee may otherwise determine in the event of death, disability, retirement or in connection with a corporate transaction, which includes but is not limited to a change in control of the Company, a divestiture, spin-off, split-off, asset transfer, outsourcing or joint venture formation, (each, a "Defined Event"), and only at such times and in such installments as the Committee may establish;

(ii) unless payment in full for the shares being acquired thereunder at the time of exercise is made in such form as the Committee may determine in its discretion, including, but not limited to (A) cash, (B) Common Shares, (C) if permitted by the Committee, by authorizing a third party to sell, on behalf of the participant, the appropriate number of Common Shares otherwise issuable to the participant upon the exercise of the Option and to remit to the Company a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise, or (D) any combination thereof; and

(iii) unless the participant has been, at all times during the period beginning with the date of the grant of the Option and ending on the date of such exercise, employed by (in the case of an Incentive Stock Option) or otherwise performing services for the Company or an Affiliate, or a corporation, or a parent or subsidiary of a corporation, substituting or assuming the Option in a transaction to which Section 424(a) of the Code or any successor statutory provision thereto, is applicable, except that

(A) in the case of any Nonqualified Stock Option, if such person shall cease to be employed by or otherwise performing services for the Company or an Affiliate solely by reason of a period of Related Employment, he may, during such period of Related Employment, exercise the Nonqualified Stock Option as if he continued such employment or performance of service; or

(B) the Committee may establish, in its discretion, the extent to which a person may continue to exercise an Option, which has not expired and has not been fully exercised, in the event he terminates employment or the performance of services by reason of a Defined Event; and in the event of death, the Committee may provide a decedent' s executors, heirs or distributors a minimum period to exercise an Option with respect to any shares as to which the decedent could have exercised the Option at the time of his death, or such greater amount as the Committee may determine, which period may extend beyond the original expiration date of the Option.

(d) The Committee has the discretion to grant Options at any time it deems appropriate including the discretion to grant or provide for the automatic grant of an Option to restore the number of Common Shares a participant tendered or had withheld to pay, or the share equivalency of the cash tendered to pay, the exercise price or tax withholding obligation upon the exercise of an outstanding Option.

6. STOCK APPRECIATION RIGHTS. The Committee may grant Stock Appreciation Rights either alone, or in conjunction with Stock Options, Performance Grants or other Awards, either at the time of grant or by amendment thereafter. Each Award of Stock Appreciation Rights granted under the Plan shall be evidenced by an instrument in such form as the Committee shall prescribe from time to time in accordance with the Plan and shall comply with the following terms and conditions, and with such other terms and conditions, including, but not limited to, restrictions upon the Award of Stock Appreciation Rights or the Common Shares issuable upon exercise thereof, as the Committee, in its discretion, shall establish:

(a) The Committee shall determine the number of Common Shares to be subject to each Award of Stock Appreciation Rights. The number of Common Shares subject to an outstanding Award of Stock Appreciation Rights may be reduced on a share-for-share or other appropriate basis, as determined by the Committee, to the extent that Common Shares under such Award of Stock Appreciation Rights are used to calculate the cash, Common Shares, Other Company Securities or property or other forms of payment, or any combination thereof, received pursuant to exercise of an Option attached to such Award of Stock Appreciation Rights, or to the extent that any other Award granted in conjunction with such Award of Stock Appreciation Rights is paid.

(b) The Award of Stock Appreciation Rights shall not be exercisable for at least six months after the date of grant except as the Committee may otherwise determine in the event of a Defined Event.

(c) The Award of Stock Appreciation Rights shall not be exercisable:

(i) unless the Option or other Award to which the Award of Stock Appreciation Rights is attached is at the time exercisable; and (ii) unless the person exercising the Award of Stock Appreciation Rights has been at all times during the period beginning with the date of the grant thereof and ending on the date of such exercise, employed by or otherwise performing services for the Company or an Affiliate, except that

(A) in the case of any Award of Stock Appreciation Rights (other than those attached to an Incentive Stock Option), if such person shall cease to be employed by or otherwise performing services for the Company or an Affiliate solely by reason of a period of Related Employment as defined in Paragraph 14, he may, during such period of Related Employment, exercise the Award of Stock Appreciation Rights as if he continued such employment or performance of services; or

(B) the Committee shall establish, in its discretion, the extent to which a person may continue to exercise an Award of Stock Appreciation Rights, which has not expired and has not been fully exercised, in the event he terminates employment or the performance of services by reason of a Defined Event; provided, that in the event of death, the Committee may provide his executors, heirs or distributors a minimum period to exercise an Award of Stock Appreciation Rights with respect to any shares as to which the decedent could have exercised the Award of Stock Appreciation Rights, or such greater amount as the Committee may determine, which period may extend beyond the original expiration date of the underlying Option.

(d) An Award of Stock Appreciation Rights shall entitle the holder (or any person entitled to act under the provisions of subparagraph 6(c)(ii)(B) hereof) to exercise such Award or to surrender unexercised the Option (or other Award) to which the Stock Appreciation Right is attached (or any portion of such Option or other Award) to the Company and to receive from the Company in exchange therefor, without payment to the Company, that number of Common Shares having an aggregate value equal to (or, in the discretion of the Committee, less than) the excess of the fair market value of one share, at the time of such exercise, over the exercise price (or Option Price, as the case may be) per share, times the number of shares subject to the Award or the Option (or other Award), or portion thereof, which is so exercised or surrendered, as the case may be. The Committee shall be entitled in its discretion to elect to settle the obligation arising out of the exercise of a Stock Appreciation Right by the payment of cash or Other Company Securities or property, or other forms of payment, or any combination thereof, as determined by the Committee, equal to the aggregate value of the Common Shares it would otherwise be obligated to deliver. Any such election by the Committee shall be made as soon as practicable after the receipt by the Committee of written notice of the exercise of the Stock Appreciation Right. The value of a Common Share, Other Company Securities or property, or other forms of payment determined by the Committee for this purpose shall be the fair market value thereof on the last business day next preceding the date of the election to exercise the Stock Appreciation Right, unless the Committee, in its discretion, determines otherwise.

(e) A Stock Appreciation Right may provide that it shall be deemed to have been exercised at the close of business on the business day preceding the expiration date of the Stock Appreciation Right or of the related Option (or other Award), or such other date as specified by the Committee, if at such time such Stock Appreciation Right has a positive value. Such deemed exercise shall be settled or paid in the same manner as a regular exercise thereof as provided in subparagraph 6(d) hereof.

(f) No fractional shares may be delivered under this Paragraph 6, but in lieu thereof, a cash or other adjustment shall be made as determined by the Committee in its discretion.

7. RESTRICTED STOCK. Each Award of Restricted Stock under the Plan shall be evidenced by an instrument in such form as the Committee shall prescribe from time to time in accordance with the Plan and shall comply with the following terms and conditions, and with such other terms and conditions as the Committee, in its discretion, shall establish:

(a) The Committee shall determine the number of Common Shares to be issued to a participant pursuant to the Award, and the extent, if any, to which they shall be issued in exchange for cash, other consideration, or both.

(b) Common Shares issued to a participant in accordance with the Award may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except by will or the laws of descent and distribution, or as otherwise determined by the Committee, for such period as the Committee shall determine, from the date on which the Award is granted (the "Restricted Period"). The Company will have the option to cancel or repurchase the shares subject to the Award at such price, if any, as the Committee shall have fixed, in its discretion, when the Award was made or amended thereafter, which option will be exercisable on such terms, in such manner and during such period as shall be determined by the Committee when the Award is made or as amended thereafter. Common Shares may be issued in certificate form or through the entry of an uncertificated book position on the records of the Company' s transfer agent and registrar. The Company may impose appropriate restrictions on the transfer of such Common Shares which shall be evidenced in the manner permitted by law as determined by the Committee in its discretion. Any attempt to dispose of any such Common Shares in contravention of the foregoing repurchase or cancellation option and other restrictions shall be null and void and without effect. If Common Shares issued pursuant to a Restricted Stock Award shall be repurchased or canceled pursuant to the option described above, the participant, or in the event of his death, his personal representative, shall forthwith deliver to the Secretary of the Company any certificates for the Common Shares awarded to the participant, accompanied by such instrument of transfer, if any, as may reasonably be required by the Secretary of the Company. If the option described above is not exercised by the Company, either by the terms of the Award or action by the Company, such option and the restrictions imposed pursuant to the first sentence of this subparagraph 7(b) shall terminate and be of no further force and effect.

(c) The vesting of a Restricted Stock Award may be conditioned upon the attainment of specific performance objectives as the Committee may determine, including but not limited to such performance objectives described in subparagraph 8(b). The Restricted Period shall be for a minimum of three years except as the Committee may determine in the event of a Defined Event, a participant' s promotion, or Restricted

Stock Awards issued to any employee newly employed by the Company or issued subject to performance objectives, or as payment pursuant to a Performance Grant or Qualifying Award.

(d) No more than 31,782,000 of the Common Shares that may be issued under the Plan may be granted as Restricted Stock Awards, and no more than an additional 15,891,000 may be granted as Restricted Stock Awards subject to performance objectives as described above. Restricted Stock Awards repurchased or canceled by the Company pursuant to subparagraph 7(b) shall again become available for issuance pursuant to these limitations.

8. PERFORMANCE GRANTS. The Award of a Performance Grant ("Performance Grant") to a participant will entitle the participant to receive a specified amount determined by the Committee (the "Actual Value"), if the terms and conditions specified herein and in the Awards are satisfied. Each Award of a Performance Grant shall be subject to the following terms and conditions, and to such other terms and conditions, including but not limited to, restrictions upon any cash, Common Shares, Other Company Securities or property, or other forms of payment, or any combination thereof, issued in respect of the Performance Grant, as the Committee, in its discretion, shall establish, and shall be embodied in an instrument in such form and substance as is determined by the Committee:

(a) The Committee shall determine the value or range of values of a Performance Grant to be awarded to each participant selected for an Award and whether or not such a Performance Grant is granted in conjunction with an Award of Options, Stock Appreciation Rights, Restricted Stock or other Award, or any combination thereof, under the Plan (which may include, but need not be limited to, deferred Awards) concurrently or subsequently granted to the participant (the "Associated Award"). As determined by the Committee, the maximum value of each Performance Grant (the "Maximum Value") shall be: (i) an amount fixed by the Committee at the time the Award is made or amended thereafter, (ii) an amount which varies from time to time based in whole or in part on the then current value of a Common Share, Other Company Securities or property, or other securities or property, or any combination thereof or (iii) an amount that is determinable from criteria specified by the Committee. Performance Grants may be issued in different classes or series having different names, terms and conditions. In the case of a Performance Grant awarded in conjunction with an Associated Award, the Performance Grant may be reduced on an appropriate basis to the extent that the Associated Award has been exercised, paid to or otherwise received by the participant, as determined by the Committee.

(b) The award period ("Award Period") in respect of any Performance Grant shall be a period determined by the Committee. At the time each Award is made, the Committee shall establish performance objectives to be attained within the Award Period as the means of determining the Actual Value of such a Performance Grant. The performance objectives shall be based on such measure or measures of performance, which may include, but need not be limited to, the performance of the participant, the

Company, one or more of its subsidiaries or one or more of their divisions or units, or any combination of the foregoing, as the Committee shall determine, and may be applied on an absolute basis or be relative to industry or other indices, or any combination thereof. The Actual Value of a Performance Grant shall be equal to its Maximum Value only if the performance objectives are attained in full, but the Committee shall specify the manner in which the Actual Value of Performance Grants shall be determined if the performance objectives are met in part. Such performance measures, the Actual Value or the Maximum Value, or any combination thereof, may be adjusted in any manner by the Committee in its discretion at any time and from time to time during or as soon as practicable after the Award Period, if it determines that such performance measures, the Actual Value or the Maximum Value, or any combination thereof, are not appropriate under the circumstances.

(c) The rights of a participant in Performance Grants awarded to him shall be provisional and may be canceled or paid in whole or in part, all as determined by the Committee.

(d) The Committee shall determine whether the conditions of subparagraph 8(b) or 8(c) hereof have been met and, if so, shall ascertain the Actual Value of the Performance Grants. If the Performance Grants have no Actual Value, the Award and such Performance Grants shall be deemed to have been canceled and the Associated Award, if any, may be canceled or permitted to continue in effect in accordance with its terms. If the Performance Grants have an Actual Value and:

(i) were not awarded in conjunction with an Associated Award, the Committee shall cause an amount equal to the Actual Value of the Performance Grants earned by the participant to be paid to him or his beneficiary as provided below; or

(ii) were awarded in conjunction with an Associated Award, the Committee shall determine, in accordance with criteria specified by the Committee (A) to cancel the Performance Grants, in which event no amount in respect thereof shall be paid to the participant or his beneficiary, and the Associated Award may be permitted to continue in effect in accordance with its terms, (B) to pay the Actual Value of the Performance Grants to the participant or his beneficiary as provided below, in which event the Associated Award may be canceled or (C) to pay to the participant or his beneficiary as provided below, the Actual Value of only a portion of the Performance Grants, in which event all or a portion of the Associated Award may be permitted to continue in effect in accordance with its terms or be canceled, as determined by the Committee.

Such determination by the Committee shall be made as promptly as practicable following the end of the Award Period or upon the earlier termination of employment or performance of services, or at such other time or times as the Committee shall determine, and shall be made pursuant to criteria specified by the Committee.

Payment of any amount in respect of the Performance Grants which the Committee determines to pay as provided above shall be made by the Company, as promptly as practicable after the end of the Award Period or at such other time or times as the Committee shall determine, and may be made in cash, Common Shares, Other Company Securities or property, or other forms of payment, or any combination thereof or in such other manner, as determined by the Committee in its discretion. Notwithstanding anything in this Paragraph 8 to the contrary, the Committee may, in its discretion, determine and pay out the Actual Value of the Performance Grants at any time during the Award Period, including but not limited to, upon a Defined Event.

9. DEFERRAL OF COMPENSATION. The Committee shall determine whether or not an Award shall be made in conjunction with deferral of the participant' s salary, bonus or other compensation, or any combination thereof, and whether or not such deferred amounts may be

(a) forfeited to the Company or to other participants, or any combination thereof, under certain circumstances (which may include, but need not be limited to, certain types of termination of employment or performance of services for the Company and its Affiliates),

(b) credited with income equivalents (which may include, but need not be limited to, interest, dividends or other rates of return) until the date or dates of payment of the Award, if any,

(c) subject to increase or decrease in value based upon the attainment of or failure to attain, respectively, certain performance measures and/or

(d) any other terms and conditions the Committee deems necessary.

10. QUALIFYING AWARDS. The Committee may, in its sole discretion, grant an Award (a "Qualifying Award") to any key employee with the intent that such Award qualifies as "performance-based compensation" under Section 162(m) of the Code, or any successor provision thereto, and the regulations thereunder ("Section 162(m)"). The provisions of this Paragraph 10 as well as all other applicable provisions of the Plan not inconsistent with this Paragraph 10 shall apply to all Qualifying Awards issued under the Plan, and any ambiguities in construction shall be interpreted to effectuate that intent. Qualifying Awards shall be of the type set forth in subparagraph (a) or (b) below.

(a) Qualifying Awards may be issued as Stock Options and Stock Appreciation Rights. Commencing with calendar year 1998, the number of Common Shares underlying all Options and Stock Appreciation Rights that may be granted to any participant within any three consecutive calendar years shall be limited to 9,000,000 (inclusive of Options or Stock Appreciation Rights granted under the 1989 Plan during 1998), subject to adjustment as provided in Paragraph 16. The foregoing limitation shall be subject to the limitation set forth in Paragraph 4(b).

(b)(i) Qualifying Awards (other than Stock Options and Stock Appreciation Rights) may be issued as Performance Grants and any other Award whose payment is conditioned upon the achievement of the performance objectives described in this subparagraph. Amounts earned under such Awards shall be based upon the attainment of performance objectives established by the Committee in accordance with Section 162(m). Such performance objectives may vary by participant and by Award and shall be based upon the attainment of specific amounts of, or changes in one or more of the following: revenues, earnings, shareholders' equity, return on equity, assets, return on assets, capital, return on capital, book value, economic value added, operating margins, cash flow, shareholder return, expenses or market share. The Committee may provide that in measuring the achievement of the performance objectives, an Award may include or exclude items such as realized investment gains and losses, extraordinary, unusual or non- recurring items, asset write-downs, effects of accounting charges, currency fluctuations, acquisitions, divestitures, reserve-strengthening and other non-operating items. The foregoing objectives may be applicable to the Company as a whole, one or more of its subsidiaries, divisions, business units or business lines, or any combination of the foregoing, and may be applied on an absolute basis or be relative to other companies, industries or indices or be based upon any combination of the foregoing. In addition to the performance objectives, the Committee may also condition payment of any such Award upon the attainment of conditions, such as completion of a period of service, notwithstanding that the performance objective or objectives specified in the Award are satisfied. The Committee shall have the discretion, by participant and by Award, to reduce (but not to increase) some or all of the amount that would otherwise be payable under the Award by reason of the satisfaction of the performance objectives set forth in the Award. In making any such determination, the Committee is authorized to take into account any such factor or factors it determines are appropriate, including but not limited to Company, business unit and individual performance.

(ii) Under all Awards granted pursuant to this subparagraph (b), in any one calendar year: (A) no participant may be paid cash, Common Shares, Other Company Securities or other property (other than shares of Restricted Stock) or any combination of the foregoing with a value (as determined by the Committee) in excess of $6.5 million and (B) in addition, no participant may receive more than 300,000 shares of Restricted Stock, subject to adjustment to the extent provided in Paragraph 16. For purposes of the foregoing sentence, the calendar year or years in which amounts under Qualifying Awards are deemed paid or received shall be as determined by the Committee.

11. PAYMENT OF AWARDS. The Committee may, in its discretion, settle any Award through the payment of cash, the delivery of Common Shares or Other Company Securities, the granting of Awards or a combination thereof. Any Award settlement, including payment deferrals, may be subject to conditions, restrictions and contingencies as the Committee shall determine. The Committee may permit or require the deferral of any Award payment, subject to such terms, rules and procedures as the Committee may establish, which may include provisions for the payment or crediting of interest, or dividend equivalents, including converting such credits into deferred Common Share equivalents.

12. AMENDMENT OF THE PLAN OR AWARDS. The Plan may be amended in whole or in part at any time and from time to time by the Board, and the terms of any outstanding Award under the Plan may be amended from time to time by the Committee in its discretion in any manner that it deems; provided, however, that no amendment may be made without shareholder approval if such amendment (a) would increase the number of shares available for grant specified in Paragraphs 4(b) or 10, (b) would decrease the minimum Option exercise price set forth in Paragraph 5(a) (other than changes made pursuant to Paragraph 16 hereof), (c) reduce the minimum vesting periods set forth in Paragraphs 5(c)(i), 6(b) or 7(c) or (iv) would, in the absence of shareholder approval, adversely affect compliance of the Plan with applicable laws, rules and regulations. No such amendment shall affect in a material manner any right of a participant under the Award without his written consent. Any shareholder approval requirement under the Plan will be met if such approval is obtained in accordance with applicable law.

13. DISABILITY. For the purposes of this Plan, a participant shall be deemed to have terminated his employment or performance of services for the Company and its Affiliates by reason of disability, if the Committee shall determine that the physical or mental condition of the participant by reason of which such employment or performance of services terminated was such at that time as would entitle him to payment of monthly disability benefits under the Company' s Long Term Disability Benefit Plan, or, if the participant is not eligible for benefits under such plan, under any similar disability plan of the Company or an Affiliate in which he is a participant. If the participant is not eligible for benefits under any disability plan of the Company or an Affiliate, he shall be deemed to have terminated such employment or performance of services by reason of disability if the Committee shall determine that his physical or mental condition would entitle him to benefits under the Company' s Long Term Disability Benefit Plan if he were eligible therefor. Notwithstanding the above, the Committee may determine a participant' s disability based upon any other criteria specified by the Committee.

14. TERMINATION OF A PARTICIPANT. For all purposes under the Plan, the Committee shall determine whether a participant has terminated employment by or the performance of services for the Company and its Affiliates; provided, however, that transfers between the Company and an Affiliate or between Affiliates, and approved leaves of absence shall not be deemed such a termination.

15. RELATED EMPLOYMENT. For the purposes of this Plan, Related Employment shall mean the employment or performance of services by an individual for an employer that is neither the Company nor an Affiliate, provided that (a) such employment or performance of services is undertaken by the individual at the request of the Company or an Affiliate, (b) immediately prior to undertaking such employment or performance of services, the individual was employed by or performing services for the Company or an Affiliate or was engaged in Related Employment as herein defined and (c) such employment or performance of services is in the best interests of the Company and is recognized by the Committee, in its discretion, as Related Employment for purposes of this Paragraph 15. The death or disability of an individual during a period of

Related Employment as herein defined shall be treated, for purposes of this Plan, as if the death or onset of disability had occurred while the individual was employed by or performing services for the Company or an Affiliate.

16. DILUTION AND OTHER ADJUSTMENTS. In the event of any change in the outstanding Common Shares of the Company by reason of any stock split, stock dividend, split-up, split-off, spin-off, recapitalization, merger, consolidation, rights offering, reorganization, combination, subdivision or exchange of shares, a sale by the Company of all or part of its assets, any distribution to shareholders other than a normal cash dividend, or other extraordinary or unusual event, if the Committee shall determine, in its discretion, that such change equitably requires an adjustment in the terms of any Award or the maximum number of Common Shares that may be issued as Awards pursuant to the Plan, such adjustment may be made by the Committee and shall be final, conclusive and binding for all purposes of the Plan. The Committee may also provide for the adjustment and settlement of outstanding Awards as it deems appropriate and consistent with the Plan' s purpose in the event of a "change in control" of the Company, as that term is defined in the Company' s Senior Executive Severance Plan.

17. DESIGNATION OF BENEFICIARY BY PARTICIPANT. A participant may name a beneficiary to receive any payment in which he may be entitled in respect of any Award under the Plan in the event of his death, on a written form to be provided by and filed with the Secretary, and in a manner determined by the Committee in its discretion. The Committee reserves the right to review and approve beneficiary designations. A participant may change his beneficiary from time to time in the same manner, unless such participant has made an irrevocable designation. Any designation of beneficiary under the Plan (to the extent it is valid and enforceable under the applicable law) shall be controlling over any other disposition, testamentary, or otherwise, as determined by the Committee in its discretion. If no designated beneficiary survives the participant and is living on the date on which any amount becomes payable to such participant' s beneficiary, such payment will be made to the legal representatives of the participant' s estate, and the term "beneficiary" as used in the Plan shall be deemed to include such person or persons. If there is any question as to the legal right of any beneficiary to receive a distribution under the Plan, the Committee in its discretion may determine that the amount in question be paid to the legal representatives of the estate of the participant, in which event the Company, the Board and the Committee and the members thereof will have no further liability to anyone with respect to such amount.

18. FINANCIAL ASSISTANCE. If the Committee determines that such action is advisable, the Company may assist any person to whom an Award has been granted in obtaining financing from the Company under the American Express 1983 Stock Purchase Assistance Plan (or other program of the Company, or one of its Affiliates approved pursuant to applicable law), or from a bank or other third party, on such terms as are determined by the Committee, and in such amount as is required to accomplish the purposes of the Plan, including, but not limited to, to permit the exercise of an Award, the participation therein, and/or the payment of any taxes in respect thereof. Such assistance may take any form that the Committee deems appropriate, including, but not limited to, a

direct loan from the Company or an Affiliate, a guarantee of the obligation by the Company or an Affiliate, or the maintenance by the Company or an Affiliate of deposits with such bank or third party.

19. MISCELLANEOUS PROVISIONS. (a) No employee or other person shall have any claim or right to be granted an Award under the Plan. Determinations made by the Committee under the Plan need not be uniform and may be made selectively among eligible individuals under the Plan, whether or not such eligible individuals are similarly situated. Neither the Plan nor any action taken hereunder shall be construed as giving any employee or other person any right to continue to be employed by or perform services for the Company or any Affiliate, and the right to terminate the employment of or performance of services by any participant at any time and for any reason is specifically reserved.

(b) No participant or other person shall have any right with respect to the Plan, the Common Shares reserved for issuance under the Plan or in any Award, contingent or otherwise, until written evidence of the Award shall have been delivered to the recipient and all the terms, conditions and provisions of the Plan and the Award applicable to such recipient (and each person claiming under or through him) have been met.

(c) Except as may be approved by the Committee, an Award or a participant' s rights and interest under the Plan may not be sold, assigned or transferred, hypothecated or encumbered in whole or in part either directly or by operation of law or otherwise (except in the event of a participant' s death) including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner. Not by way of limitation, the Committee may allow for a participant to transfer an Award to one or more members of his immediate family, to a partnership of which the only partners are members of the participant' s immediate family, or to a trust established by the participant for the benefit of one or more members of his immediate family.

(d) No Common Shares, Other Company Securities or property, other securities or property, or other forms of payment shall be issued hereunder with respect to any Award unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable federal, state, local and foreign legal, securities exchange and other applicable requirements.

(e) The Company and its Affiliates shall have the right to deduct from any payment made under the Plan any federal, state, local or foreign income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of the Company to issue Common Shares, Other Company Securities or property, other securities or property, or other forms of payment, or any combination thereof, upon exercise, settlement or payment of any Award under the Plan, that the participant (or any beneficiary or person entitled to act) pay to the Company, upon its demand, such amount as may be requested by the Company for the purpose of satisfying any liability to withhold federal, state, local or foreign income or other taxes. If the amount requested is not paid, the Company may refuse to issue Common Shares, Other

Company Securities or property, other securities or property, or other forms of payment, or any combination thereof. Notwithstanding anything in the Plan to the contrary, the Committee may, in its discretion, permit an eligible participant (or any beneficiary or person entitled to act) to elect to pay a portion or all of the amount requested by the Company for such taxes with respect to such Award, at such time and in such manner as the Committee shall deem to be appropriate (including, but not limited to, by authorizing the Company to withhold, or agreeing to surrender to the Company on or about the date such tax liability is determinable, Common Shares, Other Company Securities or property, other securities or property, or other forms of payment, that would otherwise be distributed, or have been distributed, as the case may be, pursuant to such Award to such person, having a fair market value equal to the amount of such taxes).

(f) The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under the Plan, and the rights to the payment of Awards shall be no greater than the rights of the Company' s general creditors.

(g) By accepting any Award or other benefit under the Plan, each participant and each person claiming under or through him shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee or its delegates.

(h) Fair market value in relation to Common Shares, Other Company Securities or property, other securities or property or other forms of payment of Awards under the Plan, or any combination thereof, as of any specific time shall mean such value as determined by the Committee in accordance with applicable law.

(i) The masculine pronoun includes the feminine and the singular includes the plural wherever appropriate.

(j) The appropriate officers of the Company shall cause to be filed any reports, returns or other information regarding Awards hereunder or any Common Shares issued pursuant hereto as may be required by Section 13 or 15(d) of the Exchange Act (or any successor provision) or any other applicable statute, rule or regulation.

(k) The validity, construction, interpretation, administration and effect of the Plan, and of its rules and regulations, and rights relating to the Plan and to Awards granted under the Plan, shall be governed by the substantive laws, but not the choice of law rules, of the State of New York.

20. PLAN TERMINATION. The Plan may be suspended in whole or in part at any time and from time to time by the Board. This Plan shall terminate upon the earlier of the following dates or events to occur:

(a) upon the adoption of a resolution of the Board terminating the Plan; or

(b) ten years from the date the Plan is initially approved and adopted by the shareholders of the Company in accordance with Paragraph 21 hereof. No termination of the Plan shall materially alter or impair any of the rights or obligations of any person, without his consent, under any Award theretofore granted under the Plan, except that subsequent to termination of the Plan, the Committee may make amendments permitted under Paragraph 12.

21. SHAREHOLDER ADOPTION. The Plan shall be submitted to the shareholders of the Company for their approval and adoption at a meeting to be held on or before April 27, 1998, or at any adjournment thereof. The Plan shall not be effective and no Award shall be made hereunder unless and until the Plan has been so approved and adopted. The shareholders shall be deemed to have approved and adopted the Plan only if it is approved and adopted at a meeting of the shareholders duly held by vote taken in the manner required by the laws of the State of New York.

EXHIBIT 10.7

AMERICAN EXPRESS COMPANY
1998 INCENTIVE COMPENSATION PLAN
PERFORMANCE GRANT
(ALSO KNOWN AS THE 20__ INCENTIVE AWARD)
TO

____

Name of Employee

____________, 20__	December 31, 20__
Award Date	Expiration Date of Performance Period (See Paragraphs 2,4,5,6, et. al. for payment and vesting date)

We are pleased to inform you that, pursuant to the Company' s 1998 Incentive Compensation Plan, as amended (the "Plan"), the Compensation and Benefits Committee (the "Committee") of the Board of Directors (the "Board") of American Express Company (the "Company"), made an award of a performance grant (also known as the 20__ Incentive Award) to you as hereinafter set forth (the "Award") under the Plan as of the award date specified above (the "Award Date").

1. General. You have been granted the Award subject to the provisions of the Plan and the terms, conditions and restrictions set forth in this agreement (this "Agreement"). The period beginning on the first day of the fiscal year of the Company in which the Award Date occurs and ending on the Expiration Date specified above being the "Award Period." The Schedule A Value (as that term is defined below in Subparagraph 3(b)), if any, will be determined as specified in Paragraph 3.

2. Requirement of Employment. Your rights to the Cash Value and the Number of Restricted Shares or Letters of Intent, if any (as those terms are defined below) under Subparagraph 4(b) hereof, shall be provisional and shall be canceled if your continuous employment with the Company and its Affiliates or your Related Employment (as defined in the Plan) (as that term is defined in the Plan) (hereinafter collectively referred to as "employment with the American Express companies"), terminates for any reason on or before the payment date as set forth in Subparagraph 4(b). Whether and as of what date your employment with the American Express companies shall terminate if you are granted a leave of absence or commence any other break in employment intended by the Company to be temporary, shall be determined by the Committee.

3. Determination of the Schedule A Value, Cash Value and the Number of Restricted Shares or Letters of Intent.

(a) Except as otherwise provided below in this Paragraph 3 and in Paragraphs 2 and 5 hereof, there shall be paid to you in accordance with Paragraph 4 hereof, the Schedule A Value (the "Schedule A Value") as of the last day of the Award Period, if any, as provided in Subparagraph 3(b).

(b) Schedule A Value.

(i) Except as otherwise provided in this Paragraph 3, the Schedule A Value as of the last day of the Award Period will be equal to the amount, if any, determined by the Committee based on the performance (i.e., 20__ Return on Equity, and 20__ Earnings Per Share) of the Company, pursuant to Schedule A to this Agreement. However, in no event will the Schedule A Value be greater than the maximum value as set forth in Schedule A to this Agreement.

(ii) In the application of Schedule A to this Agreement after the end of the Award Period for purposes of determining the Schedule A Value pursuant to this Subparagraph 3(b), (A) if the 20__ Return on Equity or the 20__ Earnings Per Share is less than the level needed to have some Schedule A Value, there shall be no Schedule A Value, and (B) if the 20__ Return on Equity and the 2006 Earnings Per Share are equal to or greater than those levels needed to have some Schedule A Value and less than or equal to the maximum specified levels and are not represented on the table, the Schedule A Value shall be determined by straight-line interpolation from the amounts specified in such table immediately less than and greater than the amounts actually attained.

(iii) The Committee shall determine in its own discretion what portion of the Schedule A Value, if any (as adjusted in accordance with Subparagraph 3(c) below), shall be payable in cash (the "Cash Value"), and what portion shall be denominated in restricted shares or letters of intent of the Company ("the RSA" or "the LOI"), in accordance with Paragraph 4 below. The RSA or the LOI shall have the terms substantially as set forth in the form of restricted stock or letter of intent award granted generally under the Plan, or its successor, except that the RSA or the LOI shall vest pursuant to a period determined in the Committee' s discretion, except that such vesting period shall not be less than one year from date of grant, and (B) be forfeitable only if your employment with the American Express companies terminates by reason of voluntary resignation or terminates for cause (that is, violation of the Code of Conduct as in effect from time to time) prior to the applicable vesting dates. The number of restricted shares or letters of intent of the Company comprising the RSA or the LOI (the "Number of Restricted Shares" or the "Number of Letters of Intent") shall be determined by dividing such portion of the Schedule A value so designated by the Committee, if any, by the average of the high and low market value of the shares on __________ __, 20__ or such other date that the Committee approves payout of the Awards, and shall be payable in the form of an RSA or an LOI in accordance with Paragraph 4 below.

(iv) For purposes of this Award, all accounting terms are defined in accordance with generally accepted accounting principles as set forth in the Company' s annual audited financial statements, except as otherwise provided below (which will take into account, in each case, the expenses and other financial effect for the applicable year(s) of performance grants under the Plan):

(A) "Net Income" means, for any given year, the after-tax net income (or loss) of the Company or of a segment or other part of the Company, as the case may be, for such year as adjusted below, as determined by the Company in accordance with generally accepted accounting principles applied on a basis comparable to that used for the purpose of reporting industry segment data in the Company' s annual audited financial statements. The calculation of Net Income, for any given year, will be adjusted to exclude:

reported cumulative effect of accounting changes,

reported income and losses from discontinued operations, and

reported extraordinary gains and losses as determined under generally accepted accounting principles.

(B) "Average Annual Shareholders' Equity" means, for any given year, the sum of the total shareholders' equity of the Company or of a segment or other part of the Company, as the case may be, as of the first day of such year and as of the end of each month during such period (each as determined by the Company in accordance with generally accepted accounting principles but excluding the effect of Statement of Financial Accounting Standards Nos. 115 and 133 (relating to mark-to-market treatment of certain investments and accounting for derivatives, respectively) and adjustments made to Net Income pursuant to Subparagraph 3(b)(iv)(A)), divided by 13.

(C) "Return on Equity" means, for any given year, the Net Income for such year divided by the Average Annual Shareholders' Equity for such year.

(D) "Earnings Per Share" means, for any given year, the diluted earnings (or loss) per share of the Company for such year, as determined by the Company in accordance with generally accepted accounting principles for inclusion in the Company' s annual audited financial statements. The calculation of Earnings Per Share, for any given year, will be adjusted in the same fashion as Net Income for such year.

(v) To the extent permissible for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), in the event of any change in the corporate capitalization of the Company, such as by reason of any stock split, or a material corporate transaction, such as any merger of the Company into another corporation, any consolidation of the Company and one or more corporations into another corporation, any separation of the Company (including a spin-off or other distribution of stock or property by the Company), any reorganization of the Company (whether or not such reorganization comes within the definition of such term in Section 368 of the Code), or any partial or complete liquidation by the Company, other than a normal cash dividend, if the Committee shall determine that such a change equitably requires an adjustment in the calculation or terms of Return on Equity and/or Earnings Per Share, on the grounds that any such change would produce an unreasonable value, such equitable adjustment will be made by the Committee. Any such determination by the Committee to reflect such change under this subparagraph 3(b)(v) shall be final, binding and conclusive.

(c) As soon as practicable after the last day of the Award Period, the Committee may determine, in its sole discretion, that the Schedule A Value, if any (as determined above in Subparagraph 3(b)), may be adjusted downward, but in no event upward, by a percentage from 0-100% (that is, to a value of zero). In no event may the Committee amend any provision hereof so as to increase or otherwise adjust upward the Schedule A Value. In exercising its discretion to make a downward adjustment, the Committee may take into account factors such as the increase in shareholder value (as indicated, for example, by shareholder return, earnings growth and return on equity), customer satisfaction (as indicated, for example, by customer satisfaction measures, client retention and growth in products and services), employee satisfaction (as indicated, for example, by the employee values survey results), implementation of AEQL initiatives (as indicated, for example, by process changes that achieve significant results), achievement of reengineering initiatives (as indicated, for example, by cost savings), and such other factors deemed relevant by the Committee; provided that any such determination by the Committee need not be made in a uniform manner and may be made selectively among holders of awards of performance grants, whether or not such award holders are similarly situated.

(d) The Committee' s determinations as to the Schedule A Value, the Cash Value and the Number of Restricted Shares or the Number of Letters of Intent pursuant to this Agreement shall be final, binding and conclusive upon you and all persons claiming under or through you.

4. Payment of Award.

(a) As soon as practicable after the last day of the Award Period, the Committee shall determine whether the conditions of Paragraphs 2 and 3 hereof have been met and, if so, shall ascertain the Schedule A Value (and any negative adjustment thereto), Cash Value and the Number of Restricted Shares or the Number of Letters of Intent, if any, in accordance with Paragraph 3 hereof.

(b) If the Committee determines that there is no Schedule A Value, this Award will be canceled. If the Committee determines that there is some Schedule A Value, however, the Cash Value as determined pursuant to Paragraph 3 hereof shall become payable to you in cash, and the

Number of Restricted Shares or the Number of Letters of Intent shall be issued to you in the form of a restricted stock or letter of intent award under the Plan, within fifteen business days following the regularly scheduled payroll payment date of the applicable pay period beginning after January 31 of the year following the Award Period (or at such other time or times as the Committee shall determine as provided in Paragraph 6 below).

5. Termination of Employment after the Award Period but on or before the Payment Date. If, after the last day of the Award Period and on or before the date specified above in Subparagraph 4(b), but during a period when you have been in continuous employment with the American Express companies since the Award Date, you terminate your employment with the American Express companies for any reason, then you and all others claiming under or through you shall not be entitled to receive any amounts or awards under this Award, except as otherwise determined by the Committee in its sole discretion.

6. Deferral or Acceleration of Payment of Award. Any payments to be made under this Award may be deferred or accelerated in such manner as the Committee shall determine; provided, however, that any such deferral or acceleration must comply with the applicable requirements of Section 409A of the Code. As to such a deferral of payment, any such payment in excess of the amount that was originally payable to you under this Agreement will be based on a reasonable interest rate or on one or more predetermined actual investments (whether or not assets associated with the amount are actually invested therein) as determined by the Committee, and as to such an acceleration of payment to you under this Agreement, any such payment will be discounted to reasonably reflect the time value of money as determined by the Committee.

7. Change in Control. Notwithstanding anything in this Award to the contrary, if you have not received payment under this Award as discussed in Subparagraph 4(b) above, and within two years following a Change in Control, as that term is defined in the Company' s Senior Executive Severance Plan, you experience a termination of employment that would otherwise entitle you to receive the payment of severance benefits under the provisions of the severance plan that you participate in as of the date of such termination of employment, then you shall be paid under this Award, within five days after the date of such termination of employment, a cash payment under this Award equal to the value of (i) (A) the average award paid or payable to you under the 20__ and 20__ Annual Incentive Award or such other annual incentive award program of the Company or one of its subsidiaries that you participated in at the time of such prior payment for the two years prior to the Change in Control, or (B) if you have not received two such awards, the most recent award paid or payable (or guideline amount payable, if you have not previously received any such award) to you under the applicable annual incentive award program of the Company or one of its subsidiaries at the time of such prior payment), multiplied by (ii) the number of full or partial months that have elapsed during the Award Period at the time of such termination of employment divided by 12.

The Committee reserves the right to amend or delete this Paragraph 7 in whole or in part at any time and from time to time; provided, that upon and following the occurrence of a Change in Control, the Committee may not amend this Paragraph 7 in a manner that is detrimental to your rights without your express written consent. Any amendment of the definition of "Change in Control" in the Senior Executive Severance Plan will be deemed to be an amendment permitted under this Paragraph.

8. Tax Withholding and Furnishing of Information. There shall be withheld from any payment of cash or vesting of any restricted shares or letters of intent under this Award, such amount, if any, as the Company determines is required by law, including, but not limited to, U.S. federal, state, local or foreign income, employment or other taxes incurred by reason of making of the Award or of such payment. It shall be a condition precedent to the obligation of the Company to make payments under this Award that you (or those claiming under or through you) promptly provide the Company with all forms, documents or other information reasonably required by the Company in connection with the Award.

9. Rights Not Assignable. Your rights and interests under the Award and the Plan may not be sold, assigned, transferred, or otherwise disposed of, or made subject to any encumbrance, pledge, hypothecation or charge of any nature, except that you may designate a beneficiary pursuant to Paragraph 10 hereof. If you (or those claiming under or through you) attempt to violate this Paragraph 9, such attempted violation shall be null and void and without effect, and the Company' s obligation to make any further payments to you (or those claiming under or through you) hereunder shall terminate.

10. Beneficiary Designation. Subject to the provisions of the Plan, you may, by completing a form acceptable to the Company and returning it to the Corporate Secretary' s Office, at 200 Vesey Street, New York, New York 10285, name a beneficiary or beneficiaries to receive any payment to which you may become entitled under this Agreement in the event of your death. You may change your beneficiary or beneficiaries from time to time by submitting a new form to the Corporate Secretary' s Office at the same address. If you do not designate a beneficiary, or if no designated beneficiary is living on the date any amount or award becomes payable under this Agreement, such payment will be made to the legal representatives of your estate, which will be deemed to be your designated beneficiary under this Agreement.

11. Administration. Any action taken or decision made by the Company, the Board or the Committee or its delegates arising out of or in connection with the construction, administration, interpretation or effect of the Plan or this Agreement shall lie within its sole and absolute discretion, as the case may be, and shall be final, conclusive and binding upon you and all persons claiming under or through you. By accepting this Award or other benefit under the Plan, you and each person claiming under or through you shall be conclusively deemed to have indicated acceptance and ratification of, and consent to, any action taken or decision made under the Plan by the Company, the Board or the Committee or its delegates.

12. Major Transaction. This Paragraph shall apply in the event of a Major Transaction (as defined in the American Express Senior Executive Severance Plan, as amended from time to time).

If all or any portion of the payments or benefits to which the Participant will be entitled under the Plan, either alone or together with other payments or benefits which the Participant receives or is entitled to receive directly or indirectly from the Company or any of its subsidiaries or any other person or entity that would be treated as a payor of parachute payments as hereinafter defined, under any other plan, agreement or arrangement, would constitute a "parachute payment" within the meaning of Section 280G of the Code or any successor provision thereto and regulations or other guidance thereunder (except that "2.95" shall be used instead of "3" under Section 280G(b)(2)(A)(ii) of the Code or any successor provision thereto), such payment or benefits provided to the Participant under this Plan, and any other payments or benefits which the Participant receives or is entitled to receive directly or indirectly from the Company or any of its subsidiaries or any other person or entity that would be treated as a payor of parachute payments as hereinafter defined, under any other plan, agreement or arrangement which would constitute a parachute payment, shall be reduced (but not below zero) as described below to the extent necessary so that no portion thereof would constitute such a parachute payment as previously defined (except that "2.95" shall be used instead of "3" under Section 280G(b)(2)(A)(ii) of the Code or any successor provision thereto). Whether payments or benefits to the Participant would constitute a "parachute payment", whether such payments or benefits are to be reduced pursuant to the first sentence of this Paragraph, and the extent to which they are to be so reduced, will be determined by the firm serving, immediately prior to the Major Transaction, as the Company' s independent auditors, or if that firm refuses to serve, by another qualified firm, whether or not serving as independent auditors, designated by the Administration Committee under the American Express Senior Executive Severance Plan (the "Firm"). The Firm will be paid reasonable compensation by the Company for such services. If the Firm concludes that its determination is inconsistent with a final determination of a court or the Internal Revenue Service, the Firm shall, based on such final determination, redetermine whether the amount payable to the Participant should have been reduced and, if applicable, the amount of any such reduction. If the Firm determines that a lesser payment should have been made to the Participant, then an amount equal to the amount of the excess of the earlier payment over the redetermined amount (the "Excess Amount") will be deemed for all purposes to be a loan to the Participant made on the date of the Participant' s receipt of such Excess Amount, which the Participant will have an obligation to repay to the Company on the fifth business day after demand, together with interest on such amount at the lowest applicable Federal rate (as defined in Section 1274(d) of the Code or any successor provision thereto), compounded semi-annually (the "Section 1274 Rate") from the date of the Participant' s receipt of such Excess Amount until the date of such repayment (or such lesser rate (including zero) as may be designated by the Firm such that the Excess Amount and such interest will not be treated as a parachute payment as previously defined). If the Firm determines that a greater payment should have been made to the Participant, within five business days of such determination, the Company will pay to the Participant the amount of the deficiency, together with interest thereon from the date such amount should have been paid to the date of such payment, at the Section 1274 Rate (or such lesser rate (including zero) as may be designated by the Firm such that the amount of such deficiency and such interest will not be treated as a parachute payment as previously defined). If a reduction is to be made pursuant to this Paragraph, the Firm will have the right to determine which payments and benefits will be reduced, either those under this Plan alone or such other payments or benefits which the Participant receives or is entitled to receive directly or indirectly from the Company or any of its subsidiaries or any other person or entity that would be treated as a payor of parachute payments as previously defined, under any other plan, agreement or arrangement.

13. Change in Control Payments. This Paragraph shall apply in the event of Change in Control (as defined in the American Express Senior Executive Severance Plan, as amended from time to time).

(a) In the event that any payment or benefit received or to be received by you hereunder in connection with a Change in Control or termination of your employment (such payments and benefits, excluding Gross-Up Payment (as hereinafter defined), being hereinafter referred to collectively as the "Payments"), will be subject to the excise tax referred to in Section 4999 of the Code (the "Excise Tax"), then (i) if you are classified in Band 70 (or its equivalent) or above immediately prior to such Change in Control (a "Tier 1 Employee"), the Company shall pay to such Tier 1 Employee, within five days after receipt by such Tier 1 Employee of the written statement referred to in Subparagraph (e) below, an additional amount (the "Gross-Up Payment") such that the net amount retained by such Tier 1 Employee, after deduction of any Excise Tax on the Payments and any federal, state and local income and employment taxes and Excise Tax upon the Gross-Up Payment, shall be equal to the Payments and (ii) is you are other than a Tier 1 Employee, the Payments shall be reduced to the extent necessary so that no portion of the Payments is subject to the Excise Tax but only if (A) the net amount of all Total Payments (as hereinafter defined), as so reduced (and after subtracting the net amount of federal, state and local income and employment taxes on such reduced Total Payments), is greater than or equal to (B) the net amount of such Total Payments without any such reduction (but after subtracting the net amount of federal, state and local income and employment taxes on such Total Payments and the amount of Excise Tax to which you would be subject in respect of such unreduced Total Payments); provided, however, that you may elect in writing to have other components of your Total Payments reduced prior to any reduction in the Payments hereunder.

(b) For purposes of determining whether the Payments will be subject to the Excise Tax, the amount of such Excise Tax and whether any Payments are to be reduced hereunder: (i) all payments and benefits received or to be received by you in connection with such Change in Control or the termination of your employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any Person (as such term is defined in the Company' s Senior Executive Severance Plan) whose actions result in such Change in Control or any Person affiliated with the Company or such Person (all such payments and benefits, excluding the Gross-Up Payment and any similar gross-up payment to which a Tier 1 Employee may be entitled under any such other plan, arrangement or agreement, being hereinafter referred to as the "Total Payments"), shall be treated as "parachute payments" (within the meaning of Section 280G(b)(2) of the Code) unless, in the opinion of the Firm, such payments or benefits (in whole or in part) do not constitute parachute payments, including by reason of Section 280G(b)(2)(A) or Section 280G(b)(4)(A) of the Code; (ii) no portion of the Total Payments the receipt or enjoyment of which you shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of Section 280G(b) of the Code shall be taken into account; (iii) all "excess parachute payments" within the meaning of Section 280G(b)(l) of the Code shall be treated as subject to the Excise Tax unless, in the opinion of the Firm, such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4)(B) of the Code) in excess of the Base Amount (within the meaning of Section 280G(b)(3) of the Code) allocable to such reasonable compensation, or are otherwise not subject to the Excise Tax; and (iv) the value of any noncash benefits or any deferred payment or benefit shall be determined by the Firm in accordance with the principles of Sections 280G(d)(3) and (4) of the Code and regulations or other guidance thereunder. For purposes of determining the amount of the Gross-Up Payment in respect of a Tier 1 Employee and whether any Payments in respect of a Participant (other than a Tier 1 Employee) shall be reduced, shall be deemed to pay federal income tax at the highest marginal rate of federal income taxation (and state and local income taxes at the highest marginal rate of taxation in the state and locality of your residence, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes) in the calendar year in which the Gross-Up Payment is to be made (in the case of a Tier 1 Employee) or in which the Payments are made (if you are other than a Tier 1 Employee). The Firm will be paid reasonable compensation by the Company for its services.

(c) In the event that the Excise Tax is finally determined to be less than the amount taken into account hereunder in calculating the Gross-Up Payment, then an amount equal to the amount of the excess of the earlier payment over the redetermined amount (the "Excess Amount") will be deemed for all purposes to be a loan to the Tier 1 Employee made on the date of the Tier 1 Employee' s receipt of such Excess Amount, which the Tier 1 Employee will have an obligation to repay to the Company on the fifth business day after demand, together with interest on such amount at the Section 1274 Rate from the date of the Tier 1 Employee' s receipt of such Excess Amount until the date of such repayment (or such lesser rate (including zero) as may be designated by the Firm such that the Excess Amount and such interest will not be treated as a parachute payment as previously defined). In the event that the Excise Tax is finally determined to exceed the amount taken into account hereunder in calculating the Gross-Up Payment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), within five business days of such determination, the Company will pay to the Tier 1 Employee an additional amount, together with interest thereon from the date such additional amount should have been paid to the date of such payment, at the Section 1274 Rate (or such lesser rate (including zero) as may be designated by the Firm such that the amount of such deficiency and such interest will not be treated as a parachute payment as previously defined). The Tier 1 Employee and the Company shall each reasonably cooperate with the other in connection with any administrative or judicial proceedings concerning the amount of any Gross-Up Payment.

(d) As soon as practicable following a Change in Control, the Company shall provide to each Tier 1 Employee and to each other Participant with respect to whom it is proposed that Payments be reduced, a written statement setting forth the manner in which the Total Payments in respect of such Tier 1 Employee or other Participant were calculated and the basis for such calculations, including, without limitation, any opinions or other advice the Company has received from the Firm or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement).

14. Miscellaneous. Neither you nor any person claiming under or through you shall have any right or interest, whether vested or otherwise, in the Plan or the Award, unless and until all of the terms, conditions and provisions of the Plan and this Agreement shall have been complied with. In addition, neither the adoption of the Plan nor the execution of this Agreement shall in any way affect the rights and powers of any person to dismiss or discharge you at any time from

employment with the American Express companies. Notwithstanding anything herein to the contrary, neither the Company nor any of its Affiliates (as that term is defined in the Plan) nor their respective officers, directors, employees or agents shall have any liability to you (or those claiming under or through you) under the Plan, this Agreement or otherwise on account of any action taken, or decision not to take any action made, by any of the foregoing persons with respect to the business or operations of the Company or any of its Affiliates (as that term is defined in the Plan), despite the fact that any such action or decision may adversely affect in any way whatsoever Average Annual Shareholders' Equity, Earnings Per Share, Net Income or other financial measures or amounts which are accrued or payable or any of your other rights or interests under this Agreement.

15. Governing Law. The validity, construction, interpretation, administration and effect of this Agreement shall be governed by the substantive laws, but not the choice of law rules, of the State of New York.

AMERICAN EXPRESS COMPANY

By the Compensation and Benefits

Committee of the Board of Directors:

By

20__ Incentive Awards: Proposed AXP Earnings Per Share/Return on Equity Grid
for Determining Maximum Award Value

(subject to award agreement and discretionary downward adjustment)

20__ AXP Return on Equity	**20__ AXP Earnings Per Share (diluted)**					
	Less Than $____	**$____**	**$____**	**$____**	**$____**	**$____ or More**
	Value	Max. Value	Max. Value	Max. Value	Max. Value	Max. Value
__% Or More	$0	$	$	$	$	$
__%	0	$	$	$	$	$
__%	0	$	$	$	$	$
__%	0	$	$	$	$	$
__%	0	$	$	$	$	$
Less Than __%	0	0	0	0	0	0

Note: Straight-line interpolation would apply for any actual performance level that falls between two performance levels shown on the grid.

Exhibit 10.8

AMERICAN EXPRESS COMPANY
1998 INCENTIVE COMPENSATION PLAN
PORTFOLIO GRANT-________
TO

«FIRSTNAME» «LASTNAME»

__________ __, 2006	December 31, 20__
Award Date	Expiration Date of Performance Period (See Paragraphs 2, 5, 6, 7, et al. for payment and vesting date)

$
Total Target Value

$	$
Target Value of the Financial Incentive Component	Target Value of the Stock Incentive Component

We are pleased to inform you that, pursuant to the Company' s 1998 Incentive Compensation Plan, as amended (the "Plan"), the Compensation and Benefits Committee (the "Committee") of the Board of Directors (the "Board") of American Express Company (the "Company"), made an award of a portfolio grant to you as hereinafter set forth (the "Award") under the Plan as of the award date specified above (the "Award Date"). This Award is subject to the Detrimental Conduct Provisions established by the Committee, and as from time to time amended.

1. General. You have been granted the Award subject to the provisions of the Plan and the terms, conditions and restrictions set forth in this agreement (this "Agreement"). The Total Target Value of the Award consists of two components: the Target Value of the Financial Incentive Component as specified above, representing 60% of the Total Target Value (the "Financial Target Value") and the Target Value of the Stock Incentive Component as specified above, representing 40% of the Total Target Value (the "Stock Target Value"). The period beginning January 1, 20__ and ending on the expiration date specified above (the "Expiration Date") being the "Award Period." The Total Target Value, or either of its components may be reduced by the Committee in its sole discretion, which may include but need not be limited to, situations where on the last day of the Award Period you are engaged in Related Employment, as that term is defined in the Plan. The Schedule A Value (as that term is defined below in Subparagraph 3(b)), if any, and the Stock Incentive Value (as that term is defined below in Subparagraph 3(c)), if any, will be determined as specified in Paragraph 3 or 4 hereof, as the case may be.

2. Requirement of Employment. Except as otherwise provided in Paragraphs 4 and 6 hereof, your rights to the Cash Value and the Number of Restricted Shares or Letters of Intent, if any (as those terms are defined below) under Subparagraph 5(b) hereof, shall be provisional and shall be canceled in whole or in part, as determined by the Committee in its sole discretion if your continuous employment with the Company and its Affiliates (as that term is defined in the Plan) or your Related Employment as that term is defined in the Plan (hereinafter collectively referred to as "employment with the American Express companies"), terminates for any reason on or before the Payment Date as set forth in Subparagraph 5(b). Whether and as of what date your employment with the American Express companies shall terminate if you are granted a leave of absence or commence any other break in employment intended by your employer to be temporary, shall be determined by the Committee in its sole discretion.

3. Determination of the Schedule A Value of the Financial Incentive, Stock Incentive Value, Initial Value, Final Value, Cash Value and the Number of Restricted Shares or Letters of Intent.

(a) Except as otherwise provided below in this Paragraph 3 and in Paragraphs 2, 4 and 6 hereof, there shall be paid to you in accordance with Paragraph 5 hereof, the sum, as may be adjusted by the Committee pursuant to Paragraph 3(d), of the Schedule A Value of the Financial Incentive (the "Schedule A Value") as of the last day of the Award Period, if any, as provided in Subparagraph 3(b), plus the Stock Incentive Value (as that term is defined below) after the end of the Award Period, if any, as provided in Subparagraph 3(c)(i).

(b) Schedule A Value of the Financial Incentive.

(i) Except as otherwise provided in this Paragraph 3, the Schedule A Value as of the last day of the Award Period will be equal to (X) times (Y), where (X) equals the Financial Incentive Payout Percentage, if any, determined by the Committee based on the performance (i.e., Average Annual Return on Equity, Revenue and Earnings Per Share, as the case may be) of the Company or of a unit of the Company, as the case may be, pursuant to the formula provided in Schedule A to this Agreement and (Y) is the Financial Target Value. However, in no event will (X) be greater than the Maximum Value as set forth in Schedule A to this Agreement.

(ii) In the application of Schedule A to this Agreement after the end of the Award Period for purposes of determining the Schedule A Value pursuant to this Subparagraph 3(b), (A) if the Average Annual Return on Equity, Revenue and Earnings Per Share, as the case may be, are less than those levels needed to have some Schedule A Value, there shall be no Schedule A Value, and (B) if the Average Annual Return on Equity, Revenue and Earnings Per Share, as the case may be, are equal to or greater than those levels needed to have some Schedule A Value and less than or equal to the maximum specified levels and are not represented on the table, the Schedule A Value shall be determined by straight-line interpolation from the amounts specified in such table immediately less than and greater than the amounts actually attained.

(iii) For purposes of this Award, the following terms shall have the following meanings (which will take into account, in each case, the expenses and other financial effect for the applicable year(s) of portfolio grants under the Plan except as adjusted by the application of Subparagraph 3(b)(iv)).

(A) "Revenue" means, for any given year, managed revenue as reported by the Company in its annual audited financial statements.

(B) "Average Annual Revenue" means, for the Award Period, the sum of Revenue for every year during the Award Period, divided by 3.

(C) "Net Income" means, for any given year, the after-tax net income (or loss) of the Company or of a segment or other part of the Company, as the case may be, for such year as adjusted below, as determined by the Company in accordance with generally accepted accounting principles applied on a basis comparable to that used for the purpose of reporting industry segment data in the Company' s annual audited financial statements. The calculation of Net Income, for any given year, will be adjusted to exclude:

reported cumulative effect of accounting changes,

reported income and losses from discontinued operations, and

reported extraordinary gains and losses as determined under generally accepted accounting principles.

(D) "Earnings Per Share" means, for any given year, the diluted earnings (or loss) per share of the Company for such year, as determined by the Company in accordance with generally accepted accounting principles for inclusion in the Company' s annual audited financial statements. The calculation of Earnings Per Share, for any given year, will be adjusted in the same fashion as Net Income for such year.

(E) "Average Annual Earnings Per Share" means, for the Award Period, the sum of the Earnings Per Share for every year during the Award Period, divided by 3.

(F) "Average Annual Shareholders' Equity" means, for any given year, the sum of the total shareholders' equity of the Company or of a segment or other part of the Company, as the case may be, as of the first day of such year and as of the end of each month during such period (each as determined by the Company in accordance with generally accepted accounting principles but excluding the effect of Statement of Financial Accounting Standards Nos. 115 and 133 (relating to mark-to-market treatment of certain investments and accounting for derivatives, respectively) and adjustments made to Net Income pursuant to Subparagraph 3(b)(iii)(C)), divided by 13.

(G) "Annual Return on Equity" means, for any given year, the Net Income for such year divided by the Average Annual Shareholders' Equity for such year.

(H) "Average Annual Return on Equity" means, for the Award Period, the sum of the Annual Return on Equity for every year during the Award Period, divided by 3.

(I) "Amex Total Shareholder Return" or "Amex TSR" means the compound annual growth rate, expressed as a percentage with one decimal point, in the value of a share of common stock in the Company due to stock appreciation and dividends, assuming dividends are reinvested, during the Award Period. For this purpose, the "Beginning Stock Price" shall mean the average closing sales prices on the New York Stock Exchange Composite Transaction Tape for the trading days in the month of December immediately preceding the beginning of the Award Period; and, the "Ending Stock Price" shall mean the average closing sales prices on the New York Stock Exchange Composite Transaction Tape for the trading days in the month of December immediately preceding the Expiration Date. The Amex TSR is calculated as follows:

$$\left(\frac{\text{Ending Stock Price + value of dividends paid and reinvested during the Award Period}}{\text{Beginning Stock Price}}\right)^{(1/3)} -1$$

(J) "S&P Financial Index Total Shareholder Return" or "S&P Financial TSR" means the compound annual growth rate, expressed as a percentage with one decimal point, in the value of the S&P Financial Index during the Award Period. It is calculated in a manner consistent with Subparagraph 3(b)(iii)(I) above from information publicly reported by Standard & Poors Company (or the entity that publishes such other index, as the case may be).

(iv) To the extent permissible for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), in the event of any change in the corporate capitalization of the Company ("Capitalization Change"), such as by reason of any stock split, or a material corporate transaction, such as any merger of the Company into another corporation, any consolidation of the Company and one or more corporations into another corporation, any separation of the Company (including a spin-off or other distribution of stock or property by the Company), any reorganization of the Company (whether or not such reorganization comes within the definition of such term in Section 368 of the Code), or any partial or complete liquidation by the Company, other than a normal cash dividend, if the Committee shall determine that such a change equitably requires an adjustment in the calculation or terms of Average Annual Return on Equity, Revenue and/or Earnings Per Share, on the grounds that any such change would produce an unreasonable value, such equitable adjustment will be made by the Committee. Any such determination by the Committee to reflect such change under this subparagraph 3(b)(iv) shall be final, binding and conclusive.

(c) Stock Incentive Value.

(i) Except as otherwise provided in this Paragraph 3 and in Paragraph 1 above, the Stock Incentive Value, as determined by the Committee after the last day of the Award Period (the "Stock Incentive Value"), will be an amount equal to (A) times (B), where (A) is the Stock Incentive Payout Percentage, if any, determined by the Committee based on a comparison of the Amex TSR and the S&P Financial TSR pursuant to the formula and (B) is the Stock Target Value, both provided in Schedule A to this Agreement. However, in no event will (A) be greater than the Maximum Value of the Stock Incentive Value as set forth in Schedule A to this Agreement.

(ii) To the extent permissible for purposes of Section 162(m) of the Code, upon the occurrence of a Capitalization Change, if the Committee shall determine that such a change equitably requires an adjustment in the calculation or terms of the Stock Incentive Amex TSR, on the grounds that any such change would produce an unreasonable value, such equitable adjustment will be made by the Committee. Any such determination by the Committee to reflect such change under this Subparagraph 3(c)(ii) shall be final, binding and conclusive.

(d) As soon as practicable after the last day of the Award Period, the Committee may determine, in its sole discretion, that the sum of the Schedule A Value and the Stock Incentive Value (as initially determined above in Subparagraphs 3(b) and (c), respectively) may be adjusted downward (that is, to a value of zero), but in no event upward, as follows:

(i) Your Unit' s Results. Downward by a percentage (ranging from 0-100%) of such initially-determined sum, based on such criteria as the Committee shall deem appropriate relating to your unit' s results, with such resultant sum being the "Initial Value"; provided that any such determination by the Committee need not be made in a uniform manner and may be made selectively among holders of awards of portfolio grants in your unit, whether or not such award holders are similarly situated.

(ii) Your Individual Results. The Initial Value may be adjusted further downward by a percentage (ranging from 0-100%) of such Initial Value after the application of Subparagraph 3(d)(i), based on such criteria as the Committee shall deem appropriate relating to your individual results, with such final resultant sum being the "Final Value"; provided that any such determination by the Committee need not be made in a uniform manner and may be made selectively among holders of awards of portfolio grants, whether or not such award holders are similarly situated.

In no event may the Committee amend any provision hereof so as increase or otherwise adjust upward the Schedule A Value or any component thereof or the Stock Incentive Value.

(e) The Committee shall determine the Schedule A Value, the Stock Incentive Value, the Initial Value and the Final Value pursuant to this Agreement, and such determinations by the Committee shall be final, binding and conclusive upon you and all persons claiming under or through you.

(f) The Committee shall determine in its own discretion what portion of the Final Value, if any, shall be payable in cash (the "Cash Value"), and what portion shall be denominated in restricted shares or letters of intent of the Company ("the RSA" or "the LOI"), in accordance with Paragraph 5 below. The RSA or the LOI shall have the terms substantially as set forth in the form of restricted stock or letter of intent award granted generally under the Plan, or its successor, except that the RSA or the LOI shall vest pursuant to a period determined in the Committee' s discretion, except that such vesting period shall not be less than one year from date of grant, and (B) be forfeitable only if your employment with the American Express companies terminates by reason of voluntary resignation or terminates for cause (that is, violation of the Code of Conduct as in effect from time to time) prior to the applicable vesting dates. The number of restricted shares or letters of intent of the Company comprising the RSA or the LOI (the "Number of Restricted Shares" or the "Number of Letters of Intent") shall be determined by dividing such portion of the Final Value so designated by the Committee, if any, by the average of the high and low market value of the shares on January 19, 20__ or such other date that the Committee approves payout of the Awards, and shall be payable in the form of an RSA or an LOI in accordance with Paragraph 5 below.

4. Death, Disability or Retirement.

(a) If, on or before the Payment Date set forth in Subparagraph 5(b) but during a period when you have been in continuous employment with the American Express companies since the Award Date, you terminate your employment with the American Express companies by reason of disability at any time following the Award Date (as that term is defined in the Plan) or you die at any time following the Award Date, you will be entitled to that proportion of the Final Value as the number of full months which have elapsed between January 1, 20__ and the end of the month in which your termination of employment by reason of death or such disability occurs (not to exceed 38) bears to 38, and for this purpose, to the extent not otherwise previously determined by the Committee, in the event of your disability or death, the Final Value shall be calculated by applying the rate at which the expense for the Award was being accrued for purposes of the Company' s annual audited financial statement at the end of the last completed calendar quarter prior to your disability or death, as applicable.

Such amount, if any, shall be payable as soon as practicable thereafter, unless otherwise determined by the Committee, in cash, common shares of the Company, or other property, or any combination thereof, and you and all others claiming under or through you shall not be entitled to receive any other amounts under this Award.

(b) If, on or before the Payment Date set forth in Subparagraph 5(b) but during a period when you have been in continuous employment with the American Express companies since the Award Date, you terminate your employment with the American Express companies by reason of retirement (as that term is defined by the Committee), and such event occurs more than one year after the Award Date, you will be entitled to receive an amount under this Award as provided in this Subparagraph 4(b). Generally, in such event you will be entitled to that proportion of the Final Value as the number of full months which have elapsed between January 1, 20__ and the end of the month in which your termination of employment by reason of such retirement occurs (not to exceed 38) bears to 38, unless such termination occurs following the attainment of age 60, in which case you will be entitled to receive 50% of the Final Value you would otherwise forfeit under the above formula, or, unless such termination occurs following attainment of age 62, in which case you will be entitled to 100% of the Final Value. The Final Value for this purpose shall be determined after the last day of the Award Period in the normal course in accordance with Paragraph 3 hereof. Such amount, if any, shall be payable in cash, Restricted Stock or Letters of Intent, as described in Paragraph 3(f) above, or other property, or any combination thereof, after the Award Period in accordance with Paragraphs 5 and 6 hereof, and you and all others claiming under or through you shall not be entitled to receive any other amounts under this Award.

5. Payment of Award.

(a) As soon as practicable after the last day of the Award Period, or the earlier date your continuous employment with American Express companies terminates by reason of disability or death in accordance with Paragraph 4 above, but prior to payment in respect of the Award, the Committee shall determine whether the conditions of Paragraph 2, 3 or 4 hereof have been met and, if so, shall ascertain the Final Value, Cash Value and the Number of Restricted Shares or the Number of Letters of Intent, if any, in accordance with Paragraph 3 or 4, as the case may be.

(b) If the Committee determines that there is no Schedule A Value, the Financial Incentive part of this Award will be canceled, and the Stock Incentive Value, if any, as determined in accordance with Paragraph 3 or 4 shall become payable to you in the form provided below in this Subparagraph 5(b). If the Committee determines that there is some Schedule A Value, however, the Cash Value as determined pursuant to Paragraph 3 hereof shall become payable to you in cash, and the Number of Restricted Shares or the Number of Letters of Intent shall be issued to you in the form of a restricted stock or letter of intent award under the Plan, or its successor, except that the RSA or the LOI shall vest pursuant to a period determined in the Committee' s discretion, and such vesting period shall not be less than one year from date of grant), or other property, or any combination thereof as soon as practicable following February 1, 20__ (or at such other time or times as the Committee shall determine as provided in Paragraph 7 below) (the "Payment Date").

6. Termination of Employment after the Award Period but On or Before the Payment Date. If, after the last day of the Award Period and on or before the Payment Date specified above in Subparagraph 5(b), but during a period when you have been in continuous employment with the American Express companies since the Award Date, your employment terminates with the American Express companies for any reason other than death, disability or retirement as set forth in Paragraph 4, then, you and all others claiming under or through you shall not be entitled to receive any amounts under this Award, except as otherwise determined by the Committee in its sole discretion.

7. Deferral or Acceleration of Payment of Award. Any payments to be made under this Award may be deferred or accelerated in such manner as the Committee shall determine; provided, however, that any such deferral or acceleration must comply with the applicable requirements of Section 409A of the Code. As to such a deferral of payment, any amount paid in excess of the amount that was originally payable to you under this Agreement will be based on a reasonable interest rate as determined by the Committee, and as to such an acceleration of payment to you under this Agreement, any amount so paid will be discounted to reasonably reflect the time value of money as determined by the Committee.

8. Change in Control. Notwithstanding anything in this Agreement to the contrary (except for the provision dealing with a limitation under Section 280G of the Code), if you have not received payment under the Agreement and, within two years after the date of a Change in Control (as defined below), you experience a termination of employment that would otherwise entitle you to receive the payment of severance benefits under the provisions of the severance plan that are in effect and that you participate in as of the date of such Change in Control, (i) you shall immediately be 100% vested in the Award; (ii) the Committee shall determine the Schedule A Value and Stock Incentive Value as of the date of such termination of employment as if the Award Period had just ended, based on results against the financial performance measures for the Schedule A Value or the Amex TSR in comparison to the S&P Financial TSR for the Stock Incentive Value up to the last day of the calendar quarter ending on or immediately prior to such date, but prorated based on (a) the total number of full and partial months of the Award Period which have elapsed between (X) January 1 20__, and (Y) the date of such termination of employment (not to exceed 36), divided by (b) the total number of months in the Award Period; provided, however, the Committee shall adjust the resulting Schedule A value downward by thirty-three percent (33%) and (iii) such value of the Award shall be paid to you in cash within five days after the date of such termination of employment. The Committee may not amend or delete this Paragraph 8 of this Agreement in a manner that is detrimental to you, without your written consent. A "Change in Control" has that meaning as defined in American Express Senior Executive Severance Plan, as amended from time to time.

9. Tax Withholding and Furnishing of Information. There shall be withheld from any payment of cash or vesting of restricted shares or letters of intent under this Award, such amount, if any, as the Company and/or your employer determines is required by law, including, but not limited to, U.S. federal, state, local or foreign income, employment or other taxes incurred by reason of making of the Award or of such payment. It shall be a condition to the obligation of the Company to make payments under this Award that you (or those claiming under or through you) promptly provide the Company and/or your employer with all forms, documents or other information reasonably required by the Company and/or your employer in connection with the Award.

10. Rights Not Assignable. Except as otherwise determined by the Committee in its sole discretion, your rights and interests under the Award and the Plan may not be sold, assigned, transferred, or otherwise disposed of, or made subject to any encumbrance, pledge, hypothecation or charge of any nature, except that you may designate a beneficiary pursuant to Paragraph 11 hereof. If you (or those claiming under or through you) attempt to violate this Paragraph 10, such attempted violation shall be null and void and without effect, and the Company' s obligation to make any further payments to you (or those claiming under or through you) hereunder shall terminate.

11. Beneficiary Designation. Subject to the provisions of the Plan, you may, by completing a form acceptable to the Company and returning it to the Corporate Secretary' s Office, at 200 Vesey Street, New York, New York 10285, name a beneficiary or beneficiaries to receive any payment to which you may become entitled under this Agreement in the event of your death. You may change your beneficiary or beneficiaries from time to time by submitting a new form to the Corporate Secretary' s Office at the same address. If you do not designate a beneficiary, or if no designated beneficiary is living on the date any amount becomes payable under this Agreement, such payment will be made to the legal representatives of your estate, which will be deemed to be your designated beneficiary under this Agreement.

12. Administration. Any action taken or decision made by the Company, the Board or the Committee or its delegates arising out of or in connection with the construction, administration, interpretation or effect of the Plan or this Agreement shall lie within its sole and absolute discretion, as the case may be, and shall be final, conclusive and binding upon you and all persons claiming under or through you. By accepting this Award or other benefit under the Plan, you and each person claiming under or through you shall be conclusively deemed to have indicated acceptance and ratification of, and consent to, any action taken or decision made under the Plan by the Company, the Board or the Committee or its delegates.

13. Major Transaction. This Paragraph shall apply in the event of a Major Transaction (as defined in the American Express Senior Executive Severance Plan, as amended from time to time).

If all or any portion of the payments or benefits to which the Participant will be entitled under the Plan, either alone or together with other payments or benefits which the Participant receives or is entitled to receive directly or indirectly from the Company or any of its subsidiaries or any other person or entity that would be treated as a payor of parachute payments as hereinafter defined, under any other plan, agreement or arrangement, would constitute a "parachute payment" within the meaning of Section 280G of the Code or any successor provision thereto and regulations or other guidance thereunder (except that "2.95" shall be used instead of "3" under Section 280G(b)(2)(A)(ii) of the Code or any successor provision thereto), such payment or benefits provided to the Participant under this Plan, and any other payments or benefits which the Participant receives or is entitled to receive directly or indirectly from the Company or any of its subsidiaries or any other person or entity that would be treated as a payor of parachute payments as hereinafter defined, under any other plan, agreement or arrangement which would constitute a parachute payment, shall be reduced (but not below zero) as described below to the extent necessary so that no portion thereof would constitute such a parachute payment as previously defined (except that "2.95" shall be used instead of "3" under Section 280G(b)(2)(A)(ii) of the Code or any successor provision thereto). Whether payments or benefits to the Participant would constitute a "parachute payment", whether such payments or benefits are to be reduced pursuant to the first sentence of this Paragraph, and the extent to which they are to be so reduced, will be determined by the firm serving, immediately prior to the Major Transaction, as the Company' s independent auditors, or if that firm refuses to serve, by another qualified firm, whether or not serving as independent auditors, designated by the Administration Committee under the American Express Senior Executive Severance Plan (the "Firm"). The Firm will be paid reasonable compensation by the Company for such services. If the Firm concludes that its determination is inconsistent with a final determination of a court or the Internal Revenue Service, the Firm shall, based on such final determination, redetermine whether the amount payable to the Participant should have been reduced and, if applicable, the amount of any such reduction. If the Firm determines that a lesser payment should have been made to the Participant, then an amount equal to the amount of the excess of the earlier payment over the redetermined amount (the "Excess Amount") will be deemed for all purposes to be a loan to the Participant made on the date of the Participant' s receipt of such Excess Amount, which the Participant will have an obligation to repay to the Company on the fifth business day after demand, together with interest on such amount at the lowest applicable Federal rate (as defined in Section 1274(d) of the Code or any successor provision thereto), compounded semi-annually (the "Section 1274 Rate") from the date of the Participant' s receipt of such Excess Amount until the date of such repayment (or such lesser rate (including zero) as may be designated by the Firm such that the Excess Amount and such interest will not be treated as a parachute payment as previously defined). If the Firm determines that a greater payment should have been made to the Participant, within five business days of such determination, the Company will pay to the Participant the amount of the deficiency, together with interest thereon from the date such amount should have been paid to the date of such payment, at the Section 1274 Rate (or such lesser rate (including zero) as may be designated by the Firm such that the amount of such deficiency and such interest will not be treated as a parachute payment as previously defined). If a reduction is to be made pursuant to this Paragraph, the Firm will have the right to determine which payments and benefits will be reduced, either those under this Plan alone or such other payments or benefits which the Participant receives or is entitled to receive directly or indirectly from the Company or any of its subsidiaries or any other person or entity that would be treated as a payor of parachute payments as previously defined, under any other plan, agreement or arrangement.

14. Change in Control Payments. This Paragraph shall apply in the event of Change in Control (as defined in the American Express Senior Executive Severance Plan, as amended from time to time).

(a) In the event that any payment or benefit received or to be received by you hereunder in connection with a Change in Control or termination of your employment (such payments and benefits, excluding Gross-Up Payment (as hereinafter defined), being hereinafter referred to collectively as the "Payments"), will be subject to the excise tax referred to in Section

4999 of the Code (the "Excise Tax"), then (i) if you are classified in Band 70 (or its equivalent) or above immediately prior to such Change in Control (a "Tier 1 Employee"), the Company shall pay to such Tier 1 Employee, within five days after receipt by such Tier 1 Employee of the written statement referred to in Subparagraph (e) below, an additional amount (the "Gross-Up Payment") such that the net amount retained by such Tier 1 Employee, after deduction of any Excise Tax on the Payments and any federal, state and local income and employment taxes and Excise Tax upon the Gross-Up Payment, shall be equal to the Payments and (ii) if you are other than a Tier 1 Employee, the Payments shall be reduced to the extent necessary so that no portion of the Payments is subject to the Excise Tax but only if (A) the net amount of all Total Payments (as hereinafter defined), as so reduced (and after subtracting the net amount of federal, state and local income and employment taxes on such reduced Total Payments), is greater than or equal to (B) the net amount of such Total Payments without any such reduction (but after subtracting the net amount of federal, state and local income and employment taxes on such Total Payments and the amount of Excise Tax to which you would be subject in respect of such unreduced Total Payments); provided, however, that you may elect in writing to have other components of your Total Payments reduced prior to any reduction in the Payments hereunder.

(b) For purposes of determining whether the Payments will be subject to the Excise Tax, the amount of such Excise Tax and whether any Payments are to be reduced hereunder: (i) all payments and benefits received or to be received by you in connection with such Change in Control or the termination of your employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any Person (as such term is defined in the Company' s Senior Executive Severance Plan) whose actions result in such Change in Control or any Person affiliated with the Company or such Person (all such payments and benefits, excluding the Gross-Up Payment and any similar gross-up payment to which a Tier 1 Employee may be entitled under any such other plan, arrangement or agreement, being hereinafter referred to as the "Total Payments"), shall be treated as "parachute payments" (within the meaning of Section 280G(b)(2) of the Code) unless, in the opinion of the Firm, such payments or benefits (in whole or in part) do not constitute parachute payments, including by reason of Section 280G(b)(2)(A) or Section 280G(b)(4)(A) of the Code; (ii) no portion of the Total Payments the receipt or enjoyment of which you shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of Section 280G(b) of the Code shall be taken into account; (iii) all "excess parachute payments" within the meaning of Section 280G(b)(l) of the Code shall be treated as subject to the Excise Tax unless, in the opinion of the Firm, such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4)(B) of the Code) in excess of the Base Amount (within the meaning of Section 280G(b)(3) of the Code) allocable to such reasonable compensation, or are otherwise not subject to the Excise Tax; and (iv) the value of any noncash benefits or any deferred payment or benefit shall be determined by the Firm in accordance with the principles of Sections 280G(d)(3) and (4) of the Code and regulations or other guidance thereunder. For purposes of determining the amount of the Gross-Up Payment in respect of a Tier 1 Employee and whether any Payments in respect of a Participant (other than a Tier 1 Employee) shall be reduced, a Participant shall be deemed to pay federal income tax at the highest marginal rate of federal income taxation (and state and local income taxes at the highest marginal rate of taxation in the state and locality of your residence, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes) in the calendar year in which the Gross-Up Payment is to be made (in the case of a Tier 1 Employee) or in which the Payments are made (if you are other than a Tier 1 Employee). The Firm will be paid reasonable compensation by the Company for its services.

(c) In the event that the Excise Tax is finally determined to be less than the amount taken into account hereunder in calculating the Gross-Up Payment, then an amount equal to the amount of the excess of the earlier payment over the redetermined amount (the "Excess Amount") will be deemed for all purposes to be a loan to the Tier 1 Employee made on the date of the Tier 1 Employee' s receipt of such Excess Amount, which the Tier 1 Employee will have an obligation to repay to the Company on the fifth business day after demand, together with interest on such amount at the Section 1274 Rate from the date of the Tier 1 Employee' s receipt of such Excess Amount until the date of such repayment (or such lesser rate (including zero) as may be designated by the Firm such that the Excess Amount and such interest will not be treated as a parachute payment as previously defined). In the event that the Excise Tax is finally determined to exceed the amount taken into account hereunder in calculating the Gross-Up Payment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), within five business days of such determination, the Company will pay to the Tier 1 Employee an additional amount, together with interest thereon from the date such additional amount should have been paid to the date of such payment, at the Section 1274 Rate (or such lesser rate (including zero) as may be designated by the Firm such that the amount of such deficiency and such interest will not be treated as a parachute payment as previously defined). The Tier 1 Employee and the Company shall each reasonably cooperate with the other in connection with any administrative or judicial proceedings concerning the amount of any Gross-Up Payment.

(d) As soon as practicable following a Change in Control, the Company shall provide to each Tier 1 Employee and to each other Participant with respect to whom it is proposed that Payments be reduced, a written statement setting forth the manner in which the Total Payments in respect of such Tier 1 Employee or other Participant were calculated and the basis for such calculations, including, without limitation, any opinions or other advice the Company has received from the Firm or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement).

15. Miscellaneous. Neither you nor any person claiming under or through you shall have any right or interest, whether vested or otherwise, in the Plan or the Award, unless and until all of the terms, conditions and provisions of the Plan and this Agreement shall have been complied with. In addition, neither the adoption of the Plan nor the execution of this Agreement shall in any way affect the rights and powers of any person to dismiss or discharge you at any time from employment with the American Express companies. Notwithstanding anything herein to the contrary, neither the Company nor any of its Affiliates (as that term is defined in the Plan) nor their respective officers, directors, employees or agents shall have any liability to you (or those claiming under or through you) under the Plan, this Agreement or otherwise on account of any action taken, or decision not to take any action made, by any of the foregoing persons with respect to the business or operations of the Company or any of its Affiliates (as that term is defined in the Plan), despite the fact that any such action or decision may adversely affect in any way whatsoever Average Annual Shareholders' Equity, Earnings Per Share, Net Income or other financial measures or amounts which are accrued or payable or any of your other rights or interests under this Agreement.

16. Governing Law. The validity, construction, interpretation, administration and effect of this Agreement shall be governed by the substantive laws, but not the choice of law rules, of the State of New York.

AMERICAN EXPRESS COMPANY
By the Compensation and Benefits
Committee of the Board of Directors:

By

SCHEDULE A

AXP PG- FINANCIAL INCENTIVE COMPONENT (FIC) GRID FOR EXECUTIVE OFFICERS
(subject to award agreement and discretionary downward adjustment)

AXP FINANCIAL INCENTIVE COMPONENT (FIC) (allocated 60% of Total Target Value)					
AXP Average Annual $ Earnings Per Share (diluted) (40% weight)		**AXP Average Annual $ Revenue (managed basis) ($ billion) (30% weight)**		**AXP Average Annual Return on Equity (30% weight)**	
20__ - 20__ Performance Period	Max. Value % (a)(b)	20__ - 20__ Performance Period	Max. Value % (a)(b)	20__ - 20__ Performance Period	Max. Value % (a)(b)
$____ or More	___%	$___ or More	___%	___% or More	___%
$____	___%	$____	___%	___%	___%
$____	___%	$____	___%	___%	___%
$____	___%	$____	___%	___%	___%
$____	___%	$____	___%	___%	___%
Less Than $____	-0-	Less Than $___	-0-	Less Than ___%	-0-

(a) "%" = percent of the executive' s dollar Target Value allocated to the applicable performance factor.

(b) Straight-line interpolation would apply for any actual performance level that falls between two performance levels shown on the grid.

AXP = Consolidated American Express Company

AXP PG-XVI STOCK INCENTIVE COMPONENT (SIC) GRID FOR EXECUTIVE OFFICERS

(subject to award agreement and discretionary downward adjustment)

AXP STOCK INCENTIVE COMPONENT (SIC) (allocated 40% of Total Target Value)	
AXP Total Shareholder Return (TSR) % **vs. S&P Financials**	
20__ - 20__ Performance Period (percentage points AXP is higher or lower)	Max. Value % (a)(b)
+___% Or Higher	___%
+___%	___%
+___%	___%
+___%	___%
+___%	___%
+___%	___%
+___%	___%
+___%	___%
+___%	___%

+___%	___%
+___%	___%
+___%	___%
+___%	___%
0%	___%
-___%	___%
-___%	___%
-___%	___%
-___%	___%
-___%	___%
-___%	___%
-___%	___%
-___%	___%

-___%	___%
Lower Than -___%	-0-

(a) = % percent of the executive' s dollar Target Value allocated to the applicable performance factor

(b) Straight-line interpolation would apply for any actual performance level that falls between two performance levels shown on the grid.

AXP = Consolidated American Express Company

EXHIBIT 10.41

Description of 2006 Base Salary of Louise M. Parent,
Executive Vice President and General Counsel

On January 23, 2006, after a review of performance and competitive market data, the Compensation and Benefits Committee of the Board of Directors of American Express Company increased the annual base salary of Louise M. Parent, the Executive Vice President and General Counsel of the Company, from $440,000 to $500,000.

EXHIBIT 12

AMERICAN EXPRESS COMPANY

COMPUTATION IN SUPPORT OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in millions)

	Years Ended December 31,				
	2005	2004	2003	2002	2001
Earnings:					
Pretax income from continuing operations	$4,248	$3,831	$3,415	$3,021	$1,737
Interest expense	2,168	1,659	1,606	1,832	2,856
Other adjustments	150	151	154	174	175
Total earnings (a)	$6,566	$5,641	$5,175	$5,027	$4,768
Fixed charges:					
Interest expense	$2,168	$1,659	$1,606	$1,832	$2,856
Other adjustments	151	145	139	151	170
Total fixed charges (b)	$2,319	$1,804	$1,745	$1,983	$3,026
Ratio of earnings to fixed charges (a/b)	2.83	3.13	2.97	2.54	1.58

Included in interest expense in the above computation is interest expense related to the international banking operations and the cardmember lending activities, which is netted against net investment income and cardmember lending net finance charge revenue, respectively, in the Consolidated Statements of Income.

For purposes of the "earnings" computation, other adjustments include adding the amortization of capitalized interest, the net loss of affiliates accounted for under the equity method whose debt is not guaranteed by the Company, the minority interest in the earnings of majority-owned subsidiaries with fixed charges, and the interest component of rental expense and subtracting undistributed net income of affiliates accounted for under the equity method.

For purposes of the "fixed charges" computation, other adjustments include capitalized interest costs and the interest component of rental expense.

EXHIBIT 13

PORTIONS OF 2005 ANNUAL REPORT TO SHAREHOLDERS

FINANCIAL REVIEW

The financial section of American Express Company' s (the Company) Annual Report consists of this Financial Review, the Consolidated Financial Statements and the related notes that follow. The following discussion is designed to provide perspective and understanding to the Company' s consolidated financial condition and results of operations. Certain key terms are defined in the Glossary of Selected Terminology at the end of this discussion.

Executive Overview

American Express Company is a leading global payments, network and travel company. The Company offers a broad range of products including charge and credit cards; stored value products such as Travelers Cheques and gift cards; travel agency services and travel, entertainment and purchasing expense management services; network services and merchant acquisition and merchant processing for our network partners and proprietary payments businesses; and international banking products. The Company' s various products are sold globally to diverse customer groups, including consumers, small businesses, mid-market companies, large corporations and banking institutions. These products are sold through various channels including direct mail, on-line applications, targeted sales-forces and direct response advertising.

The Company generates revenue from a variety of sources including global payments, such as charge and credit cards, travel services and stored value products, including Travelers Cheques. Charge and credit cards generate revenue for the Company primarily in four different ways:

Discount revenue, the Company' s largest single revenue source, which represents fees charged to merchants when cardmembers use their cards to purchase goods and services on our network,

Finance charge revenue, which is earned on outstanding balances related to the cardmember lending portfolio,

Card fees, which are earned for annual membership, and other commissions and fees such as foreign exchange conversion fees and card-related fees and assessments, and

Securitization income, net which reflects the earnings related to cardmember loans financed through securitization activities. Refer to the Glossary for further information.

In addition to funding and operating costs associated with these activities, other major expense categories are expenses related to marketing and reward programs that add new cardmembers and promote cardmember loyalty and spending, and provisions for anticipated cardmember credit and fraud losses.

The Company believes that its "spend-centric" business model (in which it focuses primarily on generating revenues by driving spending on its cards and secondarily by finance charges and fees) has significant competitive advantages. For merchants, the higher spending represents greater value to them in the form of loyal customers and higher sales, which gives the Company the ability to earn a premium discount rate and invest in greater value-added services for merchants. As a result of the higher revenues generated from higher spending, the Company has the flexibility to offer more attractive rewards and other incentives to cardmembers, which in turn create an incentive to spend more on their cards.

Discontinued Operations

On September 30, 2005, the Company completed the spin-off of Ameriprise Financial, Inc. (Ameriprise), formerly known as American Express Financial Corporation, the Company' s financial planning and financial services business, with the distribution of Ameriprise common stock to the Company' s shareholders in a tax-free transaction for U.S. federal income tax purposes. The net assets distributed to shareholders have been treated as a dividend and charged to retained earnings. In addition, during the third quarter of 2005, the Company completed certain dispositions including the sale of American Express Tax and Business Services, Inc. (TBS), its tax, accounting and consulting business. The operating results and assets and liabilities related to Ameriprise and certain dispositions (including TBS) prior to disposal have been reflected as discontinued operations in the Consolidated Financial Statements.

Segment Reporting

Effective September 30, 2005, the Company realigned its segment presentation to reflect the spin-off of Ameriprise. The new segments are: U.S. Card Services, International Card & Global Commercial Services, Global Network & Merchant Services, and Corporate & Other.

U.S. Card Services includes the U.S. proprietary consumer card business, OPEN from American Express, the global Travelers Cheques and Prepaid Services business and the American Express U.S. Consumer Travel Network. As noted above, charge and credit cards generate revenue for the Company primarily through discount revenue, net finance charge revenue, card fees and securitization income, net. Prepaid Services, including Travelers Cheques, earn investment income as cash is invested prior to encashment of Travelers Cheques or use of other prepaid products, in addition to other fees.

International Card & Global Commercial Services provides proprietary consumer cards and small business cards outside the United States. International Card & Global Commercial Services also offers global corporate products and services, including Corporate Card, issued to individuals through a corporate account established by their employer; Business Travel, which helps businesses manage their travel expenses through a variety of travel-related products and services; and Corporate Purchasing Solutions, an account established by a company to pay for everyday business expenses such as office and computer supplies. International Card & Global Commercial Services also includes American Express Bank Ltd., which provides financial products and services to retail customers and wealthy individuals outside the United States and financial institutions around the world.

International Card & Global Commercial Services derives its revenues from a number of sources including discount revenue from business billed on its proprietary card and corporate payment and expense management products, net finance charge revenue, net interest income from its international banking operation and various revenues and fees from its corporate travel management services and other products.

Global Network & Merchant Services consists of the Merchant Services businesses and Global Network Services. Global Network Services develops and manages relationships with third parties that issue American Express branded cards. The Global Merchant Services businesses develop and manage relationships with merchants that accept American Express branded cards; authorize and record transactions; pay merchants; and provide a variety of value-added point-of-sale and back office services. Global Network & Merchant Services works with merchant and bank partners to develop and market product propositions, operate systems that enable third parties to interface with the American Express global network and provide network functions that include operations, service delivery, authorization, clearing, settlement and brand advertising, new product development and marketing.

Global Network & Merchant Services derives its revenues primarily from discount revenue charged to merchants. Other revenues include royalties, contributions from joint venture partnerships and fees charged to merchants and partners for services.

Corporate & Other consists of corporate functions and auxiliary businesses including, for 2003 and 2004, the leasing product line of the Company’ s small business financing unit, American Express Business Finance Corporation, which was sold in 2004.

The Company creates shareholder value by focusing on the following elements:

Driving growth, principally organically, through related business opportunities or joint ventures and selected acquisitions;

Delivering returns well in excess of the Company’ s cost of capital; and

Distributing excess capital to shareholders through dividends and stock repurchases.

Overall, it is management's priority to increase shareholder value over the moderate to long-term by achieving the following long-term financial targets, on average and over time:

Earnings per share growth of 12 to 15 percent;

Revenue growth of at least 8 percent; and

Return on shareholders' equity of 28 to 30 percent (18 to 20 percent prior to the Ameriprise spin-off).

During 2005, the Company met or exceeded its earnings per share, revenue and return on equity targets, illustrating the benefits of the strong business momentum achieved through the business-building investments made over the past few years. After the completion of the Ameriprise spin-off in 2005, the Company raised its return on equity target from 18 to 20 percent to 28 to 30 percent. Reported return on shareholders' equity for 2005 was 25 percent which exceeded our target prior to the spin-off and which is calculated on a trailing 12-month basis using reported net income over average total shareholders' equity including discontinued operations (prior to disposal).

Pro forma return on shareholders' equity, determined using income from continuing operations over the average of the month-end shareholders' equity at September 30, 2005 through December 31, 2005, was 31 percent. Management believes pro forma return on shareholders' equity is a better comparison to the 28-30 percent target post spin-off as the earnings and capital from discontinued operations reflected in the calculation of reported return on shareholders' equity are not included in the 28-30 percent target.

A summary of the Company's recent financial performance follows:

Years Ended December 31, (Millions, except per share amounts and ratio data)	**2005**	**2004**	**Percent Increase**
Revenues	**$24,267**	$21,964	10 %
Expenses	**$20,019**	$18,133	10
Income from continuing operations	**$3,221**	$2,686	20
Net income	**$3,734**	$3,445	8
Earnings per common share from continuing operations − diluted	**$2.56**	$2.09	22
Earnings per common share − diluted	**$2.97**	$2.68	11
Return on average shareholders' equity[(a)]	**25.4 %**	22.0 %	−

(a) *Calculated based on $3.7 billion of net income and $14.7 billion of average shareholders' equity for the trailing twelve months ending December 31, 2005. Pro forma return on average shareholders' equity was 31.5 percent for 2005 and was calculated based on $3.2 billion of income from continuing operations and $10.2 billion of average month-end shareholders' equity for the quarter ending December 31, 2005.*

See Consolidated Results of Operations below for discussion of the Company's results.

The Company follows U.S. generally accepted accounting principles (GAAP). In addition to information provided on a GAAP basis, the Company discloses certain data on a "managed basis." This information, which should be read only as a supplement to GAAP information, assumes, in the Consolidated Selected Statistical Information and U.S. Card Services segment, there have been no cardmember lending securitization transactions, and certain tax-exempt investment income had been earned on a taxable basis. In addition, the International Card & Global Commercial Services segment reflects a reclassification of certain foreign exchange services as revenues on a managed basis. These managed basis adjustments, and management' s rationale for such presentation, are discussed further in U.S. Card Services and International Card & Global Commercial Services sections below under "Differences between GAAP and Managed Basis Presentation."

Certain reclassifications of prior period amounts have been made to conform to the current presentation throughout this Annual Report. Certain of the statements in this Annual Report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See Forward-Looking Statements at the end of this discussion.

Critical Accounting Policies

The Company' s significant accounting policies are described in Note 1 to the Consolidated Financial Statements. The following provides information about critical accounting policies that are important to the Consolidated Financial Statements and that require significant management assumptions and judgments about the effect of matters that are uncertain. These policies relate to reserves for cardmember losses, reserve for Membership Rewards costs and asset securitizations.

Reserves for cardmember losses

Critical Accounting Policies	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
Reserves for losses relating to cardmember loans and receivables represent management' s estimate of the amount necessary to absorb losses inherent in the Company' s outstanding portfolio of loans and receivables.	Reserves for these losses are primarily based upon models that analyze several specific portfolio statistics, including average write-off rates for various stages of receivable aging (i.e., current, 30 days, 60 days, 90 days) over a 24-month period and average bankruptcy and recovery rates. Also, to a lesser extent, these reserves reflect management' s judgment regarding overall adequacy. In exercising its judgment to adjust reserves that are calculated by the analytic model, management considers emerging trends and the level of coverage of past-due accounts, as well as external indicators, such as leading economic indicators, unemployment rate, consumer confidence index, purchasing manager' s index, bankruptcy filings and the legal and regulatory environment.	To the extent historical credit experience is not indicative of future performance or other assumptions used by management do not prevail, loss experience could differ significantly, resulting in either higher or lower future provisions for losses, as applicable. As of December 31, 2005, a 20 basis point change in the average write-off rate on cardmember loans and receivables balances would change the reserve for losses by approximately $140 million.

Reserve for Membership Rewards costs

Critical Accounting Policies	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
The Membership Rewards program is the largest card-based rewards program in the world, with more than 1,300 redemption partners worldwide. The program allows cardmembers to earn one point for virtually every dollar charged on eligible, enrolled American Express Cards. Many cards offer the ability to earn double points for certain types of purchases. Membership Rewards points are redeemable in a wide selection of reward categories, including travel, merchandise and gift certificates. Points have no expiration date, and there is no limit on the number of points one can earn. A majority of spending by cardmembers earns points under this program. Participation, redemptions and the related expense under the program have been increasing. Although the expense for rewards is recorded as part of marketing, promotion, rewards and cardmember services, the benefits are seen in higher revenues, lower attrition and faster speed of payment. The Company establishes balance sheet reserves to cover the cost of future reward redemptions for points earned to date.	The reserve for Membership Rewards is estimated using models that analyze redemption statistics since the inception of the program and reflect, to a lesser extent, management' s judgment regarding overall adequacy. The provision for the cost of Membership Rewards is based upon points earned that are expected to be ultimately redeemed by cardmembers and the current weighted-average cost per point of redemption. The estimated points to be redeemed by cardmembers are measured based on many factors including past redemption behavior of cardmembers, product type on which the points are earned, year of program enrollment, and spend level. Past behavior is used to predict when current enrollees will leave the program and their ultimate redemption rate on the points earned to date, but not yet redeemed. The weighted-average cost per point is affected by the mix of rewards redeemed. The Company continually evaluates its reserve methodology for Membership Rewards based on developments in redemption patterns, cost per point redeemed and other factors.	The balance sheet reserve for unredeemed points is impacted over time by enrollment levels, amount of points earned and redeemed, weighted-average cost per point, redemption choices made by cardmembers, reward offerings by partners and other Membership Rewards program changes. The calculation is most sensitive to changes in the estimated ultimate redemption rate. This rate is based on the expectation that a large majority of all points earned will eventually be redeemed. As of December 31, 2005, if the global ultimate redemption rate changed by 100 basis points, the balance sheet reserve would change by approximately $150 million.

Asset securitizations

Critical Accounting Policies	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
Certain estimates and assumptions are required to determine the fair value of the Company' s subordinated retained interests, including an interest-only strip, and gains or losses recorded at the time of sale when the Company securitizes cardmember loans.	Estimates and assumptions are generally based on projections of finance charges and fees paid related to the securitized assets, net credit losses, average loan life, the contractual fee to service the securitized assets and a discount rate commensurate with the risk inherent in the subordinated retained interests.	Changes in the estimates and assumptions used may have an impact on the Company' s gain or loss calculation and the valuation of its subordinated retained interests. As of December 31, 2005, the total fair value of all subordinated retained interests was $279 million. A 10 percent adverse change in the key estimates and assumptions referred to in the previous column, would result in a decrease in the total fair value of approximately $30 million.

Consolidated Results of Operations

Summary of the Company' s Financial Performance

Years Ended December 31, (Millions, except per share amounts and ratio data)	2005	2004	2003
Revenues	**$24,267**	$21,964	$19,549
Expenses	**$20,019**	$18,133	$16,134
Income from Continuing operations	**$3,221**	$2,686	$2,335
Net income	**$3,734**	$3,445	$2,987
Earnings per common share from continuing operations − diluted	**$2.56**	$2.09	$1.80
Earnings per common share − diluted	**$2.97**	$2.68	$2.30
Return on average shareholders' equity[(a)]	**25.4 %**	22.0 %	20.6 %

(a) *Calculated based on $3.7 billion of net income and $14.7 billion of average shareholders' equity for the trailing twelve months ending December 31, 2005. Pro forma return on average shareholders' equity was 31.5 percent for 2005 and was calculated based on $3.2 billion of income from continuing operations and $10.2 billion of average month-end shareholders' equity for the quarter ending December 31, 2005.*

Selected Statistical Information

Years Ended December 31, (Billions, except percentages and where indicated)	2005	2004	2003
Card billed business[(a)]:			
United States	**$354.6**	$304.8	$262.1
Outside the United States	**129.8**	111.3	90.1
Total	**$484.4**	$416.1	$352.2
Total cards-in-force (millions)[(a)]:			

United States	**43.0**	39.9	36.4
Outside the United States	**28.0**	25.5	24.1
Total	**71.0**	65.4	60.5
Basic cards-in-force (millions)[a]:			
United States	**32.8**	30.3	27.7
Outside the United States	**23.2**	21.0	19.9
Total	**56.0**	51.3	47.6
Average discount rate[b]	**2.57 %**	2.60 %	2.62 %
Average basic cardmember spending (dollars)[a]	**$10,445**	$9,460	$8,367
Average fee per card (dollars)[a]	**$35**	$34	$35
Travel sales	**$20.6**	$19.9	$16.0
Travel commissions and fees/sales	**8.6 %**	9.0 %	9.4 %
Worldwide Travelers Cheque and prepaid products:			
Sales	**$19.7**	$19.9	$19.2
Average outstanding	**$7.1**	$7.0	$6.6
Average investments	**$7.8**	$7.5	$7.1
Investment yield[c]	**5.1 %**	5.4 %	5.4 %

Tax equivalent yield − managed[c]	**7.9 %**	8.4 %	8.4 %
International banking Total loans	**$7.1**	$6.9	$6.5
Private banking holdings	**$20.3**	$18.6	$16.2

(a) *Card billed business includes activities related to proprietary cards, cards issued under network partnership agreements, cash advances on proprietary cards and certain insurance fees charged on proprietary cards. Cards-in-force include proprietary cards and cards issued under network partnership agreements. Average basic cardmember spending and average fee per card are computed from proprietary card activities only.*

(b) *Computed as follows: Discount Revenue from all card spending (proprietary and Global Network Services) at merchants divided by all billed business (proprietary and Global Network Services) generating discount revenue at such merchants. Only merchants acquired by the Company are included in the computation. Discount rates have been retrospectively adjusted on a historical basis from those previously disclosed, primarily to retain in the computation the Global Network Services partner portion of discount revenue, as well as the Company's portion of discount revenue.*

(c) *Investment yield represents earnings on certain tax-exempt securities. The tax equivalent yield − managed represents earnings on such tax-exempt securities as if it had been earned on a taxable basis and assumes an income tax-rate of 35 percent. See the U.S. Card Services segment for additional information on managed basis presentation.*

Years Ended December 31, (Billions, except percentages and where indicated)	2005	2004	2003
Worldwide cardmember receivables:			
Total receivables	**$34.2**	$31.1	$28.4
90 days past due as a % of total	**1.6 %**	1.8 %	1.9 %
Loss reserves (millions):	**$942**	$806	$916
% of receivables	**2.8 %**	2.6 %	3.2 %
% of 90 days past due	**177 %**	146 %	171 %
Net loss ratio as a % of charge volume	**0.26 %**	0.26 %	0.28 %
Worldwide cardmember lending − owned basis[(a)]:			
Total loans	**$33.1**	$26.9	$25.8
30 days past due as a % of total	**2.5 %**	2.4 %	2.7 %
Loss reserves (millions):			
Beginning balance	**$972**	$998	$1,030
Provision	**1,227**	1,016	1,121
Net write-offs	**(1,155)**	(1,040)	(1,148)
Other	**(48)**	(2)	(5)
Ending balance	**$996**	$972	$998

% of loans	**3.0 %**	3.6 %	3.9 %
% of past due	**122 %**	151 %	145 %
Average loans	**$28.3**	$25.9	$22.6
Net write-off rate	**4.1 %**	4.0 %	5.1 %
Net finance charge revenue/average loans	**9.1 %**	8.6 %	9.0 %
Worldwide cardmember lending − managed basis[b]:			
Total loans	**$54.3**	$47.2	$45.3
30 days past due as a % of total	**2.4 %**	2.4 %	2.7 %
Loss reserves (millions):			
Beginning balance	**$1,475**	$1,541	$1,529
Provision	**2,097**	1,931	2,188
Net write-offs	**(2,055)**	(1,957)	(2,171)
Other	**(48)**	(40)	(5)
Ending balance	**$1,469**	$1,475	$1,541
% of loans	**2.7 %**	3.1 %	3.4 %
% of past due	**114 %**	129 %	127 %
Average loans	**$48.9**	$45.4	$41.6

Net write-off rate	**4.2 %**	4.3 %	5.2 %
Net finance charge revenue/average loans	**9.3 %**	9.0 %	9.4 %

(a) *GAAP basis measurement reflects only cardmember loans included in the Company' s Consolidated Balance Sheets.*

(b) *Includes on-balance sheet owned cardmember loans and off-balance sheet securitized cardmember loans. See the U.S. Card Services segment for additional information on managed basis presentation.*

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The following discussions regarding Consolidated Results of Operations and Consolidated Liquidity and Capital Resources are presented on a basis consistent with GAAP unless otherwise noted.

Results of Operations for the Three Years Ended December 31, 2005

The Company' s 2005 consolidated income from continuing operations rose 20 percent to $3.2 billion and diluted earnings per share (EPS) from continuing operations rose 22 percent to $2.56. Consolidated income from continuing operations for 2004 increased 15 percent from 2003 and diluted EPS from continuing operations for 2004 increased 16 percent from 2003.

The Company' s 2005 consolidated net income rose 8 percent to $3.7 billion and diluted EPS rose 11 percent to $2.97 as compared to 2004. Net income for 2005 includes $513 million of income from discontinued operations as compared to $830 million in 2004. The decrease in income from discontinued operations primarily reflected the distribution of Ameriprise Common Stock to the Company' s shareholders on September 30, 2005 while 2004 consolidated net income included a full year of results from the discontinued operations. Consolidated net income for 2004 increased 15 percent from 2003.

Net income and EPS in 2004 reflected the $71 million ($109 million pretax) or $0.06 per diluted share impact of the Company' s previously disclosed adoption of the American Institute of Certified Public Accountants Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts." The adoption of SOP 03-1 related to discontinued operations.

Both the Company' s revenues and expenses are affected by changes in the relative values of non-U.S. currencies to the U.S. dollar. The currency rate changes increased both revenue and expense growth by less than 1 percentage point in 2005 and approximately 2 percentage points in both 2004 and 2003.

Results from continuing operations for 2005 included $286 million ($186 million after-tax) of reengineering costs, principally related to $193 million of restructuring costs within the business travel, international operations, and the finance and technology areas, $242 million of tax benefits related to the finalization of state tax returns and resolution of IRS audits of previous years' tax returns, a $123 million ($80 million after-tax) increase in the provision for losses recorded in the fourth quarter 2005 reflecting substantially higher losses related to increased bankruptcy filings resulting from the October 17, 2005 change in bankruptcy legislation, a $113 million ($73 million after-tax) benefit from the recovery of September 11, 2001 related insurance claims, and a $49 million ($32 million after-tax) provision to reflect the estimated costs related to Hurricane Katrina. 2004 results from continuing operations included a $117 million ($76 million after-tax) net gain on the fourth quarter sale of the equipment leasing product line, a charge of $115 million ($75 million after-tax) reflecting a reconciliation of securitization-related cardmember loans for balances accumulated over the prior five-year period as a result of a computational error, $99 million ($64 million after-tax) in restructuring charges and a $60 million ($39 million after-tax) benefit for a reduction in merchant-related reserves.

Revenues

Consolidated revenues for 2005 were $24.3 billion, up 10 percent from $22.0 billion in 2004. Revenues increased due to higher discount revenues, increased cardmember lending net finance charge revenue and greater securitization income. Consolidated revenues for 2004 were 12 percent higher than 2003 due primarily to higher discount revenues as well as increased travel and other commissions and fees.

Discount revenue for 2005 rose 14 percent to $11.7 billion as compared to 2004 as a result of a 16 percent increase in worldwide billed business, a 10 percent increase in average spending per proprietary basic card and 9 percent growth in cards-in-force, offset in part by a lower average discount rate. Selective repricing initiatives, continued changes in the mix of business and volume-related pricing discounts will likely continue to result in some erosion of the average discount rate over time. U.S. billed business was up 16 percent reflecting growth of 15 percent within the Company' s consumer card business, a 20 percent increase in small business spending and a 11 percent improvement in Corporate Services volumes. Excluding the impact of foreign exchange translation, total billed business outside the U.S. increased 15 percent reflecting double-digit proprietary growth in all regions, with the largest increases in Canada and Latin America. Additionally, within the proprietary business, billed business outside the U.S. reflected 13 percent growth in consumer and small business spending, as well as a 14 percent increase in Corporate Services volumes. Billed business related to Global Network Services increased 36 percent during 2005.

The increase in overall cards-in-force reflected both proprietary and Global Network Services activities and strong average customer retention levels. In the U.S. and outside the U.S., 3.1 million and 2.5 million cards were added during 2005, respectively. The increase in average spending per proprietary basic card reflected a 9 percent increase in the U.S. and a 13 percent increase outside the U.S. Discount revenue rose 17 percent to $10.2 billion during 2004 as a result of an 18 percent increase in billed business, from both growth in cards-in-force and higher average cardmember spending per proprietary basic card, partially offset by a lower discount rate.

Cardmember lending net finance charge revenue of $2.6 billion in 2005 rose 16 percent, reflecting growth in average worldwide lending balances on an owned basis and a higher portfolio yield. During 2004, cardmember lending net finance charge revenue increased 9 percent to $2.2 billion as the 15 percent growth in the average balance of the owned lending portfolio was partially offset by a lower average yield.

Securitization income, net increased 11 percent to $1.3 billion in 2005 on a greater average balance of securitized loans, a higher trust portfolio yield and a decrease in the trust portfolio write-offs, partially offset by greater interest expense due to a higher coupon rate paid to certificate holders and an increase in the payment speed of trust assets. Securitization income, net of $1.1 billion in 2004 was consistent with 2003.

Expenses

Consolidated expenses for 2005 were $20.0 billion, up 10 percent from $18.1 billion in 2004. The increase in 2005 was primarily driven by higher marketing, promotion, rewards and cardmember services expenses, greater provisions for losses and benefits, and increased expenses for human resources, partially offset by lower other expenses. Consolidated expenses in 2005 included $286 million of reengineering costs reflecting $164 million of restructuring related severance costs, principally within the business travel, international operations, and finance and technology areas. Severance costs are included in human resources expenses. Restructuring costs also included $29 million related to other exit costs and are included in other expenses. Consolidated expenses in 2005 also included a $49 million provision to reflect the estimated costs related to Hurricane Katrina, which was included in provisions for losses and benefits, and $16 million of spin-off expenses related to Ameriprise principally included in professional services. These expenses were partially offset by a $113 million benefit from the recovery of insurance claims associated with September 11, 2001, included as a reduction of other expenses. Consolidated expenses for 2004 were 12 percent higher than 2003 driven by higher marketing, promotion, rewards and cardmember services expense and greater human resources costs, partially offset by lower provisions for losses.

Marketing, promotion, rewards and cardmember services expenses in 2005 increased 18 percent to $5.8 billion versus a year ago reflecting higher marketing and promotion expenses and greater reward costs. The increase in marketing and promotion expenses was primarily driven by the Company' s ongoing global brand advertising campaign and continued focus on business-building initiatives. The growth in rewards costs is attributed to volume growth, a higher redemption rate and strong cardmember loyalty program participation. Marketing, promotion, rewards and cardmember services expenses increased 30 percent in 2004 to $5.0 billion as a result of higher cardmember rewards and services expenses reflecting higher volumes and greater rewards program participation and penetration, the continuation of brand and product advertising, and an increase in selected card acquisition activities.

Human resources expenses in 2005 increased 6 percent to $4.8 billion compared to 2004 due to severance related costs resulting from the restructuring initiatives noted above, higher management incentives, including an additional year of stock-based compensation expenses, merit increases and increased employee benefit expenses, which were partially offset by reengineering benefits. Human resources expenses increased 16 percent in 2004 to $4.5 billion due to increased costs related to management incentives, merit increases and employee benefit expenses as well as the impact of severance costs related to the reengineering of certain operations.

Total provisions for losses and benefits in 2005 increased 22 percent over last year to $2.8 billion, as the charge card and lending provisions rose 25 percent and 19 percent, respectively, and the other provisions grew by 28 percent. The charge card and lending growth reflected strong volume increases within both activities, and higher provision rates mostly due to substantially higher write-offs during the fourth quarter of 2005 within the lending business due to the October 17, 2005 change in the bankruptcy legislation as well as a $49 million provision during the year to reflect the estimated costs related to Hurricane Katrina. Total provisions for losses and benefits in 2004 declined 4 percent to $2.3 billion primarily due to a 7 percent reduction in cardmember lending provisions partially offset by the $115 million reconciliation of securitization-related cardmember loans charge in other provisions. Also, during 2004, a $60 million benefit was recorded for the reduction in merchant-related reserves.

The effective tax rate was 24 percent in 2005 compared to 30 percent in 2004 and 32 percent in 2003. The decrease in the effective tax rate for 2005 reflected the impact of $242 million of tax benefits related to the finalization of state tax returns and resolution of IRS audits of previous years' tax returns. Unless similar adjustments arise, the Company' s effective tax rate in 2006 is expected to be more aligned with tax rates for continuing operations in 2003 and 2004. However, the actual rate in 2006 will depend on various factors, including the profitability and mix of the Company' s businesses, legislative developments and results of tax audits, among others.

The effective tax rate was lower in 2004 as compared to 2003 primarily as a result of one-time and ongoing benefits related to the changes in international funding strategy during 2004, favorable variances between estimates of foreign tax expense and returns actually filed and favorable tax audit experience.

Discontinued Operations

Income from discontinued operations, net of tax for 2005 decreased 38 percent to $513 million from $830 million in 2004 due to spin-off related costs of $127 million after-tax partially offset by a $63 million net after-tax gain on certain dispositions, primarily TBS. Additionally, as discussed earlier, 2005 results from discontinued operations are included through September 30, 2005 whereas 2004 included a full year of results from discontinued operations. Income from discontinued operations, net of tax increased 25 percent in 2004 from 2003 primarily due to improved results of Ameriprise. The discontinued operations generated revenues of $5.8 billion, $7.2 billion and $6.3 billion for 2005, 2004 and 2003, respectively.

Consolidated Liquidity and Capital Resources

Capital Strategy

The Company generates equity capital primarily through net income to fund current needs and future business growth and to maintain a targeted debt rating. Equity capital generated in excess of these needs is

returned to shareholders through dividends and the share repurchase program. The maintenance of a solid equity capital base provides the Company with a strong and stable debt rating and uninterrupted access to diversified sources of financing to fund growth in its assets, such as cardmember receivables and loans and other items. The Company maintains flexibility in its equity capital planning and has developed a contingency funding plan described below to help ensure that it has adequate sources of financing in difficult economic or market environments.

The Company believes allocating capital to its growing businesses with a return on risk-adjusted equity in excess of their cost of capital will continue to build shareholder value. The Company' s philosophy is to retain earnings sufficient to enable it to meet its growth objectives and, to the extent capital exceeds investment opportunities, return excess capital to shareholders. Assuming the Company achieves its financial objectives of 12 to 15 percent EPS growth, 28 to 30 percent return on shareholders' equity and at least 8 percent revenue growth, on average and over time, it will seek to return to shareholders an average of 65 percent of capital generated, subject to business mix, acquisitions and rating agency requirements. During 2005, through dividends and share repurchases, excluding the dividend from the Ameriprise spin-off, the Company returned approximately 48 percent of total capital generated to its shareholders. The Company paid $597 million in dividends and continued share repurchases as discussed below. Since the inception of the Company' s current share repurchase program in 1994, approximately 65 percent of capital generated has been returned to shareholders.

The Company maintains sufficient equity capital to support its businesses. Flexibility is maintained to shift capital among business units as appropriate. For example, the Company may infuse additional capital into subsidiaries to maintain capital at targeted levels, which include consideration of debt ratings and regulatory requirements. These infused amounts can affect both American Express Parent Company (Parent Company) capital and liquidity levels. The Company maintains discretion to manage these effects, including the issuance of public debt or the reduction of projected common share buybacks. Additionally, the Company may transfer short-term funds within the Company to meet liquidity needs, subject to and in compliance with various contractual and regulatory constraints.

Share Repurchases

The Company has in place a share repurchase program to return equity capital in excess of its business needs to shareholders. These share repurchases both offset the issuance of new shares as part of employee compensation plans and reduce shares outstanding. The Company repurchases its common shares primarily by open market purchases. Common shares may also be purchased from the Company-sponsored Incentive Savings Program (ISP) to facilitate the ISP' s required disposal of shares when employee-directed activity results in an excess common share position. Such purchases are made at market price without commissions or other fees. During 2005, the Company purchased 34.6 million common shares at an average price of $53.59, representing 30 million common shares at an average price of $53.87 during the nine months ended September 30, 2005 (prior to the spin-off of Ameriprise) and 4 million common shares at an average price of $51.33 during the three months ended December 31, 2005 (after the spinoff of Ameriprise). The lower repurchase activity during 2005 versus prior years reflects a more measured approach to repurchases in light of the capital implications of the Ameriprise spin-off. Since the inception of the share repurchase program in September 1994, 530 million shares have been acquired under total authorizations to repurchase up to 570 million shares, including purchases made under past agreements with third parties.

Cash Flows

Cash Flows from Operating Activities

For the year ended December 31, 2005, net cash provided by operating activities was $8.0 billion. The Company generated net cash provided by operating activities in amounts greater than net income for both the years ended December 31, 2005 and 2004 primarily due to provisions for losses and benefits, which represent expenses in the Consolidated Statements of Income but do not require cash at the time of provision. Similarly, depreciation and amortization represent non-cash expenses. In addition, net cash was provided by fluctuations in other operating assets and liabilities. These accounts vary significantly in the normal course of business due to the amount and timing of various payments.

Net cash provided by operating activities was higher in 2004 than 2003, as a result of higher net income in 2004. In addition, net cash was provided by fluctuations in the Company' s operating assets and liabilities.

Management believes cash flows from operations, available cash balances and short-term borrowings will be sufficient to fund the Company' s operating liquidity needs.

Cash Flows from Investing Activities

The Company' s investing activities primarily include funding cardmember loans and receivables and the Company' s available-for-sale investment portfolio.

For the year ended December 31, 2005, net cash of $17.3 billion was used in investing activities primarily due to net increases in cardmember receivables and loans and cash spun-off to Ameriprise.

For the year ended December 31, 2004, net cash used in investing activities decreased from 2003. The decrease reflects a decrease in net cash used in investing activities attributable to discontinued operations, partially offset by an increase in purchases of investments.

Cash Flows from Financing Activities

The Company' s financing activities primarily include the issuance of debt and taking customer deposits in addition to the sale of investment certificates. The Company also regularly repurchases its common shares.

In 2005, net cash provided by financing activities was $6.4 billion primarily due to a net increase in customers' deposits.

In 2004, financing activities provided net cash greater than in 2003, primarily due to a larger net increase in total debt compared to 2003 offset by a net decrease in customer deposits in 2004 versus a net increase in 2003 and higher share repurchase activity in 2004.

Financing Activities

The Company is committed to maintaining cost-effective, well-diversified funding programs to support current and future asset growth in its global businesses. Its funding plan is structured to meet expected and changing business needs to fund asset balances efficiently and cost-effectively through diversified sources of financing, to help ensure the availability of financing in unexpected periods of stress, and to be integrated into the asset-liability management of interest rate exposures. In addition to its funding plan described below, the Company' s contingent funding strategy is designed to allow for the continued funding of business operations through difficult economic, financial market and business conditions when access to its regular funding sources could become diminished or interrupted.

The Company' s card businesses are the primary asset generating businesses with significant assets in both domestic and international cardmember receivable and lending activities. As such, the Company' s most significant borrowing and liquidity needs are associated with these card businesses. The Company pays merchants for card transactions and bills cardmembers accordingly. The Company funds merchant payments during the period cardmember loans and receivables are outstanding.

The following discussion includes information on both a GAAP and managed basis. The managed basis presentation includes debt issued in connection with the Company' s lending securitization activities, which are off-balance sheet. The Company' s management views and executes funding requirements on a managed basis because asset securitization is just one of several ways for the Company to fund cardmember loans.

Funding Strategy

The Company' s funding needs are met primarily through the following sources:

- Commercial paper,
- Bank notes, institutional CDs and Fed Funds,
- Medium-term notes and senior unsecured debentures,
- Asset securitizations, and
- Long-term committed bank borrowing facilities in selected non-U.S. markets.

The Company funds its cardmember receivables and loans primarily through five entities. American Express Credit Corporation (Credco) finances the vast majority of worldwide cardmember receivables, while American Express Centurion Bank (Centurion Bank) and American

Express Bank, FSB (FSB) principally fund cardmember loans originated from the Company’ s U.S. lending activities. Two trusts are used by the Company in connection with the securitization and sale of U.S. receivables and loans generated in the ordinary course of the Company’ s card businesses. In 2005 and 2004, the Company had uninterrupted access to the money and capital markets to fund its business operations.

The Company' s debt offerings are placed either directly to investors, as in the case of its commercial paper program through Credco, or through securities brokers or underwriters. In certain international markets, bank borrowings are used to partially fund cardmember receivables and loans. During 2005 and 2004, the Company diversified its funding base by borrowing under committed bank credit facilities as part of a change in local funding strategies in select international markets.

Diversity of funding sources by type of debt instrument, by maturity and by investor base provides additional insulation from unforeseen events in the short-term debt market. The Company had the following consolidated debt, on both a GAAP and managed basis, and customer deposits outstanding at December 31, 2005 and 2004:

(Billions)	2005	2004
Short-term debt	**$15.6**	$14.3
Long-term debt	**30.8**	32.7
Total debt (GAAP basis)	**$46.4**	$47.0
Off-balance sheet securitizations	**21.2**	20.3
Total debt (managed basis)	**$67.6**	$67.3
Customer deposits	**$24.6**	$20.1

Short-term debt is defined as any debt with an original maturity of 12 months or less. The commercial paper market represents the primary source of short-term funding for the Company. Credco' s commercial paper is a widely recognized name among short-term investors and is a principal source of debt for the Company. At December 31, 2005, Credco had $6.7 billion of commercial paper outstanding, net of certain short-term investments. The outstanding amount, net of certain short-term investments, increased $2.9 billion or 76 percent from a year ago. Average commercial paper outstanding, net of certain short-term investments, was $6.1 billion and $5.7 billion in 2005 and 2004, respectively. Credco currently manages the level of commercial paper outstanding, net of certain short-term investments, such that the ratio of its committed bank credit facility to total short-term debt, which consists mainly of commercial paper, is not less than 100 percent.

Centurion Bank and FSB raise short-term debt through various instruments. Bank notes issued and Fed Funds purchased by Centurion Bank and FSB totaled approximately $5.9 billion as of December 31, 2005. Centurion Bank and FSB also raise customer deposits through the issuance of certificates of deposit to retail and institutional customers. As of December 31, 2005, Centurion Bank and FSB held $5.2 billion in customer deposits. Centurion Bank and FSB each maintain $400 million of committed bank credit lines as a backup to short-term funding programs. Long-term funding needs are met principally through the sale of cardmember loans in securitization transactions. The Asset/ Liability Committees of Centurion Bank and FSB provide management oversight with respect to formulating and ratifying funding strategy and to ensuring that all funding policies and requirements are met.

The Company had short-term debt at December 31, 2005 and 2004 as follows:

(Billions, except percentages)	2005	2004
Short-term debt	**$15.6**	$14.3

Short-term debt percentage of total debt (GAAP basis)	**33.7%**	30.5%

Medium- and long-term debt is raised through the offering of debt securities in the U.S. and international capital markets. Medium-term debt is generally defined as any debt with an original maturity greater than 12 months but less than 36 months. Long-term debt is generally defined as any debt with an original maturity greater than 36 months. At December 31, 2005, the Company had the following amounts of medium- and long-term debt outstanding:

(Billions)	**Medium-term Debt**	**Long-term Debt**	**Total Medium- and Long-term Debt**
American Express Parent Company	**$ 2.0**	**$ 3.2**	**$ 5.2**
American Express Credit Corporation	**8.6**	**8.3**	**16.9**
American Express Centurion Bank	**3.0**	**1.4**	**4.4**
American Express Bank, FSB	**2.4**	**–**	**2.4**
American Express Receivables Financing Corp V LLC	**–**	**1.2**	**1.2**
Other Subsidiaries	**0.1**	**0.6**	**0.7**
Total	**$ 16.1**	**$ 14.7**	**$ 30.8**

In 2005, medium- and long-term debt with maturities ranging from 2 to 10 years was issued. The Company' s 2005 term offerings, which include those made by Credco, Centurion Bank, FSB and the American Express Issuance Trust (the Charge Trust), which is consolidated by American Express Receivables Financing Corporation V LLC (RFC V), all directly or indirectly wholly-owned subsidiaries of American Express Travel Related Services Company, Inc. (TRS); and the American Express

Credit Account Master Trust (the Lending Trust), are presented in the following table on a managed basis:

(Billions)	Amount
American Express Credit Corporation:	
Fixed and Floating Rate Medium-Term Notes	**$ 4.7**
American Express Centurion Bank:	
Floating Rate Medium-Term Notes	**$ 0.9**
American Express Bank, FSB:	
Floating Rate Medium-Term Notes	**$ 1.0**
American Express Receivables Financing Corp V LLC:	
Floating Rate Senior and Subordinated Notes	**$ 1.2**
American Express Credit Account Master Trust:	
Trust Investor Certificates (off-balance sheet)	**$ 5.4**

Compared to the 2004 long-term funding activity, the long-term debt issues in 2005 have longer average maturities and a wider distribution along the maturity spectrum to reduce and spread out the refinancing requirement in future periods.

In 2006, the Company along with its subsidiaries, Credco, Centurion Bank and FSB, as well as through its securitization trusts, expects to issue approximately $24 billion in medium- and long-term debt to fund business growth and refinance a portion of maturing medium-and long-term debt. The Company expects that its planned funding during the next year will be met through a combination of sources similar to those on which it currently relies. However, the Company continues to assess its needs and investor demand and may change its funding mix. The Company' s funding plan is subject to various risks and uncertainties, such as disruption of financial markets, market capacity and demand for securities offered by the Company, regulatory changes, ability to sell receivables and the performance of receivables previously sold in securitization transactions. Many of these risks and uncertainties are beyond the Company' s control.

The Company also maintains contingent liquidity resources for alternative funding sources principally through an investment liquidity portfolio discussed below. In addition, as of December 31, 2005, Credco had the ability to issue approximately $3 billion of debt securities under shelf registration statements filed with the Securities and Exchange Commission (SEC).

The Company believes that its funding strategy allows for the continued funding of business operations through difficult economic, financial market and business conditions.

The Company' s funding strategy is designed to maintain high and stable debt ratings from the major credit rating agencies, Moody' s, Standard & Poor' s and Fitch Ratings. Maintenance of high and stable debt ratings is critical to ensuring the Company has continuous access to the capital and credit markets. It also enables the Company to reduce its overall borrowing costs. At December 31, 2005, its debt ratings were as follows:

	Moody' s	Standard & Poor' s	Fitch Ratings
Short-term	P-1	A-1	F1
Senior unsecured	A1	A+	A+

The Company actively manages the risk of liquidity and cost of funds resulting from the Company' s financing activities. Management believes a decline in the Company' s long-term credit rating by two levels could result in the Company having to significantly reduce its commercial paper and other short-term borrowings. Remaining borrowing requirements would be addressed through other means such as the issuance of long-term debt, additional securitizations, increased deposit taking, the sale of investment securities or drawing on existing credit lines. This would result in higher interest expense on the Company' s commercial paper and other debt, as well as higher fees related to unused lines of credit. The Company believes a two level downgrade is highly unlikely due to its capital position and growth prospects.

Parent Company Funding

Total Parent Company long-term debt outstanding was $5.2 billion and $5.7 billion at December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, the Parent Company had $4.3 billion of debt or equity securities available for issuance under shelf registrations filed with the SEC.

The Board of Directors authorized a Parent Company commercial paper program. This program would be supported by a $2.1 billion multi-purpose committed bank credit facility that expires incrementally through 2009. There was no Parent Company commercial paper outstanding during 2005 and 2004, and no borrowings have been made under its bank credit facility.

Asset Securitizations

The Company periodically securitizes cardmember receivables and loans arising from its card business. The securitization market provides the Company with cost-effective funding. Securitization of cardmember receivables and loans is accomplished through the transfer of those assets to a trust, which in turn issues securities to third-party investors collateralized by the transferred assets. The proceeds from issuance are distributed to the Company, through its wholly-owned subsidiaries, as consideration for the transferred assets. Securitization transactions are accounted for as either a sale or secured borrowing, based upon the structure of the transaction.

Securitization of cardmember receivables generated under designated consumer charge card accounts is accomplished through the transfer of cardmember receivables to the Charge Trust, beginning in 2005 when the trust was established, or the American Express Master Trust (AEMT), in periods prior to July 2005. AEMT was dissolved during the third quarter of 2005. Securitizations of these receivables are accounted for as secured borrowings because the Charge Trust and AEMT are not qualifying special purpose entities (QSPE). Accordingly, the related assets being securitized are not accounted for as sold and continue to be reported as owned assets on the Company' s Consolidated Balance Sheets. The related securities issued to third-party investors are reported as long-term debt on the Company' s Consolidated Balance Sheets. As of December 31, 2005 and 2004, the Charge Trust and AEMT held total assets of $9.9 billion and $7.4 billion, respectively.

Securitization of cardmember loans generated under designated consumer lending accounts is accomplished through the transfer of cardmember loans to a QSPE, the Lending Trust. Securitizations of loans transferred to the Lending Trust are accounted for as sales. Accordingly, the Company removes the loans from its Consolidated Balance Sheets and recognizes both a gain on sale and other retained interests in the securitization as discussed below. As of December 31, 2005 and 2004, the Lending Trust held total assets of $28.9 billion and $24.7 billion, respectively, of which $21.2 billion and $20.3 billion, respectively, had been sold.

The Company' s continued involvement with the securitized cardmember loans includes the process of managing and servicing the securitized loans through its subsidiary, TRS, for which it earns a fee. In addition, the Company, through its subsidiaries, maintains an undivided, pro-rata interest in all loans transferred (or sold), which is referred to as seller' s interest, and is generally equal to the balance of the loans in the Lending Trust less the investors' portion of those assets. As the amount of the loans in the Lending Trust fluctuates due to customer payments, new charges and credit losses, the carrying amount of the seller' s interest will vary. However, the seller' s interest is required to be maintained at a minimum level of 7 percent of the outstanding invested amount in the Lending Trust. As of December 31, 2005, the amount of seller' s interest was approximately 25 percent of outstanding invested amount, well above the minimum requirement.

The Company also retains subordinated interests in the securitized loans. Such interests include one or more investments in tranches of the securitization and an interest-only strip. As of December 31, 2005 and 2004, the fair value of the subordinated retained interests was $279 million and $315 million, respectively.

Under the respective terms of the Lending Trust and the Charge Trust agreements, the occurrence of certain events could result in either trust being required to paydown the investor certificates and notes before their expected payment dates over an early amortization period. An example of such an event is, for either trust, the failure of the securitized assets to generate specified yields over a defined period of time.

No such events have occurred during 2005 and 2004, and the Company does not expect an early amortization trigger event to occur prospectively. In the event of a paydown of the Lending Trust, $21.2 billion of assets would revert to the balance sheet and an alternate source of funding of a commensurate amount would have to be obtained. Had a total paydown of the Lending Trust hypothetically occurred at a single point in time at December 31, 2005, the cumulative negative effect on results of operations would have been approximately $751 million pretax to re-establish reserves and to derecognize the retained interests related to these securitizations that would have resulted when the securitized loans reverted back onto the balance sheet.

Virtually no financial statement impact would occur from a paydown of the Charge Trust, but an alternate source of funding for the $1.2 billion of securities outstanding at December 31, 2005 would have to be obtained.

With respect to both the Lending Trust and the Charge Trust, a decline in the actual or implied short-term credit rating of TRS below A-1/P-1 will trigger a requirement that TRS, as servicer, transfer collections on the securitized assets to investors on a daily, rather than a monthly, basis or make alternative arrangements with the rating agencies to allow TRS to continue to transfer collections on a monthly basis. Such alternative arrangements include obtaining appropriate guarantees for the performance of the payment and deposit obligations of TRS, as servicer.

No officer, director or employee holds any equity interest in the trusts or receives any direct or indirect compensation from the trusts. The trusts in the Company' s securitization programs do not own stock of the Company or the stock of any affiliate. Investors in the securities issued by the trusts have no recourse against the Company if cash flows generated from the securitized assets are inadequate to service the obligations of the trusts.

Liquidity

The Company balances the trade-offs between having too much liquidity, which can be costly and limit financial flexibility, with having inadequate liquidity, which may result in financial distress during a liquidity event (see Contingent Liquidity Planning section below). The Company considers various factors in determining its liquidity needs, such as economic and financial market conditions, seasonality in business operations, growth in business segments, cost and availability of alternative liquidity sources and credit rating agency considerations.

The Company believes that its existing sources of funding provide sufficient depth and breadth to meet normal operating needs. In addition, alternative liquidity sources are available, mainly in the form of the liquidity portfolio, securitizations of cardmember receivables and loans and committed bank credit facilities, to provide uninterrupted funding over a twelve-month period should access to unsecured debt sources become impaired.

Liquidity Portfolio

During the normal course of business, funding activities may raise more proceeds than are necessary for immediate funding needs. These amounts are invested principally in short-term overnight, highly liquid instruments. In addition, in the fourth quarter of 2003, the Company began a program to develop a liquidity portfolio in which proceeds raised from such borrowings are invested in longer term, highly liquid instruments, such as U.S. Treasury securities. At December 31, 2005, the Company held $5.0 billion of U.S. Treasury notes under this program.

The invested amounts of the liquidity portfolio provide back-up liquidity, primarily for the commercial paper program at Credco, and also flexibility for other short-term funding programs at Centurion Bank and FSB. Instruments held within this program will be of the highest credit quality and most liquid of investment instruments available. The Company can easily sell these securities or enter into sale/repurchase agreements to immediately raise cash proceeds to meet liquidity needs.

Committed Bank Credit Facilities

The Company maintained committed bank credit facilities with 43 large financial institutions totaling $13.4 billion, of which $3.3 billion was outstanding under these facilities. During 2005, the Company renewed and extended a total of $7 billion of these credit line facilities. Credco has the right to borrow a maximum amount of $12.6 billion (including amounts outstanding) under these facilities, with a commensurate maximum $2.1 billion reduction in the amount available to the Parent Company. The Company' s facilities expire as follows (billions): 2006, $2.0; 2009, $6.4; and 2010, $5.0.

The availability of the credit lines is subject to the Company' s compliance with certain financial covenants, including the maintenance by the Company of consolidated tangible net worth of at least $4.1 billion ($9.0 billion prior to the spin-off of Ameriprise), the maintenance by Credco of a 1.25 ratio of combined earnings and fixed charges to fixed charges, and the compliance by Centurion Bank and FSB with applicable regulatory capital adequacy guidelines. At December 31, 2005, the Company' s consolidated tangible net worth was approximately $9.2 billion, Credco' s ratio of combined earnings and fixed charges to fixed charges was 1.41 and Centurion Bank and FSB each exceeded the Federal Deposit Insurance Corporation' s well-capitalized regulatory capital adequacy guidelines.

Committed bank credit facilities do not contain material adverse change clauses, which may preclude borrowing under the credit facilities. The facilities may not be terminated should there be a change in the Company' s credit rating.

In addition, TRS, Centurion Bank, Credco, American Express Overseas Credit Corporation Limited, a wholly-owned subsidiary of Credco, and American Express Bank Ltd. have established a program for the issuance, outside the United States, of debt instruments to be listed on the Luxembourg Stock Exchange. The maximum aggregate principal amount of debt instruments outstanding at any one time under the program cannot exceed $6.0 billion. At December 31, 2005 and 2004, $3.1 billion and $3.4 billion of debt, respectively, were outstanding under this program.

Contingent Liquidity Planning

The Company has developed a contingent funding plan that enables it to meet its daily funding obligations when access to unsecured funds in the debt capital markets is impaired or unavailable. This plan is designed to ensure that the Company and all of its main operating entities could continuously maintain normal business operations for a twelve-month period in which its access to unsecured funds is interrupted. In addition, the Company maintains substantial flexibility to reduce its operating cash uses, such as through its share repurchase program, and the delay or deferment of certain operating expenses.

The funding sources that would be relied upon depend on the exact nature of such a hypothetical liquidity crisis; nonetheless, the Company' s liquidity sources are designed with the goal of ensuring there is sufficient cash on hand to fund business operations over a twelve month period regardless of whether the liquidity crisis was caused by an external, industry or Company specific event. The contingent funding plan also addresses operating flexibilities in quickly making these funding sources available to meet all financial obligations. The simulated liquidity crisis is defined as a sudden and unexpected event that temporarily impairs access to or makes unavailable funding in the unsecured debt markets. The contingent funding plan includes access to diverse sources of alternative funding. Such sources include but are not limited to its liquidity investment portfolio, committed bank lines, intercompany borrowings, sale of consumer and small business loans and cardmember receivables through its existing securitization programs and sale of other eligible receivables. The Company estimates that, under a worst case liquidity crisis scenario, it has in excess of $37.6 billion in alternate funding sources available to cover cash needs over the first 60 days after a liquidity crisis has occurred.

Contingent Securitization Capacity

A key source in the Company' s contingent funding plan is asset securitization. Management expects that $27.2 billion of additional consumer loans, small business loans and cardmember receivables could be sold to existing securitization trusts. The Company has added, through the establishment of the Charge Trust, the capabilities to sell a wider variety of cardmember receivable portfolios to further enhance the Company' s flexibility in accessing diverse funding sources on a contingency basis.

The Company believes that the securitized financing would be available even through adverse conditions due to the structure, size and relative stability of the securitization market. Proceeds from secured financings completed during a liquidity crisis could be used to meet current obligations, to reduce or retire other contingent funding sources such as bank credit lines, or a combination of the two. However, other factors affect the Company' s ability to securitize loans and receivables, such as credit quality of the assets and the legal, accounting, regulatory and tax environment for securitization transactions. Material changes in any of these factors may potentially limit the Company' s ability to securitize its loans and receivables and could introduce certain risks to the Company' s ability to meet its financial obligations. In such a case, the use of investment securities, asset dispositions, asset monetization strategies and flexibility to reduce operating cash needs could be utilized to meet its liquidity needs.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company has identified both on- and off-balance sheet transactions, arrangements, obligations and other relationships that may have a material current or future effect on its financial condition, changes in financial condition, results of operations or liquidity and capital resources.

Contractual Obligations

The contractual obligations identified in the table below include both on- and off-balance sheet transactions that represent material expected or contractually committed future obligations of the Company. Purchase obligations include agreements to purchase goods and services that are enforceable and legally binding on the Company and that specify significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

(Millions)	Payments due by year Total	2006	2007-2008	2009-2010	2011 and thereafter
On-Balance Sheet:					
Long-term debt	$30,781	$5,384	$11,430	$9,877	$4,090
Other long-term liabilities	4,815	1,617	1,187	816	1,195
Off-Balance Sheet:					
Lease obligations	2,172	229	385	272	1,286
Purchase obligations[(a)]	3,523	1,508	1,413	596	6
Total	$41,291	$8,738	$14,415	$11,561	$6,577

(a) *The purchase obligation amounts include expected spend by period under contracts that were in effect at December 31, 2005. Minimum contractual payments associated with purchase obligations, including termination payments, were $360 million.*

The Company also has certain contingent obligations for worldwide business arrangements. These payments relate to contractual agreements with partners entered into as part of the ongoing operation of the Company' s business, primarily with co-brand partners. The contingent obligations under such arrangements were $3.3 billion as of December 31, 2005.

In addition to the off-balance sheet contractual obligations noted above, the Company has off-balance sheet arrangements that include guarantees, retained interests in structured investments, unconsolidated variable interest entities and other off-balance sheet arrangements as more fully described below.

Guarantees

The Company' s principal guarantees are associated with cardmember services provided to enhance the value of owning an American Express card. At December 31, 2005, the Company had guarantees totaling approximately $97 billion related to cardmember protection plans, as well as other guarantees in the ordinary course of business that are within the scope of Financial Accounting Standards Board (FASB) Interpretation No. 45, "Guarantor' s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). Expenses relating to actual claims under these guarantees for 2005 and 2004 were approximately $15 million and $20 million, respectively.

The Company had $1.1 billion of bank standby letters of credit and bank guarantees and other letters of credit within the scope of FIN 45. At December 31, 2005, the Company held approximately $936 million of collateral supporting standby letters of credit and guarantees. Additionally, at December 31, 2005 the Company had $493 million of loan commitments and other lines of credit as well as $529 million of bank standby letters of credit, bank guarantees and bank commercial and other bank letters of credit that were outside the scope of FIN 45. At December 31, 2005, the Company held $337 million of collateral supporting these bank, commercial and other letters and lines of credit.

See Note 11 to the Consolidated Financial Statements for further discussion regarding the Company' s guarantees.

Retained Interests In Assets Transferred To Unconsolidated Entities

The Company held, as an investment, $70 million of subordinated retained interests from securitizations and $209 million of an interest-only strip in the cardmember loan securitization trust at December 31, 2005. See the Consolidated Liquidity and Capital Resources section and Note 5 to the Consolidated Financial Statements for details regarding the Company’ s securitization trusts.

Certain Other Off-Balance Sheet Arrangements

At December 31, 2005, the Company had approximately $213 billion of unused credit available to cardmembers, as part of established lending product agreements. Total unused credit available to cardmembers does not represent potential future cash requirements as a significant portion of this unused credit will likely not be drawn. The Company’ s charge card products have no pre-set limit and, therefore, are not reflected in unused credit available to cardmembers. As discussed in the Consolidated Liquidity and Capital Resources section, the Company’ s securitizations of cardmember loans are also off-balance sheet. The Company’ s cardmember receivables securitizations remain on the Consolidated Balance Sheets.

See Note 11 to the Consolidated Financial Statements for further discussion regarding the Company’ s other off-balance sheet arrangements.

Risk Management

Introduction

Risk management is a key lever in driving profitable growth at the Company. By creating transparent limits on risk exposures, optimizing investment decision-making and identifying unacceptable risks, risk management plays a fundamental role in the Company' s efforts to create shareholder value.

In addition to business risk, the Company recognizes three fundamental sources of risk:

- Credit Risk,
- Market Risk, and
- Operational Risk.

These risk types are interrelated and span the Company' s business units and geographic locations. Given the nature and scope of these risks, the Company believes in centrally managing them at an enterprise level. Further, management has adopted well-defined principles regarding credit, market and operational risk to guide the Company' s business strategy and achieve long-term shareholder objectives. The Company views underwriting credit risk as a significant lever in driving profitable growth. Market risk is hedged or managed within established parameters to sustain such earnings growth, while operational risk arising from the Company' s business activities is carefully monitored to maintain it within acceptable limits.

Principles

The implementation of the Company' s risk management objectives is based on the following three principles:

- Independence of risk management oversight;
- Management of risk exposures through Board-approved risk limits; and
- Ultimate business ownership for risk-return decision making.

The Company' s risk management leaders partner with business unit managers in making risk-return decisions by utilizing standardized risk metrics with predictable outcomes. The measurement and reporting of these risks are performed independently by risk management leaders. However, business unit managers ultimately remain accountable for the outcome of risk-return decisions within these established limits.

Governance

Risk management governance at the Company begins with Board oversight of risk management parameters. The Board' s Audit Committee approves the Company' s risk management objectives, as well as major risk limits, policies and key process controls. Supporting the Board in its oversight function is the Global Leadership Team (GLT) and the Enterprise Risk Management Committee (ERMC). In addition to risk-return decision-making, the GLT works with the ERMC to increase awareness throughout the Company of risk-return tradeoffs on a daily basis. The ERMC leads the Company' s overall risk management activities by measuring and monitoring enterprise-wide risk, and establishing enterprise-wide risk management policies and practices.

Daily risk management occurs at the business unit level where the processes and infrastructure necessary to measure and manage risk are integrated into business unit goals. Business unit managers, in partnership with independent risk management leaders, make decisions regarding the assumption of risks that are within established limits and confined to an individual business unit. The Company has also developed a process that provides increased scrutiny throughout the risk management governance structure and requires higher levels of approval for exposures above defined risk thresholds or that may impact different business units.

The escalation process is designed so that the large majority of transactions and initiatives can continue to be accommodated within existing business unit risk management processes, while ensuring that risks with enterprise-wide implications receive enhanced scrutiny.

Roles and Responsibilities

The ERMC is chaired by the Company' s Chief Risk Officer. Given the key role of credit risk in the Company business model, credit officers responsible for (i) cardmember credit risk management services, (ii) the centralized functional responsibilities for worldwide card fraud and information management, and (iii) banking services, all report directly to the Chief Risk Officer. In addition, as the Chair of the ERMC, the

Chief Risk Officer is also responsible for managing and controlling overall credit, market and operational risk exposures throughout the Company.

In addition to the Chief Risk Officer, the ERMC is composed of:

The senior risk leaders responsible for enterprise-wide market and operational risk (including Internal Audit);

The enterprise-wide leaders of compliance, controllership and technologies; and

The senior risk leaders of the Company’ s three operating segments: U.S. Card Services, International Card & Global Commercial Services and Global Network & Merchant Services.

As the most senior risk management entity, the ERMC draws on its significant enterprise-wide risk expertise to analyze risk comprehensively and determine acceptable risk thresholds across the Company.

In order to enhance its enterprise-wide risk assessment, the ERMC continues to upgrade risk management capabilities in order to better measure, manage and transparently report on risk concentrations. The ERMC also launches focused risk management initiatives to assess the drivers of significant exposures.

Credit Risk Management Process

Credit risk is defined as the risk of loss from obligor or counterparty default. Leadership for overall credit risk management at the Company rests with the Chief Risk Officer as Chairman of the ERMC. Credit risks in the Company can be divided into two broad categories, each with distinct risk management tools and metrics: consumer credit risk and institutional credit risk.

Consumer Credit Risk

Consumer credit risk arises principally from the Company’ s portfolio of cardmember receivables and loans. Since such portfolio consists of millions of borrowers across multiple geographies, occupations and social segments, its risk is substantially reduced through diversification. In addition, the Company benefits from the fact that the credit profile of its cardmembers is better than that of its many competitors, which is a combined result of its underwriting and customer management policy and of reward programs and other incentives embedded in the structure of the Company’ s products. The level of consumer credit risk losses is more driven by general economic and legal conditions than by borrower-specific events.

Consumer credit risk is managed within a highly organized structure of Board-approved policies covering all facets of credit extension, including approvals, authorizations, line management and fraud prevention. The policies ensure consistent application of credit management principles and standardized reporting of asset quality and loss recognition metrics across domestic and international portfolios. Moreover, consumer credit risk management is supported by sophisticated proprietary scoring and decision-making models.

Credit underwriting decisions are made based on a sophisticated evaluation of product economics and customer behavior predictions. The Company has developed unique decision logic for each customer interaction, including prospect targeting, new accounts, line assignment, line management, balance transfer, cross sell and account management. Each decision has benefited from sophisticated modeling capability that uses the most up-to-date information on customers, including extensive payment history, purchase data and insights from proprietary data feeds from all three credit bureaus.

In addition to the impact of improved risk management processes, the Company’ s overall consumer credit performance has also benefited from the shifting mix of the portfolio towards products that reward the customer for spending. Rewards attract higher spending from premium customers, which in turn leads to lower credit loss rates.

While consumer credit risk indicators have continued to show steady progress, the Company’ s objective of driving profitable growth may be accomplished by the launch of new products or of existing products in new markets, which may exhibit higher loss rates.

The asset quality of the consumer portfolio is discussed in U.S. Card Services’ Results of Operations section.

Institutional Credit Risk

Institutional credit risk arises within the Company’ s corporate card, large establishment services and network services businesses. Unlike consumer credit risk, institutional credit risk is characterized by a lower loss frequency but higher severity that, although affected by general economic conditions, is generally linked to more borrower-specific events. The Company’ s senior risk officers recognize that the absence of large losses in any given year or over several years is not representative of the risk of an institutional portfolio, given the infrequency of loss events in such a portfolio.

In 2005, the ERMC executed a major project to upgrade risk management practices relating to institutional credit risk exposures. This project delivered a set of guidelines and escalation procedures for scrutinizing institutional exposures based on the size and risk of Company exposures. The ERMC enhanced its infrastructure for gathering, classifying, quantifying and distributing its institutional credit exposure data so as to embed it in all decision-making throughout the Company.

Additionally, a specific airline risk group was created in order to ensure these institutional relationships, which have become a key component of the Company' s spend-centric business model, are appropriately assessed as to their risk.

Market Risk Management Process

Market risk represents the loss in value of portfolios and financial instruments due to adverse changes in market variables. The Company' s non-trading related market risk consists of:

Interest rate risk in its card, insurance and certificate businesses; and

Foreign exchange risk in its international operations.

Market risk is centrally managed by the corporate treasurer who also acts as the Vice Chairman of the ERMC. Within each business, market risk exposures are monitored and managed by various asset liability committees within the parameters of Board-approved policies covering derivative financial instruments, funding and investments. With respect to derivative financial instruments, the value of such instruments is derived from an underlying variable or multiple variables, including commodity, equity, foreign exchange and interest rate indices or prices. These instruments enable the end users to increase, reduce or alter exposure to various market risks and, as such, are an integral component of the Company' s market risk and related asset liability management strategy and processes. Use of derivative financial instruments is incorporated into the discussion below as well as Note 10 to the Consolidated Financial Statements.

Market exposure is a byproduct of the delivery of products and services to cardmembers. Interest rate risk is generated by funding cardmember charges and fixed rate loans with variable rate borrowings. Such assets and liabilities generally do not create naturally offsetting positions as it relates to basis, re-pricing, or maturity characteristics. By using derivative financial instruments, such as interest rate swaps, the interest rate profile can be adjusted to maintain and manage a desired profile. A portion of interest rate risk exposure usually remains unhedged, to enable the Company to take a view on interest rate changes. In addition, foreign exchange risk is generated by cardmember cross-currency charges, foreign currency denominated balance sheet exposures and foreign currency earnings in international units. The Company hedges this market exposure to the extent it is economically justified through various means including the use of derivative financial instruments, such as foreign exchange forward and cross-currency swap contracts, which can help "lock in" the Company' s exposure to specific currencies at a specified rate. As a general matter, virtually all foreign exchange risk arising from cardmember cross-currency charges, foreign currency balance sheet exposures and foreign currency earnings is risk managed to reduce the Company' s exposure to currency rate fluctuations.

For the Company' s charge card and fixed rate lending products interest rate exposure is managed through a combination of shifting the mix of funding toward fixed rate debt and through the use of derivative instruments, with an emphasis on interest rate swaps, that effectively fix interest expense for the length of the swap. The Company endeavors to lengthen the maturity of interest rate hedges in periods of falling interest rates and to shorten their maturity in periods of rising interest rates. For the majority of its cardmember loans, which are linked to a floating rate base and generally reprice each month, the Company uses floating rate funding. The Company regularly reviews its strategy and may modify it. Non-trading interest rate derivative financial instruments, primarily interest rate swaps, with notional amounts of approximately $22 billion and $38 billion were outstanding at December 31, 2005 and 2004, respectively. These derivatives generally qualify for hedge accounting. A portion of these derivatives outstanding as of December 31, 2005 extend to 2015.

The detrimental effect on the Company' s pretax earnings of a hypothetical 100 basis point increase in interest rates would be approximately $180 million ($158 million related to the U.S. dollar), based on the 2005 year-end positions. This effect, which is calculated using a static asset liability gapping model to quantify the impact of a 100 basis point shift, is primarily a function of the extent of variable rate funding of charge card and fixed rate lending products, to the degree that interest rate exposure is not managed by derivative financial instruments.

The Company' s foreign exchange risk arising from cross-currency charges and balance sheet exposures, foreign currency earnings and translation exposure of foreign operations is managed primarily by entering into agreements to buy and sell currencies on a spot or forward basis as well as foreign currency options. At December 31, 2005 and 2004, foreign currency products with total notional amounts of approximately $30 billion and $37 billion, respectively were outstanding. Derivative hedging activities related to cross-currency charges, balance sheet exposures and foreign currency earnings generally do not qualify for hedge accounting. Derivative hedging activities related to translation exposure of foreign operations generally qualify for hedge accounting.

With respect to cross-currency charges and balance sheet exposures, including related foreign exchange forward contracts outstanding, the effect on the Company' s earnings of a hypothetical 10 percent change in the value of the U.S. dollar would be immaterial as of December 31, 2005. With respect to foreign currency earnings, the adverse impact on pretax income of a 10 percent strengthening of the U.S. dollar related to anticipated overseas operating results for the next twelve months, including related foreign exchange option contracts entered into in January 2006, would hypothetically be $65 million as of December 31, 2005. With respect to translation exposure of foreign operations, including related foreign exchange forward contracts outstanding, a 10 percent change in the U.S. dollar would result in a $12 million reduction in equity as of December 31, 2005.

In conjunction with its international banking operations, the Company also uses derivative financial instruments to manage market risk related to specific interest rate, foreign exchange and price risk exposures arising from deposits, loans and debt and equity securities holdings as well as its limited trading positions, discussed below. At December 31, 2005 and 2004, interest rate products related to trading and non-trading positions with notional amounts totaling approximately $17 billion and $12 billion, respectively, were outstanding. Additionally, equity products related to trading and non-trading positions with notional amounts of $740 million and $582 million, respectively, were outstanding at December 31, 2005 and 2004. These derivatives generally do not qualify for hedge accounting.

As noted, market risk arises from the international banking trading activities in foreign exchange (both directly through daily exchange transactions as well as through foreign exchange derivatives), interest rate derivatives (primarily swaps), equity derivatives and securities trading. Proprietary positions taken in foreign exchange instruments, interest rate risk instruments and the securities portfolios are monitored daily against Value-at-Risk (VaR) limits. The VaR methodology used to measure the daily exposure from trading activities is calculated using a parametric technique using a correlation matrix based upon historical data.

The VaR measure uses a 99 percent confidence interval to estimate potential trading losses over a one-day period. The average VaR for trading activities was less than $1 million for both 2005 and 2004.

Operational Risk Management Process

The Company defines operational risk as the risk of not achieving business objectives due to failed processes, people or information systems, or from the external environment (e.g., natural disasters). The Company recognizes that operational risk is inherent in all business activities and can impact an organization through direct or indirect financial loss, brand or reputational damage, customer dissatisfaction, or legal or regulatory penalties.

The management of operational risk is an important priority for the Company. To mitigate such operational risks, the Company has developed a comprehensive operational risk program that enables the identification, measurement, monitoring and reporting of inherent and emerging operational risks. During 2005, this program, utilizing the same process risk self assessment methodology used to facilitate compliance with Section 404 of the Sarbanes Oxley Act, has been extended to non-financial operational risk self assessments. An operational risk management reporting process that provides business unit leaders with operational risk information on a quarterly basis to help them assess the overall operational risks of their business unit has also been implemented. These initiatives have resulted in improved operational risk intelligence and a heightened level of preparedness to manage operational risk events and conditions that may adversely impact the Company' s operations.

The Company' s operational risk governance structure includes an Operational Risk Management Committee, which is responsible for maintaining the operational risk framework and related policies and for overseeing the implementation of the Company' s operational risk program. The Committee is chaired by the Chief Operational Risk Officer and Vice Chairman of the ERMC and has member representation from business units and support groups. The business units have the responsibility for implementing the framework as well as the day-to-day management of operational risk, creating a partnership that ensures close monitoring and increasing awareness for operational risk.

Business Segment Results

Effective September 30, 2005, the Company realigned its segment presentation to reflect the spin-off of Ameriprise. The new segments are: U.S. Card Services, International Card & Global Commercial Services, Global Network & Merchant Services, and Corporate & Other.

Results of the business segments reflect essentially each segment as a stand-alone business. The management reporting process that derives these results allocates income and expense using various methodologies as described below.

Revenues

The Company applies a transfer pricing methodology for the allocation of discount revenue and certain other revenues between segments. Discount revenue is earned by segments based on the volume of merchant business generated by cardmembers at predetermined rates. Within the U.S. Card Services and International Card & Global Commercial Services segments, discount revenue reflects the issuer component of the overall discount rate and within the Global Network & Merchant Services segment, discount revenue reflects the network component of the overall discount rate. Net finance charge revenue and net card fees are directly attributable to the segment in which they are reported.

Expenses

Marketing, promotion, rewards and cardmember services expenses are reflected in each segment based on actual expenses incurred within the segment, with the exception of brand advertising, which is reflected in the Global Network & Merchant Services segment. The provision for losses reflects credit-related expenses as incurred within each segment.

Human resources and other expenses reflect expenses incurred directly within each segment as well as expenses related to the Company' s support services, which are allocated to each segment based on support service activities directly attributable to the segment. Other overhead expenses are allocated to segments based on each segment' s level of pretax income. Financing requirements are managed on a consolidated basis. Funding costs are allocated to segments based on segment funding requirements.

Capital

Each business segment is allocated capital based on business model operating requirements, risk measures and regulatory capital requirements. Business model requirements include capital needed to support operations and specific balance sheet items. The risk measures include considerations for credit, market and operational risk. Regulatory capital requirements include the capital amounts defined for well-capitalized financial institutions.

Income Taxes

Income tax provision (benefit) is allocated to each business segment based on the effective tax rates applicable to various businesses that comprise the segment.

As discussed more fully below, U.S. Card Services' and International Card & Global Commercial Services' results are presented on a managed basis and Global Network & Merchant Services' and Corporate & Other results are presented on a basis consistent with GAAP.

U.S. Card Services

Differences between GAAP and Managed Basis Presentation

The Company presents certain information on a managed basis because that is the way the Company' s management views and manages the business.

For U.S. Card Services, managed basis means the presentation assumes there have been no securitization transactions, i.e., all securitized cardmember loans and related income effects are reflected as if they were in the Company' s balance sheets and income statements, respectively. Management believes that a full picture of trends in the Company' s cardmember lending business can only be derived by evaluating the performance of both securitized and non-securitized cardmember loans. Asset securitization is just one of several ways for the Company to fund cardmember loans. Use of a managed basis presentation, including non-securitized and securitized cardmember loans, presents a more accurate picture of the key dynamics of the cardmember lending business, avoiding distortions due to the mix of funding sources at any particular point in time. The Company does not currently securitize international loans.

U.S. Card Services' owned portfolio (i.e., on-balance sheet) is primarily comprised of cardmember receivables generated by the Company's charge card products and unsecuritized cardmember loans. The Company securitizes cardmember loans as part of its financing strategy; consequently, the level of unsecuritized cardmember loans is primarily a function of the Company's financing requirements. Delinquency, reserve coverage and net write-off rates have historically been broadly comparable between the Company's owned and managed portfolios.

On a GAAP basis, results reflect net securitization income, which is comprised of the non-credit provision components of the net gains and charges from securitization activities, the amortization and related impairment charges, if any, of the interest-only strip, excess spread related to securitized loans, net finance charge revenue on retained interests in securitized loans, and servicing income, net of related discounts or fees. Excess spread, which is the net positive cash flow from interest and fee collections allocated to the investor' s interests after deducting the interest paid on investor certificates, credit losses, contractual servicing fees and other expenses is recognized in securitization income as it is earned. See Selected Statistical Information below for data relating to U.S. Card Services' owned loan portfolio.

During 2005, 2004 and 2003, U.S. Card Services recognized net gains, including the credit components, of $21 million ($14 million after-tax), $26 million ($17 million after-tax) and $124 million ($81 million after-tax), respectively, from net securitization activities. In 2005, the net gains consisted of $181 million of income from the securitization of $5.4 billion of cardmember loans, including the impact of the related credit reserves on the sold loans. This amount was partially offset by $160 million of charges related to the maturity of $4.5 billion of previously outstanding issuances. In 2004, the net gains consisted of $230 million of income from the securitization of $3.9 billion of cardmember loans, including the impact of the related credit reserves on the sold loans, and the sale of $1.4 billion of certain retained interests from previous securitization activities. This amount was partially offset by $204 million of charges related to the maturity of $3.0 billion of securitizations and changes in interest-only strip assumptions.

Management views any net gains from securitizations as discretionary benefits to be used for card acquisition expenses, which are reflected in both marketing, promotion, rewards and cardmember services and other operating expenses. Consequently, the managed basis presentation for 2005, 2004 and 2003 assumes that the impact of this net activity was offset by higher marketing, promotion, rewards and cardmember services expenses of $13 million, $16 million and $74 million, respectively, and other operating expenses of $8 million, $10 million and $50 million, respectively. Accordingly, the incremental expenses, as well as the impact of this net activity, have been eliminated in the managed basis presentations.

The managed basis presentation for U.S. Card Services also reflects an increase to interest income recorded to enable management to evaluate tax exempt investments on a basis consistent with taxable investment securities. On a GAAP basis, interest income associated with tax exempt investments is recorded based on amounts earned. Accordingly, information presented on a managed basis assumes that tax exempt securities earned income at rates as if the securities produced taxable income with a corresponding increase in the provision for income taxes.

The following table reconciles the GAAP basis for certain U.S. Card Services income statement line items to the managed basis information, where different.

Years Ended December 31, (Millions)	GAAP Basis			Securitization Effect			Tax Equivalent Effect			Managed Basis		
	2005	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Revenues:												
Discount revenue, net card fees and other	**$8,897**	$7,893	$7,102	**$210**	$210	$193	**$226**	$228	$228	**$9,333**	$8,331	$7,523
Cardmember lending:												
Finance charge revenue	**2,408**	1,776	1,574	**2,692**	2,222	2,172				**5,100**	3,998	3,746
Interest expense	**616**	406	303	**739**	384	317				**1,355**	790	620
Net finance charge revenue	**1,792**	1,370	1,271	**1,953**	1,838	1,855				**3,745**	3,208	3,126
Securitization income, net	**1,260**	1,132	1,105	**(1,260)**	(1,132)	(1,105)				–	–	–
Total revenues	**11,949**	10,395	9,478	**903**	916	943	**226**	228	228	**13,078**	11,539	10,649
Expenses:												
Marketing, promotion, rewards and cardmember services	**3,911**	3,325	2,644	**(13)**	(16)	(74)				**3,898**	3,309	2,570
Provision for losses	**1,676**	1,508	1,481	**924**	942	1,067				**2,600**	2,450	2,548
Human resources and other operating expenses	**3,763**	3,422	3,397	**(8)**	(10)	(50)				**3,755**	3,412	3,347
Total expenses	**9,350**	8,255	7,522	**$903**	$916	$943				**10,253**	9,171	8,465
Pretax segment income	**2,599**	2,140	1,956				**226**	228	228	**2,825**	2,368	2,184

Income tax provision	**765**	622	558		**$226**	$228	$228	**$991**	$850	$786
Segment income	**$1,834**	$1,518	$1,398							

Selected Statistical Information

Years Ended December 31, (Billions, except percentages and where indicated)	2005	2004	2003
Card billed business	**$292.8**	$251.7	$214.7
Total cards-in-force (millions)	**37.5**	35.0	32.7
Basic cards-in-force (millions)	**27.7**	25.7	24.0
Average basic cardmember spending (dollars)	**$10,996**	$10,118	$9,054
U.S. Consumer Travel			
Travel sales	**$1.9**	$1.5	$1.2
Travel commissions and fees/sales	**8.7 %**	8.9 %	8.6 %
Worldwide Travelers Cheque and prepaid products:			
Sales	**$19.7**	$19.9	$19.2
Average outstanding	**$7.1**	$7.0	$6.6
Average investments	**$7.8**	$7.5	$7.1
Investment yield(a)	**5.1 %**	5.4 %	5.4 %
Tax equivalent yield − managed(a)	**7.9 %**	8.4 %	8.4 %
Total segment assets	**$70.3**	$58.3	$53.0
Segment capital	**$5.1**	$4.5	$3.7
Return on segment capital	**39.3 %**	38.2 %	39.1 %

Cardmember receivables:			
Total receivables	**$19.2**	$17.4	$16.1
90 days past due as a % of total	**1.8 %**	2.0 %	2.2 %
Net loss ratio as a % of charge volume	**0.30 %**	0.30 %	0.34 %
Cardmember lending − owned basis:			
Total loans	**$24.8**	$19.6	$17.7
30 days past due loans as a % of total	**2.3 %**	2.4 %	2.6 %
Average loans	**$21.0**	$17.9	$16.4
Net write-off rate	**3.9 %**	3.9 %	5.0 %
Net finance charge revenue/average loans	**8.5 %**	7.7 %	7.8 %
Cardmember lending − managed basis:			
Total loans	**$46.0**	$39.9	$37.0
30 days past due loans as a % of total	**2.3 %**	2.5 %	2.7 %
Average loans	**$41.5**	$37.3	$35.2
Net write-off rate	**4.1 %**	4.3 %	5.2 %
Net finance charge revenue/average loans	**9.0 %**	8.6 %	8.9 %

(a) Investment yield represents earnings on certain tax-exempt securities. The tax equivalent yield − managed represents earnings on such tax-exempt securities as if it had been earned on a taxable basis and assumes an income tax rate of 35 percent.

Results of Operations for the Three Years Ended December 31, 2005

The following discussion of U.S. Card Services' segment results of operations is presented on a managed basis. U.S. Card Services reported segment income of $1.8 billion in 2005, a 21 percent increase from $1.5 billion in 2004, which increased 9 percent from 2003.

Revenues

In 2005, U.S. Card Services' revenues increased 13 percent to $13.1 billion primarily due to higher discount revenue, net card fees and other, and increased cardmember lending net finance charge revenue. Discount revenue, net card fees and other of $9.3 billion in 2005, rose 12 percent from 2004, largely due to increases in billed business volumes. The 16 percent increase in billed business in 2005 reflected a 9 percent increase in spending per proprietary basic card and a 7 percent growth in cards-in-force. Within the U.S. consumer business, billed business grew 15 percent and small business volumes rose 20 percent in 2005. Cardmember lending net finance charge revenue of $3.7 billion in 2005 rose 17 percent compared to 2004, primarily due to 11 percent growth in average lending balances and a higher portfolio yield. Revenues of $11.5 billion in 2004 were 8 percent higher than 2003 as a result of increased discount revenues, net card fees and other, and cardmember lending net finance charge revenue.

Expenses

During 2005, U.S. Card Services' expenses increased 12 percent to $10.3 billion, primarily due to higher marketing, promotion, rewards and cardmember services expenses, greater human resources expenses and other operating expenses and higher provisions for losses. Expenses in 2005 included $10 million in aggregate reengineering charges principally relating to the restructuring of travel operations. These charges represent employee severance obligations and are included in human resources expense. Expenses in 2004 of $9.2 billion were 8 percent higher than 2003 primarily due to higher marketing, promotion, rewards and cardmember services, greater human resources expenses and other operating expenses, partially offset by reduced provisions for losses and interest costs.

Marketing, promotion, rewards and cardmember services expenses increased 18 percent in 2005 to $3.9 billion reflecting the Company' s increased business-building activities and volume-related rewards expense growth. Total provisions for losses increased 6 percent in 2005 due to strong volume increases within both charge and lending activities, higher provision rates, reflecting the impact of the new bankruptcy legislation, and a $38 million provision for the estimated costs related to Hurricane Katrina. In 2004, a $115 million securitization reconciliation charge was recorded. Human resources and other operating expenses of $3.8 billion in 2005 increased 10 percent from 2004 primarily due to greater interest costs and higher management incentives, including an additional year of stock-based compensation expenses, merit increases, and increased employee benefit costs. In addition, operating expenses rose reflecting volume-related costs.

The effective tax rate was 35 percent in 2005 versus 36 percent in 2004 and 2003.

International Card & Global Commercial Services

Differences between GAAP and Managed Basis Presentation

The table below provides selected income statement data of International Card & Global Commercial Services for 2005, 2004 and 2003 on a GAAP basis. On a GAAP basis, amounts earned related to the sale and purchase of foreign currencies for customers as part of the foreign exchange business are included with other foreign exchange items that are reflected in other operating expenses. Management views these foreign exchange services as a revenue generating activity and makes operating decisions based upon that information. On a managed basis, these revenues are included in other revenue with a corresponding increase in other operating expenses. The amount of foreign exchange services reclassified on a managed basis increased other revenue and other operating expenses by $135 million, $172 million and $161 million in 2005, 2004 and 2003, respectively, from the amounts reported on a GAAP basis.

Years Ended December 31, (Millions)	GAAP Basis 2005	2004	2003
Revenues:			
Discount revenue, net card fees and other	**$8,354**	$7,789	$6,796
Cardmember lending:			
Finance charge revenue	**1,035**	907	821
Interest expense	**351**	267	212
Net finance charge revenue	**684**	640	609
Total revenues	**9,038**	8,429	7,405
Expenses:			
Marketing, promotion, rewards and cardmember services	**1,269**	1,130	829

Provision for losses and benefits	**1,023**	740	735
Human resources and other operating expenses	**5,597**	5,443	4,767
Total expenses	**7,889**	7,313	6,331
Pretax segment income	**1,149**	1,116	1,074
Income tax provision	**215**	335	359
Segment income	**$934**	$781	$715

Selected Statistical Information

Years Ended December 31, (Billions, except percentages and where indicated)	**2005**	**2004**	**2003**
Card billed business	**$168.5**	$148.6	$125.5
Total cards-in-force (millions)	**22.7**	21.6	21.3
Basic cards-in-force (millions)	**18.0**	17.2	17.2
Average basic cardmember spending (dollars)	**$9,641**	$8,610	$7,458
Global Corporate & International Consumer Travel			
Travel sales	**$18.8**	$18.4	$14.8
Travel commissions and fees/sales	**8.6 %**	9.0 %	9.5 %
International banking			
Total loans	**$7.1**	$6.9	$6.5
Private banking holdings	**$20.3**	$18.6	$16.2
Total segment assets	**$51.7**	$47.9	$42.3
Segment capital	**$4.1**	$3.8	$3.4
Return on segment capital	**24.1 %**	22.0 %	22.6 %
Cardmember receivables:			
Total receivables	**$14.5**	$13.7	$12.3
90 days past due as a % of total	**1.3 %**	1.5 %	1.4 %

Net loss ratio as a % of charge volume	**0.21 %**	0.19 %	0.19 %
Cardmember lending:			
Total loans	**$8.3**	$7.3	$7.3
30 days past due loans as a % of total	**2.8 %**	2.3 %	2.3 %
Average loans	**$7.4**	$6.7	$6.0
Net write-off rate	**4.7 %**	5.2 %	5.6 %
Net finance charge revenue/average loans	**9.3 %**	9.6 %	10.2 %

Results of Operations for the Three Years Ended December 31, 2005

The following discussion of International Card & Global Commercial Services' results of operations is presented on a managed basis.

International Card & Global Commercial Services reported segment income of $934 million for 2005, a 19 percent increase from $781 million in 2004, which increased 9 percent from 2003.

Revenues

In 2005, International Card & Global Commercial Services' discount revenue, net card fees and other revenues increased 7 percent to $8.5 billion driven primarily by increases in both spending and cards-in-force, as well as greater volume-related foreign exchange conversion fees and higher card-related assessments, which were partially offset by lower travel revenues. The 13 percent increase in billed business in 2005 reflects a 12 percent increase in spending per proprietary basic card as a result of increases in international consumer, small business and global corporate spending and a 5 percent growth in cards-in-force. Cardmember lending net finance charge revenue of $684 million in 2005 rose 7 percent as compared to 2004, primarily due to 11 percent growth in the average lending balances, partially offset by a higher cost of funds. Revenues of $8.6 billion in 2004 were 14 percent higher than 2003 as a result of increased discount revenue, net card fees and other revenues.

Expenses

During 2005, International Card & Global Commercial Services' expenses increased 7 percent to $8.0 billion primarily due to increased provisions for losses and benefits, higher marketing and promotion expenses, greater reward costs and other operating expenses. Expenses in 2005 included $168 million in aggregate reengineering charges principally relating to the restructuring of activities in the Corporate Travel business and international operations. These restructuring charges include $88 million of employee severance obligations included in human resources expense and $12 million of other exit costs, primarily relating to the termination of certain real estate property leases. Expenses in 2004 of $7.5 billion were 15 percent higher than 2003 primarily due to increased human resources and other operating expenses, higher marketing and promotion expenses and greater reward costs.

Marketing, promotion, rewards and cardmember services expenses increased 12 percent in 2005 to $1.3 billion reflecting greater rewards costs and higher marketing and promotion expenses due to the Company' s ongoing business-building initiatives. Total provisions for losses and benefits increased 38 percent in 2005 compared to 2004 primarily due to strong volume increases within both charge and lending activities and higher provision rates. Human resources and other operating expenses increased 2 percent to $5.7 billion in 2005 from 2004 reflecting higher reengineering expenses, which were partially offset by lower human resources costs and other reengineering-related savings.

The effective tax rate was 19 percent in 2005 versus 30 percent in 2004 and 33 percent in 2003. The effective tax rate was lower in 2005 as compared to 2004 primarily due to tax benefits of $33 million, resulting from the resolution of IRS audits of previous years' returns, in addition to the positive effect of changes in the Company's international funding strategy in 2004.

Global Network & Merchant Services

Selected Income Statement Data

Years Ended December 31, (Millions)	2005	2004	2003
Revenues:			
Discount revenue, fees and other	**$2,842**	$2,639	$2,347
Expenses:			
Marketing and promotion	**604**	389	289
Provision/(benefit) for losses	**66**	(2)	67
Human resources and other operating expenses	**1,302**	1,348	1,225
Total expenses	**1,972**	1,735	1,581
Pretax segment income	**870**	904	766
Income tax provision	**306**	330	280
Segment income	**$564**	$574	$486

Selected Statistical Information

Years Ended December 31, (Billions, except percentages and where indicated)	2005	2004	2003
Global Card billed business	**$484.4**	$416.1	$352.2
Global Network & Merchant Services:			

Total segment assets	**$4.5**	$3.9	$4.2
Segment capital	**$1.3**	$1.1	$1.0
Return on segment capital	**48.4 %**	55.8 %	49.0 %
Global Network Services:			
Card billed business	**$24.0**	$17.7	$13.2
Total cards-in-force (millions)	**10.8**	8.8	6.5

Results of Operations for the Three Years Ended December 31, 2005

Revenues

Global Network & Merchant Services reported segment income of $564 million in 2005, a 2 percent decrease from $574 million in 2004, which increased 18 percent from 2003.

In 2005, Global Network & Merchant Services revenues increased 8 percent to $2.8 billion due to higher discount revenue, fees and other revenues primarily due to growth in network-related discount revenue generated from strong growth in network volumes, partially offset by a decrease in other revenues as a result of the 2004 sale of the ATM business and the impact of a lower overall discount rate. Cards-in-force rose 23 percent in 2005 from 2004 reflecting growth in new partners. Revenues of $2.6 billion in 2004 were 12 percent higher than 2003 as a result of increased discount revenue and fees.

Expenses

During 2005, Global Network & Merchant Services expenses increased 14 percent to $2.0 billion reflecting higher marketing and promotion expenses, increased costs for provisions for loss offset by a decrease in human resources expenses and other operating expenses. Expenses in 2005 included $3 million in aggregate reengineering charges principally relating to the restructuring of certain operations. These charges represent employee severance obligations included in human resources expense. Expenses in 2004 of $1.7 billion were 10 percent higher than 2003 primarily due to greater marketing and promotion, higher human resources and other operating expenses, partially offset by decreased costs for provisions for losses.

Marketing and promotion expenses increased 55 percent in 2005 to $604 million reflecting higher marketing and promotion expenses primarily due to the ongoing costs of the “MyLife, MyCard” brand advertising campaign. Provision for losses increased substantially in 2005 primarily due to a $60 million benefit in 2004 resulting from the reduction in merchant-related reserves. Human resources and other operating expenses decreased 3 percent to $1.3 billion in 2005 due in part to the third quarter of 2004 sale of the ATM business and a larger internally allocated interest expense credit that recognizes the network business’ accounts payable-related funding benefit, partially offset by greater salary and benefit costs, which reflect head-count growth due to Global Network Services business-building initiatives.

The effective tax rate was 35 percent in 2005 versus 36 percent in 2004 and 37 percent in 2003. The effective tax rate was lower in 2005 as compared to 2004 primarily as a result of favorable tax audit experience.

Corporate & Other

Corporate & Other had net expense of $111 million, $187 million and $264 million in 2005, 2004 and 2003, respectively. Net expense in 2005 reflects $159 million of tax benefits resulting from the resolution of prior years' tax items, a $73 million ($47 million after-tax) benefit related to the settlement of an insurance claim associated with September 11, 2001 and $105 million ($68 million after-tax) of reengineering costs.

Airline Industry Matters

Historically, the Company has not experienced significant revenue declines resulting from a particular airline's scaling-back or closure of operations due to bankruptcy or other financial challenges because the volumes generated from the airline are typically shifted to other participants in the industry that accept the Company's card products. Nonetheless, the Company is exposed to business and credit risk in the airline industry primarily through business arrangements where the Company has remitted payment to the airline for a cardmember purchase of tickets that have not yet been used or "flown." This creates a potential exposure for the Company in the event that the cardmember is not able to use the ticket and the Company, based on the facts and circumstances, credits the cardmember for the unused ticket. Historically, this type of exposure has not generated any significant losses for the Company because of the need for an airline that is operating under bankruptcy protection to continue accepting credit and charge cards and honoring requests for credits and refunds in the ordinary course of business, and in furtherance of its reorganization and its formal assumption, with bankruptcy court approval, of its card acceptance agreement, including approval of the Company's right to hold cash to cover these potential exposures to provide credits to cardmembers. Typically, as an airline's financial situation deteriorates the Company delays payment to the airlines thereby increasing cash held to protect itself in the event of an ultimate liquidation of the airline. The Company's goal in these distressed situations is to hold sufficient cash over time to ensure that upon liquidation the cash held is equivalent to the credit exposure related to any unused tickets.

Separately, as part of Delta Airlines' (Delta) decision to file for protection under Chapter 11 of the Bankruptcy Code, the Company agreed with Delta to restructure certain of its financial arrangements with the airline. In particular, Delta agreed to repay to the Company an aggregate $557 million, primarily the Company's prepayment of Delta SkyMiles rewards points. Contemporaneously with the repayment, the Company lent to Delta $350 million as part of Delta's post-petition, debtor-in-possession (DIP) financing under the Bankruptcy Code. At December 31, 2005 the remaining principal balance was $300 million. This post-petition facility continues to be structured as an advance against the Company's obligations to purchase Delta SkyMiles rewards points under the Company's co-brand and Membership Rewards agreements and will be amortized ratably each month beginning in July 2006 through November 2007. The Company's post-petition facility is secured by (i) senior liens on Delta assets specifically related to its American Express co-brand, Membership Rewards and card acceptance relationships and (ii) liens subordinate to senior liens on all other Delta assets including the assets and shares of certain Delta subsidiaries.

In addition, given the depth of the Company's business relationships with Delta through the SkyMiles Credit Card and Delta's participation as a key partner in the Company's Membership Rewards program, in the event Delta's reorganization under the bankruptcy laws is not successful or otherwise negatively impacts the Company's relationship with Delta, the Company's future financial results could be adversely impacted. As previously disclosed, American Express' Delta SkyMiles Credit Card co-brand portfolio accounts for less than 10 percent of the Company's worldwide billed business and less than 15 percent of worldwide managed lending receivables.

Other Reporting Matters

Accounting Developments

See Recently Issued Accounting Standards section of Note 1 to the Consolidated Financial Statements.

Glossary of Selected Terminology

Asset securitizations − Asset securitization involves the transfer and sale of receivables or loans to a special purpose entity, a separate legal entity, created for the securitization activity, typically a trust. The trust, in turn, issues securities, commonly referred to as asset-backed securities that are collateralized by the transferred receivables or loans. The trust utilizes the proceeds from the sale of such securities to pay the purchase price for receivables or loans that were sold into the trust.

Average discount rate − Computed as follows: Discount revenue from all card spending (proprietary and Global Network Services) at merchants divided by all billed business (proprietary and Global Network Services) generating discount revenue at such merchants. Only merchants acquired by the Company are included in the computation. Discount rates have been restated on a historical basis from those previously disclosed, primarily to retain in the computation the Global Network Services partner portion of the discount revenue, as well as the Company' s portion of discount revenue.

Basic cards-in-force − Represents the number of cards issued and outstanding to the primary account owners and does not include additional supplemental cards issued on such accounts.

Billed business − Represents the dollar amount of charges on all American Express cards; also referred to as spend or charge volume. Proprietary billed business includes charges made on the Company' s proprietary cards-in-force, cash advances on proprietary cards and certain insurance fees charged on proprietary cards while non-proprietary billed business represents the charges through the Company' s global network on cards issued by the Company' s network partners.

Cardmember − The individual holder of an issued American Express branded charge or credit card.

Cardmember lending net finance charge revenue − Represents the net revenue earned on outstanding cardmember loans. Cardmember lending finance charges are assessed using the average daily balance method. They are recognized based upon the principal amount outstanding in accordance with the terms of the applicable account agreement until the outstanding balance is paid or written-off. Cardmember lending finance charges are presented net of the interest expense incurred by the Company to finance lending receivables.

Cardmember loans − Represents the outstanding amount due from cardmembers for charges made on their American Express credit cards, as well as any interest charges and card-related fees due from the cardmember. Cardmember loans also include balances with extended payment terms on certain charge card products.

Cardmember receivables − Represents the outstanding amount due from cardmembers for charges made on their American Express charge cards as well as any card-related fees.

Cards-in-force − Represents the number of cards that are issued and outstanding. Total consumer cards-in-force includes basic cards issued to the primary account owner and any supplemental cards which represent additional cards issued on that account. Total small business and corporate cards-in-force include basic cards issued to employee cardmembers. Proprietary cards-in-force represent card products where the Company owns the cardmember relationship including card issuance, billing and credit management and strategic plans such as marketing, promotion and development of card products and offerings. Proprietary cards-in-force include co-brand and affinity cards. For non-proprietary cards-in-force, the Company maintains the responsibility to acquire and service merchants that accept the Company' s cards and the cardmember relationship is owned by the Company' s network partners that issue the cards. Most of the Company' s network partners provide cards-in-force data to the Company on a one-month lag basis.

Charge cards − Represents cards that carry no pre-set spending limits and are primarily designed as a method of payment and not as a means of financing purchases of goods or services. Cardmembers generally must pay the full amount billed each month. No finance charges are assessed on charge cards.

Credit cards − Represents cards that have a range of revolving payment terms, grace periods and rate and fee structures.

Discount revenue − Represents revenue earned from fees charged to merchants with whom the Company has entered into a card acceptance agreement for processing cardmember transactions. The discount fee is generally deducted from the Company' s payment reimbursing the merchant.

Interest-only strip − Interest-only strips are generated from U.S. Card Services' securitization activity and are a form of retained interest held by the Company in the securitization. This financial instrument represents the present value of estimated future excess spread expected to be generated by the securitized assets over the estimated life of those assets. Excess spread is the net positive cash flow from interest and fee collections allocated to the third-party investors' interests in the securitization after deducting the interest paid on the investor certificates, credit losses, contractual servicing fees and other expenses.

Loss reserves as a percentage of loans − Represents the amount of loss reserves expressed as a percentage of the outstanding loan balance.

Loss reserves as a percentage of past due accounts − Represents the reserve coverage of past due accounts.

Net card fees − Represents the card membership fees earned during the period. These fees are recognized as revenue over the card membership period (typically one year) covered by the card fee, net of provision for projected refunds of card fees for cancellation of card membership. Similarly, card acquisition costs are deferred and amortized into operating expenses over the card membership period covered by the card fee.

Net finance charge revenue/average loans − Represents net finance charge revenue divided by average loans for the period.

Net loss ratio − Represents the ratio of write-offs, net of recoveries on cardmember receivables expressed as a percentage of the total charge card volume.

Net write-off rate − Represents the amount of loans written-off, net of recoveries as a percentage of the average loan balance during the period.

Past due loans as a percentage of total loans − Represents the percentage of loans that are 30 days or more past due compared to the total amount of loans outstanding.

Return on average total shareholders' equity − Computed on a trailing 12-month basis using total shareholders' equity as included in the Consolidated Financial Statements prepared in accordance with U.S. GAAP.

Return on segment capital − Computed on a trailing 12-month basis using equity capital allocated to segments based upon specific business operational needs, risk measures and regulatory capital requirements.

Securitization income, net − Net securitization income includes non-credit provision components of the net gains and charges from securitization activities, impairment charges, if any, of the related interest-only strip, excess spread related to securitized cardmember loans, net finance charge revenue on retained interests in securitized cardmember loans and servicing income, net of related discounts or fees. Excess spread is the net positive cash flow from interest and fee collections allocated to the third-party investors' interests in the securitization after deducting the interest paid on the investor certificates, credit losses, contractual servicing fees and other expenses. Excess spread is recognized as it is earned.

Stored value and prepaid products − Include Travelers Cheques and other prepaid products such as gift cheques and cards as well as reloadable Travelers Cheque cards. These products are sold as safe and convenient alternatives to currency and represent prepaid financial instruments for the holders to use for purchasing goods and services.

Travel sales − Represents the total dollar amount of travel transaction volume for airline, hotel, car rental and other travel arrangements made for consumers and corporate clients. The Company earns revenue on these transactions by charging a transaction or management fee.

Forward-Looking Statements

This report 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 ability to generate sufficient net income to achieve a return on equity on a GAAP basis of 28 percent to 30 percent; the Company's ability to grow its business and meet or exceed its return on shareholders' equity target by reinvesting approximately 35 percent of annually-generated capital, and returning approximately 65 percent 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 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 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 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 spending, and the overall level of consumer confidence; 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 reinvest the benefits arising from such reengineering actions in its businesses; the 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 $300 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 and 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; outcomes and costs associated with litigation and compliance and regulatory matters; competitive pressures in all of the Company' s major businesses; and other risks that are previously disclosed in this report.

MANAGEMENT' S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of American Express Company (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting.

The Company' s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America, and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company' s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company' s management assessed the effectiveness of the Company' s internal control over financial reporting as of December 31, 2005. In making this assessment, the Company' s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control − Integrated Framework*.

Based on management' s assessment and those criteria, we believe that, as of December 31, 2005, the Company' s internal control over financial reporting is effective.

PricewaterhouseCoopers LLP, the Company' s independent registered public accounting firm, has issued an audit report appearing on the following page on our assessment of the effectiveness of the Company' s internal control over financial reporting as of December 31, 2005.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of American Express Company

We have completed an integrated audit of American Express Company' s 2005 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audit, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of American Express Company and its subsidiaries (the "Company") at December 31, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company' s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management' s assessment, included in the accompanying Management' s Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control − Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control − Integrated Framework* issued by the COSO. The Company' s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management' s assessment and on the effectiveness of the Company' s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management' s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company' s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company' s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company' s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
New York, New York
February 27, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of American Express Company

We have audited the accompanying consolidated balance sheet of American Express Company as of December 31, 2004, and the consolidated statements of income, shareholders' equity, and cash flows for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Express Company at December 31, 2004, and the consolidated results of its operations and its cash flows for the years ended December 31, 2004 and 2003, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of American Express Company's internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control − Integrated Framework* issued by the Committee of Sponsoring Organizations of the Tread-way Commission and our report dated February 18, 2005 (not included herein) expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, New York

February 18, 2005, except for notes 2 and 19, as to which the date is February 27, 2006

CONSOLIDATED STATEMENTS OF INCOME

American Express Company

Years Ended December 31, (Millions, except per share amounts)	2005	2004	2003
Revenues			
Discount revenue	**$11,730**	$10,249	$8,781
Cardmember lending net finance charge revenue	**2,580**	2,224	2,042
Net card fees	**2,033**	1,909	1,835
Travel commissions and fees	**1,780**	1,795	1,507
Other commissions and fees	**2,456**	2,284	1,960
Securitization income, net	**1,260**	1,132	1,105
Other investment and interest income, net	**1,055**	997	1,005
Other	**1,373**	1,374	1,314
Total	24,267	21,964	19,549
Expenses			
Marketing, promotion, rewards and cardmember services	**5,841**	4,965	3,820
Human resources	**4,829**	4,538	3,917
Provisions for losses and benefits:			
Charge card	**1,038**	833	853
Cardmember lending	**1,349**	1,130	1,218
Investment certificates and other	**386**	301	283

Total	**2,773**	2,264	2,354
Professional services	**2,308**	2,141	1,972
Occupancy and equipment	**1,428**	1,353	1,258
Interest	**920**	814	860
Communications	**457**	474	462
Other	**1,463**	1,584	1,491
Total	**20,019**	18,133	16,134
Pretax income from continuing operations	**4,248**	3,831	3,415
Income tax provision	**1,027**	1,145	1,080
Income from continuing operations	**3,221**	2,686	2,335
Income from discontinued operations, net of tax	**513**	830	665
Cumulative effect of accounting change related to discontinued operations, net of tax (Note 1)	**–**	(71)	(13)
Net income	**$3,734**	$3,445	$2,987
Earnings Per Common Share – Basic:			
Continuing operations	**$2.61**	$2.13	$1.82
Discontinued operations	**0.42**	0.66	0.52
Cumulative effect of accounting change	**–**	(0.05)	(0.01)
Net income	**$3.03**	$2.74	$2.33

Earnings Per Common Share − Diluted:

Continuing operations	**$2.56**	$2.09	$1.80
Discontinued operations	**0.41**	0.65	0.51
Cumulative effect of accounting change	**−**	(0.06)	(0.01)
Net income	**$2.97**	$2.68	$2.30
Average common shares outstanding for earnings per common share:			
Basic	**1,233**	1,259	1,284
Diluted	**1,258**	1,285	1,298

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

American Express Company

December 31, (Millions, except share data)	2005	2004
Assets		
Cash and cash equivalents (Note 1)	**$7,126**	$7,808
Accounts receivable and accrued interest:		
Cardmember receivables, less reserves: 2005, $942; 2004, $ 806	**33,216**	30,270
Other receivables, less reserves: 2005, $66; 2004, $ 57	**2,281**	2,128
Investments (Note 3)	**21,334**	21,675
Loans: (Note 4)		
Cardmember lending, less reserves: 2005, $996; 2004, $ 972	**32,108**	25,933
International banking, less reserves: 2005, $64; 2004, $ 95	**7,049**	6,790
Other, less reserves: 2005, $37; 2004, $ 17	**1,644**	1,533
Land, buildings and equipment − at cost, less accumulated depreciation:		
2005, $2,868; 2004, $ 2,682	**2,230**	2,380
Other assets	**6,972**	8,558
Assets of discontinued operations (Note 2)	**−**	87,141
Total assets	**$113,960**	$194,216
Liabilities and Shareholders' Equity		
Customers' deposits	**$24,579**	$20,107

Travelers Cheques outstanding	**7,175**	7,287
Accounts payable	**7,824**	7,319
Investment certificate reserves	**6,872**	5,501
Short-term debt (Note 8)	**15,633**	14,316
Long-term debt (Note 8)	**30,781**	32,676
Other liabilities	**10,547**	10,315
Liabilities of discontinued operations (Note 2)	–	80,675
Total liabilities	**103,411**	178,196
Shareholders' Equity		
Common shares, $.20 par value, authorized 3.6 billion shares; issued and outstanding 1,241 million shares in 2005 and 1,249 million shares in 2004 (Note 9)	**248**	250
Additional paid-in capital	**8,652**	7,316
Retained earnings	**1,788**	8,196
Accumulated other comprehensive (loss) income :		
Net unrealized securities gains, net of tax: 2005, ($88); 2004, ($409)	**137**	760
Net unrealized derivatives gains (losses), net of tax: 2005, $(77); 2004, $77	**143**	(142)
Foreign currency translation adjustments, net of tax: 2005, $34; 2004, $ 55	**(400)**	(344)
Minimum pension liability, net of tax: 2005, $10; 2004, $8	**(19)**	(16)
Total accumulated other comprehensive (loss) income	**(139)**	258

Total shareholders' equity	**10,549**	16,020
Total liabilities and shareholders' equity	**$113,960**	$194,216

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

American Express Company

Years Ended December 31, (Millions)	2005	2004	2003
Cash Flows from Operating Activities			
Net income	**$3,734**	$3,445	$2,987
Less: Income from discontinued operations, net of tax	**(513)**	(830)	(665)
Add: Cumulative effect of accounting change related to discontinued operations, net of tax	–	71	13
Income from continuing operations	**3,221**	2,686	2,335
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Provisions for losses and benefits	**2,816**	2,399	2,451
Depreciation and amortization	**602**	600	563
Deferred taxes, acquisition costs and other	**(226)**	934	(196)
Stock-based compensation	**254**	181	103
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Accounts receivable and accrued interest	**(623)**	(716)	(411)
Other operating assets	**528**	304	48
Accounts payable and other liabilities	**1,243**	854	650
(Decrease) increase in Travelers Cheques outstanding	**(111)**	468	187
Net cash flow provided by (used in) operating activities attributable to discontinued operations	**341**	1,433	(3,192)

Net cash provided by operating activities	**8,045**	9,143	2,538
Cash Flows from Investing Activities			
Sale of investments	**3,795**	4,884	1,063
Maturity and redemption of investments	**7,545**	3,348	6,029
Purchase of investments	**(11,824)**	(10,623)	(5,987)
Net increase in cardmember loans/receivables	**(12,459)**	(7,656)	(7,021)
Proceeds from cardmember receivable securitizations	**1,197**	–	–
Maturities of cardmember receivable securitizations	**(1,750)**	(1,050)	(2,085)
Proceeds from cardmember loan securitizations	**5,386**	3,888	3,442
Maturities of cardmember loan securitizations	**(4,463)**	(3,000)	(1,000)
Loan operations and principal collections, net	**(399)**	(489)	(883)
Purchase of land, buildings and equipment	**(608)**	(616)	(888)
Sale of land, buildings and equipment	**248**	252	80
Dispositions (acquisitions), net of cash sold/acquired	**(136)**	1,347	(749)
Cash spun-off to Ameriprise	**(3,678)**	–	–
Net cash used in investing activities attributable to discontinued operations	**(113)**	(1,895)	(4,362)
Net cash used in investing activities	**(17,259)**	(11,610)	(12,361)
Cash Flows from Financing Activities			
Net increase (decrease) in customers' deposits	**5,331**	(488)	2,267

Sale of investment certificates	**5,728**	4,579	4,139
Redemption of investment certificates	**(4,296)**	(3,561)	(3,988)
Net decrease in debt with maturities of three months or less	**(339)**	(3,453)	(712)
Issuance of debt	**14,389**	19,791	18,952
Principal payments on debt	**(14,426)**	(9,449)	(16,498)
Redemption of preferred beneficial interests securities	–	–	(500)
Issuance of American Express common shares and other	**1,129**	1,055	348
Repurchase of American Express common shares	**(1,853)**	(3,578)	(1,391)
Dividends paid	**(597)**	(535)	(471)
Net cash provided by financing activities attributable to discontinued operations	**1,377**	1,815	3,695
Net cash provided by financing activities	**6,443**	6,176	5,841
Effect of exchange rate changes on cash	**(10)**	42	(150)
Net (decrease) increase in cash and cash equivalents	**(2,781)**	3,751	(4,132)
Cash and cash equivalents at beginning of year includes cash of discontinued operations: 2005, $2,099; 2004, $2,189; 2003, $6,349	**9,907**	6,156	10,288
Cash and cash equivalents at end of year includes cash of discontinued operations: 2004, $2,099; 2003, $2,189	**$7,126**	$9,907	$6,156

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

American Express Company

Three years ended December 31, 2005 (Millions)	Total	Common Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings
Balances at December 31, 2002	$13,861	$ 261	$ 5,675	$ 319	$7,606
Comprehensive income:					
Net income	2,987				2,987
Change in net unrealized securities gains	(173)			(173)	
Change in net unrealized derivatives losses	(323)			(323)	
Derivatives losses reclassified to earnings	415			415	
Foreign currency translation adjustments	(80)			(80)	
Minimum pension liability adjustment	34			34	
Total comprehensive income	2,860				
Repurchase of common shares	(1,391)	(7)	(160)		(1,224)
Other changes, primarily employee plans	488	3	566		(81)
Cash dividends declared:					
Common, $0.38 per share	(495)				(495)
Balances at December 31, 2003	15,323	257	6,081	192	8,793
Comprehensive income:					
Net income	3,445				3,445

Change in net unrealized securities gains	(171)			(171)	
Change in net unrealized derivatives losses	6			6	
Derivatives losses reclassified to earnings	298			298	
Foreign currency translation adjustments	(66)			(66)	
Minimum pension liability adjustment	(1)			(1)	
Total comprehensive income	3,511				
Repurchase of common shares	(3,578)	(14)	(338)		(3,226)
Other changes, primarily employee plans	1,320	7	1,573		(260)
Cash dividends declared:					
Common, $0.44 per share	(556)				(556)
Balances at December 31, 2004	16,020	250	7,316	258	8,196
Comprehensive income:					
Net income	**3,734**				**3,734**
Change in net unrealized securities gains	**(607)**			**(607)**	
Change in net unrealized derivatives gains (losses)	**319**			**319**	
Derivative gains reclassified to earnings	**(44)**			**(44)**	
Foreign currency translation adjustments	**(81)**			**(81)**	
Minimum pension liability adjustment	**(2)**			**(2)**	

Total comprehensive income	**3,319**				
Spin-off of Ameriprise	**(7,746)**			**18**	**(7,764)**
Repurchase of common shares	**(1,853)**	**(7)**	**(209)**		**(1,637)**
Other changes, primarily employee plans	**1,405**	**5**	**1,545**		**(145)**
Cash dividends declared:					
Common, $0.48 per share	**(596)**				**(596)**
Balances at December 31, 2005	**$10,549**	**$ 248**	**$ 8,652**	**$ (139)**	**$1,788**

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Summary of Significant Accounting Policies

The Company

American Express Company (the Company) is a leading global payments, network and travel company. The Company offers a broad range of products including charge and credit cards; stored value products such as Travelers Cheques and gift cards; travel agency services and travel, entertainment and purchasing expense management services; network services and merchant acquisition and merchant processing for our network partners and proprietary payments businesses. The Company' s various products are sold globally to diverse customer groups, including consumers, small businesses, mid-market companies, large corporations and banking institutions. These products are sold through various channels including direct mail, on-line applications, targeted sales-forces and direct response advertising.

Discontinued operations

On September 30, 2005, the Company completed the spin-off of Ameriprise Financial, Inc. (Ameriprise), formerly known as American Express Financial Corporation, the Company' s financial planning and financial services business. In addition, during the third quarter of 2005, the Company completed certain dispositions including the sale of American Express Tax and Business Services, Inc. (TBS), its tax, accounting and consulting business. The operating results and assets and liabilities related to Ameriprise and certain dispositions (including TBS) prior to disposal have been reflected as discontinued operations in the Consolidated Financial Statements (see Note 2). In addition, the cash flows associated with discontinued operations are presented separately in the accompanying Consolidated Statements of Cash Flows, which is a revision from the cash flow presentation as of September 30, 2005. Unless otherwise noted, amounts in these Notes to the Consolidated Financial Statements exclude amounts attributable to discontinued operations.

Segment reporting

Effective September 30, 2005, the Company realigned its segment presentation to reflect the spin-off of Ameriprise. The new segments are: U.S. Card Services, International Card & Global Commercial Services, Global Network & Merchant Services, and Corporate & Other. See Note 19 for further discussion regarding the Company' s segments.

Principles of Consolidation

The Company consolidates all non-variable interest entities in which it holds a greater than 50 percent voting interest. Entities in which the Company holds a greater than 20 percent but less than 50 percent voting interest are accounted for under the equity method. All other investments are accounted for under the cost method unless the Company determines that it exercises significant influence over the entity by means other than voting rights, in which case these entities are accounted for under the equity method.

The Company also consolidates all Variable Interest Entities (VIEs) for which it is considered to be the primary beneficiary pursuant to Financial Accounting Standards Board (FASB) Interpretation No. 46, “Consolidation of Variable Interest Entities,” as revised (FIN 46(R)). The determination as to whether an entity is a VIE is based on the amount and characteristics of the entity' s equity. In general, FIN 46(R) requires a VIE to be consolidated when an enterprise has a variable interest for which it is deemed to be the primary beneficiary, which means that it will absorb a majority of the VIE' s expected losses or receive a majority of the VIE' s expected residual return.

Qualifying Special Purpose Entities (QSPEs) under Statement of Financial Accounting Standards (SFAS) No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” are not consolidated. Such QSPEs include those that the Company utilizes in connection with cardmember lending securitizations at U.S. Card Services. Other entities where the Company has an interest or is the sponsor or transferor are evaluated using the control, risk and reward criteria as outlined under U.S. generally accepted accounting principles (GAAP).

All significant intercompany transactions are eliminated. Certain reclassifications of prior period amounts have been made to conform to the current presentation.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars based upon exchange rates prevailing at the end of each year. The resulting translation adjustments, along with any related hedge and tax effects, are included in accumulated other comprehensive (loss) income, a component of shareholders' equity. Revenues and expenses are translated at the average month end exchange rates during the year. Gains and losses related to non-functional currency transactions, including non-U.S. operations where the functional currency is the U.S. dollar, are reported net in other revenue or other expense, depending on the nature of the activity, in the Company' s Consolidated Statements of Income. Net foreign currency transaction gains (losses) amounted to approximately $5 million, $(113) million and $(94) million in 2005, 2004 and 2003, respectively.

Amounts Based on Estimates and Assumptions

Accounting estimates are an integral part of the Consolidated Financial Statements. In part, they are based upon assumptions concerning future events. Among the more significant assumptions are those that relate to reserves for cardmember credit losses, asset securitizations and Membership Rewards as discussed in detail below. These accounting estimates reflect the best judgment of management and actual results could differ.

Revenues

The Company generates revenue from a variety of sources including global payments, such as charge and credit cards, travel services and investments funded by the sale of stored value products, including Travelers Cheques.

Discount revenue

The Company earns discount revenue from fees charged to service establishments with whom the Company has entered into card acceptance agreements for processing cardmember transactions. The discount is generally deducted from the payment to the service establishment and recorded as discount revenue at the time the charge is captured.

Cardmember lending net finance charge revenue

Cardmember lending finance charges are assessed using the average daily balance method for receivables owned and are recognized based upon the principal amount outstanding in accordance with the terms of the applicable account agreement until the outstanding balance is paid or written-off. Cardmember lending net finance charge revenue is presented net of interest expense of $869 million, $571 million and $483 million for 2005, 2004 and 2003, respectively.

Net card fees

Card fees are recognized as revenue over the card membership period covered by the card fee, net of provision for projected refunds of card fees for cancellation of card membership. Similarly, direct card acquisition costs are deferred and amortized into operating expenses over the card membership period covered by the card fee.

Travel commissions and fees

Customer revenue is earned by charging a transaction or management fee for airline or other transactions. Customer-related fees and other revenues are recognized at the time a client books travel arrangements. Travel suppliers pay commissions on airline tickets issued and on sales and transaction volumes, based on contractual agreements. These revenues are recognized at the time a ticket is purchased. Other travel suppliers that pay commissions on hotels and car rentals are generally not under firm contractual agreements, and, therefore, revenue is recognized when cash is received.

Other commissions and fees

Other commissions and fees include foreign exchange conversion fees and other card-related assessments, which are primarily recognized in the period charged to the cardmember. Fees related to the Company' s Membership Rewards program are recognized over the period covered by the fee.

Securitization income, net

Net securitization income includes non-credit provision components of the net gains and charges from securitization activities, impairment charges, if any, of the related interest-only strip, excess spread related to securitized cardmember loans, net finance charge revenue on retained interests in securitized cardmember loans and servicing income, net of related discounts or fees. Excess spread is the net positive cash flow from interest and fee collections allocated to the third-party investors' interests in the securitization after deducting the interest paid on the investor certificates, credit losses, contractual servicing fees and other expenses. Excess spread is recognized as it is earned. See Note 5 for further information regarding securitizations.

Other investment and interest income, net

Investment income for the Company' s performing fixed income securities is generally accrued as earned using the effective interest method, which makes an adjustment of the yield for security premiums and discounts, fees and other payments, so that the related security recognizes a constant rate of return on the outstanding balance throughout its term.

Investment income for the Company’ s international banking and other loans is accrued on unpaid principal balances in accordance with the terms of the loans unless collection of interest is in doubt, in which case interest income is recognized only to the extent it is received in cash. Generally, the accrual of interest on these loans and advances is discontinued at the time the loan is 90 days delinquent, depending on loan type, or when an impairment is determined. When there is doubt regarding the ultimate collectibility of outstanding balances, all cash received is applied to reduce the carrying value of the loan or advance. Fees are amortized over the life of the loan or advance using the effective interest method. Other investment income and interest income is presented net of interest expense of $321 million, $220 million and $216 million for 2005, 2004 and 2003, respectively, related primarily to the Company’ s international banking operations.

Expenses

Stock-based compensation

Effective July 1, 2005, the Company adopted SFAS No. 123 (revised 2004), “Share-Based Payment (SFAS No. 123(R)),” using the modified prospective application. SFAS No. 123(R) requires entities to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and applies to (i) new awards, (ii) awards modified, repurchased, or cancelled after the adoption date, and (iii) any outstanding awards accounted for under APB Opinion No. 25, “Accounting for Stock Issued to Employees,” for which all requisite service has not yet been rendered. The adoption of SFAS No. 123(R) did not have a material impact on the Company’ s financial statements since the Company has been expensing share based awards granted after January 1, 2003 under the provisions of SFAS No. 123, “Accounting for Stock-Based Compensation” (SFAS No. 123). The Company recognizes the cost of these awards on a straight line basis over their vesting periods. Also, SFAS No. 123(R) requires companies to calculate the pool of income tax benefits that were previously recorded in additional paid-in capital and are available to absorb future income tax benefit deficiencies that can result from the exercise or maturity of stock awards. The Company has calculated its pool based on the actual income tax benefits received from exercises and maturities of stock awards granted after the effective date of SFAS No. 123, January 1, 1995.

The following table illustrates the effect on net income and earnings per common share (EPS) assuming the Company had followed the fair value recognition provisions of SFAS No. 123(R) for all outstanding and unvested stock options and other stock-based compensation for the three years ended December 31, 2005:

(Millions, except per share amounts)	**2005**	**2004**	**2003**
Net income as reported	**$3,734**	$3,445	$2,987
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects[a]	**207**	184	113
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects[a]	**(216)**	(368)	(383)
Pro forma net income	**$3,725**	$3,261	$2,717
Basic EPS:			
As reported	**$3.03**	$2.74	$2.33
Pro forma	**$3.02**	$2.59	$2.12

Diluted EPS:

As reported	**$2.97**	$2.68	$2.30
Pro forma	**$2.96**	$2.54	$2.09

(a) Includes amounts related to discontinued operations.

Marketing, promotion, rewards and cardmember services

These expenses include the costs of rewards programs (including Membership Rewards which is discussed further in the other liabilities section), protection plans and complimentary services provided to cardmembers, except that cash paid to cardmembers under cash-back programs is recorded as a reduction to revenues. These expenses also include advertising costs which are expensed in the year in which the advertising first takes place.

Balance Sheet

Cash and cash equivalents

The Company has defined cash equivalents to include time deposits and other highly liquid investments with original maturities of 90 days or less. The Company classified restricted cash totaling $451 million and $552 million at December 31, 2005 and 2004, respectively, in other assets in cases where cash cannot be utilized for operations.

Accounts receivable

Cardmember receivables

Cardmember receivables represent amounts due from charge card customers and are recorded at the time that a cardmember enters into a point-of-sale transaction at a service establishment. Cardmember receivable balances are presented on the balance sheet net of reserves for losses, which are discussed below, and typically include principal and any related accrued fees.

Reserves for losses − cardmember receivables

The Company’ s reserves for losses relating to cardmember receivables represent management’ s estimate of the incurred losses inherent in the Company’ s outstanding portfolio of receivables. Management’ s evaluation process requires certain estimates and judgments. Reserves for these losses are primarily based upon models that analyze specific portfolio statistics and also reflect, to a lesser extent, management’ s judgment regarding overall adequacy. The analytic models take into account several factors, including average write-off rates for various stages of receivable aging (i.e., current, 30 days, 60 days, 90 days) over a 24-month period and average bankruptcy and recovery rates. Management considers whether adjustments to the analytic models are necessary based on other factors such as the level of coverage of past-due accounts, as well as external indicators, such as leading economic indicators, unemployment rate, consumer confidence index, purchasing manager’ s index, bankruptcy filings and the legal and regulatory environment. Cardmember receivable balances are written-off when management deems amounts to be uncollectible, which is generally determined by the number of days past due. In general, bankruptcy and deceased accounts are written-off upon notification, while other accounts are written-off when 360 days past due. To the extent historical credit experience is not indicative of future performance or other assumptions used by management do not prevail, actual loss experience could differ significantly, resulting in either higher or lower future provisions for losses, as applicable.

Investments

Available-for-Sale investment securities are carried at fair value on the balance sheet with unrealized gains (losses) recorded in equity, net of income tax provisions (benefits). Gains and losses are recognized in results of operations upon disposition of the securities. Gains and losses on investments (other than trading securities) are recognized using the specific identification method on a trade date basis. In addition, realized losses are also recognized when management determines that a decline in value is other-than-temporary, which requires judgment regarding the amount and timing of recovery. Indicators of other-than-temporary impairment for debt securities include issuer downgrade, default or bankruptcy. The Company also considers the extent to which cost exceeds fair value, the duration and size of that gap, and management’ s judgment about the issuer’ s current and prospective financial condition. Fair value is generally based on quoted market prices. Trading investments are carried at fair value on the balance sheet with the changes in fair value recorded in results of operations.

Loans

Cardmember lending

Cardmember loans represent amounts due from customers of the Company’ s lending products, and are recorded at the time that a cardmember enters into a point-of-sale transaction at a service establishment. These loans are presented on the balance sheet net of reserves for cardmember losses, which are explained further below, and include accrued interest receivable and fees as of the balance sheet date. Additionally, cardmember loans include balances with extended payment terms on certain charge card products. The Company’ s policy is to cease accruing for interest receivable once a related cardmember loan is greater than 180 days past due.

Reserve for losses − cardmember lending

The Company’ s reserves for losses relating to cardmember loans represent management’ s estimate of the incurred losses inherent in the Company’ s outstanding loan portfolio. Management’ s evaluation process requires certain estimates and judgments. Reserves for these losses are primarily based upon models that analyze specific portfolio statistics and also reflect, to a lesser extent, management’ s judgment regarding overall adequacy. The analytic models take into account several factors, including average write-off rates for various stages of receivable aging (i.e., current, 30 days, 60 days, 90 days) over a 24-month period and average bankruptcy and recovery rates. Management considers whether adjustments to the analytic model are necessary based on other factors such as the level of coverage of past-due accounts, as well as external indicators, such as leading economic indicators, unemployment rate, consumer confidence index, purchasing manager’ s index, bankruptcy filings and the legal and regulatory environment.

Cardmember loans are written-off when management deems amounts to be uncollectible, which is generally determined by the number of days past due. In general, bankruptcy and deceased accounts are written-off upon notification, while other accounts are written-off when 180 days past due. To the extent historical credit experience is not indicative of future performance or other assumptions used by management do not prevail, actual loss experience could differ significantly, resulting in either higher or lower future provisions for losses, as applicable.

International banking

International banking loans primarily represent amounts due from consumers, high net worth individuals, banks and other institutions, and corporations. Consumer and private banking loans include unsecured lines of credit, installment loans, mortgage loans and auto loans to retail customers as well as secured lending to high net worth individuals. Loans to banks and other institutions represent trade-related financing and other extensions of credit. Corporate loans represent commercial and industrial loans as well as mortgage and real estate loans to corporate customers. International banking loans are stated at the principal amount outstanding net of unearned income and are presented on the balance sheet net of reserves for losses which are discussed below.

Reserve for losses − international banking

For smaller-balance consumer loans, management establishes reserves for incurred losses inherent in the portfolio. Generally, these loans are written-off in full when an impairment is determined or when the loan becomes 120 or 180 days past due, depending on loan type. Loans, other than smaller-balance consumer loans (including loans impaired under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan"), are placed on nonperforming status when payments of principal or interest are 90 days past due or if, in management' s opinion, the borrower is unlikely to meet its contractual obligations. The allowance for impaired loans is measured as the excess of the loan' s recorded investment over either the present value of expected principal and interest payments discounted at the loan' s effective interest rate or, if more practical for collateral dependent loans, the fair value of collateral. For floating rate impaired loans, the effective interest rate is fixed at the rate in effect at the date the impairment criteria are met.

Other loans

Other loans primarily represent installment loans, revolving credit due from U.S. Card Services' customers, loans and interest-bearing advances to airline partners. Interest-bearing advances to airline partners will be reduced by mileage credits purchased from these partners through 2008.

Asset securitizations

The Company periodically securitizes cardmember receivables and loans. Securitization of the Company' s cardmember receivables and loans is accomplished through the transfer of those assets to a trust, which in turn issues securities that are collateralized by the transferred assets to third-party investors. The Company accounts for its transfers of financial assets in accordance with SFAS No. 140. In order for a securitization of financial assets to be accounted for as a sale under SFAS No. 140, the transferor must surrender control over those financial assets to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. Cardmember loans are transferred to a qualifying special purpose entity, and such transactions are structured to meet the sales criteria of SFAS No. 140. Accordingly, when loans are sold through securitizations, the Company removes the loans from its Consolidated Balance Sheets and recognizes both a gain on sale and the retained interests in the securitization.

Cardmember receivables are transferred to a special purpose entity, a trust which does not meet the requirements for treatment as a qualifying sale under SFAS No. 140. Therefore, securitizations of cardmember receivables are accounted for as secured borrowings in accordance with SFAS No. 140.

Land, buildings and equipment

Land, buildings and equipment

Buildings and equipment, including leasehold improvements, are carried at cost less accumulated depreciation. Costs incurred during construction, as well as related interest, are capitalized and are depreciated once an asset is placed in service. Depreciation is generally computed using the straight-line method over the estimated useful lives of assets, which range from three to eight years for equipment. Buildings are depreciated based upon their estimated useful life at the acquisition date which generally ranges from 39 to 50 years. Leasehold improvements are depreciated using the straight-line

method over the lesser of the remaining term of the leased facility or the economic life of the improvement which ranges from 5 to 10 years.

Software development costs

The Company capitalizes certain costs associated with the acquisition or development of internal-use software. Once the software is ready for its intended use, these costs are amortized on a straight-line basis over the software' s estimated useful life of five years.

Goodwill and other intangible assets

Goodwill

Goodwill represents the excess of acquisition cost of an acquired company over the fair value of assets acquired and liabilities assumed. Goodwill is included in other assets on the Consolidated Balance Sheets. The Company evaluates goodwill for impairment annually and whenever events and circumstances make it likely that impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose of a reporting unit. In determining whether impairment has occurred, the Company generally uses a comparative market multiples approach for calculating fair value.

Intangible assets

Intangible assets, including purchased credit card relationships, other customer relationships and other intangible assets are amortized over their estimated useful lives unless they are deemed to have indefinite useful lives. Intangible assets are included in other assets on the Consolidated Balance Sheets. The Company evaluates intangible assets annually for impairment and whenever events and circumstances make it likely that impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose of a reporting unit. For intangible assets subject to amortization, impairment is recognized if the carrying amount is not recoverable and the carrying amount exceeds the fair value of the intangible asset.

Other liabilities

Membership Rewards

The Company' s Membership Rewards program allows enrolled cardmembers to earn points that can be redeemed for a broad range of rewards including travel, entertainment, retail certificates and merchandise. The Company establishes balance sheet reserves to cover the cost of future reward redemptions for points earned to date. The reserve for Membership Rewards is estimated using models that analyze historical redemption statistics since the inception of the program and reflect, to a lesser extent, management' s judgment regarding overall adequacy. The provision for the cost of Membership Rewards, which is included in marketing, promotion, rewards and cardmember services, is based upon points earned that are expected to be ultimately redeemed by cardmembers and the current weighted-average cost per point of redemption. The estimated points to be redeemed by cardmembers are based on many factors including past redemption behavior of cardmembers, card product type, year of program enrollment and card spend level. Past behavior is used to estimate when current enrollees will leave the program and their ultimate redemption rate on points earned to date, but not yet redeemed.

The liability for Membership Rewards was $3.1 billion and $2.5 billion at December 31, 2005 and 2004, respectively, and is included in other liabilities.

Derivative financial instruments and hedging activities

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, establishes accounting and reporting requirements for derivative financial instruments, including hedging activities. SFAS No. 133 requires that all derivatives are recognized on balance sheet at fair value as either assets or liabilities in the Company' s Consolidated Balance Sheets. The fair value of the Company' s derivative financial instruments are determined using either market quotes or valuation models that are based upon the net present value of estimated future cash flows and incorporate current market data inputs. The Company reports its derivative assets and liabilities in other assets and other liabilities, respectively, on a net by counterparty basis where management believes it has the legal right of offset under enforceable netting agreements. The accounting for the change in the fair value of a derivative instrument depends on its intended use and the resulting hedge designation, if any.

Cash flow hedges

For derivative financial instruments that qualify as cash flow hedges, the effective portions of the gain or loss on the derivatives are recorded in accumulated other comprehensive (loss) income and reclassified into earnings when the hedged item or transactions impact earnings. The amount that is reclassified into earnings is presented in the income statement with the hedged instrument or transaction impact, generally, in net other investment and interest income or interest expense. Any ineffective portion of the gain or loss, as determined by the accounting requirements, is reported as a component of other revenue. If a hedge is de-designated or terminated prior to maturity, the amount previously recorded in accumulated other comprehensive (loss) income is recognized into earnings over the period that the hedged item impacts earnings. For any hedge relationships that are discontinued because it is probable that the forecasted transaction will not occur according to the original strategy, any related amounts previously recorded in accumulated other comprehensive (loss) income are recognized into earnings immediately.

Fair value hedges

For derivative financial instruments that qualify as fair value hedges, changes in the fair value of the derivatives as well as of the corresponding hedged assets, liabilities or firm commitments are recorded in earnings as a component of other revenue. If a fair value hedge is de-designated or terminated prior to maturity, previous adjustments to the carrying value of the hedged item are recognized into earnings to match the earnings pattern of the hedged item.

Net investment hedges in foreign operations

For derivative financial instruments that qualify as net investment hedges in foreign operations, the effective portions of the change in fair value of the derivatives are recorded in accumulated other comprehensive (loss) income as part of the cumulative translation adjustment. Any ineffective portions of net investment hedges are recognized in other revenue during the period of change.

Non-designated derivatives and trading activities

For derivative financial instruments that do not qualify for hedge accounting, are not designated under SFAS No. 133 as hedges or are comprised of customer or proprietary trading activities, changes in fair value are reported in current period earnings generally as a component of other revenue, other operating expenses or interest expense, depending on the type of derivative instrument and the nature of the transaction.

Derivative financial instruments that qualify for hedge accounting

Derivative financial instruments that are entered into for hedging purposes are designated as such at the time that the Company enters into the contract. As required by SFAS No. 133, for all derivative financial instruments that are designated for hedging activities, the Company formally documents all of the hedging relationships between the hedge instruments and the hedged items at the inception of the relationships. Management also formally documents its risk management objectives and strategies for entering into the hedge transactions. The Company formally assesses, at inception and on a quarterly basis, whether derivatives designated as hedges are highly effective in offsetting the fair value or cash flows of hedged items. Such assessments are usually made through the application of statistical measures. The Company only applies the "short cut" method of hedge accounting in very limited cases when such requirements are strictly met. In accordance with its risk management policies, the Company generally structures its hedges with very similar terms to the hedged items; therefore, when applying the accounting requirements, the Company generally recognizes insignificant amounts of ineffectiveness through earnings. If it is determined that a derivative is not highly effective as a hedge, the Company will discontinue the application of hedge accounting.

Income taxes

The Company, its 80 percent or more owned U.S. subsidiaries and certain non-U.S. subsidiaries file a consolidated federal income tax return. Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using the enacted tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is established when management determines that it is more likely than not that the benefit of the deferred tax asset will not be realized. The Company does not provide for federal income taxes on foreign earnings intended to be permanently reinvested outside the United States.

The Company is under continuous examination by the Internal Revenue Service (IRS) and tax authorities in other countries and states in which the Company has significant business operations. The tax years under examination vary by jurisdiction. The Company routinely assesses the likelihood of additional assessments in each of the taxing jurisdictions resulting from these examinations. Tax reserves have been established that the Company believes to be adequate in relation to the potential for additional assessments. Once established,

reserves are adjusted when there is more information available, a change in circumstance or when an event occurs necessitating a change to the reserves.

Recently Issued Accounting Standards

Effective July 1, 2005, the Company adopted SFAS No. 123(R), using the modified prospective application as discussed earlier.

In December 2004, the FASB issued FASB Staff Position (FSP) FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (the Act)" (FSP FAS 109-2), which would allow additional time beyond the financial reporting period of enactment to evaluate the effect of the Act on the Company' s plan for reinvestment or repatriation of foreign earnings for purposes of calculating the income tax provision. The Company did not repatriate any foreign earnings as a result of the Act.

Effective January 1, 2004, the Company adopted the American Institute of Certified Public Accountants Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" (SOP 03-1). The adoption of SOP 03-1 as of January 1, 2004 resulted in a cumulative effect of accounting change which related to discontinued operations, that reduced first quarter 2004 results by $71 million ($109 million pretax).

On November 3, 2005, the FASB issued FSP FAS 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The Company believes its current procedures are consistent with the requirements of FSP FAS 115-1.

In January 2003, the FASB issued FIN 46 which addresses consolidation by business enterprises of variable interest entities and was subsequently revised in September 2003. The consolidation of FIN 46-related entities resulted in a cumulative effect of accounting change, related to discontinued operations, that reduced 2003 net income through a non-cash charge of $13 million ($20 million pretax). See Note 6 for further discussion of variable interest entities.

NOTE 2 Discontinued Operations

On September 30, 2005, the Company completed the distribution of Ameriprise common stock to the Company' s shareholders in a tax-free transaction for U.S. federal income tax purposes. The Ameriprise distribution was treated as a non-cash dividend to shareholders and, as such, reduced the Company' s shareholders' equity by $7.7 billion, which included an approximate $1.1 billion capital contribution to Ameriprise in connection with the distribution. Accordingly, the Company' s Consolidated Balance Sheet as of December 31, 2005 reflects the non-cash dividend and a decrease in assets and liabilities.

In addition, during 2005, the Company completed certain dispositions (including TBS) for cash proceeds of approximately $190 million. These dispositions resulted in a net after-tax gain of approximately $63 million during the third quarter of 2005.

The operating results and assets and liabilities of discontinued operations are presented separately in the Company' s Consolidated Financial Statements and the notes to the Consolidated Financial Statements have been adjusted to exclude discontinued operations. Summary operating results of the discontinued operations for the years ended December 31, 2005, 2004 and 2003 were:

(Millions)	2005[a]	2004	2003
Revenues[b]	**$5,813**	$7,161	$6,298
Pretax income from discontinued operations[c]	**$690**	$1,120	$832

(a) *2005 results are lower than previous periods reflecting dispositions as of September 30, 2005.*
(b) *Includes revenues from certain dispositions other than Ameriprise (principally TBS) of approximately $325 million, $398 million and $382 million for the three years ended December 31, 2005, 2004 and 2003, respectively.*
(c) *Income tax provision for the years ended December 31, 2005, 2004 and 2003 was $177 million, $290 million and $167 million, respectively.*

In addition to income from discontinued operations, in 2004 and 2003, the Company recognized charges from the cumulative effects of accounting changes related to discontinued operations (See Note 1). Included in the assets that were discontinued as of September 30, 2005 was approximately $670 million of goodwill.

A summary of the assets and liabilities of the discontinued operations at December 31 is as follows:

(Millions)	2004
Assets:	
Investments	$39,134
Separate account assets	35,901
Deferred acquisition costs	3,838
Other assets	8,268
Total assets	$87,141
Liabilities:	
Insurance and annuity reserves	$32,966
Investment certificate reserves	5,831
Separate account liabilities	35,901
Other liabilities	5,977
Total liabilities	$80,675
Net Assets	$6,466

Accumulated other comprehensive income, net of tax, associated with discontinued operations at December 31, 2004 was $360 million, including $407 million of net unrealized securities gains and $29 million of net unrealized derivative losses.

NOTE 3 Investments

The following is a summary of investments at December 31:

(Millions)	2005	2004

Available-for-Sale, at fair value		
State and municipal obligations	**$7,120**	$7,381
U.S. Government and agencies obligations	**5,033**	4,060
Mortgage and other asset-backed securities	**3,838**	4,322
Corporate debt securities	**3,202**	3,751
Foreign government bonds and obligations	**716**	750
Other	**1,194**	1,171
Total Available-for-Sale, at fair value	**21,103**	21,435
Trading, at fair value	**231**	240
Total Investments	**$21,334**	$21,675

Available-for-Sale Investments

Investments classified as Available-for-Sale at December 31 are distributed by type as presented below:

	2005				**2004**			
(Millions)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State and municipal obligations	**$6,832**	**$ 293**	**$ (5)**	**$7,120**	$6,982	$ 404	$ (5)	$7,381
U.S. Government and agencies obligations	**5,080**	**1**	**(48)**	**5,033**	4,109	1	(50)	4,060
Mortgage and other asset-backed securities	**3,900**	**13**	**(75)**	**3,838**	4,295	50	(23)	4,322
Corporate debt securities	**3,170**	**79**	**(47)**	**3,202**	3,627	137	(13)	3,751

Foreign government bonds and obligations	**718**	**7**	**(9)**	**716**	741	16	(7)	750
Other	**1,184**	**10**	**–**	**1,194**	1,158	13	–	1,171
Total	**$20,884**	**$ 403**	**$ (184)**	**$21,103**	$20,912	$ 621	$ (98)	$21,435

The following table provides information about Available-for-Sale investments with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2005:

(Millions)	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
State and municipal obligations	$392	$ (4)	$19	$ (1)	$411	$ (5)
U.S. Government and agencies obligations	1,716	(17)	2,893	(31)	4,609	(48)
Mortgage and other asset-backed securities	1,803	(31)	1,298	(44)	3,101	(75)
Corporate debt securities	750	(15)	821	(32)	1,571	(47)
Foreign government bonds and obligations	283	(2)	58	(7)	341	(9)
Other	10	–	6	–	16	–
Total	$4,954	$ (69)	$5,095	$ (115)	$10,049	$ (184)

In evaluating potential other-than-temporary impairments, the Company considers the extent to which amortized cost exceeds fair value and the duration and size of that difference. A key metric in performing this evaluation is the ratio of fair value to amortized cost. The following table summarizes the unrealized losses of temporary impairments by ratio of fair value to cost as of December 31, 2005:

(Millions, except number of securities)	Less than 12 months			12 months or more			Total		
Ratio of Fair Value to Amortized Cost	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
95%- 100%	700	$4,940	$ (67)	254	$4,862	$ (97)	954	$9,802	$ (164)
90%- 95%	12	11	(1)	17	177	(10)	29	188	(11)
Less than 90%	1	3	(1)	63	56	(8)	64	59	(9)
Total	713	$4,954	$ (69)	334	$5,095	$ (115)	1,047	$10,049	$ (184)

Substantially all of the gross unrealized losses on the securities are attributable to changes in interest rates. Credit spreads and specific credit events associated with individual issuers can also cause unrealized losses although these impacts are not significant as of December 31, 2005.

The securities which have fair value to cost ratio of less than 90–95 percent are comprised primarily of Federal National Mortgage Association and Federal Home Loan Mortgage Corporation issued mortgage-backed securities, as well as foreign government and specific corporate issued bonds. The Company expects that all contractual principal and interest will be received on these securities.

The unrealized losses in the other categories are not concentrated in any individual industries or with any individual securities. The Company monitors the investments and metrics discussed above on a quarterly basis to identify and evaluate investments that have indications of possible other-than-temporary impairment. The Company has the ability and intent to hold these securities for a time sufficient to recover a significant amount of their amortized cost.

The change in net unrealized securities gains (losses) in other comprehensive income includes the following components: (i) unrealized gains (losses) that arose from changes in market value of securities that were held during the period (holding gains (losses)) and (ii) gains (losses) that were previously unrealized, but have been recognized in current period net income due to sales and other-than-temporary impairments of Available-for-Sale securities (reclassification for realized (gains) losses).

The following table presents these components of other comprehensive (loss) income net of tax for the years ended December 31:

(Millions, net of tax)	2005	2004	2003
Holding losses	**$(187)**	$(83)	$(157)
Reclassification for realized gains	**(11)**	(35)	(31)
Other (losses) gains	**(18)**	(53)	15
Net unrealized securities losses in other comprehensive (losses) income	**$(216)**	$(171)	$(173)

As of December 31, 2004, net unrealized securities gains, net of tax, reflected in accumulated other comprehensive income were $760 million, including $407 million associated with discontinued operations. For 2005 activity, excluded from the table above is $391 million of net change in accumulated other comprehensive income related to discontinued operations. As of December 31, 2005, net unrealized securities gains, net of tax, reflected in accumulated other comprehensive income were $137 million.

The following is a distribution of investments classified as Available-for-Sale by maturity as of December 31, 2005:

(Millions)	Cost	Fair Value
Due within 1 year	**$4,764**	**$4,744**
Due after 1 year through 5 years	**4,382**	**4,380**
Due after 5 years through 10 years	**1,392**	**1,454**
Due after 10 years	**6,350**	**6,588**
	16,888	**17,166**
Mortgage and other asset-backed securities	**3,900**	**3,838**
Equity securities	**26**	**29**
Retained interests in lending securitizations	**70**	**70**
Total	**$20,884**	**$21,103**

The expected payments on mortgage and other asset-backed securities and retained interests in lending securitizations may not coincide with their contractual maturities. As such, these securities, as well as equity securities, are not included in the maturities distribution.

The table below includes purchases, sales and maturities of investments classified as Available-for-Sale for the years ended December 31:

(Billions)	2005	2004
Purchases	**$12**	$11
Sales	**$4**	$5
Maturities	**$8**	$3

Included in net investment income are gross realized gains and losses on sales of securities, as well as other-than-temporary losses on investments classified as Available-for-Sale, as noted in the following table for the years ended December 31:

(Millions)	2005	2004	2003
Gross investment gains from sales and prepayments:			
U.S. Card Services	**$13**	$15	$26
International Card & Global Commercial Services	**8**	6	27
Corporate & Other	**–**	2	–
Total	**$21**	$23	$53
Gross investment losses from sales and prepayments:			
U.S. Card Services	**$(3)**	$–	$(1)
International Card & Global Commercial Services	**(1)**	(1)	(4)
Corporate & Other	**–**	–	(1)
Total	**$(4)**	$(1)	$(6)
Other-than-temporary impairments:			

U.S. Card Services	$–	$(7)	$–
International Card & Global Commercial Services	–	(1)	(11)
Corporate & Other	–	(2)	–
Total	$–	$(10)	$(11)

Trading Investments

Trading investments are comprised principally of certain foreign government bonds and seed money investments in mutual funds for which the Company' s equity ownership is less than 20 percent. There were $16 million, $13 million and $9 million of net gains for 2005, 2004 and 2003, respectively, related to trading investments held at each balance sheet date.

NOTE 4 Loans

Loans at December 31 consisted of:

(Millions)	2005	2004
Cardmember lending	**$33,104**	$26,905
International banking:		
Consumer and private banking	**4,822**	4,825
Banks and other institutions	**2,268**	1,984
Corporate	**23**	76
Total international banking	**7,113**	6,885
Other	**1,681**	1,550
Total loans − gross	**41,898**	35,340
Less: Loan loss reserves	**1,097**	1,084
Total	**$40,801**	$34,256

The following table presents changes in loan loss reserves:

(Millions)	2005	2004
Balance, January 1	**$1,084**	$1,121
Provision[a]	**1,381**	1,188
Write-offs[b]	**(1,516)**	(1,319)
Recoveries and other[c]	**148**	94

Balance, December 31	**$1,097**	$1,084

(a) Provision for the years ended December 31, 2005 and 2004 includes $1,349 million and $1,130 million, respectively, related to cardmember lending and $32 million and $58 million, respectively, related to international banking and other.

(b) Write-offs for the years ended December 31, 2005 and 2004 include $1,449 million and $1,205 million, respectively, related to cardmember lending and $67 million and $114 million, respectively, related to international banking and other.

(c) Recoveries and other for the years ended December 31, 2005 and 2004 include $124 million and $49 million, respectively, related to cardmember lending and $24 million and $45 million, respectively, related to international banking and other.

NOTE 5 Securitized Loans

The Company periodically securitizes cardmember loans through the American Express Credit Account Master Trust (the Lending Trust), which in turn issues securities collateralized by the transferred cardmember loans to third-party investors. Such securities represent undivided interests in the transferred cardmember loans. The Company, through its subsidiaries, is required to maintain an undivided interest in the transferred cardmember loans, which is referred to as seller' s interest, and is generally equal to the balance of the loans in the Lending Trust less the investors' portion of those assets. Seller' s interest is reported as loans on the Company' s Consolidated Balance Sheets. Any billed finance charges related to the transferred cardmember loans are reported as other receivables on the Company' s Consolidated Balance Sheets. The Company retains servicing responsibilities for the transferred cardmember loans, through its subsidiary, American Express Travel Related Services Company, Inc. (TRS), and earns a related fee.

Pursuant to SFAS No. 140, no servicing asset or liability is recognized at the time of a securitization, as management believes that the Company receives adequate compensation relative to current market servicing fees. As of December 31, 2005 and 2004, the Lending Trust held total assets of $28.9 billion and $24.7 billion, respectively, of which $21.2 billion and $20.3 billion had been sold.

The Company also retains subordinated interests in the securitized cardmember loans. Such subordinated retained interests include one or more investments in tranches of the securitization and an interest-only strip. The investments in the tranches of the securitization are accounted for at fair value as Available-for-Sale investment securities in accordance with SFAS No. 115 and are reported in investments on the Company' s Consolidated Balance Sheets. As of December 31, 2005 and 2004, the ending fair value of these subordinated retained interests was $70 million and $108 million, respectively. The interest-only strip is also accounted for at fair value consistent with a SFAS No. 115 Available-for-Sale investment and is reported in other assets. The fair value of the interest-only strip is the present value of estimated future excess spread expected to be generated by the securitized loans over the estimated life of those loans. Excess spread, which is the net positive cash flow from interest and fee collections allocated to the investors' interests after deducting the interest paid on investor certificates, credit losses, contractual servicing fees and other expenses, is recognized in securitization income as it is earned. As of December 31, 2005 and 2004, the fair value of the interest-only strip was $209 million and $207 million, respectively.

At the time of a cardmember loan securitization, the Company typically records a gain on sale, which is calculated as the difference between the proceeds from the sale and the book basis of the cardmember loans sold. That book basis on sold cardmember loans is determined by allocating the carrying amount of the cardmember loans, net of applicable credit reserves, between the cardmember loans sold and the interests retained based on their relative fair values. Such fair values are based on market prices at date of transfer for the sold cardmember loans and on the estimated present value of future cash flows for retained interests. Gains on sale from securitizations are reported in securitization income on the Company' s Consolidated Statements of Income, except for the component resulting from the release of credit reserves upon sale, which is reported as a reduction of provision for losses from cardmember lending. Securitization transaction costs are offset against the gains on sales at the time of the transaction.

During 2005, 2004 and 2003, the Company sold $5.4 billion, $3.9 billion and $3.5 billion, respectively, of cardmember loans, or $5.4 billion, $3.9 billion and $3.1 billion, respectively, net of the Company' s investments in subordinated retained interests. Additionally, during 2005, 2004 and 2003, $4.5 billion, $3.0 billion and $1.0 billion, respectively, of securities issued to investors from the Lending Trust matured. The pretax net gains on sale from securitizations, including the sale of subordinated retained interests, net of the impact of maturities, the effect of changes in interest-only strip valuation factors and a reconciliation adjustment charge were $21 million, $26 million and $124 million, respectively, for 2005, 2004 and 2003.

Management utilizes certain estimates and assumptions to determine the fair value of the subordinated retained interests, including the interest-only strip. These estimates and assumptions are generally based on projections of finance charges and fees paid related to the securitized assets, net credit losses, average loan life, the contractual fee to service the transferred assets and a discount rate commensurate with the retained interest. Changes in the estimates and assumptions used may have a significant impact in the Company' s fair valuation. The key economic assumptions used in measuring the subordinated retained interests at the time of issuance and during 2005 and 2004 were as follows (rates are per annum):

	2005	2004
Weighted average loan life (months)	**4**	4
Expected credit losses	**3.30%- 3.90%**	3.98%- 4.67%
Subordinated certificates discounted at	**2.6%- 4.8%**	1.2%- 3.5%
Residual cash flows discounted at	**12.0%**	8.3%- 12.0%
Returns to investors		
Variable	**Contractual spread over LIBOR ranging from .00% to .90%**	Contractual spread over LIBOR ranging from .04% to .90%
Fixed	**1.7%- 5.8%**	1.7%- 7.4%

The following table presents quantitative information about delinquencies, net credit losses and components of securitized cardmember loans on a trust basis at December 31:

(Billions)	Total Principal Amount of Loans	Principal Amount of Loans 30 Days or More Past Due	Net Credit Losses During the Year
2005			

Cardmember loans managed	**$ 54.3**	**$ 1.3**	**$ 2.1**
Less: Securitized cardmember loans sold	**21.2**	**0.6**	**1.0**
Cardmember loans on balance sheet	**$ 33.1**	**$ 0.7**	**$ 1.1**
2004			
Cardmember loans managed	$ 47.2	$ 1.2	$ 2.0
Less: Securitized cardmember loans sold	20.3	0.6	1.0
Cardmember loans on balance sheet	$ 26.9	$ 0.6	$ 1.0

The key economic assumptions and the sensitivity of the current year' s fair value of the interest-only strip to immediate 10 percent and 20 percent adverse changes in assumed economics are as follows:

(Millions, except rates per annum)	**Monthly Payment Rate**	**Expected Credit Losses**	**Cash Flows from Interest-only Strips Discounted at**
Assumption	**26.2 %**	**3.5 %**	**12.0 %**
Impact on fair value of 10% adverse change	**$ 13**	**$ 17**	**$ 0.4**
Impact on fair value of 20% adverse change	**$ 26**	**$ 34**	**$ 0.8**

These sensitivities are hypothetical and will be different from what actually occurs in the future. Any change in fair value based on a 10 percent variation in assumptions cannot be extrapolated in part because the relationship of the change in an assumption on the fair value of the retained interest is calculated independent from any change in another assumption; in reality, changes in one factor may result in changes in another, which magnify or offset the sensitivities.

The table below summarizes cash flows received from all securitization trusts for 2005 and 2004:

(Millions)	2005	2004
Proceeds from new securitizations during the period	**$5,386**	$3,888
Proceeds from collections reinvested in revolving cardmember securitizations	**$63,011**	$54,933
Servicing fees received	**$412**	$388
Other cash flows received on retained interests from interest-only strips	**$2,194**	$1,845

During the fourth quarter of 2004, the Company sold the equipment leasing product line in its small business financing unit. Prior to the sale, the Company securitized certain of the equipment lease receivables within that product line.

NOTE 6 Variable Interest Entities

During the third quarter of 2005, the Company and Ameriprise executed a reinsurance agreement for the Company to retain the risks and rewards of the travel and other card insurance businesses of AMEX Assurance Company (AAC), a subsidiary of Ameriprise. The Company also entered into a share purchase agreement with Ameriprise under which all of the ownership interests in and the rights and obligations of AAC will transfer to the Company within a period not to exceed two years from the spin-off date in consideration of a fixed purchase price equal to AAC' s net book value as of September 30, 2005, which was $115 million. As a result of these agreements and in accordance with FIN 46(R), the Company consolidates AAC as a variable interest entity for which the Company is considered the primary beneficiary. The Company recorded a $115 million liability related to the purchase of AAC, which is included in other liabilities on the Consolidated Balance Sheet as of December 31, 2005.

The following table presents the consolidated assets, which are restricted from use by the Company, and other balances related to AAC at December 31:

(Millions)	2005
Assets:	
Investments	**$83**
Other assets	**85**
Total assets	**$168**
Total liabilities	**$51**
Net assets	**$117**

The Company' s securitizations of cardmember receivables are accounted for as secured borrowings, rather than as qualifying sales, in accordance with SFAS No. 140, because the receivables are transferred to non-qualifying special purpose entities. These entities are the American Express Issuance Trust (the Charge Trust), for periods beginning in 2005, and American Express Master Trust (AEMT), for periods prior to July 2005, when the AEMT was dissolved. The cardmember receivables securitized through these entities are not accounted for as sold and the securities issued to third-party investors are reported as long-term debt on the Company' s Consolidated Balance Sheets. In September 2005, the Company securitized $1.2 billion of floating-rate asset-backed notes through the Charge Trust. During 2005 and 2004, $1.9 billion and $1.1 billion of interests issued by AEMT matured. As of December 31, 2005 and 2004, the Charge Trust and AEMT held total assets of $9.9 billion and $7.4 billion, respectively, and total liabilities of $1.2 billion and $1.9 billion, respectively. The Charge Trust is consolidated by American Express Receivables Financing Corporation V LLC, a variable interest entity, which is in turn consolidated by the Company.

The Company has other variable interests for which it is not considered the primary beneficiary and, therefore, does not consolidate. These interests are represented by a carrying value of $134 million and $136 million of affordable housing partnerships within continuing operations at December 31, 2005 and 2004, respectively. The Company is a limited partner in affordable housing partnerships in which the Company has a less than 50 percent interest and receives the benefits and accepts the risks consistent with other limited partners. In the limited cases in which the Company has a greater than 50 percent interest in affordable housing partnerships, it was determined that the relationship with the general partner is an agent relationship and the general partner was most closely related to the partnership as it is the key decision maker and controls the operations. The Company' s maximum exposure to loss as a result of its investment in these partnerships is represented by the carrying value.

NOTE 7 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill reported in the Company' s operating segments were as follows:

(Millions)	U.S. Card Services	International Card & Global Commercial Services	Global Network & Merchant Services	Total
Balance at January 1, 2004	$ 205	$ 1,198	$ 104	$1,507
Acquisitions	–	11	–	11
Dispositions[(a)]	(22)	(4)	–	(26)
Other, including foreign currency translation	–	17	–	17
Balance at December 31, 2004	183	1,222	104	1,509
Other, including foreign currency translation	–	(20)	–	(20)
Balance at December 31, 2005	**$ 183**	**$ 1,202**	**$ 104**	**$1,489**

(a) *Primarily relates to the sale of the equipment leasing product line of American Express Business Finance Corporation.*

Definite-lived intangible assets, which primarily consist of customer relationships and contracts, had a gross carrying amount and accumulated amortization of $271 million and $159 million, respectively, as of December 31, 2005 and $296 million and $169 million, respectively, as of December 31, 2004.

The aggregate amortization expense for these intangible assets during 2005, 2004 and 2003 was $49 million, $46 million and $45 million, respectively. These assets have a weighted average remaining useful life of four years. Estimated amortization expense associated with intangible assets for the five years ending December 31, 2010 is as follows (millions): 2006, $37; 2007, $15; 2008, $12; 2009, $7; and 2010, $5. During 2005, the Company acquired $43 million of intangible assets, which are being amortized, on average, over four years. In addition, the Company recorded dispositions and other foreign currency translation adjustments of $9 million.

NOTE 8 Short- and Long-Term Debt and Borrowing Agreements

Short-Term Debt

The Company' s short-term debt outstanding, defined as debt with original maturities of less than one year, primarily consists of commercial paper, borrowed funds and bank notes payable. Short-term debt at December 31 was as follows:

	2005					2004				
(Millions, except percentages)	Outstanding Balance	Notional Amount of Swaps	Year-End Stated Rate on Debt[(a)]	Year-End Effective Interest Rate with Swaps[(a)]	Maturity of Swaps	Outstanding Balance	Notional Amount of Swaps	Year-End Stated Rate on Debt[(a)]	Year-End Effective Interest Rate with Swaps[(a)]	Maturity of Swaps

Commercial paper	**$ 7,742**	**$ –**	**4.19 %**	**–**	**–**	$ 7,604	$363	2.17 %	2.16 %	2005
Borrowed funds	**3,257**	**133**	**4.72 %**	**4.73 %**	**2006–2010**	3,043	–	2.39 %	–	–
Bank notes payable	**3,748**	**–**	**4.51 %**	**–**	**–**	3,059	2,800	2.59 %	3.49 %	2005
Other	**886**	**–**	**2.86 %**	**–**	**–**	610	–	0.68 %	–	–
Total	**$ 15,633**	**$ 133**	**4.30 %**			$ 14,316	$3,163	2.24 %		

(a) For floating rate debt issuances, the stated and effective interest rates were based on the respective rates at December 31, 2005 and 2004. These rates are not indicative of future interest rates.

As of December 31, 2005, there were no derivative financial instruments outstanding designated as hedges of the existing commercial paper and bank notes outstanding. The Company has designated the interest rate risk associated with cash flows of future commercial paper as well as bank note issuances as part of its on going hedging program. The notional amount as of December 31, 2005, of such designated derivative financial instruments was $4.5 billion, reflecting the hedge of future cash flows of anticipated issuances in 2006 through 2008. See Note 10 for additional discussion of the Company' s cash flow hedging strategies.

Unused lines of credit to support commercial paper borrowings were approximately $9.3 billion and $9.1 billion at December 31, 2005 and 2004, respectively.

Long-Term Debt

The Company' s long-term debt outstanding, defined as debt with original maturities of one year or greater, primarily consists of senior notes and medium-term notes. Debt issuance costs are deferred and amortized over the term of the related instrument or, if the holder has a put option, over the put term. Long-term debt at December 31, was as follows:

	2005					2004				
(Millions, except percentages)	Outstanding Balance	Notional Amount of Swaps	Year-End Stated Rate on Debt[(b)]	Year-End Effective Interest Rate with Swaps[(b)]	Maturity of Swaps	Outstanding Balance	Notional Amount of Swaps	Year-End Stated Rate on Debt[(b)]	Year-End Effective Interest Rate with Swaps[(b)]	Maturity of Swaps
American Express Company (Parent Company only)										
Convertible Debentures due September 1, 2033	**$ 2,000**	**$–**	**1.85 %**	**–**	**–**	$ 2,000	$–	1.85 %	–	–
Fixed Rate Senior Notes due 2005-2013	**3,242**	**–**	**4.79 %**	**–**	**–**	3,740	–	5.07 %	–	–
American Express Travel Related Services Company Inc[(e)]										
Fixed Rate Senior Notes due 2009	**500**	**–**	**3.63 %**	**–**	**–**	500	–	3.63 %	–	–
American Express Credit Corporation										
Fixed and Floating Rate Senior and Medium-Term Notes due 2005-2015[(a)]	**13,600**	**6,350**	**4.48 %**	**2.99 %**	**2006-2015**	14,931	8,350	3.09 %	2.85 %	2005-2006
Borrowings under Bank Credit Facilities due 2009	**3,329**	**3,028**	**5.25 %**	**5.12 %**	**2006-2010**	3,683	1,537	4.54 %	4.62 %	2005-2010
American Express Centurion Bank										

Fixed and Floating Rate Senior and Medium-Term Notes due 2005–2009	**4,342**	**1,000**	**4.44%**	**4.31%**	**2006–2009**	4,058	1,200	2.14%	2.31%	2005–2009
American Express Bank, FSB										
Floating Rate Medium-Term Notes due 2005–2007	**2,350**	**1,000**	**4.39%**	**4.18%**	**2006–2007**	1,600	–	1.59%	–	–
American Express Receivables Financing Corporation LLC & American Express Receivables Financing Corporation V LLC										
Floating Rate Senior Notes due 2005–2012[(d)]	**1,116**	–	**4.42%**	–	–	1,750	–	1.60%	–	–
Floating Rate Subordinated Notes due 2005–2012[(d)]	**84**	–	**4.70%**	–	–	142	–	1.98%	–	–
Other										
Fixed Rate and Floating Rate Notes due 2005–2014[(c)]	**218**	**105**	**5.77%**	**6.38%**	**2006–2007**	272	106	6.03%	5.97%	2006–2007
Total	**$ 30,781**	**$11,483**	**4.41%**			$ 32,676	$11,193	3.16%		

(a) These balances include $2 billion and $1 billion notes which are subject to extension by the holders through March 5, 2008 and June 20, 2008, respectively.

(b) For floating rate debt issuances, the stated and effective interest rates were based on the respective rate at December 31, 2005 and 2004. These rates are not indicative of future interest rates.

(c) These balances include $93 million related to two sale-leaseback transactions as described in Note 11.

(d) $1.2 billion of senior and subordinated notes were issued by American Express Receivables Financing Corporation V LLC during 2005. $1.9 billion of senior and subordinated notes primarily issued by American Express Receivables Financing Corporation LLC (RFC) matured during 2005. Portions of RFC floating rate senior and subordinated notes were included in the American Express Centurion Bank and the American Express Bank, FSB captions in prior periods.

(e) American Express Travel Related Services Company Inc. fixed rate senior notes were issued by the Travel Related Services Parent Company.

As of December 31, 2005, in addition to the hedges of existing long-term debt, the Company has designated the interest rate risk associated with cash flows related to future long-term debt issuances as part of its hedging program. The notional amount of such designated derivative financial instruments was $10.7 billion, reflecting the hedge of future cash flows of anticipated issuances in 2006 through 2008. See Note 10 for additional discussion of the Company' s cash flow hedging strategies.

As of December 31, 2005, the Company had $2 billion principal outstanding of 1.85 percent Convertible Senior Debentures due 2033 (the Debentures), which are unsecured and unsubordinated obligations of the Company. The Debentures may be put to the Company at accreted principal amount on December 1, 2006, 2008, 2013, 2018, 2023 or 2028 if the Company' s common stock is trading (during a specified averaging period) at or above the base conversion price but below the contingent conversion threshold. See Note 18 for additional information regarding conversion terms of Debentures.

Aggregate annual maturities on long-term debt obligations (based on final maturity dates) at December 31, 2005, are as follows:

(Millions)	2006	2007	2008	2009	2010	Thereafter	Total
American Express Company (Parent Company only)	$1,000	$748	$–	$499	$–	$ 2,995	$5,242
American Express Travel Related Services Company, Inc.	–	–	–	500	–	–	500
American Express Credit Corporation	2,300	6,300	999	4,900	2,028	402	16,929
American Express Centurion Bank	492	2,500	–	1,350	–	–	4,342
American Express Receivables Financing Corporation V LLC	–	–	–	–	600	600	1,200
American Express Bank, FSB	1,550	800	–	–	–	–	2,350
Other	42	83	–	–	–	93	218
Total	$5,384	$10,431	$999	$7,249	$2,628	$ 4,090	$30,781

As of December 31, 2005 and 2004, the Company maintained total bank lines of credit of $13.4 billion and $13.0 billion, respectively, of which $10.1 billion and $9.7 billion were unutilized as of December 31, 2005 and 2004, respectively.

The Company paid total interest (including amounts related to discontinued operations) primarily related to short-and long-term debt, corresponding interest rate products and customer deposits (net of amounts capitalized or refunded) of $2.4 billion, $1.6 billion and $1.7 billion in 2005, 2004 and 2003, respectively.

NOTE 9 Common and Preferred Shares

The Company has in place a share repurchase program to return equity capital in excess of its business needs to shareholders. These share repurchases both offset the issuance of new shares as part of employee compensation plans and reduce the number of shares outstanding. Since the inception of repurchase programs in September 1994, the Company has repurchased 530 million shares pursuant to total authorizations to repurchase up to 570 million shares, including purchases under past agreements with third parties. At December 31, 2005, the Company has 40 million shares remaining under such authorization. Such authorization does not have an expiration date, and at present, there is no intention to modify or otherwise rescind such authorization.

Of the common shares authorized but unissued at December 31, 2005, approximately 260 million shares were reserved for issuance for employee stock, employee benefit and dividend reinvestment plans, as well as convertible securities.

The following table provides a reconciliation of common shares outstanding:

(Millions)	2005	2004	2003
Shares outstanding at beginning of year	**1,249**	1,284	1,305
Repurchases of common shares[(a)]	**(34)**	(69)	(36)
Other, primarily employee benefit plans	**26**	34	15
Shares outstanding at end of year	**1,241**	1,249	1,284

(a) *Includes purchases under share repurchase agreements that were entered into to partially offset the Company' s exposure to the effect on diluted earnings per share of outstanding in-the-money stock options issued under the Company' s stock option program.*

The Board of Directors is authorized to permit the Company to issue up to 20 million preferred shares without further shareholder approval.

NOTE 10 Derivatives and Hedging Activities

Derivative financial instruments enable the Company to manage exposure to credit and various market risks. The value of such instruments is derived from an underlying variable or multiple variables, including commodity, equity, foreign exchange and interest rate indices or prices. The Company enters into various derivative financial instruments as part of its ongoing risk management activities as well as for customer and limited trading purposes. Credit risk associated with the Company' s derivatives is limited to the risk that a derivative counterparty will not perform in accordance with the terms of the contract. To mitigate such risk, counterparties are required to be pre-approved. Additionally, the Company may, from time to time, enter into master netting agreements where practical. As of December 31, 2005 and 2004, the total fair value, excluding accruals, of derivative product assets was $530 million and $722 million, respectively, and derivative product liabilities was $354 million and $1.1 billion, respectively. The following summarizes the Company' s use of derivative financial instruments.

Cash Flow Hedges

The Company uses interest rate products, primarily interest rate swaps, to manage interest rate risk related to the Company' s charge card business. The interest rate swaps are used primarily to achieve a targeted mix of fixed and floating rate funding as well as to protect the Company from the interest rate risk through hedging of its existing long-term debt, the rollover of short-term debt and the anticipated forecasted issuance of additional funding. See Note 8 for additional discussion of the cash flow hedging strategies related to short- and long-term debt. During 2005, the Company discontinued its only foreign currency risk cash flow hedge program, which related to the forecasted purchase of investment securities by foreign subsidiaries. The anticipated transactions were no longer probable of occurring in accordance with the original strategy.

During 2005, 2004 and 2003, the Company recognized the following impacts in other comprehensive (loss) income related to its cash flow hedging activity.

(Millions)	2005	2004	2003
Unrealized gains (losses) net of tax of $161, $3 and $(174), respectively	**$300**	$6	$(323)
Reclassification for realized (gains) losses, net of tax of $(23), $161 and $224, respectively	**(44)**	298	415
Net unrealized derivative gains	**$256**	$304	$92

As of December 31, 2004, net unrealized derivatives losses, net of tax, reflected in accumulated other comprehensive income were $142 million, including $29 million of gains associated with discontinued operations. For 2005 activity, excluded from the table above is $19 million of net change in accumulated other comprehensive income related to discontinued operations. As of December 31, 2005, net unrealized derivatives gains, net of tax, reflected in accumulated other comprehensive income were $143 million.

At December 31, 2005, the Company expects to reclassify $184 million of net pretax gains on derivative instruments from accumulated other comprehensive (loss) income to earnings during the next twelve months. In the event that cash flow hedge accounting is no longer applied (i.e., the Company de-designates a derivative as hedge, a hedge is no longer considered to be highly effective, or the forecasted transaction being hedged is no longer probable of occurring), the reclassification from accumulated other comprehensive (loss) income into earnings may be accelerated and all future market value fluctuations of the derivative will be reflected in earnings.

During 2005 and 2004, the Company recognized the following impacts in other revenue related to these activities. The Company recognized no impact in 2003.

(Millions)	**2005**	**2004**
Cash flow hedge ineffective net gains	**$3**	$1
Cash flow hedge (losses) gains on forecasted transactions no longer probable to occur	**$(2)**	$16

Currently, the longest period of time over which the Company is hedging exposure to the variability in future cash flows is approximately 5 years, which is related to long-term debt. For 2005, 2004 and 2003, there were no gains or losses on derivative transactions or portions thereof that were excluded from the assessment of hedge effectiveness. The total fair value, excluding accruals, of derivative product assets and liabilities designated as cash flow hedges was $226 million and $5 million, respectively, as of December 31, 2005 and $90 million and $266 million, respectively, as of December 31, 2004.

Fair Value Hedges

The Company is exposed to interest rate risk associated with its fixed rate long-term debt and the Company uses interest rate swaps to convert certain fixed rate debt to floating rate at the time of issuance. In conjunction with its international banking activities, the Company hedges the fair value changes related to a portion of its callable term customer deposits. Such transactions are hedged using callable interest rate swaps. The Company is also subject to interest rate risk related to its fixed rate corporate debt securities and, from time to time, the Company enters into interest rate swaps to hedge this exposure. For 2005, 2004 and 2003, there were no gains or losses on derivative transactions or portions thereof that were excluded from the assessment of hedge effectiveness. Hedge ineffectiveness for 2005, 2004 and 2003 was immaterial. The total fair value, excluding accruals, of derivative product assets and liabilities designated as fair value hedges was $4 million and $97 million, respectively, as of December 31, 2005 and $12 million and $88 million, respectively, as of December 31, 2004.

Hedges of Net Investment in Foreign Operations

The Company designates foreign currency derivatives, primarily forward agreements, as hedges of net investments in certain foreign operations. For 2005, the net amount of total losses related to the hedges included in foreign currency translation adjustments was $8 million, net of tax. The total fair value of these derivative product assets and liabilities was $20 million and $13 million as of December 31, 2005 and $13 million and $120 million as of December 31, 2004.

Derivatives Not Designated as Hedges

The Company has economic hedges that either do not qualify or are not designated for hedge accounting treatment.

Foreign currency transactions and non-U.S. dollar cash flow exposures are economically hedged, where practical, through foreign currency contracts, primarily forward contracts, foreign currency options and cross-currency swaps. Foreign currency contracts involve the purchase and sale of a designated currency at an agreed upon rate for settlement on a specified date. Such foreign currency forward contracts entered into by the Company generally mature within one year. The total fair value, excluding accruals, of these derivative product assets and liabilities were both $13 million as of December 31, 2005 and $44 million and $78 million, respectively, as of December 31, 2004.

From time to time, the Company will also enter into interest rate swaps to specifically manage funding costs related to its credit card business. As of December 31, 2005, the fair value was not significant. As of December 31, 2004, the total fair value of derivative product assets and liabilities was $14 million and $10 million, respectively.

Within its international banking operations, the Company enters into derivative contracts to meet the needs of its clients and, to a limited extent, for trading purposes, including taking proprietary positions. The international banking derivative activities also include economic hedging of various foreign currency and interest rate exposures related to its other banking activities. The total fair value, excluding accruals, of these derivative product assets and liabilities was $267 million and $226 million, respectively, as of December 31, 2005 and $549 million and $498 million, respectively, as of December 31, 2004. These amounts include the identified embedded derivatives discussed below.

Embedded Derivatives

The Company has identified certain derivatives embedded in other financial instruments that are required to be accounted for separately from the host financial instrument. Such items included certain structured customer deposit products issued by the international banking operations which have returns tied to the performance of equity markets or other indexes and financial instruments. As of December 31, 2005 and 2004, the total fair value of such derivative product liabilities was $25 million and $1 million, respectively.

NOTE 11 Guarantees and Certain Off-Balance Sheet Items

The Company provides cardmember protection plans that cover losses associated with purchased products, as well as certain other guarantees in the ordinary course of business that are within the scope of FASB Interpretation No. 45, “Guarantor’ s Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (FIN 45).

The following table provides information related to guarantees that are within the scope of FIN 45 as of December 31:

	2005		2004	
Type of Guarantee	**Maximum amount of undiscounted future payments[a] (Billions)**	**Amount of related liability at December 31, 2005 (Millions)**	**Maximum amount of undiscounted future payments[a] (Billions)**	**Amount of related liability at December 31, 2004 (Millions)**
Credit Card Registry[b]	**$ 22**	**$ –**	$ 24	$ –
Merchandise and Account Protection[c]	**53**	**48**	51	45
Merchant Protection[d]	**10**	**43**	7	46
Baggage Protection	**10**	**17**	8	19
Other[e]	**2**	**98**	1	151
Total	**$ 97**	**$ 206**	$ 91	$ 261

(a) *Calculated based on the hypothetical scenario that all claims occur within the next 12 months.*

(b) *This benefit will cancel and request replacements of any lost or stolen cards, and provides for fraud liability coverage and passport replacement, among other benefits.*

(c) *These benefits (i) protect eligible purchases made with the card against accidental damage or theft for up to 90 days from the date of purchase; (ii) ensure that a cardmember pays the lowest price available on covered items purchased entirely with an eligible American Express card; and (iii) provide account protection in the event that a cardmember is unable to make payments on the account due to unforeseen hardship.*

(d) *Represents the Company’ s contingent liability arising from billing disputes between the cardmembers and the merchant, primarily for non-delivery of goods and services.*

(e) *Other primarily relates to contingent consideration obligations as well as guarantees the Company provides through its international banking business that are within the scope of FIN 45, including financial letters of credit, performance guarantees and financial guarantees. Generally these guarantees range in term from three months to one year. The Company receives a fee related to these guarantees, many of which help facilitate cross-border transactions. The maximum potential exposure for the Company’ s international banking guarantees at both December 31, 2005 and 2004 was approximately $1 billion. The Company held collateral of $936 million and $788 million related to such guarantees at December 31, 2005 and 2004, respectively.*

The above table reflects only those guarantees that are within the scope of FIN 45. Expenses relating to actual claims under these guarantees for 2005 and 2004 were approximately $15 million and $20 million, respectively.

In addition, the Company had the following other commitments as of December 31:

(Millions)	**2005**	**2004**

Loan commitments and other lines of credit	**$493**	$567
Bank letters of credit and other bank guarantees outside the scope of FIN 45	**$529**	$646

The Company issues commercial and other letters of credit to facilitate the short-term trade-related needs of its banking clients, which typically mature within six months. At December 31, 2005 and 2004, the Company held $337 million and $281 million, respectively, of collateral supporting commercial and other letters and lines of credit.

The Company also has commitments aggregating $213 billion and $176 billion related to its card business in 2005 and 2004, respectively, primarily related to commitments to extend credit to certain cardmembers as part of established lending product agreements. Many of these are not expected to be drawn; therefore, total unused credit available to cardmembers does not represent future cash requirements. The Company’ s charge card products have no preset spending limit and are not reflected in unused credit available to cardmembers.

In addition, the Company has certain contingent obligations for worldwide business arrangements that relate to contractual agreements with partners, primarily with co-brand partners. The contingent obligations under such arrangements were $3.3 billion as of December 31, 2005.

The Company leases certain office facilities and operating equipment under noncancelable and cancelable agreements. Total rental expense amounted to $367 million, $316 million and $304 million in 2005, 2004 and 2003, respectively. At December 31, 2005, the minimum aggregate rental commitment under all noncancelable operating leases (net of subleases of $30 million) was:

(Millions)	
2006	$229
2007	208
2008	177
2009	146
2010	126
Thereafter	1,286
Total	$2,172

During 2005, the Company completed sale-leaseback transactions on four of its owned properties which were sold at fair value. These transactions have been accounted for as sale-leasebacks and are included in total operating lease obligations. Proceeds from these four transactions totaled $172 million and the aggregate net book value of these properties removed from the Company' s Consolidated Balance Sheet was $124 million. The pretax gain of approximately $46 million, net of $2 million in closing costs, has been deferred and will be amortized over the ten year term of the operating leasebacks as a reduction to rental expense.

In December 2004, the Company completed sale-leaseback transactions on five of its owned properties which were sold at fair value. Four of these transactions have been accounted for as sale-leasebacks and are included in total operating lease obligations. Proceeds from these transactions totaled $187 million and the aggregate net book value of these four properties removed from the Company' s Consolidated Balance Sheet was $91 million. The pretax gain of approximately $94 million, net of $2 million in closing costs, has been deferred and will be amortized over the ten year term of the operating leasebacks as a reduction to rental expense.

One of the 2004 sale-leaseback transactions has been accounted for as financing because of certain terms contained in the lease agreement. The $95 million in proceeds from this transaction has been classified as long-term debt and the balance as of December 31, 2005 was $93 million. At December 31, 2005, the Company' s minimum aggregate rental commitment under this transaction is approximately $6 million per annum from 2006 through 2010 and $26 million thereafter.

NOTE 12 Contingencies

The Company and its subsidiaries are involved in a number of legal and arbitration proceedings concerning matters arising in connection with the conduct of their respective business activities. These include several class actions involving the Company' s card businesses among other matters. The Company believes it has meritorious defenses to each of these actions and intends to defend them vigorously.

The Company believes that it is not a party to, nor are any of its properties the subject of, any pending legal, arbitration or regulatory proceedings which would have a material adverse effect on the Company' s consolidated financial condition, results of operations or liquidity. However, it is possible that the outcome of any such proceedings could have a material impact on results of operations in any particular reporting period as the proceedings are resolved.

NOTE 13 Fair Values of Financial Instruments

The following table discloses fair value information for financial instruments. The fair values of financial instruments are estimates based upon market conditions and perceived risks at December 31, 2005 and 2004 and require management judgment. These figures may not be indicative of their future fair values. The fair value of the Company, therefore, cannot be estimated by aggregating the amounts presented.

The following table discloses fair value information for financial instruments:

	2005		2004	
December 31, (Billions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Assets for which carrying values equal or approximate fair value	**$ 106**	**$ 106**	$ 98	$ 98
Financial Liabilities				
Liabilities for which carrying values equal or approximate fair value	**$ 57**	**$ 57**	$ 50	$ 50
Long-term debt	**$ 31**	**$ 31**	$ 33	$ 33

See Note 3 for carrying and fair value information regarding investments, Note 10 for fair value information regarding derivative financial instruments and Note 11 for carrying and fair value information regarding guarantees and certain off-balance sheet items. The following methods were used to estimate the fair values of financial assets and financial liabilities.

Financial Assets

Assets for which carrying values equal or approximate fair values include cash and cash equivalents, cardmember receivable and accrued interest, certain other assets and derivative financial instruments. Generally these assets are either short-term in duration, variable rate in nature or are recorded at fair value on the Consolidated Balance Sheets.

Generally, investments are carried at fair value on the Consolidated Balance Sheets and gains and losses are recognized in the Consolidated Statements of Income upon disposition of the securities or when management determines that a decline in value is other-than-temporary.

For variable-rate loans that reprice within one year and for which there has been no significant change in counterparties' creditworthiness, fair values approximate carrying values.

The fair values of all other loans except those with significant credit deterioration, are estimated using discounted cash flow analysis, based on current interest rates for loans with similar terms to borrowers of similar credit quality. For loans with significant credit deterioration, fair values are based on estimates of future cash flows discounted at rates commensurate with the risk inherent in the revised cash flow projections, or for collateral dependent loans on collateral values.

Financial Liabilities

Liabilities for which carrying values equal or approximate fair values include customers' deposits, Travelers Cheques outstanding, investment certificate reserves, short-term debt, certain other liabilities and derivative financial instruments. Generally these liabilities are either short-term in duration, variable rate in nature or are recorded at fair value on the Consolidated Balance Sheets.

For variable-rate long-term debt that reprices within one year, fair value approximates carrying value. For other long-term debt, fair value is estimated using either quoted market prices or discounted cash flows based on the Company' s current borrowing rates for similar types of borrowing.

NOTE 14 Significant Credit Concentrations

A credit concentration may exist if customers are involved in similar industries, economic sectors and geographic regions. The Company' s customers operate in diverse economic sectors and geographic regions. Therefore, management does not expect any material adverse consequences to the Company' s financial position, results of operations or cash flows to result from these types of credit concentrations.

Certain distinctions between categories require management judgment. The following table represents the Company' s maximum credit exposure by industry, including the credit exposure associated with derivative financial instruments, at December 31:

(Billions, except percentages)	2005	2004
Financial institutions(a)	**$15.3**	$16.2
Individuals, including cardmember receivables and loans(b)	**287.4**	238.9
U.S. Government and agencies(c)	**12.9**	12.3
All other	**7.9**	10.1
Total	**$323.5**	$277.5
Composition:		
On-balance sheet	**34 %**	36 %
Off-balance sheet	**66 %**	64 %
Total	**100 %**	100 %

(a) Financial institutions primarily include banks, broker-dealers, insurance companies and savings and loan associations.

(b) Charge card products have no preset spending limit; therefore, the quantified credit amount includes the total credit line available to cardmembers. The unused lines aggregating $213 billion and $176 billion in 2005 and 2004, respectively, represent commitments of the Company. See Note 11 for further explanation.

(c) U.S. Government and agencies represent the U.S. Government and its agencies, states and municipalities, and quasi-government agencies.

Exposure to Airline Industry

Historically, the Company has not experienced significant revenue declines resulting from a particular airline' s scaling-back or closure of operations due to bankruptcy or other financial challenges because the volumes generated from the airline are typically shifted to other participants in the industry that accept the Company' s card products. Nonetheless, the Company is exposed to business and credit risk in the airline industry primarily through business arrangements where the Company has remitted payment to the airline for a cardmember purchase of tickets that have not yet been used or "flown." This creates a potential exposure for the Company in the event that the cardmember is not able to use the ticket and the Company, based on the facts and circumstances, credits the cardmember for the unused ticket. Historically, this type of exposure has not generated any significant losses for the Company because of the need for an airline that is operating under bankruptcy protection to continue accepting credit and charge cards and honoring requests for credits and refunds in the ordinary course of business, and in furtherance of its reorganization and its formal assumption, with bankruptcy court approval, of its card acceptance agreement, including approval of the Company' s right to hold cash to cover these potential exposures to provide credits to cardmembers. Typically, as an airline' s financial situation deteriorates, the Company delays payment to the airlines thereby increasing cash held to protect itself in the event of an ultimate liquidation of the airline. The Company' s goal in these distressed situations is to hold sufficient cash over time to ensure that upon liquidation the cash held is equivalent to the credit exposure related to any unused tickets.

As part of Delta Airlines' (Delta) decision to file for protection under Chapter 11 of the Bankruptcy Code, the Company agreed with Delta to restructure certain of its financial arrangements with the airline. In particular, Delta agreed to repay to the Company an aggregate $557 million, primarily representing the Company' s prepayment of Delta SkyMiles rewards points. Contemporaneously with the repayment, the Company lent to Delta $350 million as part of Delta' s post-petition, debtor-in-possession (DIP) financing under the Bankruptcy Code. At December 31, 2005, the remaining principal balance is $300 million. This post-petition facility continues to be structured as an advance against the Company' s obligations to purchase Delta SkyMiles rewards points under the Company' s co-brand and Membership Rewards agreements and will be amortized ratably each month beginning in July 2006 through November 2007. The Company' s post-petition facility is secured by (i) senior liens on Delta assets specifically related to its American Express co-brand, Membership Rewards and card acceptance relationships and (ii) liens subordinate to senior liens on all other Delta assets including the assets and shares of certain Delta subsidiaries.

NOTE 15 Stock Plans

Stock Option and Award Programs

Under the 1998 Incentive Compensation Plan, awards may be granted to officers and other key individuals who perform services for the Company and its participating subsidiaries. These awards may be in the form of stock options, restricted stock, portfolio grants and similar awards designed to meet the requirements of non-U.S. jurisdictions.

The Company also has options that remain outstanding pursuant to a Directors' Stock Option Plan that expired in 2003. Under these plans, there were a total of 71 million, 68 million and 78 million common shares available for grant at December 31, 2005, 2004 and 2003, respectively. Each option has an exercise price equal to the market price of the Company's common stock on the date of grant and a term of no more than 10 years. Summarized below are the vesting provisions relating to stock options:

Grant Year	Vesting Provisions
2005-2004-2003	Generally vest ratably at 25 percent per year beginning with the first anniversary of the grant date
Prior to 1999 and in 2002	Generally vest ratably at 33 1/3 percent per year beginning with the first anniversary of the grant date
2001-2000-1999	Generally vest ratably at 33 1/3 percent per year beginning with the second anniversary of the grant date

In 1998, the Company adopted a restoration stock option program. This program provided that employees who exercised options that had been outstanding at least five years by surrendering previously owned shares as payment would automatically receive a new (restoration) stock option with an exercise price equal to the market price on the date of exercise. The size of the restoration option was equal to the number of shares surrendered plus any shares surrendered or withheld to satisfy the employees' income tax requirements. The term of the restoration option, which became exercisable six months after grant, was equal to the remaining life of the original option. In July 2003, the Company discontinued granting restoration options upon the eligible exercise of a stock option granted on or after January 1, 2004. In July 2004, the Company further discontinued granting restoration options upon the exercise of any stock options effective January 1, 2005.

A summary of stock option and nonvested restricted stock award (RSA) activity as of December 31, 2005, and changes during the year are presented below:

(Shares in thousands)	**Stock Options**		**RSAs**	
	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Grant Price**
Outstanding at beginning of year	**131,872**	**$ 39.97**	**11,799**	**$ 41.25**
Granted	**6,858**	**$ 52.31**	**3,896**	**$ 52.30**
Exercised/vested	**(26,618)**	**$ 37.03**	**(5,487)**	**$ 36.47**
Forfeited/expired	**(4,329)**	**$ 45.39**	**(2,696)**	**$ 46.33**
Adjustment pursuant to Ameriprise spin-off[(a)]	**15,992**	–	**1,466**	–
Outstanding at end of year	**123,775**	**$ 35.75**	**8,978**	**$ 40.77**
Options exercisable at end of year	**105,423**	**$ 34.89**		

(a) The adjustment is as a result of the Ameriprise spin-off described in Note 2, which increased the number of options and RSAs and decreased the exercise/ grant price for these stock awards. No additional compensation expense was created by the adjustment.

Stock Options

The weighted average remaining contractual life of the stock options outstanding as of December 31, 2005 was 5.1 years. The aggregate intrinsic value of the stock options outstanding and exercisable as of December 31, 2005 was $1.9 billion and $1.7 billion, respectively. The total intrinsic value of options exercised during 2005, 2004 and 2003 was $455 million, $633 million and $191 million, respectively.

The fair value of each option is estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2005, 2004 and 2003:

	2005	2004	2003
Dividend yield	**0.9 %**	0.8 %	1.0 %
Expected volatility	**24 %**	30 %	34 %
Risk-free interest rate	**3.6 %**	2.9 %	2.9 %
Expected life of stock option (years)	**4.5**	4.2	4.5
Weighted average fair value per option	**$12.59**	$13.27	$10.08

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

Restricted Stock Awards

Restricted Stock Awards (RSAs) granted in 2005, 2004 and 2003 generally vest ratably at 25 percent per year beginning with the first anniversary of the grant date. RSAs granted prior to 2003 generally vest four years from date of grant. The compensation expense associated with these awards is recognized straight-line over the vesting period.

As of December 31, 2005, there was $216 million of total unrecognized compensation cost related to RSAs. That cost is expected to be recognized over a weighted-average period of 2.4 years. The total fair value of shares vested during 2005, 2004 and 2003 was $290 million, $97 million and $34 million, respectively.

Portfolio Grants

In addition, the Company grants Portfolio Grants which are awards that earn value based on the Company' s or segment' s financial performance and the Company' s total shareholder return versus that of the S&P Financial Index over a 3-year performance period, subject to business and individual adjustments. The fair value of the award is estimated at the date of grant and updated quarterly and recognized over the performance period.

The components of the Company' s pretax stock-based compensation expense (net of cancellations) and associated income tax benefit, are as follows:

(Millions)	2005	2004	2003
Stock options	**$84**	$69	$31
Restricted stock awards	**144**	112	72

Portfolio grants[(a)]	**26**	–	–
Total	**$254**	$181	$103
Income tax benefit	**$89**	$63	$36

(a) *The 2005 expense represents only the amount recognized since July 1, 2005, when as a result of the adoption of SFAS 123(R), these awards were accounted for as stock-based compensation although paid in cash.*

NOTE 16 Retirement Plans

Defined Benefit Pension Plans

The Company sponsors the American Express Retirement Plan (the Plan), a noncontributory defined benefit plan which is a qualified plan under the Employee Retirement Income Security Act of 1974, as amended (ERISA), under which the cost of retirement benefits for eligible employees in the United States is measured by length of service, compensation and other factors and is currently being funded through a trust. Funding of retirement costs for the Plan complies with the applicable minimum funding requirements specified by ERISA. The Plan is a cash balance plan and employees' accrued benefits are based on notional account balances, which are maintained for each individual. Each pay period these balances are credited with an amount equal to a percentage, determined by an employee's age plus service, of compensation as defined by the Plan (which includes, but is not limited to, base pay, certain incentive pay and commissions, shift differential, and overtime). Employees' balances are also credited daily with a fixed rate of interest that is updated each January 1 and is based on the average of the daily five-year U.S. Treasury Note yields for the previous October 1 through November 30, with a minimum crediting rate of 5 percent and a maximum crediting rate equal to the lesser of (i) 10 percent or (ii) the annual maximum interest rate set by the U.S. Government for determining lump-sum values. Employees and their beneficiaries have the option to receive annuity payments upon retirement or select a lump-sum payout at vested termination, death, disability or retirement.

In addition, the Company sponsors an unfunded non-qualified Supplemental Retirement Plan (the SRP) for certain highly compensated employees to replace the benefit that cannot be provided by the Plan due to Internal Revenue Service limits. The SRP is an excess benefit plan and its terms generally parallel those of the Plan but the SRP's definition of compensation and payment options differ.

Most employees outside the United States are covered by local retirement plans, some of which are funded, while other employees receive payments at the time of retirement or termination under applicable labor laws or agreements.

The Company measures the obligations and related asset values for its pension and other postretirement benefit plans as of September 30th.

The components of the net periodic pension cost for all defined benefit plans accounted for under SFAS No. 87, “Employers’ Accounting for Pensions,” are as follows:

(Millions)	2005	2004	2003
Service cost	**$104**	$99	$92
Interest cost	**117**	109	102
Expected return on plan assets	**(141)**	(142)	(126)
Amortization of:			
Prior service costs	**1**	(4)	(6)
Transition obligation (asset)	–	1	(2)
Recognized net actuarial loss	**27**	19	18
Settlements/curtailment loss	**4**	3	9
Net periodic pension benefit cost	**$112**	$85	$87

The prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10 percent of the greater of the projected benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The following tables provide a reconciliation of the changes in the plans’ projected benefit obligation and fair value of assets for all plans accounted for under SFAS No. 87:

Reconciliation of Change in Projected Benefit Obligation

(Millions)	2005	2004
Projected benefit obligation, October 1 prior year	**$2,168**	$1,896
Service cost	**104**	99

Interest cost	**117**	109
Benefits paid	**(59)**	(51)
Actuarial loss	**220**	94
Plan amendments[(a)]	–	(3)
Settlements/curtailments	**(51)**	(51)
Foreign currency exchange rate changes	**(107)**	75
Projected benefit obligation at September 30,	**$2,392**	$2,168

(a) *The plan amendment in 2004 reduced the future benefit accruals under the Plan for employees supporting U.S. Business Travel effective January 1, 2005.*

Reconciliation of Change in Fair Value of Plan Assets

(Millions)	**2005**	**2004**
Fair value of plan assets, October 1 prior year	**$1,975**	$1,744
Actual return on plan assets	**326**	207
Employer contributions	**41**	53
Benefits paid	**(59)**	(51)
Settlements	**(51)**	(51)
Foreign currency exchange rate changes	**(97)**	73
Fair value of plan assets at September 30,	**$2,135**	$1,975

The Company complies with the minimum funding requirements in all countries. The following table reconciles the plans' funded status (benefit obligation less fair value of plan assets) to the amounts recognized on the Consolidated Balance Sheets:

Funded Status

(Millions)	2005	2004
Funded status at September 30,	**$(257)**	$(193)
Unrecognized net actuarial loss	**508**	534
Unrecognized prior service cost	**14**	15
Unrecognized net transition obligation	**1**	1
Fourth quarter contributions	**5**	5
Net amount recognized at December 31,	**$271**	$362
Accumulated benefit obligation at September 30,	**$2,163**	$2,036

The following table provides the amounts recognized on the Consolidated Balance Sheets as of December 31:

(Millions)	2005	2004
Accrued benefit liability	**$(203)**	$(204)
Prepaid benefit cost	**445**	543
Minimum pension liability adjustment	**29**	23
Net amount recognized at December 31,	**$271**	$362

The projected benefit obligation for all pension plans as of September 30, 2005 and 2004 was $2.4 billion and $2.2 billion, respectively. The Company must also disclose the projected benefit obligation and related fair value of plan assets for specific pension plans where the projected benefit obligation exceeds the fair value of plan assets. The projected benefit obligation and related fair value of plan assets for these specific pension plans was $2.3 billion and $2.1 billion, respectively, as of September 30, 2005, and $1.3 billion and $1.0 billion, respectively, as of September 30, 2004.

The accumulated benefit obligation for pension plans, primarily unfunded plans, where the accumulated benefit obligation exceeds the fair value of plan assets was $221 million and $214 million as of September 30, 2005 and 2004, respectively. The fair value of the related plan assets was $17 million and $15 million at these dates.

The weighted average assumptions used to determine benefit obligations were:

	2005	2004
Discount rates	**5.1 %**	5.5 %
Rates of increase in compensation levels	**4.2 %**	4.0 %

The weighted average assumptions used to determine net periodic benefit cost were:

	2005	2004	2003
Discount rates	**5.5 %**	5.7 %	6.2 %
Rates of increase in compensation levels	**4.0 %**	3.9 %	3.9 %
Expected long-term rates of return on assets	**7.8 %**	7.8 %	8.0 %

For 2005, the Company assumed on a weighted average basis a long-term rate of return on assets of 7.8 percent. In developing the 7.8 percent expected long-term rate assumption, management evaluated input from an external consulting firm, including its projection of asset class return expectations and long-term inflation assumptions. The Company also considered the historical returns on the plan assets. The discount rate assumption for the Company' s material plans (U.S. and U.K.) was determined by using a model consisting of bond portfolios that match the cash flows of the plan' s projected benefit payments. The use of the rate produced by this model will result in a projected obligation that would equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of expected future benefit payments.

The asset allocation for the Company' s pension plans at September 30, 2005 and 2004, and the target allocation for 2006, by asset category, are below. Actual allocations will generally be within 5 percent of these targets.

	Target Allocation	Percentage of Plan assets at	
	2006	2005	2004
Equity securities	67 %	68 %	67 %
Debt securities	27 %	26 %	28 %
Other	6 %	6 %	5 %
Total	100 %	100 %	100 %

The Company invests in an aggregate diversified portfolio to ensure that adverse or unexpected results from a security class will not have a detrimental impact on the entire portfolio. The portfolio is diversified by asset type, performance and risk characteristics and number of investments. Asset classes and ranges considered appropriate for investment of the plan' s assets are determined by each plan' s investment committee. The asset classes typically include domestic and foreign equities, emerging market equities, domestic and foreign investment grade and high-yield bonds and domestic real estate.

The Company' s retirement plans expect to make benefit payments to retirees as follows (millions): 2006, $142; 2007, $128; 2008, $137; 2009, $148; 2010, $151; and 2011-2015, $1,002. In addition, the Company expects to contribute $44 million to its pension plans in 2006.

Defined Contribution Retirement Plans

The Company sponsors defined contribution retirement plans, the principal plan being the Incentive Savings Plan ("ISP"), a 401(k) savings plan with a profit sharing and stock bonus plan feature which is a qualified plan under ERISA and which covers most employees in the United States. Under the terms of the ISP, employees have the option of investing in the American Express Company Stock Fund, which invests primarily in the Company' s common stock, through accumulated payroll deductions. In addition, at least quarterly the Company makes automatic cash contributions equal to 1 percent per annum of a qualifying employee' s base salary. Such contributions are invested automatically in the American Express Company Stock Fund and, effective August 2, 2004, can be directed at any time into other ISP investment options. Compensation expense related to the Company' s contribution was $15 million in 2005, 2004 and 2003, which is included in defined contribution plan expense discussed below. The ISP held 17 million and 22 million shares of American Express Common Stock at December 31, 2005 and 2004, respectively, beneficially for employees.

The total defined contribution plan expense was $116 million, $117 million and $106 million in 2005, 2004 and 2003, respectively.

Other Postretirement Benefits

The Company sponsors defined postretirement benefit plans that provide health care and life insurance to certain retired U.S. employees. Net periodic postretirement benefit expenses were $36 million, $35 million and $36 million in 2005, 2004 and 2003, respectively. Effective January 1, 2004, the Company decided to only provide a subsidy for these benefits for employees who were at least age 40 with at least 5 years of service as of December 31, 2003.

The recognized liabilities for the Company' s defined postretirement benefit plans are as follows:

Reconciliation of Accrued Benefit Cost and Total Amount Recognized

(Millions)	2005	2004
Funded status of the plan	**$(388)**	$(354)
Unrecognized prior service cost	**(8)**	(10)
Unrecognized actuarial loss	**172**	158
Fourth quarter payments	**6**	6
Net amount recognized	**$(218)**	$(200)
Accumulated benefit obligation at September 30,	**$(388)**	$(354)

Weighted average assumptions to determine benefit obligations:

	2005	2004
Discount rates	**5.4 %**	5.75%
Health care cost increase rate:		
Following year	**10.0%**	10.5%
Decreasing to the year 2016	**5 %**	5 %

A one percentage-point change in assumed health care cost trend rates would have the following effects:

	One percentage-point increase	One percentage-point decrease

(Millions)	2005	2004	2005	2004
Increase (decrease) on benefits earned and interest cost for U.S. plans	**$ 1**	$ 1	**$(1)**	$(1)
Increase (decrease) on accumulated postretirement benefit obligation for U.S. plans	**$ 20**	$ 20	**$(18)**	$(17)

NOTE 17 Income Taxes

The components of income tax provision included in the Consolidated Statements of Income on income from continuing operations were as follows:

(Millions)	2005	2004	2003
Current income tax provision:			
U.S. federal	**$864**	$756	$343
U.S. state and local	**97**	12	96
Foreign	**385**	165	265
Total current provision	**$1,346**	$933	$704
Deferred income tax provision (benefit):			
U.S. federal	**$(236)**	$308	$402
U.S. state and local	**(46)**	7	18
Foreign	**(37)**	(103)	(44)
Total deferred provision (benefit)	**$(319)**	$212	$376
Total income tax provision	**$1,027**	$1,145	$1,080

A reconciliation of the U.S. federal statutory rate of 35 percent to the Company' s effective income tax rate for 2005, 2004 and 2003 on continuing operations was as follows:

	2005	2004	2003

Combined tax at U.S. statutory rate	**35.0%**	35.0%	35.0%
Changes in taxes resulting from:			
Tax-preferred investments	**(3.7)**	(4.2)	(4.7)
State and local income taxes	**0.8**	0.3	2.2
Foreign earnings	**(3.4)**	(2.4)	(1.5)
IRS tax settlement	**(4.5)**	(0.5)	–
All other	**–**	1.6	0.6
Effective tax rates	**24.2%**	29.8%	31.6%

Accumulated earnings of certain foreign subsidiaries, which totaled $3.2 billion at December 31, 2005, are intended to be permanently reinvested outside the United States. Accordingly, federal taxes, which would have aggregated approximately $675 million, have not been provided on those earnings.

Deferred income tax provision (benefit) results from differences between assets and liabilities measured for financial reporting and for income tax return purposes. The significant components of deferred tax assets and liabilities related to continuing operations at December 31, 2005 and 2004 are reflected in the following table:

(Millions)	**2005**	**2004**
Deferred tax assets:		
Reserves not yet deducted for tax purposes	**$2,583**	$2,204
Deferred compensation	**156**	49
Deferred cardmember fees	**38**	30
Net unrealized derivatives losses	**–**	62
Other	**105**	148

Gross deferred tax assets	**$2,882**	$2,493
Deferred tax liabilities:		
Depreciation and amortization	**$533**	$415
Deferred revenue	**345**	264
Asset securitizations	**310**	319
Net unrealized securities gains	**88**	191
Net unrealized derivatives gains	**77**	–
Deferred acquisition costs	**43**	41
Other	**216**	249
Gross deferred tax liabilities	**$1,612**	$1,479
Net deferred tax assets	**$1,270**	$1,014

The gross deferred tax assets are shown net of a valuation allowance of $55 million and $28 million at December 31, 2005 and 2004, respectively. The valuation allowance relates to deferred tax assets associated with non-U.S. operations.

Net income taxes paid by the Company (including amounts related to discontinued operations) during 2005, 2004 and 2003 were $1.7 billion, $1.1 billion and $1.2 billion, respectively, and include estimated tax payments and cash settlements relating to prior tax years. The actual tax benefit realized for tax deductions from stock option exercises which are recorded in additional paid-in capital totaled $234 million, $158 million and $60 million, respectively, for the years ended December 31, 2005, 2004 and 2003.

Comprehensive income in the Consolidated Statements of Shareholders' Equity is presented net of the following income tax provision (benefit) amounts:

Comprehensive Income Components

(Millions)	2005	2004	2003
Net unrealized securities losses	**$(103)**	$(92)	$(91)
Net unrealized derivative gains	**139**	152	60
Foreign currency translation gains (losses)	**29**	11	(5)
Minimum pension liability	**(2)**	–	18
Net income tax (benefit) provision	**$63**	$71	$(18)

The table above excludes 2005 activity associated with discontinued operations. Income tax provision (benefit) amounts in 2005 on net unrealized securities gains, net unrealized derivative losses and foreign currency translation adjustments included in accumulated other comprehensive income associated with discontinued operations were ($218) million, $15 million and ($ 8) million, respectively.

NOTE 18 Earnings Per Common Share

Basic EPS is computed using the average actual shares outstanding during the period. Diluted EPS is basic EPS adjusted for the dilutive effect of stock options, RSAs and other financial instruments that may be converted into common shares. The basic and diluted EPS computations for the years ended December 31, are as follows:

(Millions, except per share amounts)	2005	2004	2003
Numerator:			
Income from continuing operations	**$3,221**	$2,686	$2,335
Income from discontinued operations	**513**	830	665
Cumulative effect of accounting change, net of tax	–	(71)	(13)

Net income	**$3,734**	$3,445	$2,987
Denominator:			
Basic: Weighted-average shares outstanding during the period	**1,233**	1,259	1,284
Add: Dilutive effect of stock options, restricted stock awards and other dilutive securities	**25**	26	14
Diluted	**1,258**	1,285	1,298
Basic EPS:			
Income from continuing operations	**$2.61**	$2.13	$1.82
Income from discontinued operations	**0.42**	0.66	0.52
Cumulative effect of accounting change, net of tax	**–**	(0.05)	(0.01)
Net income	**$3.03**	$2.74	$2.33
Diluted EPS:			
Income from continuing operations	**$2.56**	$2.09	$1.80
Income from discontinued operations	**0.41**	0.65	0.51
Cumulative effect of accounting change, net of tax	**–**	(0.06)	(0.01)
Net income	**$2.97**	$2.68	$2.30

For the years ended December 31, 2005, 2004 and 2003, the dilutive effect of stock options excludes 14 million, 13 million and 65 million, respectively, from the computation of diluted EPS because inclusion of the options would have been anti-dilutive. The convertible debentures issued in November 2003 will not affect the computation of EPS unless the Company' s common share price exceeds the base conversion price (currently $60.49 per share as adjusted to reflect the Company' s distribution on September 30, 2005 of 100 percent of the shares of its wholly-owned subsidiary, Ameriprise, to the Company' s shareholders). In that scenario, the Company would reflect the additional common shares in the calculation of diluted earnings per share using the treasury stock method.

The debentures are convertible into our common shares only in limited circumstances, including when the trading price of our common stock for a specified minimum period is more than 125 percent of the base conversion price (currently at or above $75.61). If the entire outstanding amount of debentures were to be converted when our common shares were trading at $75.61, the maximum number of shares the Company would issue, if it chose to settle the entire amount of its conversion obligation above the accreted principal amount of the debentures in shares, would be approximately 26 million shares. The Company is required to settle up to the accreted principal amount of the debentures in cash. The number of shares issuable upon conversion of the debentures will increase as the price of our common shares at the time of conversion increases. Using the current maximum conversion rate, in no event would the Company be required to issue more than 52 million shares upon conversion of the debentures.

NOTE 19 Operating Segments and Geographic Operations

Operating Segments

American Express Company is a leading global payments, network and travel company which is principally engaged in businesses comprising three operating segments: U.S. Card Services, International Card & Global Commercial Services and Global Network & Merchant Services.

U.S. Card Services includes the U.S. proprietary consumer card business, OPEN from American Express, the global Travelers Cheques and Prepaid Services business and the American Express U.S. Consumer Travel Network.

International Card & Global Commercial Services provides proprietary consumer cards and small business cards outside the United States. International Card & Global Commercial Services also offers global corporate products and services, including Corporate Card, issued to individuals through a corporate account established by their employer; Business Travel, which helps businesses manage their travel expenses through a variety of travel-related products and services; and Corporate Purchasing Solutions, addressing a business need to pay for everyday expenses such as office and computer supplies. International Card & Global Commercial Services also includes international banking operations which provide financial products and services to retail customers and wealthy individuals outside the United States and financial institutions around the world.

Global Network & Merchant Services consists of the Merchant Services businesses and Global Network Services. Global Network Services develops and manages relationships with third parties that issue American Express branded cards. The Global Merchant Services businesses develop and manage relationships with merchants that accept American Express branded cards; authorize and record transactions; pay merchants; and provide a variety of value-added point-of-sale and back office services. In addition, in particular emerging markets, issuance of certain proprietary cards is managed within the Global Network Services business. Global Network & Merchant Services works with merchant and bank partners to develop and market product propositions, operate systems that enable third parties to interface with the American Express global network and provide network functions that include operations, service delivery, authorization, clearing, settlement and brand advertising, new product development and marketing.

Corporate & Other consists of corporate functions and auxiliary businesses including, for 2003 and 2004, the leasing product line of the Company' s small business financing unit, American Express Business Finance Corporation, which was sold in 2004.

The following table presents certain information regarding these operating segments, based on management' s evaluation and internal reporting structure, at December 31, 2005, 2004 and 2003 and for each of the years then ended.

(Millions, except where indicated)	U.S. Card Services[(a)]	International Card & Global Commercial Services[(b)]	Global Network & Merchant Services[(c)]	Corporate & Other[(d)]	Consolidated
2005					
Revenues	**$11,949**	**$ 9,038**	**$ 2,842**	**$ 438**	**$ 24,267**
Cardmember lending net finance charge revenue	**1,792**	**684**	**67**	**37**	**2,580**
Interest expense	**548**	**332**	**(150)**	**190**	**920**
Pretax income (loss) from continuing operations	**2,599**	**1,149**	**870**	**(370)**	**4,248**
Income tax provision (benefit)	**765**	**215**	**306**	**(259)**	**1,027**
Income (loss) from continuing operations	**$1,834**	**$ 934**	**$ 564**	**$ (111)**	**$ 3,221**
Total assets (billions)	**$70.3**	**$ 51.7**	**$ 4.5**	**$ (12.5)**	**$ 114.0**
Total equity (billions)	**$5.1**	**$ 4.1**	**$ 1.3**	**$ –**	**$ 10.5**
2004					
Revenues	$10,395	$ 8,429	$ 2,639	$ 501	$ 21,964
Cardmember lending net finance charge revenue	1,370	640	29	185	2,224
Interest expense	453	280	(108)	189	814
Pretax income (loss) from continuing operations	2,140	1,116	904	(329)	3,831
Income tax provision (benefit)	622	335	330	(142)	1,145

Income (loss) from continuing operations	$1,518	$ 781	$ 574	$ (187)	$ 2,686
Total assets (billions)(e)	$58.3	$ 47.9	$ 3.9	$ 84.1	$ 194.2
Total equity (billions)	$4.5	$ 3.8	$ 1.1	$ 6.6	$ 16.0
2003					
Revenues	$9,478	$ 7,405	$ 2,347	$ 319	$ 19,549
Cardmember lending net finance charge revenue	1,271	609	22	140	2,042
Interest expense	571	291	(103)	101	860
Pretax income (loss) from continuing operations	1,956	1,074	766	(381)	3,415
Income tax provision (benefit)	558	359	280	(117)	1,080
Income (loss) from continuing operations	$1,398	$ 715	$ 486	$ (264)	$ 2,335
Total assets (billions)(e)	$53.0	$ 42.3	$ 4.2	$ 76.4	$ 175.9
Total equity (billions)	$3.7	$ 3.4	$ 1.0	$ 7.2	$ 15.3

(a) *U.S. Card Services' 2005 results reflect reengineering charges of $10 million ($7 million after-tax), tax benefits of $29 million, a $123 million ($80 million after-tax) provision for losses recorded in the fourth quarter 2005 reflecting substantially higher losses related to increased bankruptcy filings resulting from the October 17, 2005 change in bankruptcy legislation, and a provision to reflect estimated costs related to Hurricane Katrina of $38 million. 2004 results reflect a reconciliation of securitization-related cardmember loans, which resulted in a charge of $115 million (net of $32 million of reserves previously provided) for balances accumulated over the five-year period as a result of a computational error. The amount of the error was immaterial to any of the periods to which it occurred.*

(b) *International Card & Global Commercial Services' 2005 results reflect reengineering charges of $168 million ($109 million after-tax), tax benefits of $33 million and a provision to reflect estimated costs related to Hurricane Katrina of $9 million. 2004 results reflect restructuring charges of $90 million ($ 59 million after-tax).*

(c) *Global Network & Merchant Services' 2005 results reflect reengineering charges of $3 million ($2 million after-tax), tax benefits of $21 million and a provision to reflect estimated costs related to Hurricane Katrina of $2 million. 2004 results reflect a reduction in merchant-related reserves of approximately $60 million that reflect changes made to mitigate loss exposure and ongoing favorable credit experience with merchants.*

(d) *Corporate & Other 2005 results reflect reengineering charges of $105 million ($68 million after-tax), tax benefits of $159 million and a $73 million ($ 47 million after-tax) benefit related to the settlement of an insurance claim associated with September 11, 2001. 2004* *results reflect a gain of $117 million ($76 million after-tax) on the sale of the leasing product line of the Company's small business financing unit, American Express Business Finance Corporation, and restructuring charges of $9 million ($5 million after-tax).*

(e) *Corporate & Other total assets for 2004 and 2003 include $87.1 billion and $80.2 billion of assets of discontinued operations, respectively.*

Revenues

The Company applies a transfer pricing methodology for the allocation of discount revenue and certain other revenues between segments. Discount revenue is earned by segments based on the volume of merchant business generated by cardmembers at predetermined rates. Within the U.S. Card Services and International Card & Global Commercial Services segments, discount revenue reflects the issuer component of the overall discount rate and within the Global Network & Merchant Services segment, discount revenue reflects the network component of the overall discount rate. Net finance charge revenue and net card fees are directly attributable to the segment in which they are reported.

Expenses

Marketing, promotion, rewards and cardmember services expenses are reflected in each segment based on actual expenses incurred within the segment, with the exception of brand advertising, which is reflected in the Global Network & Merchant Services segment.

The provision for losses reflects credit-related expenses as incurred within each segment.

Human resources and other expenses reflect expenses incurred directly within each segment as well as expenses related to the Company' s support services, which are allocated to each segment based on support service activities directly attributable to the segment. Other overhead expenses are allocated to segments based on each segment' s level of pretax income. Financing requirements are managed on a consolidated basis. Funding costs are allocated to segments based on segment funding requirements.

Capital

Each business segment is allocated capital based on business model operating requirements, risk measures and regulatory capital requirements. Business model requirements include capital needed to support operations and specific balance sheet items. The risk measures include considerations for credit, market and operational risk. Regulatory capital requirements include the capital amounts defined for well-capitalized financial institutions.

Income taxes

Income tax provision (benefit) is allocated to each business segment based on the effective tax rates applicable to various businesses that comprise the segment.

Assets are those that are used or generated exclusively by each industry segment. The adjustments and eliminations required to determine the consolidated amounts shown above consist principally of the elimination of inter-segment amounts.

For certain income statement items that are affected by asset securitizations and to reflect certain tax-exempt investment income as if it had been earned on a taxable basis at U.S. Card Services, data are provided on both a basis consistent with GAAP as presented above, as well as on a managed basis below. In addition, International Card & Global Commercial Services reflects a reclassification of certain foreign exchange services as revenues on a managed basis. Income from continuing operations is the same under both a GAAP and managed basis. See U.S. Card Services and International Card & Global Commercial Services Results of Operations sections of MD&A for managed basis discussions.

(Millions)	U.S. Card Services	International Card & Global Commercial Services	Global Network & Merchant Services	Corporate & Other	Consolidated
2005 Managed Basis					
Revenues	**$13,078**	**$ 9,173**	**$ 2,842**	**$ 438**	**$ 25,531**
Cardmember lending net finance charge revenue	**3,745**	**684**	**67**	**37**	**4,533**
Pretax income (loss) from continuing operations	**2,825**	**1,149**	**870**	**(370)**	**4,474**
Income tax provision (benefit)	**991**	**215**	**306**	**(259)**	**1,253**
2004 Managed Basis					
Revenues	$11,539	$ 8,601	$ 2,639	$ 501	$ 23,280
Cardmember lending net finance charge revenue	3,208	640	29	185	4,062
Pretax income (loss) from continuing operations	2,368	1,116	904	(329)	4,059
Income tax provision (benefit)	850	335	330	(142)	1,373
2003 Managed Basis					
Revenues	$10,649	$ 7,566	$ 2,347	$ 319	$ 20,881
Cardmember lending net finance charge revenue	3,126	609	22	140	3,897
Pretax income (loss) from continuing operations	2,184	1,074	766	(381)	3,643
Income tax provision (benefit)	786	359	280	(117)	1,308

Geographic Operations

The following table presents the Company's revenues and pretax income in different geographic regions:

(Millions)	United States	Europe[a]	Asia/Pacific	All Other	Consolidated
2005					
Revenues	**$ 16,024**	**$ 3,376**	**$ 2,306**	**$ 2,561**	**$ 24,267**
Pretax income from continuing operations	**$ 3,337**	**$ 289**	**$ 310**	**$ 312**	**$ 4,248**
2004					
Revenues	$ 14,551	$ 3,105	$ 2,140	$ 2,168	$ 21,964
Pretax income from continuing operations	$ 2,784	$ 293	$ 286	$ 468	$ 3,831
2003					
Revenues	$ 13,266	$ 2,454	$ 1,855	$ 1,974	$ 19,549
Pretax income from continuing operations	$ 2,418	$ 355	$ 218	$ 424	$ 3,415

(a) Results in Europe are impacted by reengineering initiatives in 2005 and 2004.

Most services of the Company are provided on an integrated worldwide basis. Therefore, it is not practicable to separate precisely the U.S. and international services. Accordingly, the data in the above table are, in part, based upon internal allocations, which necessarily involve management's judgment.

NOTE 20 Transfer of Net Assets from Subsidiaries

Restrictions on the transfer of net assets exist under debt agreements and regulatory requirements of certain of the Company's subsidiaries. These restrictions have not had any effect on the Company's shareholder dividend policy and management does not anticipate any impact in the future.

At December 31, 2005, the aggregate amount of net assets of subsidiaries that may not be transferred to the Parent Company was approximately $6 billion. When needed, procedures exist to transfer net assets between the Company and its subsidiaries, while complying with the various contractual and regulatory constraints.

NOTE 21 Quarterly Financial Data (Unaudited)

(Millions, except per share amounts)	2005 [a]				2004[a]			
Quarters Ended	12/31[b]	9/30[c]	6/30[d]	3/31	12/31[e]	9/30[f]	6/30	3/31[g]
Revenues	**$6,437**	**$6,068**	**$6,090**	**$5,672**	$5,903	$5,476	$5,467	$5,118
Pretax income from continuing operations	**959**	**1,080**	**1,121**	**1,088**	920	1,014	1,008	889
Income from continuing operations	**751**	**865**	**860**	**745**	669	702	706	609
(Loss)/income from discontinued operations, net of tax	**(6)**	**165**	**153**	**201**	227	177	170	256
Net income	**745**	**1,030**	**1,013**	**946**	896	879	876	794
Earnings Per Common Share − Basic:								
Continuing operations	**0.61**	**0.70**	**0.70**	**0.60**	0.54	0.56	0.56	0.48
Discontinued operations	**(0.01)**	**0.14**	**0.12**	**0.16**	0.18	0.14	0.13	0.20
Cumulative effect of accounting change	–	–	–	–	–	–	–	(0.06)
Net income	**0.60**	**0.84**	**0.82**	**0.76**	0.72	0.70	0.69	0.62
Earnings Per Common Share − Diluted:								
Continuing operations	**0.60**	**0.69**	**0.69**	**0.59**	0.53	0.55	0.55	0.47
Discontinued operations	**(0.01)**	**0.13**	**0.12**	**0.16**	0.18	0.14	0.13	0.19
Cumulative effect of accounting change	–	–	–	–	–	–	–	(0.05)
Net income	**0.59**	**0.82**	**0.81**	**0.75**	0.71	0.69	0.68	0.61
Cash dividends declared per common share	**0.12**	**0.12**	**0.12**	**0.12**	0.12	0.12	0.10	0.10

Common share price:								
High	**53.06(h)**	**59.50**	**55.30**	**58.03**	57.05	51.77	52.82	54.50
Low	**46.59(h)**	**52.30**	**49.51**	**50.01**	50.86	47.70	47.32	47.43

(a) *The spin-off of Ameriprise and certain dispositions (including the sale of TBS) were completed in 2005 and the results of these operations are presented as discontinued operations.*

(b) *Fourth quarter 2005 results reflect $123 million ($80 million after-tax) increase in the provision for losses reflecting higher write-offs related to increased bankruptcy filings, a state tax benefit of $60 million related to the finalization of state tax returns and reengineering charges of $65 million ($42 million after-tax).*

(c) *Third quarter 2005 results reflect a tax benefit of $105 million from the resolution of a prior year tax item, reengineering charges of $86 million ($56 million after-tax) and a $49 million ($32 million after-tax) provision to reflect the estimated costs related to Hurricane Katrina.*

(d) *Second quarter 2005 results reflect $113 million ($73 million after-tax) benefit from the recovery of September 11th related insurance claims, a $87 million tax benefit resulting from an IRS audit of previous years' tax returns and reengineering charges of $114 million ($74 million after-tax).*

(e) *Fourth quarter 2004 results reflect aggregate restructuring charges of $99 million ($64 million after-tax) for initiatives executed during 2004. In addition, the Company recognized a $117 million ($76 million after-tax) net gain on the sale of the leasing product line of the Company's small business financing unit, American Express Business Finance Corporation.*

(f) *Third quarter 2004 results reflect a reconciliation of securitization-related cardmember loans, which resulted in a charge of $115 million (net of $32 million of reserves previously provided) for balances accumulated over the prior five year period as a result of a computational error. The amount of the error was immaterial to any of the periods in which it occurred. In addition, third quarter 2004 results reflect a reduction in merchant-related reserves of approximately $60 million that reflect changes made to mitigate loss exposure and ongoing favorable credit experience with merchants.*

(g) *First quarter 2004 results reflect $109 million non-cash pretax charge ($71 million after-tax) related to the January 1, 2004 adoption of SOP 03-1.*

(h) *The market price per share for the fourth quarter 2005 reflects the spin-off of Ameriprise as of September 30, 2005. The opening share price on the first trading day subsequent to the spin-off was $50.75. See Note 2 for additional information on results of discontinued operations.*

NOTE 22 Restructuring Charges

During 2005 and 2004, the Company recorded restructuring charges consisting of employee severance obligations and other exit costs (principally relating to the early termination of certain real property leases). The charges reflect expenses in connection with several initiatives relating principally to the restructuring of the Company’ s business travel and international operations and the relocation of certain functions in the Company’ s finance and technologies operations. The charges related to severance obligations are included in human resources and the other exit costs are included in occupancy and equipment, professional services and other expenses in the Company’ s Consolidated Statements of Income for the years ended December 31, 2005 and 2004. As of December 31, 2005, other liabilities included $107 million related to the aggregate restructuring charges recorded for future cash outlays expected to be paid out prior to the end of 2006. The following tables summarize by category the Company’ s restructuring activity for each of the Company’ s operating segments.

	2004 Restructuring Charges			Cash paid during 2004			Liability balance at December 31, 2004		
(Millions)	Severance	Other	Total	Severance	Other	Total	Severance	Other	Total
U.S. Card Services	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
International Card & Global Commercial Services	71	19	90	8	6	14	63	13	76
Global Network & Merchant Services	–	–	–	–	–	–	–	–	–
Corporate & Other	5	4	9	2	4	6	3	–	3
Total	$ 76	$ 23	$ 99	$ 10	$ 10	$ 20	$ 66	$ 13	$ 79

	Liability balance at December 31, 2004			2005 Restructuring Charges			Cash paid during 2005			Liability balance at December 31, 2005		
(Millions)	Severance	Other	Total	Severance	Other	Total	Severance	Other	Total	Severance	Other	Total
U.S. Card Services	$ –	$ –	$ –	$ 10	$ –	$10	$ 6	$ –	$6	$ 4	$ –	$4
International Card & Global Commercial Services	63	13	76	88	12	100	103	21	124	48	4	52
Global Network & Merchant Services	–	–	–	3	–	3	1	–	1	2	–	2
Corporate & Other	3	–	3	63	17	80	22	12	34	44	5	49
Total	$ 66	$ 13	$ 79	$ 164	$ 29	$193	$ 132	$ 33	$165	$ 98	$ 9	$107

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(Millions, except per share amounts and where indicated)	2005[(a)]	2004[(b)]	2003	2002	2001[(c)]
Operating Results					
Revenues	**$24,267**	$21,964	$19,549	$18,079	$17,710
Expenses	**20,019**	18,133	16,134	15,058	15,973
Income from continuing operations	**3,221**	2,686	2,335	2,142	1,337
Income (loss) from discontinued operations	**513**	830	665	529	(26)
Income before cumulative effect of accounting change	**3,734**	3,516	3,000	2,671	1,311
Net income	**3,734**	3,445	2,987	2,671	1,311
Return on average shareholders' equity[(d)]	**25.4%**	22.0%	20.6%	20.2%	10.8%
Balance Sheet					
Cash and cash equivalents	**$7,126**	$7,808	$3,967	$3,939	$4,542
Accounts receivable and accrued interest, net	**35,497**	32,398	29,394	27,677	27,997
Investments	**21,334**	21,675	19,305	20,272	17,354
Loans, net	**40,801**	34,256	31,706	27,212	25,799
Assets of discontinued operations	–	87,141	80,207	69,242	66,921
Total assets	**113,960**	194,216	175,861	158,299	151,617
Customers' deposits	**24,579**	20,107	20,252	17,252	13,471

Travelers Cheques outstanding	**7,175**	7,287	6,819	6,623	6,190
Short-term debt	**15,633**	14,316	18,983	21,272	31,554
Long-term debt	**30,781**	32,676	20,209	16,188	7,668
Liabilities of discontinued operations	–	80,675	73,193	63,112	61,575
Shareholders' equity	**10,549**	16,020	15,323	13,861	12,037
Common Share Statistics					
Earnings per share:					
Income from continuing operations:					
Basic	**$2.61**	$2.13	$1.82	$1.62	$1.01
Diluted	**$2.56**	$2.09	$1.80	$1.61	$1.00
Income from discontinued operations:					
Basic	**$0.42**	$0.66	$0.52	$0.40	$(0.02)
Diluted	**$0.41**	$0.65	$0.51	$0.40	$(0.02)
Cumulative effect of accounting change, net of tax					
Basic	–	$(0.05)	$(0.01)	–	–
Diluted	–	$(0.06)	$(0.01)	–	–
Net income:					

Basic	**$3.03**	$2.74	$2.33	$2.02	$0.99
Diluted	**$2.97**	$2.68	$2.30	$2.01	$0.98
Cash dividends declared per share	**$0.48**	$0.44	$0.38	$0.32	$0.32
Book value per share:					
Actual	**$8.50**	$12.83	$11.93	$10.63	$9.05
Market price per share[e]:					
High	**$59.50**	$57.05	$49.11	$44.91	$57.06
Low	**$47.01**	$47.32	$30.90	$26.55	$24.20
Close	**$51.46**	$56.37	$48.23	$35.35	$35.69
Average common shares outstanding for earnings per share:					
Basic	**1,233**	1,259	1,284	1,320	1,324
Diluted	**1,258**	1,285	1,298	1,330	1,336
Shares outstanding at period end	**1,241**	1,249	1,284	1,305	1,331
Other Statistics					
Number of employees at period end (thousands):					
United States	**29**	41	42	41	49
Outside United States	**37**	37	36	35	35

Total(f)	**66**	78	78	76	84
Number of shareholders of record	**55,409**	50,394	47,967	51,061	52,041

(a) *In 2005, the spin-off of Ameriprise and certain dispositions (including the sale of TBS) were completed and the results of these operations are presented as discontinued operations. Results for 2005 reflect reengineering charges of $286 million ($186 million after-tax) for initiatives executed during 2005, $242 million of tax benefits, a $123 million ($80 million after-tax) increase in the provision for losses recorded in the fourth quarter 2005, reflecting substantially higher losses related to increased bankruptcy filings resulting from the October 17, 2005 change in bankruptcy legislation, a $113 million ($73 million after-tax) benefit from the recovery of September 11th related insurance claims and a $49 million ($32 million after-tax) provision to reflect the estimated costs related to Hurricane Katrina.*

(b) *Results for 2004 reflect restructuring charges of $99 million ($64 million after-tax) for initiatives executed during 2004. In addition, the Company recognized a $117 million ($76 million after-tax) net gain on the sale of the leasing product line of the Company's small business financing unit, American Express Business Finance Corporation, a charge of $115 million (net of $32 million of reserves previously provided) related to a reconciliation of securitization-related cardmember loans and a reduction in merchant-related reserves of approximately $60 million that reflect changes made to mitigate loss exposure and ongoing favorable credit experience with merchants.*

(c) *Results for 2001 include restructuring charges of $524 million pretax ($341 million after-tax) and the one-time adverse impact from the September 11th terrorist attacks of $98 million pretax ($65 million after-tax).*

(d) *Computed on a trailing 12-month basis using total shareholders' equity as included in the Consolidated Financial Statements prepared in accordance with GAAP.*

(e) *The market price per share for the fourth quarter 2005 reflects the spin-off of Ameriprise as of September 30, 2005. The opening share price on the first trading day subsequent to the spin-off was $50.75. See Note 2 for additional information on results of discontinued operations.*

(f) *Years prior to 2005 include employees from discontinued operations.*

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Unless otherwise indicated, all of the voting securities of these subsidiaries are directly or indirectly owned by the registrant. Where the name of the subsidiary is indented, the voting securities of such subsidiary are owned directly by the company under which its name is indented.

Name of Subsidiary	Jurisdiction of Incorporation
I. American Express Travel Related Services Company, Inc. and its Subsidiaries	
American Express Travel Related Services Company, Inc.	New York
Amex Canada Inc.	Canada
1001675 Ontario Inc.	Canada
1001674 Ontario Inc.	Canada
Rexport, Inc.	Canada
Amex Bank of Canada	Canada
Sourcing Innovation, Inc.	Canada
American Express Company (Mexico) S.A. de C.V.	Mexico
American Express Servicios Profesionales, S.A. de C.V.	Mexico
American Express Bank, FSB	Utah
American Express Receivables Financing Corporation IV LLC	Delaware
American Express Receivables Financing Corporation VII LLC	Delaware

American Express Centurion Bank	Utah
American Express Centurion Services Corporation	Delaware
American Express Receivables Financing Corporation III LLC	Delaware
American Express Receivables Financing Corporation VI LLC	Delaware
American Express Credit Corporation	Delaware
American Express Australia	Australia
American Express Euro Funding Limited Partnership	Scotland
American Express Sterling Funding Limited Partnership	Scotland
American Express Funding (Luxembourg) Sarl	Luxembourg
American Express Overseas Credit Corporation Limited	Jersey, Channel Islands
AEOCC Management Company, Ltd.	Jersey, Channel Islands
American Express Overseas Credit Corporation N.V.	Netherlands Antilles
Amex Finance (Luxembourg) Sarl	Luxembourg
Credco Receivables Corp.	Delaware
Credco Finance, Inc.	Delaware
American Express Canada Credit Corporation	Canada
American Express Canada Finance Limited	Canada

American Express Receivables Financing Corporation	Delaware
American Express Receivables Financing Corporation II	Delaware
American Express Receivables Financing Corporation V LLC	Delaware
American Express do Brasil Tempo & Cia, Inc.	Delaware
Amex Latin American Holdings S.L.	Spain
American Express Brasil S.A.	Brazil
Banco American Express S.A.	Brazil
American Express do Brasil Tempo Ltda.	Brazil
American Express Corretagem de Seguros Ltda.	Brazil
American Express Viagens e Turismo Ltda.	Brazil
Swiss Branch	Switzerland
American Express Limited	Delaware
American Express (Malaysia) Sdn. Bhd.	Malaysia
American Express (Thai) Co. Ltd. (78% owned)	Thailand
TRS Card International Inc.	Delaware
American Express de Espana, S.A.U.	Spain
Amex Asesores de Seguros S.A.U.	Spain

American Express Entidad Financiera de Credito S.A.U.	Spain
American Express Foreign Exchange S.A.U.	Spain
American Express Viajes, S.A.U.	Spain
American Express International (B) SDN.BHD.	Brunei
American Express International Holdings, LLC	Delaware

South Pacific Credit Card Ltd.	New Zealand
Centurion Finance, Ltd.	New Zealand
American Express Argentina, S.A.	Argentina
American Express Holdings (France) SAS	France
American Express France SAS	France
American Express Carte France, S.A.	France
American Express (Paris) SAS	France
American Express Assurances	France
American Express Services S. A.	France
American Express Voyages d’ Affaires SAS	France
American Express Change SAS	France
American Express International, Inc.	Delaware
Swisscard AECS AG (50% owned)	Switzerland
American Express Hungary KFT	Hungary
American Express Hungary Rt.	Hungary
American Express Company A/S	Norway
American Express Denmark A/S	Denmark

American Express Locazioni Finanziarie, S.r.l.	Italy
Amex Broker Assicurativo S.r.l.	Italy
American Express International A.E.(Greece)(99% owned)	Greece
American Express International (Taiwan), Inc.	Taiwan
American Express Travel Holdings (Hong Kong) Limited	Hong Kong
ACS AllCard Service GmbH	Germany
American Express Bureau de Change S.A.	Greece
AE Exposure Management Limited	Jersey, Channel Islands
American Express Poland S.A.	Poland
Sociedad Internacional de Servicios de Panama, S.A.	Panama
American Express Business Solutions Co. Ltd.	Japan
American Express International Services	Russia
Amex Marketing Japan Limited	Delaware
American Express (India) Private Ltd.	India
P.T. American Express Travel Indonesia (80% owned)	Indonesia
American Express spol. s.r.o.	Czech Republic
Amex Travel Holding (Japan) Ltd.	Japan

American Express Nippon Travel Agency, Inc. (55% owned)	Japan
Amex Pre-Paid Card Y.K. Japan	Japan
Schenker Rhenus Reisen Verwaltungsgesellschaft mbH	Germany
American Express Holding AB	Sweden
Resespecialisterna Syd AB	Sweden
Forsakringsaktiebolaget Viator	Sweden
Nyman & Schultz AB	Sweden
Nyman & Schultz Corporate Card AB	Sweden
Profil Reiser A/S (50% owned)	Denmark
American Express Corporate Travel AS	Norway
American Express Corporate Travel A/S	Denmark
American Express Services India Limited (99.99% owned)	India
American Express Foreign Exchange Services India Limited	India
Mackinnons American Express Travel (Private) Limited (30% owned)	Sri Lanka
American Express Superannuation Pty Limited	Australia
American Express Wholesale Currency Services Pty. Limited	Australia
American Express s.r.o.	Slovakia

American Express Corporate Travel SA	Belgium
American Express Corporate Travel SA	Luxembourg
American Express Australia Limited	Australia
American Express Holdings Limited	England
American Express Services Europe Limited	England & Wales
Uvet American Express Corporate Travel S.p. (35% owned)	Italy
ICONCARD S.p.a. (50% owned)	Italy
Immobiliare Spagna & Mignanelli S.r.l. (11.42% owned)	Italy
American Express Travel Related Services Pakistan (Private) Limited	Pakistan
Amex Life Insurance Marketing, Inc.	Taiwan
Amex General Insurance Agency, Inc.	Taiwan
American Express Publishing Corporation	New York
Travellers Cheque Associates, Limited (54% owned)	England & Wales
Bansamex S.A. (50% owned)	Spain
Amex (Middle East) B.S.C. (50% owned)	Bahrain
ASAL (American Express Saudi Arabia) (25% owned)	Bahrain
American Express Europe Limited	Delaware

	Delaware
American Express France Holdings I LLC	

American Express Management SNC	France
American Express France Finance SNC	France
American Express France Holdings II LLC	Delaware
American Express Insurance Services, Ltd.	England & Wales
Cardmember Financial Services, Ltd.	Jersey, Channel Islands
Integrated Travel Systems, Inc.	Texas
American Express Bank (Mexico), S.A.	Mexico
American Express Bank Services, S.A. de C.V.	Mexico
American Express Incentive Services, Inc.	Delaware
American Express Incentive Services, LLC (49% owned)	Missouri
American Express International (NZ), Inc.	Delaware
Cavendish Holdings, Inc.	Delaware
American Express Business Loan Corporation	Utah
Golden Bear Travel, Inc.	Delaware
Travel Impressions, Ltd.	Delaware
American Express Global Financial Services, Inc.	Delaware
Sharepeople Group Limited	England

American Express Financial Services Europe Limited	England
American Express Insurance Services Europe Limited	England
American Express Travel Holdings (M) Company SDN	Malaysia
Mayflower American Express Travel Services SDN BHD	Malaysia
Ketera Technologies, Inc. (20% owned)	Delaware
Amex Card Services Company	Delaware
Belgium Travel	Belgium
Alpha Card SCRL (50% owned)	Belgium
Alpha Card Merchant Services SCRL (12.5% owned)	Belgium
South African Travellers Cheque Company (Pty) Ltd.	South Africa
BOA Finance Company, Ltd.	Thailand
American Express (China) Ltd.	Delaware
Farrington American Express Travel Services Limited (37% owned)	Hong Kong
American Express Insurance Agency of Puerto Rico, Inc.	Puerto Rico
American Express Travel (Singapore) PTE Ltd.	Singapore
Eclipse Advisors, Inc.	Delaware
American Express Marketing & Development Corp.	Delaware

American Express Insurance Services Agente de Seguros SA de CV	Mexico
Rosenbluth International (Russia) Ltd.	Pennsylvania
Rosenbluth Holding Company	Russia
Rosenbluth International Travel, Ltd.	Russia
Rosenbluth France Holdings, S.A.R.I.	France
Rosenbluth International France, S.A.R.I.	France
Travel Management Investments Ltd. U.K.	England
Rosenbluth International U.K. Limited	England
Travel Elite Limited U.K.	England
Rosenbluth International Hong Kong Ltd.	Hong Kong
Rosenbluth International Mexico	Mexico
Rosenbluth International Netherlands B.V.	The Netherlands
Rosenbluth International B.V.	The Netherlands
Rosenbluth Germany GMBH	Germany
Rosenbluth International GMBH	Germany
Rosenbluth International Reisebur GMBH Austria	Austria
Rosenbluth International Limited	Pennsylvania

Rosenbluth International Ireland Limited	Ireland
Rosenbluth International (Israel) Ltd.	Israel
II. American Express Banking Corp. and its Subsidiaries	
American Express Banking Corp.	New York
American Express Bank Ltd.	Connecticut
Amex Holdings, Inc.	Delaware
Amex Cyber International Ltd.	British Virgin Islands
American Express Bank GmbH	Germany
American Express FinanzManagement GmbH	Germany
AEB - International Portfolios Management Company	Luxembourg
Egyptian American Bank (40.8% owned)	Egypt
American Express Bank (Switzerland) S.A.	Switzerland
Amex International Trust (Guernsey) Limited	Guernsey, Channel Islands
Birdsong Limited	Guernsey, Channel Islands
Songbird Limited	Guernsey, Channel Islands

AITG Corporate Secretaries Li mited

Guernsey, Channel Islands

Nominees One Limited

Guernsey, Channel Islands

Nominees Two Limited

Guernsey, Channel Islands

American Express Bank Asset Management (Cayman) Limited

Cayman Islands

American Express Bank Asset Management Company (Luxembourg) S.A.

Luxembourg
Luxembourg

American Express Bank (Luxembourg) S.A.

Luxembourg

American Express Financial Services (Luxembourg) S.A.

Cayman Islands

Amex International Trust (Cayman) Ltd.

Vesey Limited

Cayman Islands

Global Nominees Limited

Cayman Islands
United States

American Express Bank International

Florida

American Express International Securities, Inc.

Argentamex S.A.

Argentina

Amex Nominees (S) Pte Ltd.

Singapore

Amex Bank Nominee Hong Kong Limited

Hong Kong

First International Investment Bank Ltd. (20% owned)

Pakistan

Inveramex Chile Ltda.

Chile

Amex Immobiliaria Ltda.(99% owned)	Chile
American Express Bank Ltd., S.A.	Argentina
American Express Bank Philippines (A Savings Bank), Inc.	Philippines
AEB Global Trading Investments, Ltd.	British Virgin Islands
American Express International Deposit Company	Cayman Islands
American Express Bank (Brasil) Banco Multiplo S.A.	Brazil
Imagra Imobiliaria E Agricola Ltda.	Brazil
Inter American Express Overseas Ltd.	Brazil
Inter American Express Consultoria E Servicos Ltda.	Brazil
Bankpar Participacoes Ltda.	Brazil
Inter American Express Arrendamento Mercantil S.A.	Brazil
Capital Promotora de Vendas Ltda.	Brazil
The American Express Nominees Limited (95% owned)	England & Wales
AEBL Uruguay Limited	Uruguay
Inter American Express Overseas Ltd.	Bahamas
American Express Bank LLC	Russia

III. Other Subsidiaries of the Registrant

Ainwick Corporation	Texas
American Express Asset Management Holdings, Inc.	Delaware
American Express Investment Management Ltd.	Cayman Island
Amexco Insurance Company	Vermont
checks-on-line, Inc.	Delaware
National Express Company, Inc.	New York
The Balcor Company Holdings, Inc.	Delaware
The Balcor Company	Delaware
International Capital Corp.	Delaware
Intercapital Comercio e Participacoes Ltda.	Brazil
Conepar Compania Nordestina de Participacoes S.A. (37% owned)	Brazil
Acamex Holdings, Inc.	Cayman Islands
Etisa Holdings Ltd.	Cayman Islands
Empresas Turisticas Integradas, S.A. de C.V. (95% owned)	Mexico
Floriano Representacoes Ltda.	Brazil
International Capital Corp. (Ltd.) Cayman	Cayman Islands
Rexport, Inc.	Delaware

Drillamex, Inc.	Delaware
UMPAWAUG I Corporation	Delaware
UMPAWAUG II Corporation	Delaware
UMPAWAUG III Corporation	Delaware
UMPAWAUG IV Corporation	Delaware
56th Street AXP Campus LLC (AZ)	Arizona
FRC West Property L.L.C.	Arizona

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements (Form S-8 No. 2-46918, No. 2-59230, No. 2-64285, No. 2-73954, No. 2-89680, No. 33-01771, No. 33-02980, No. 33-28721, No. 33-33552, No. 33-36442, No. 33-48629, No. 33-62124, No. 33-65008, No. 33-53801, No. 333-12683, No. 333-41779, No. 333-52699, No. 333-73111, No. 333-38238, and No. 333-98479; Form S-3 No. 2-89469, No. 33-43268, No. 33-50997, No. 333-32525, No. 333-45445, No. 333-47085, No. 333-55761, No. 333-51828, No. 333-113768, and No. 333-117835) of American Express Company of our report dated February 27, 2006, relating to the consolidated financial statements, management' s assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 27, 2006, relating to the financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 27, 2006

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report on Form 10-K of American Express Company of our reports dated February 18, 2005, except for notes 2 and 19, as to which the date is February 27, 2006, with respect to the consolidated financial statements of American Express Company, included in the 2005 Annual Report to Shareholders of American Express Company (the "Company").

Our audits also included the financial statement schedules of American Express Company listed in Item 15(a). These schedules are the responsibility of the Company' s management. Our responsibility is to express an opinion based on our audits. In our opinion the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 No. 2-46918, No. 2-59230, No. 2-64285, No. 2-73954, No. 2-89680, No. 33-01771, No. 33-02980, No. 33-28721, No. 33-33552, No. 33-36442, No. 33-48629, No. 33-62124, No. 33-65008, No. 33-53801, No. 333-12683, No. 333-41779, No. 333-52699, No. 333-73111, No. 333-38238, and No. 333-98479; Form S-3 No. 2-89469, No. 33-43268, No. 33-50997, No. 333-32525, No. 333-45445, No. 333-47085, No. 333-55761, No. 333-51828, No. 333-113768, and No. 333-117835) and in the related Prospectuses of our report dated February 18, 2005, except for notes 2 and 19, as to which the date is February 27, 2006, with respect to the consolidated financial statements of American Express Company incorporated herein by reference, and our report in the preceding paragraph with respect to the financial statement schedules of American Express Company included in this Annual Report on Form 10-K of American Express Company.

/s/ Ernst & Young LLP

New York, New York
February 27, 2006

EXHIBIT 31.1

CERTIFICATION

I, Kenneth I. Chenault, certify that:

1. I have reviewed this annual report on Form 10-K of American Express Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’ s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’ s internal control over financial reporting.

Date: March 6, 2006

/s/ Kenneth I. Chenault

Kenneth I. Chenault

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Gary L. Crittenden, certify that:

1. I have reviewed this annual report on Form 10-K of American Express Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: March 6, 2006

/s/ Gary L. Crittenden

Gary L. Crittenden

Chief Financial Officer

EXHIBIT 32.1

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of American Express Company (the "Company") for the fiscal year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kenneth I. Chenault, as Chief Executive Officer of the Company, and Gary L. Crittenden, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth I. Chenault

Name: Kenneth I. Chenault
Title: Chief Executive Officer
Date: March 6, 2006

/s/ Gary L. Crittenden

Name: Gary L. Crittenden
Title: Chief Financial Officer
Date: March 6, 2006

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being "filed" as part of the Form 10-K or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

American Express Company
Three World Financial Center
200 Vesey Street
New York, New York 10285

March 6, 2006

Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: American Express Company
Annual Report on Form 10-K

Ladies and Gentlemen:

On behalf of American Express Company (the "Company"), and pursuant to the Securities Exchange Act of 1934, as amended, I am hereby electronically filing the Company' s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, including all exhibits.

In accordance with Instruction D.(3) of the General Instructions to Form 10-K, please note that the financial statements contained in the enclosed report reflect:

Discontinued operations presentation of the Company' s wholly owned subsidiary, Ameriprise Financial, Inc, which was spun-off to shareholders, and certain other dispositions;

A realigned segment presentation to reflect the spin-off of Ameriprise, resulting in the following new segments: U.S. Card Services, International Card & Global Commercial Services, Global Network & Merchant Services, and Corporate & Other; and

Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), under which the Company adopted the fair value recognition provisions for stock-based awards using the modified prospective application as of July 1, 2005.

Very truly yours,

/s/ Harold E. Schwartz
Harold E. Schwartz
Group Counsel