



American Express Bank Ltd.  
200 Vesey Street  
New York, NY 10285

# 2001

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American Express Bank  
Annual Report



# Financial Highlights

(Millions, except percentage amounts)	2001	2000
<b>FOR THE YEAR</b>		
Net (loss) income	\$ (10)	\$ 29
Net income, excluding restructuring charge	55	29
Return on average assets*	(0.09%)	0.26%
Return on average common equity*	(1.52%)	4.50%
<b>AT YEAR-END</b>		
Securities	\$ 3,044	\$ 2,518
Loans	4,771	5,343
Total assets	11,563	11,539
Customers' deposits	8,483	7,954
Long-term debt	215	530
Shareholder's equity	766	756
Risk-based capital ratios:		
Tier 1	11.1%	10.1%
Total	12.2%	11.4%
Leverage ratio	5.3%	5.9%

\*ROA and ROE are calculated excluding the effect of SFAS No. 115 and SFAS No. 133.  
Excluding restructuring charges, ROA and ROE for 2001 were 0.49% and 8.24%, respectively.

American Express Bank Ltd.  
200 Vesey Street  
New York, NY 10285

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Finance and Public Affairs and Communications Departments

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# President's Letter



**In our growth businesses,  
we saw payment volumes  
in our Financial Institu-  
tions Group grow to record  
levels and non-credit  
fees from the payments  
business increase by 23  
percent.**

*W. Richard Holmes  
President and  
Chief Executive Officer*

2001 was an exceptional year for American Express Bank both in terms of challenges faced and results accomplished.

The year began with a slowing economy in the U.S. and depressed equity markets. By mid-year, weakness had spread to key markets in Asia and Latin America as business and consumer confidence waned. The terrorist attacks of September 11 took a further toll on the economy and affected our own operations in New York, forcing us to relocate to backup facilities in New Jersey.

Despite all of this, we made good progress on a number of fronts, most notably in terms of improving financial performance and in preparing AEB for accelerated growth in the future.

In our growth businesses, we saw payment volumes in our Financial Institutions Group (FIG) grow to record levels and non-credit fees from the payments business increase by 23 percent. Client volumes in Personal Financial Services (PFS) grew by 9 percent, and in the Private Bank, client holdings rose 19 percent, with 2001 being a record year for trust and estate planning. The Private Bank's client holdings stood at \$12.4 billion at year-end.

Keeping client needs foremost in mind, our Global Investment Services product group moved quickly into the market with new and innovative products designed to help our clients better deal with uncertain markets. Our Financial Markets Services group restructured its operations to focus much more closely on our client-driven trading business. And we continued to closely integrate more of our operations with those of other American Express units outside the U.S.

Finally, we accelerated our business transformation efforts by taking \$96 million in restructuring charges on a pretax basis. A key element here is a continuing strategic shift designed to substantially eliminate our reliance on corporate lending clients while intensifying our focus on wealthy and affluent individuals and financial institutions.

Evidence of this shift can be found in our loan portfolio. At year-end, we had less than \$1 billion in corporate loans, down from \$3.1 billion in 1997. During the same period, our PFS and Private Bank loans grew to \$2.6 billion from \$1.4 billion and now represent 55 percent of total loans, up from 22 percent.

While we ended up ahead of where we expected to be at year-end, given the restructuring charges we took, we reported a net loss of \$10 million in 2001, compared with net income of \$29 million in 2000. Excluding restructuring charges, AEB's net income would have been \$55 million, up 90 percent from the prior year. Despite the deterioration in many economies around the world, nonperforming loans at AEB have been well controlled.

Excluding provisions for credit losses and restructuring, revenue increased 6 percent driven by higher net interest income, as well as higher foreign exchange and other revenue. These improvements were partially offset by lower lending-related commissions and fees. Our results also benefited from lower funding costs and lower operating expenses that resulted from ongoing re-engineering efforts. However, these benefits were offset in part by higher provisions for losses, primarily due to higher personal loan volumes.

**Our Private Bank, which meets the needs of high net worth individuals outside the U.S., is a major distributor of American Express investment products, expanding its product offerings with additional alternative investments in 2001.**

With the progress we made in 2001, we are in a much better position to grow, especially in areas where we can leverage the capabilities of other American Express units. The objective is to provide our clients with a more comprehensive set of American Express products for their personal and institutional needs.

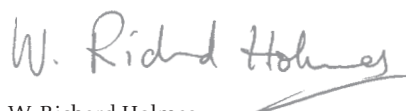
One of the most notable examples of this closer integration is the continued expansion in the distribution of American Express mutual funds through financial institutions. Due to the strength of FIG's institutional relationships, we signed more than 50 distribution agreements in 2001, including our first in Hong Kong. Under such agreements, banks and other institutions make our funds available via their branch networks or online to retail clients or through their sales forces to institutional clients. By partnering, American Express gains distribution for asset management without having to build networks of its own.

Our Private Bank, which meets the needs of high net worth individuals outside the U.S., is a major distributor of American Express investment products, expanding its product offerings with additional alternative investments in 2001. Private Bank clients have access to the exclusive American Express Centurion Card® and Platinum Card®. We also continued to work closely with the Travelers Cheque Group to structure comprehensive deals that combine correspondent banking services such as payments and clearing with sales of American Express® Travelers Cheques. And our PFS unit, which provides financial services directly to affluent individuals through direct channels, strengthened its ties with our Card business

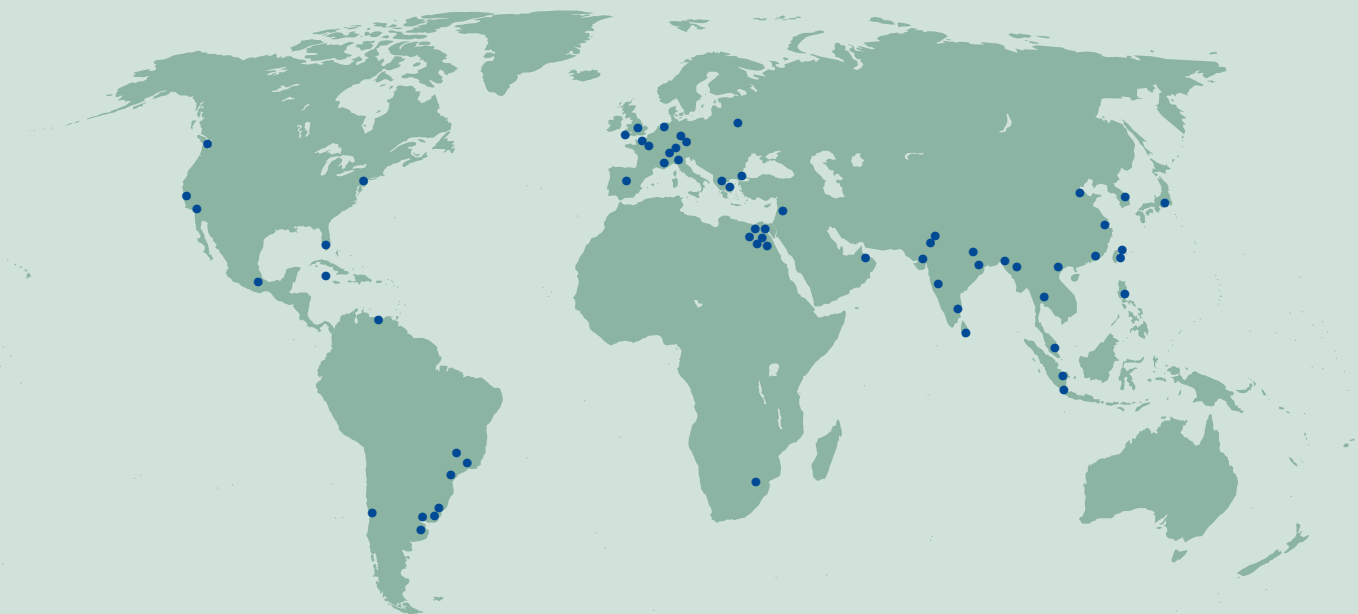
outside the U.S. through cross-marketing and the sharing of operations infrastructure. At year-end, over 55 percent of PFS customers also were American Express Cardmembers.

Finally, I would like to highlight the outstanding achievements of our employees in 2001. Their dedication and sacrifice during and immediately after the events of September 11 were truly outstanding. Although we lost our Western Hemisphere Operations Center at 7 World Trade Center that day, we safely vacated it and our headquarters and were able to process essentially all of the payments pending that morning at a backup site in New Jersey. Supporting this effort were professionals in 42 countries who worked around the clock to maintain service and meet the needs of our clients during this incredibly difficult period.

As we plan for the move back to lower Manhattan later this year, we'll certainly remember 2001, a year that was without precedent. We weathered the events and are stronger for it. We see the years ahead as holding great promise for American Express Bank, our clients and our employees, and we look forward to doing all that we can to turn these opportunities into reality.



W. Richard Holmes  
President and Chief Executive Officer  
American Express Bank  
March 15, 2002



Argentina Buenos Aires (54) 11 4312 9034	Cayman Islands George Town (1) 345 949 8806	Port Said (20) 66 341 088 Zamalek (20) 2 738 2118	Indonesia Jakarta (62) 21 521 6000 Surabaya (62) 31 535 2888	Monaco Monte Carlo (377) 97 97 32 32	Spain Madrid (34) 917 437 483	United Kingdom London (44) 20 7 824 6000 Brighton (44) 1273 693 555 Poole (44) 20 7 824 6000
Austria Vienna (43) 1 515 670	Channel Islands Guernsey (44) 1481 721787	France Paris (33) 1 47 14 50 00	Italy Milan (39) 02 77901	Nepal Kathmandu (977) 1 257616	Sri Lanka Colombo (94) 1 682787	
Bangladesh Dhaka (880) 2 956 1751 Chittagong (880) 31 714 905/8	Chile Santiago (56) 2 350 6700	Germany Frankfurt (49) 69 9797 0	Japan Tokyo (81) 3 3220 6900	Pakistan Karachi (92) 21 263 0343 Clifton, Karachi (92) 21 583 2011 Islamabad (92) 51 282 7053/55 Lahore (92) 42 920 1097	Switzerland Geneva (41) 22 319 08 08	United States New York (1) 973 368 6200 (After August 31, 2002: 212 640 2000) Los Angeles (1) 310 203 1923 Miami (1) 305 350 7750 San Francisco (1) 415 227 2709
Brazil São Paulo (55) 11 3168 5777 Banco Inter American Express (55) 11 3030 3000 Belo Horizonte Banco Inter American Express (55) 31 3 261 8381 Porto Alegre Banco Inter American Express (55) 51 3 328 1694 Rio de Janeiro Banco Inter American Express (55) 21 2 554 7345	China Hong Kong (SAR) (852) 2 844 0688 Beijing (86) 10 6505 2838 Shanghai (86) 21 5396 6611	Greece Athens (30) 10 322 4061 5 Maroussi (30) 10 682 0191 4 Glyfada (30) 10 894 3530 Piraeus (30) 10 429 5120	Korea Seoul (82) 2 399 2929	Philippines Manila (63) 2 818 6731/33	Taiwan Taipei (886) 2 2715 1581 Kaohsiung (886) 7 272 1011	
	Egypt Cairo (20) 2 760 8228 Egyptian American Bank (20) 2 738 2994 Alexandria (20) 3 495 0918 Giza (20) 2 571 2948 Heliopolis (20) 2 290 9528	India Mumbai (91) 22 232 1000 Calcutta (91) 33 248 6281/84 Chennai (91) 44 852 4313/ 4320 New Delhi (91) 11 332 7602/ 3999	Lebanon Beirut (961) 1 987 722	Romania Bucharest (40) 1 310 42 62	Thailand Bangkok (66) 2 273 0066	
Canada Vancouver (1) 604 691 7708		Indonesia Jakarta (62) 21 521 6000 Surabaya (62) 31 535 2888	Luxembourg Luxembourg (352) 24 1891	Russia Moscow (7) 095 933 8448	Turkey Istanbul (90) 212 275 95 26	Uruguay Montevideo (598) 2 916 0000 Punta del Este (598) 42 44 2004
			Malaysia Kuala Lumpur (60) 3 2050 0130	Singapore Singapore (65) 6 538 4833	United Arab Emirates Dubai (971) 4 397 5000	Venezuela Caracas (58) 212 991-5122/ 5844
			Mexico Mexico City (52) 55 5488 3840	South Africa Johannesburg (27) 11 403 0052	Vietnam Hanoi (84) 4 824 3214	

# Worldwide Service

# 2001

*Operating Highlights*

## *Lines of Business and Services*

<b>Financial Institutions Group</b>	<ul style="list-style-type: none"> <li>Mutual Funds Distribution</li> <li>Payment Products</li> <li>Cash Management</li> <li>Check Clearing</li> <li>Letters of Credit</li> <li>Bankers' Acceptances</li> <li>Export Finance</li> <li>Reimbursements</li> <li>Documentary Collections</li> </ul>	<p>Fee-based services such as payments, check clearing and letter of credit reimbursements continued to produce growth. Thanks to strong institutional relationships, Financial Institutions Group also signed more than 50 distribution agreements for American Express mutual funds, including AEB's first in Hong Kong.</p>
<b>The Private Bank</b>	<ul style="list-style-type: none"> <li>Discretionary Asset Management</li> <li>Mutual Funds Distribution</li> <li>Alternative Funds</li> <li>Capital Protection Products</li> <li>Deposits</li> <li>Trust and Estate Planning</li> <li>Secured Lending</li> <li>The American Express® Card</li> <li>Global Trading Products</li> </ul>	<p>Client holdings grew by 19 percent despite weakness in equity markets around the world, helped by the performance of our mutual funds and a larger relationship manager force.</p>
<b>Personal Financial Services</b>	<ul style="list-style-type: none"> <li>Mutual Funds Distribution</li> <li>Money Market Funds</li> <li>Savings</li> <li>Deposits</li> <li>Mortgages</li> <li>Installment Loans</li> <li>Insurance</li> <li>Lines of Credit</li> <li>Direct Banking</li> <li>The American Express® Card</li> </ul>	<p>New products helped produce a 9 percent increase in client volume. Among the new offerings: the first of its kind cash management account in India, insurance and savings products in Hong Kong, and an array of new credit products in Taiwan.</p>
<b>Financial Markets Services</b>	<ul style="list-style-type: none"> <li>Capital Markets Products</li> <li>Treasury Products</li> <li>Foreign Exchange</li> <li>Derivatives</li> </ul>	<p>The group, which restructured to focus exclusively on client-driven business, continued to provide superior risk management products and services to the customers of the Financial Institutions Group, the Private Bank and Personal Financial Services lines of business.</p>
<b>Global Investment Services</b>	<ul style="list-style-type: none"> <li>Discretionary Asset Management</li> <li>Mutual Funds Management</li> <li>Alternative Funds</li> <li>Capital Protection Products</li> </ul>	<p>Global Investment Services (GIS) provides products to AEB clients through AEB's three lines of business: the Financial Institutions Group, the Private Bank and Personal Financial Services. Anticipating client needs, GIS launched a number of alternative investment products in 2001 to help clients better deal with more volatile financial markets.</p>

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## Consolidated Statements of Operations

Year ended December 31, (Millions)	2001	2000	1999
Interest income:			
Loans	\$356	\$415	\$412
Securities	186	195	199
Deposits with banks	102	122	120
Total	644	732	731
Interest expense:			
Deposits	304	398	359
Short-term borrowings	35	17	19
Long-term debt	27	40	37
Total	366	455	415
Net interest expense from related party transactions	18	27	23
Net interest income	260	250	293
Provision for credit losses:			
Ongoing	50	31	31
Restructuring related	26	—	—
Net interest income after provision for credit losses	184	219	262
Noninterest income:			
Commissions, fees and other revenues	351	311	308
Foreign exchange income	76	87	72
Total	427	398	380
Net financial revenues	611	617	642
Noninterest expenses:			
Salaries and employee benefits	264	274	288
Net occupancy and equipment	75	95	105
Professional fees	52	55	65
Travel and entertainment	20	22	24
Communications	12	12	15
Marketing and promotion	23	29	31
Other	104	96	87
Restructuring charge	70	—	—
Total	620	583	615
(Loss) income before income taxes	(9)	34	27
Income tax provision	1	5	5
Net (loss) income	\$ (10)	\$ 29	\$ 22

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Balance Sheets

December 31, (Millions)	2001	2000
<b>Assets</b>		
Cash and noninterest-earning deposits with banks	\$ 436	\$ 284
Interest-earning deposits with banks	1,583	1,831
Federal funds sold	206	63
Trading assets	223	418
Securities:		
Available-for-sale – at fair value	3,044	2,513
Held-to-maturity – at cost	—	5
Loans	4,771	5,343
Reserve for loan losses	(119)	(137)
Customers' acceptance liability	59	88
Due from Amexco and subsidiaries	258	131
Accrued interest and other receivables	259	360
Land, buildings and equipment, net of accumulated depreciation and amortization (2001, \$146; 2000, \$139)	125	107
Other assets	718	533
	<b>\$11,563</b>	<b>\$11,539</b>
<b>Liabilities and Shareholder's Equity</b>		
Customers' deposits:		
Noninterest bearing	\$ 796	\$ 781
Interest bearing	7,687	7,173
Total	8,483	7,954
Short-term borrowings	486	666
Trading liabilities	115	254
Acceptances outstanding	59	88
Accounts payable	227	284
Long-term debt	215	530
Other liabilities	606	514
Due to Amexco and subsidiaries	606	493
Total liabilities	10,797	10,783
Shareholder's equity:		
Common stock	46	46
Preferred stock	75	75
Additional paid-in capital	553	528
Retained earnings	170	189
Other comprehensive loss, net of tax:		
Net unrealized gains on available-for-sale securities	36	21
Foreign currency translation adjustments	(98)	(103)
Minimum pension liability	(16)	—
Accumulated other comprehensive loss	(78)	(82)
Total shareholder's equity	766	756
	<b>\$11,563</b>	<b>\$11,539</b>

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Changes in Shareholder's Equity

Three years ended December 31, 2001 (Millions)	Total	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings
Balance, December 31, 1998	\$743	\$46	\$75	\$528	\$ (44)	\$138
Comprehensive loss:						
Net income	22					22
Change in net unrealized (losses) gains on available-for-sale securities	(68)				(68)	
Foreign currency translation adjustments	(4)				(4)	
Total comprehensive loss	(50)					
Balance, December 31, 1999	693	46	75	528	(116)	160
Comprehensive income:						
Net income	29					29
Change in net unrealized gains on available-for-sale securities	40				40	
Foreign currency translation adjustments	(6)				(6)	
Total comprehensive income	63					
Balance, December 31, 2000	756	46	75	528	(82)	189
Comprehensive loss:						
Net loss	(10)					(10)
Change in net unrealized gains on available-for-sale securities	15				15	
Foreign currency translation adjustments	5				5	
Minimum pension liability	(16)				(16)	
Total comprehensive loss	(6)					
Capital infusion from Amexco	25			25		
Cash dividends paid to Amexco	(9)					(9)
Balance, December 31, 2001	\$766	\$46	\$75	\$553	\$ (78)	\$170

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

Year ended December 31, (Millions)	2001	2000	1999
Operating activities:			
Net (loss) income	\$ (10)	\$ 29	\$ 22
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Provision for credit losses	76	31	31
Provision for depreciation and amortization	26	27	26
Accretion of unearned income	(42)	(52)	(52)
Non-cash portion of restructuring charge	55	—	—
Undistributed earnings of equity method affiliates	(26)	(12)	(19)
Net realized (gains) losses on sales and other dispositions of assets	(8)	(1)	(7)
Net deferred income tax benefit	(35)	(6)	(42)
Net change in trading assets	191	5	(10)
Net change in trading liabilities	(151)	86	(64)
Net change in amounts with Amexco and subsidiaries, net	48	29	67
Net change in accrued interest and other receivables	96	(149)	51
Net change in accounts payable	(52)	88	44
Net change in other liabilities	33	25	(13)
Total adjustments	211	71	12
Net cash provided by operating activities	201	100	34
Investing activities:			
Net change in interest-earning deposits with banks	209	199	(289)
Net change in federal funds sold	(143)	111	(18)
Proceeds from sales of available-for-sale securities	1,396	756	808
Principal collected on available-for-sale securities	627	762	1,059
Purchases of available-for-sale securities	(2,549)	(1,541)	(2,086)
Principal collected on held-to-maturity securities	—	5	4
Net change in loans	477	(385)	492
Net change in amounts with Amexco and subsidiaries, net	(48)	(2)	(10)
Proceeds from sales of land, buildings and equipment	5	2	2
Purchases of land, buildings and equipment	(50)	(25)	(32)
Sale of branch	—	9	—
Net change in other assets	(147)	(56)	(27)
Net cash used in investing activities	(223)	(165)	(97)
Financing activities:			
Net change in customers' deposits	848	(184)	188
Net change in short-term borrowings	(154)	519	(123)
Net change in amounts with Amexco and subsidiaries, net	(31)	(204)	170
Capital contributions from Amexco	25	—	—
Principal repayments of long-term debt	(313)	(36)	(200)
Cash dividends paid to Amexco	(9)	—	—
Net cash provided by financing activities	366	95	35
Effect of exchange rate changes on cash and noninterest-earning deposits with banks	(192)	(12)	15
Net change in cash and noninterest-earning deposits with banks	152	18	(13)
Cash and noninterest-earning deposits with banks at the beginning of the year	284	266	279
Cash and noninterest-earning deposits with banks at the end of the year	\$ 436	\$ 284	\$ 266

See accompanying Notes to Consolidated Financial Statements.

## Notes to Consolidated Financial Statements

### Note 1 Summary of Significant Accounting Policies

The accounting and reporting policies of American Express Bank Ltd. and its subsidiaries conform to accounting principles generally accepted in the United States and prevailing practices in the banking industry.

The following is a description of significant accounting policies and practices.

#### Basis of Presentation

The accompanying consolidated financial statements include the accounts of American Express Bank Ltd. (a wholly owned direct subsidiary of American Express Banking Corp. (AEB)) and its majority-owned subsidiaries (AEB). AEB 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 Company (Amexco). All material intercompany accounts and transactions have been eliminated in consolidation. These financial statements encompass both the activities of AEB's three banking lines of business, the Financial Institutions Group, the Private Bank and the Personal Financial Services group, and those of AEB's non-banking units, which provide products of American Express Travel Related Services Company, Inc. (a wholly owned subsidiary of Amexco) under AEB banking licenses (credit and charge cards, Travelers Cheques and other travel services). American Express Bank segment information included in financial information issued by American Express Company for use by its shareholders excludes activities of non-banking units in AEB's financial information reported therein.

Significant banking affiliates that are 20% to 50% owned are accounted for under the equity method of accounting.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Securities

Debt securities and all marketable equity securities are classified as either available-for-sale or trading and are carried at fair value. Unrealized gains and losses on securities classified as available-for-sale are reported, net of taxes, as a component of shareholder's equity. Trading securities, consisting primarily of debt securities, are generally held for resale in the near term to benefit from short-term market

movements. Gains and losses, both realized and unrealized, on trading securities are recognized in other revenue. In the event of an other than temporary decline in value, securities are carried at their estimated realizable value with the amount of the write-down charged against income.

#### Loans

Loans are stated at the principal amount outstanding net of unearned income.

Loans other than certain consumer loans (including loans impaired under Statement of Financial Accounting Standards (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. When loans are placed on nonperforming status, all previously accrued but unpaid interest is reversed against current interest income. Cash receipts of interest on nonperforming loans are recognized either as interest income or as a reduction of principal, based on management's judgment as to the ultimate collectibility of principal. Generally, a nonperforming loan may be returned to performing status when all contractual amounts due are reasonably assured of repayment within a reasonable period and the borrower shows sustained repayment performance, in accordance with the contractual terms of the loan or when the loan has become well secured and is in the process of collection.

Credit and charge card receivables, interest-earning advances under lines of credit and other similar consumer loans are written off upon reaching specified contractual delinquency stages, or earlier in the event of the borrower's personal bankruptcy or if the loan is otherwise deemed uncollectible. Interest income on these loans generally accrues until the loan is written off.

#### Reserve for Credit Losses

AEB separately maintains and provides for reserves relating to credit losses for loans, foreign exchange and derivative contracts, and other credit-related commitments. The reserve is established by charging a provision for credit losses against income. The amount charged to income is based on several factors, including historical credit loss experience in relation to outstanding credits, a continuous

assessment of the collectibility of each credit, and management evaluation of exposures in each applicable country as related to current and anticipated economic and political conditions. Management's assessment of the adequacy of the reserve is inherently subjective, as significant estimates are required.

Amounts deemed to be uncollectible are charged against the reserve, and subsequent recoveries, if any, are credited to the reserve.

The reserve for credit losses related to loans is reported as a reduction of loans. The reserve related to foreign exchange and derivative contracts is reported as a reduction of trading assets, and the reserve related to other credit-related commitments is reported in other liabilities. In the opinion of management, the reserve for credit losses is adequate to absorb credit losses inherent in AEB's portfolio. Included in the reserve for credit losses is a valuation allowance for impaired loans. Impairment 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.

#### Lending-Related Fees and Costs

Material fees on extensions of credit and credit-related commitments are offset by direct costs, with the resulting net fee or cost deferred. Deferred net fees or costs are recognized as a yield adjustment over the life of the related credit. Net fees or costs deferred on unexercised commitments are recognized in income upon expiration. Deferred net fees or costs are not amortized during periods in which a credit is non-performing. Deferred net fees at December 31, 2001 and 2000 were not material.

#### Foreign Currency Translation

Foreign currency denominated assets and liabilities are translated into their U.S. dollar equivalents based on foreign exchange rates at the end of each year. Revenues and expenses denominated in foreign currencies are translated at foreign exchange rates prevailing during each year. Aggregate gains and losses arising from translation of AEB's net investments in overseas operations with functional currencies other than the U.S. dollar are excluded from income and included, along with the effects of related hedge transactions and income taxes, in shareholder's equity.

#### Recently Adopted Accounting Standards

Effective January 1, 2001, AEB adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Changes in the fair value of a derivative are recorded in earnings or directly to equity, depending on the instrument's designated use. The adoption of SFAS No. 133 on January 1, 2001 had an immaterial effect on comprehensive income. See Note 16 for further discussion of the company's derivatives and hedging activities.

Effective April 1, 2001, AEB adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which clarified accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities, as well as the recognition and reclassification of collateral. The impact of this adoption on results of operations, as well as on capital requirements, was immaterial.

#### Note 2 Restructuring Charges

In the third and fourth quarters of 2001, as a result of accelerating certain re-engineering initiatives, AEB incurred restructuring charges of \$84 million (\$57 million after-tax) and \$12 million (\$8 million after-tax), respectively, resulting in total charges of \$96 million (\$65 million after-tax) for the full year. The fourth quarter pretax charge includes \$7 million for severance relating to the elimination of approximately 100 jobs and \$5 million of other charges primarily relating to the consolidation of real estate facilities. The third quarter pretax charge includes \$29 million for severance relating to the elimination of approximately 400 jobs. It also includes \$26 million of the third quarter pretax charge recorded in "Provision for credit losses" on the Consolidated Statements of Operations, and relates to plans to further scale back AEB's corporate lending activities in parts of Asia, Latin America and Europe. It further includes \$5 million of other charges, including asset impairment charges and other exit costs relating to the exit of certain locations and \$24 million of pretax foreign currency translation losses previously recorded in shareholder's equity. As of December 31, 2001, AEB had a liability of \$31 million for the expected future cash outlays related to these charges.

The following table summarizes by category AEB's 2001 restructuring charges, cash payments, balance sheet charge-offs and the resulting liability balance as of December 31, 2001:

(Millions)	Severance	Other	Total
Restructuring charges	\$36	\$60	\$96
Cash paid	14	1	15
Balance sheet charge-offs	—	50	50
Liability balance at December 31, 2001	\$22	\$ 9	\$31

### Note 3 Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include noninterest-earning deposits with banks.

Cash expended for interest and income taxes totaled:

Year ended December 31, (Millions)	2001	2000	1999
Interest	\$435	\$443	\$432
Income taxes	31	30	28

Cash expended for income taxes does not include amounts received under a tax-sharing agreement with American Express Company.

AEB is required to maintain reserve balances with various foreign central banks. The balances are primarily based upon deposit liabilities. At December 31, 2001 and 2000, required reserves were \$133 million and \$150 million, respectively.

### Note 4 Transactions with Related Parties

AEB has various transactions with Amexco and affiliated companies in which AEB holds equity interests. These transactions primarily relate to loans, deposits and borrowed funds.

Related party balances, including amounts with Amexco which are presented in the Consolidated Balance Sheets, consisted of:

December 31, (Millions)	2001	2000
<b>Assets:</b>		
Loans	\$161	\$ 77
Investments in affiliates	222	187
Other assets	115	73
<b>Total assets</b>	<b>\$498</b>	<b>\$337</b>
<b>Liabilities:</b>		
Deposits and borrowed funds	\$513	\$469
Other liabilities	117	39
<b>Total liabilities</b>	<b>\$630</b>	<b>\$508</b>

The components of net interest expense from related party transactions were:

Year ended December 31, (Millions)	2001	2000	1999
Interest income <sup>(1)</sup>	\$ 2	\$ 2	\$ 2
Interest expense	20	29	25
Net interest expense from related party transactions	\$(18)	\$(27)	\$(23)

*(1) Interest income on loans to Amexco is generally recorded net of interest expense on deposits and borrowed funds.*

Included in deposits and borrowed funds in the preceding table are \$100 million and \$30 million of intercompany Subordinated Notes to Amexco which mature December 15, 2007 and December 21, 2011, respectively, and qualify as Tier 2 Capital for U.S. bank regulatory purposes. The interest rates at December 31, 2001 were 2.36% and 1.90%, respectively, and will vary quarterly based upon three-month U.S. dollar deposits of leading banks in the London interbank market plus 1/2 of 1%.

### Note 5 Trading Assets and Trading Liabilities

The components of these accounts, which are carried at fair value, were as follows:

December 31, (Millions)	2001	2000
Foreign government obligations	\$ 55	\$ 36
Commercial paper	2	26
Money market funds	—	26
Foreign exchange and derivative contracts <sup>(1)(2)</sup>	154	282
Other trading assets	12	48
<b>Total trading assets</b>	<b>\$223</b>	<b>\$418</b>
Foreign exchange and derivative contracts <sup>(2)</sup>	115	254
<b>Total trading liabilities</b>	<b>\$115</b>	<b>\$254</b>

*(1) Net of reserves for credit losses related to trading assets of \$4 million at December 31, 2001 and \$14 million at December 31, 2000.*

*(2) Reduced by the effects of master netting agreements, in accordance with Financial Accounting Standards Board Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts." The effects of master netting agreements were \$92 million and \$122 million at December 31, 2001 and 2000, respectively.*

**Note 6 Securities**

The following is a summary of securities at December 31. Pursuant to the adoption of SFAS No. 133, AEB elected to reclassify its held-to-maturity investment to available-for-sale as of January 1, 2001:

December 31, 2001		Available-for-Sale		
(Millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies obligations	\$ 1	\$ —	\$ —	\$ 1
State and municipal obligations	1	—	—	1
Foreign government obligations	975	28	(7)	996
Other bonds and obligations	1,003	22	(2)	1,023
Mortgage-backed securities	1,002	21	(2)	1,021
Marketable equity securities	2	—	—	2
<b>Total</b>	<b>\$2,984</b>	<b>\$71</b>	<b>\$(11)</b>	<b>\$3,044</b>

December 31, 2000		Available-for-Sale			Held-to-Maturity			
(Millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies obligations	\$ 30	\$ 2	\$ —	\$ 32	\$ —	\$ —	\$ —	\$ —
State and municipal obligations	—	—	—	—	5	—	—	5
Foreign government obligations	990	13	(4)	999	—	—	—	—
Other bonds and obligations	641	15	(1)	655	—	—	—	—
Mortgage-backed securities	818	11	(4)	825	—	—	—	—
Marketable equity securities	1	1	—	2	—	—	—	—
<b>Total</b>	<b>\$2,480</b>	<b>\$42</b>	<b>\$(9)</b>	<b>\$2,513</b>	<b>\$ 5</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 5</b>

The following table shows the remaining maturities for securities classified as available-for-sale, distributed by type as of December 31, 2001:

(Millions)	Within One Year	After One Year but within Five	After Five Years but within 10	After 10 Years	Total
<b>Available-for-Sale (at fair value)</b>					
U.S. government and agencies obligations	\$ 1	\$ —	\$ —	\$ —	\$ 1
State and municipal obligations	1	—	—	—	1
Foreign government obligations	322	384	216	74	996
Other bonds and obligations	191	367	388	77	1,023
	<b>\$515</b>	<b>\$751</b>	<b>\$604</b>	<b>\$151</b>	<b>\$2,021</b>
Mortgage-backed securities					\$1,021
Marketable equity securities					2
<b>Total available-for-sale securities</b>					<b>\$3,044</b>

The table below includes purchases, sales and maturities of securities classified as available-for-sale and, for 2000, held-to-maturity:

Year ended December 31, (Millions)	2001		2000	
	Available-for-Sale	Available-for-Sale	Held-to-Maturity	
Purchases	\$2,549	\$1,541	\$	—
Sales	1,396	756		—
Maturities	627	762		5

Gross realized gains on sales of securities classified as available-for-sale amounted to \$10 million, \$2 million and \$9 million for the years ended December 31, 2001, 2000 and 1999, respectively. Gross realized losses were \$1 million for the year ended December 31, 2001 and were immaterial for the years ended December 31, 2000 and 1999. The specific identification method was used to determine the realized gain or loss.

The change in net unrealized gains (losses) on available-for-sale securities recognized in other comprehensive income includes two components: (1) unrealized gains (losses) that arose during the period from changes in market value of securities that were held during the period (holding gains (losses)), and (2) gains (losses) that were previously unrealized but have been recognized in current period net income due to sales of available-for-sale securities (reclassification for realized gains). This reclassification has no effect on total comprehensive income or shareholder's equity.

The following table presents these components of other comprehensive income (loss), net of tax:

December 31, (Millions, net of tax)	2001	2000	1999
Holding gains (losses)	\$20	\$41	\$(63)
Reclassification for realized gains	(5)	(1)	(5)
Increase (decrease) in net unrealized gains (losses) on available-for-sale securities recognized in other comprehensive income (loss)	\$15	\$40	\$(68)

The Consolidated Balance Sheets included securities of \$409 million and \$430 million pledged primarily to various domestic and foreign governmental agencies pursuant to their requirements at December 31, 2001 and 2000, respectively.

## Note 7 Loans

The composition of loans by type of borrower, net of unearned income of \$12 million and \$11 million at December 31, 2001 and 2000, respectively, was as follows:

December 31, (Millions)	2001	2000
Consumer and Private Banking loans <sup>(1)</sup> :		
Loans secured by real estate	\$ 486	\$ 361
Installment, revolving credit and other	2,123	1,839
	2,609	2,200
Commercial loans:		
Loans secured by real estate	139	157
Loans to businesses	732	1,397
Loans to banks and other financial institutions	1,168	1,519
Loans to governments and other institutions	28	34
All other loans	95	36
	2,162	3,143
Total loans	\$4,771	\$5,343

(1) After the sale and securitization of \$210 million and \$370 million of consumer loans at December 31, 2001 and 2000, respectively.

The following is a summary of loans considered to be impaired under SFAS No. 114 and the related interest income:

December 31, (Millions)	2001	2000
Recorded investment in impaired loans not requiring an allowance	\$ 2	\$ 6
Recorded investment in impaired loans requiring an allowance	121	131
Total recorded investment in impaired loans	\$123	\$137
Credit loss reserves for impaired loans	\$ 72	\$ 65

Year ended December 31, (Millions)	2001	2000	1999
Average recorded investment in impaired loans	\$152	\$166	\$200
Interest income recognized on a cash basis	—	1	5

AEB had other nonperforming assets, primarily contingents and derivatives, totaling \$22 million at December 31, 2001 and \$24 million at December 31, 2000, respectively.

An analysis of the reserve for credit losses follows:

December 31, (Millions)	2001	2000	1999
Balances – January 1,	\$153	\$189	\$259
Provision for credit losses	76	31	31
Write-offs	(101)	(73)	(112)
Recoveries	17	11	11
Translation and other	(6)	(5)	—
Balances – December 31, <sup>(1)</sup>	\$139	\$153	\$189
(1) Allocation:			
Loans	\$119	\$137	\$169
Trading assets	4	14	16
Other liabilities	16	2	4
Balances – December 31,	\$139	\$153	\$189

## Note 8 Long-Term Debt

December 31, (Millions)	2001	2000
Floating Rate Notes, Egyptian Pounds 300 million, due 2006	\$ 65	\$ —
Floating Rate Subordinated Notes due 2004	150	150
Floating Rate Notes due 2001	—	300
Floating Rate Bonds, Egyptian Pounds 300 million, due 2001	—	80
Total	\$215	\$530

The 300 million Egyptian Pounds Floating Rate Notes due in 2006 are unsecured obligations of AEB. The notes are redeemable at par and with repayment of one installment on October 9, 2006, with an early redemption option at the end of the fourth year from the Public Subscription date. The interest rate at December 31, 2001 was 11.5% and will vary quarterly based on the Central Bank of Egypt discount rate plus 1/2 of 1%.

The \$150 million Floating Rate Subordinated Notes are also unsecured obligations of AEB and qualify as Tier 2 Capital for U.S. bank regulatory purposes. The interest rate at December 31, 2001 was 5% and will vary semiannually based upon the U.S. dollar London interbank rate plus 1/10 of 1% with a minimum rate of 5%. AEB has entered into an interest rate swap agreement in order to eliminate the interest rate minimum. At December 31, 2001, the effective interest rate on the swap agreement was 4.35%.

The \$300 million Floating Rate Notes were unsecured obligations and unsubordinated debts of AEB. The Notes matured and were fully repaid in 2001.

The 300 million Egyptian Pounds Floating Rate Bonds were unsecured obligations of AEB. The bonds were redeemable at par and with repayment of one installment on the final maturity date, with an early redemption option at the end of the fourth year from the Public Subscription date. The bonds matured and were fully repaid in 2001.

## Note 9 Shareholder's Equity

The composition of shareholder's equity was as follows:

December 31, (Millions, except share data)	2001	2000	Par Value	Authorized Shares	Issued and Outstanding Shares
Common stock	\$ 46	\$ 46	\$100	2,000,000	460,000
Preferred stock:					
Class A	—	—	1	1,925,000	—
Class B	75	75	1	75,000	75,000
Additional paid-in capital	553	528	—	—	—
Retained earnings	170	189	—	—	—
Other comprehensive (loss) income, net of tax:					
Net unrealized gains on available-for-sale securities	36	21	—	—	—
Foreign currency translation adjustments	(98)	(103)	—	—	—
Minimum pension liability	(16)	—	—	—	—
Accumulated other comprehensive loss	(78)	(82)	—	—	—
Total	\$766	\$756	—	—	—

The Class B noncumulative preferred stock, which is held by Amexco, is at an adjustable rate and redeemable at \$1,001 per share.

## Note 10 Regulatory Capital

AEB is subject to the same risk-based capital requirements applicable to state chartered banks that are supervised by the Board of Governors of the Federal Reserve System. Under capital adequacy guidelines, AEB must meet specific capital guidelines that involve quantitative measures of AEB's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Failure to meet minimum capital requirements can initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on AEB's financial statements. AEB's capital amounts and classification also are subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require AEB to maintain minimum ratios (as set forth in the following table) of Tier 1, Total and Leverage Capital. Management believes, as of December 31, 2001, that AEB meets all capital adequacy requirements to which it is subject.

As of December 31, 2001 and 2000, AEB is well capitalized under the regulatory framework. To be categorized as well capitalized, AEB must maintain a Tier 1 Capital ratio of at least 6%, a Total Capital ratio of at least 10% and a Leverage ratio of at least 5% and not be subject to a directive, order or written agreement to meet and maintain specific capital levels:

### Capital Ratios

December 31,	2001	2000	Minimum Regulatory Requirements
Tier 1 Capital <sup>(a)</sup>	11.1%	10.1%	4.0%
Total Capital <sup>(a)</sup>	12.2%	11.4%	8.0%
Leverage Capital <sup>(b)</sup>	5.3%	5.9%	4.0%

*(a) Tier 1 Capital or Total Capital divided by risk-weighted assets. Risk-weighted assets represent the total of all on- and off-balance sheet assets adjusted for risk-based factors as prescribed by the capital adequacy guidelines.*

*(b) Tier 1 Capital divided by adjusted quarterly average assets.*

## Note 11 Commissions, Fees and Other Revenues

Commissions, fees and other revenues consisted of:

Year ended December 31, (Millions)	2001	2000	1999
Commissions and fees:			
Letters of credit, acceptances, guarantees and credit lines	\$ 28	\$ 34	\$ 36
Asset management, fiduciary and client service fees	75	83	71
Other commissions and fees	127	126	98
	230	243	205
Other revenues:			
Equity in earnings of and dividends from affiliates	31	16	27
Trading account income	11	12	26
Other	79	40	50
<b>Total</b>	<b>\$351</b>	<b>\$311</b>	<b>\$308</b>

Other revenue included intercompany revenue of \$44 million, \$21 million and \$18 million in 2001, 2000 and 1999, respectively.

## Note 12 Foreign Currency

Income from foreign exchange transactions was \$77 million, \$89 million and \$67 million in 2001, 2000 and 1999, respectively. (Losses) gains from certain foreign currency translation included in income were \$(1) million in 2001, \$(2) million in 2000 and \$5 million in 1999.

An analysis of the foreign currency translation adjustments included in shareholder's equity follows:

(Millions)	2001	2000	1999
Balances – January 1,	\$(103)	\$ (97)	\$(93)
Net restructuring charge	18	—	—
Net translation losses	(13)	(6)	(4)
<b>Balances – December 31,</b>	<b>\$ (98)</b>	<b>\$(103)</b>	<b>\$(97)</b>

The net income tax benefits allocated to net translation losses during 2001, 2000 and 1999 were \$3 million, \$4 million and \$2 million, respectively.

## Note 13 Retirement Benefit Plans

### Pension Plans

AEB employees in the United States are eligible to participate in 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, com-

pensation and other factors and currently is being funded through a trust. Funding of retirement costs for the Plan complies with the applicable minimum funding requirements specified by ERISA. Employees' accrued benefits are based on recordkeeping account balances which are maintained for each individual and are credited with additions equal to a percentage, based on age plus service, of base pay, certain commissions and bonuses, overtime and shift differential each pay period. Employees' balances also are 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. Employees have the option to receive annuity payments or a lump sum payout at vested termination or retirement.

In addition, American Express Company sponsors an unfunded nonqualified Supplemental Retirement Plan (the SRP) for certain highly compensated employees to replace the benefit that cannot be provided by the Plan. The SRP generally parallels the Plan but offers different payment options.

Employees outside the United States, who represent the majority of AEB's workforce, are primarily covered by local retirement plans, some of which are funded, or receive payments at the time of retirement or termination under applicable labor laws or agreements.

Assets within AEB's defined benefit plans consist principally of equities and fixed income securities.

The components of the net pension cost for all defined benefit plans accounted for under SFAS No. 87, "Employers' Accounting for Pensions," are as follows:

(Millions)	2001	2000	1999
Service cost	\$ 5	\$ 6	\$ 6
Interest cost	10	11	11
Expected return on plan assets	(12)	(11)	(11)
Amortization of net gain	(1)	—	—
Amortization of prior service cost	(1)	(1)	(1)
Amortization of transition obligation	—	—	1
Settlement/curtailment gain	—	(5)	(1)
Net periodic pension benefit cost	\$ 1	\$ —	\$ 5

The funded status of AEB's pension plans is based on valuations as of September 30. The following tables provide a reconciliation of the changes in the plans' benefit obligation and fair value of assets for all plans accounted for under SFAS No. 87.

Reconciliation of change in benefit obligation:

(Millions)	2001	2000
Benefit obligation, October 1 prior year	\$147	\$156
Service cost	5	6
Interest cost	10	11
Benefits paid	(6)	(6)
Actuarial gain	(3)	(1)
Settlements/curtailments	(2)	(14)
Foreign currency exchange rate changes	(2)	(5)
Benefit obligation at September 30,	\$149	\$147

Reconciliation of change in fair value of plan assets:

(Millions)	2001	2000
Fair value of plan assets, October 1 prior year	\$147	\$142
Actual return on plan assets	(28)	25
Employer contributions	5	2
Benefits paid	(6)	(6)
Settlements/curtailments	(2)	(12)
Foreign currency exchange rate changes	(2)	(4)
Fair value of plan assets at September 30,	\$114	\$147

The following table reconciles the plans' funded status to the amounts recognized in the Consolidated Balance Sheets:

(Millions)	2001	2000
Funded status at September 30,	\$(35)	\$ —
Unrecognized net actuarial loss (gain)	12	(31)
Unrecognized prior service cost	(2)	(2)
Unrecognized net transition (asset) obligation	(1)	(1)
Fourth quarter contributions (net of benefit payments)	1	1
Net amount recognized at December 31,	\$(25)	\$(33)

The following table provides the amounts recognized in the Consolidated Balance Sheets as of December 31:

(Millions)	2001	2000
Accrued benefit liability	\$(54)	\$(46)
Prepaid benefit cost	5	11
Minimum pension liability adjustment	24	—
Intangible asset	—	2
Net amount recognized at December 31,	\$(25)	\$(33)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$95 million, \$89 million and \$40 million, respectively, as of December 31, 2001 and \$45 million, \$41 million and \$2 million, respectively, as of December 31, 2000. As a result of a significant decrease in the fair value of certain non-U.S. pension plans, more plans had an accumulated benefit obligation that exceeded the fair value of the plan assets at December 31, 2001, and a minimum liability adjustment was required.

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% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The weighted average assumptions used in AEB's defined benefit plans were:

	2001	2000
Discount rates	7.0%	7.4%
Rates of increase in compensation levels	4.2%	4.4%
Expected long-term rates of return on assets	9.5%	9.5%

American Express Company also has a defined contribution retirement plan (a 401(k) savings plan with a profit sharing feature) covering most employees in the United States.

AEB's defined contribution plan expense was \$2 million, \$3 million and \$4 million in 2001, 2000 and 1999, respectively.

#### Other Postretirement Benefits

American Express Company sponsors postretirement benefit plans that provide health care, life insurance and other postretirement benefits to retired U.S. employees. AEB does not provide other postretirement benefits to retired non-U.S. employees. Net periodic postretirement benefit expenses were \$1 million annually in 2001, 2000 and 1999. The liabilities recognized in the Consolidated Balance Sheets for AEB's defined postretirement benefit plans (other than pension plans) were \$13 million at both December 31, 2001 and 2000.

#### Note 14 Lease Commitments and Other Contingent Liabilities

AEB leases certain office facilities and operating equipment under cancelable and noncancelable agreements. Total rental expense amounted to \$25 million in 2001 and \$27 million in both 2000 and 1999. At December 31, 2001, the minimum aggregate rental commitments under all noncancelable operating leases, net of rentals to be received from noncancelable subleases, were (millions): 2002, \$11; 2003, \$9; 2004, \$7; 2005, \$6; 2006, \$5; and \$19 for future years.

Certain of AEB's leases provide for additional rentals based upon increases in property taxes, the general cost of living index, or payment of property taxes or other operating expenses by the lessee. In addition, most leases contain standard renewal clauses.

In 1999, AEB entered into an Amended and Restated Agreement with Electronic Data Systems Corporation (EDS), for a term of 10 years, for data center processing and related activities. The responsibility for global systems support and development was insured to Amexco.

Various legal actions and proceedings are pending against or involve AEB. After reviewing with counsel all actions and proceedings pending against or involving AEB, management considers that the aggregate liability or loss, if any, resulting from them would not be material.

#### Note 15 Income Taxes

AEB is included in the consolidated U.S. federal income tax return of Amexco. Under an agreement with Amexco, AEB receives income tax benefits for net operating losses, future tax deductions and foreign tax credits that are recognizable on a stand-alone basis, or a share, derived by formula, of such losses, deductions and credits that are recognizable on Amexco's consolidated reporting basis.

The income tax provision consisted of:

Year ended December 31, (Millions)	2001	2000	1999
Federal	\$(42)	\$(29)	\$(24)
Foreign	42	32	28
State and local	1	2	1
Total	\$ 1	\$ 5	\$ 5

The current and deferred components of the income tax provision consisted of:

Year ended December 31, (Millions)	2001	2000	1999
Current	\$ 36	\$ 11	\$ 47
Deferred	(35)	(6)	(42)
Total	\$ 1	\$ 5	\$ 5

AEB's net deferred tax assets consisted of the following:

December 31, (Millions)	2001	2000
Gross deferred tax assets	\$126	\$ 80
Gross deferred tax liabilities	(24)	(15)
Net deferred tax assets	\$102	\$ 65

Gross deferred tax assets at December 31, 2001 and 2000 consisted primarily of reserves not yet deducted for tax purposes of \$95 million and \$59 million, respectively. A valuation allowance was not required with respect to such assets. Gross deferred tax liabilities at December 31, 2001 and 2000 consisted primarily of accelerated depreciation of \$13 million and \$11 million, respectively.

AEB's intercompany income tax receivable from Amexco at December 31, 2001 and 2000 was \$5 million and \$23 million, respectively.

The income tax provision in 2001, 2000 and 1999 was different from that computed by using the U.S. statutory income tax rate of 35%. The principal causes of the difference in each year are presented below:

Year ended December 31, (Millions)	2001	2000	1999
Combined tax at U.S. statutory income tax rate	\$ (3)	\$ 12	\$ 9
Increases (decreases) in income taxes resulting from:			
State and local income taxes	1	1	1
Foreign income taxed at rates other than U.S. statutory rate	4	(9)	(6)
Nondeductible expenditures	1	1	1
Tax preferred investments	(2)	—	—
<b>Total</b>	<b>\$ 1</b>	<b>\$ 5</b>	<b>\$ 5</b>

The items composing comprehensive (loss) income in the Consolidated Statements of Changes in Shareholder's Equity are presented net of income taxes. The changes in net unrealized gains on available-for-sale securities are presented net of income tax provision (benefit) of \$12 million, \$22 million and \$(37) million for 2001, 2000 and 1999, respectively. The changes in foreign currency translation adjustments are presented net of income tax benefit of \$3 million, \$4 million and \$2 million for 2001, 2000 and 1999, respectively. The change in the minimum pension liability for 2001 is presented net of income tax benefits of \$8 million for 2001.

## Note 16 Derivatives and Hedging Instruments

As prescribed per SFAS No. 133, derivative instruments that are designated and qualify as hedging instruments are further classified as either a cash flow hedge, a fair value hedge or a hedge of a net investment in a foreign operation, based upon the exposure being hedged.

For derivative instruments that are designated and qualify as a cash flow hedge, the portion of the gain or loss on the derivative instrument effective at offsetting changes in the hedged item is reported as a component of other comprehensive loss and reclassified to the Consolidated Statement of Operations when the hedged transaction affects the Consolidated Statement of Operations. Any ineffective portion of the gain or loss on the derivative instrument is recognized currently in the Consolidated Statements of Operations. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statement of Operations during the period of the change in fair values. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign operation, the effective portion of the gain or loss on the derivative is reported in other comprehensive loss as part of foreign currency translation adjustments. For derivative instruments not designated as hedging instruments, the gain or loss is recognized currently in the Consolidated Statement of Operations.

### Cash Flow Hedges

AEB uses interest rate products, primarily interest rate swaps, to manage funding costs and interest rate risk.

At December 31, 2001, the net loss on derivative instruments included in accumulated other comprehensive loss, which AEB expects to reclassify to the Consolidated Statement of Operations during the year ending December 31, 2002, is not material.

### Fair Value Hedges

AEB uses derivatives to hedge against the change in fair value of some of its securities and deposit products. Changes in the fair value of the derivatives are recorded in the Consolidated Statement of Operations along with related changes in the fair value of the underlying securities and deposit products. Changes in the time value element of these derivatives are considered as hedge ineffectiveness. AEB also uses interest rate swaps to hedge firm commitments and changes in interest rates.

The effect on the Consolidated Statement of Operations for the year ended December 31, 2001 related to the time value element of such fair value hedging instruments was not material.

#### **Hedge of Net Investment in Certain Foreign Operations**

AEB designates foreign currency derivatives as hedges of net investments in certain foreign operations. For such hedges, unrealized gains and losses are recorded in foreign currency translation adjustments included in other comprehensive loss, whereas the related amounts due to or from counterparties are included in other liabilities or other assets. During the year ended December 31, 2001, the change in such net unrealized amount was not material.

#### **Derivatives Not Designated as Hedges under SFAS No. 133**

AEB enters into other derivative contracts both to meet the needs of its clients and, to a limited extent, for proprietary trading purposes.

There are a number of risks associated with derivatives. Market risk represents the potential loss due to the decrease in the value of a derivative financial instrument caused primarily by changes in interest rates or foreign exchange rates, or the prices of equities or commodities (or related indices). AEB is not exposed to market risk related to derivatives held for nontrading purposes beyond that inherent in cash market transactions. In addition, AEB is generally not subject to market risk when it enters into a contract with a client, as it usually enters into an offsetting contract or uses the position to offset an existing exposure. AEB takes proprietary positions within approved limits. These positions are monitored daily at the local and headquarters levels against Value at Risk limits. AEB does not enter into derivative contracts with features that would leverage or multiply its market risk.

Credit risk related to derivatives is the possibility that the counterparty will not fulfill the terms of the contract. This risk is monitored through established approval procedures, including setting concentration limits by counterparty and country, reviewing credit ratings and requiring collateral where appropriate. For its trading activities with clients, AEB requires collateral, generally cash, when it is not willing to assume credit exposure to counterparties for either contract mark-to-market or settlement risk. AEB also uses master netting agreements, which allow AEB to settle multiple contracts with a single counterparty in one net receipt or payment in the event of counterparty default.

Credit risk approximates the fair market value of contracts in a gain position (asset) and totaled (unadjusted for the effects of master netting agreements and reserve for credit losses) \$285 million and \$462 million at December 31, 2001 and 2000, respectively. The fair value represents the replacement cost and is determined by market values, dealer quotes or pricing models. In addition, management evaluates these portfolios periodically to determine whether the reserve for credit losses is adequate to absorb losses in such portfolios.

### Foreign Exchange Products

AEB enters into foreign exchange spot and forward contracts and foreign currency options both to meet the needs of its clients and, to a limited extent, to enter into proprietary positions. In addition, AEB uses foreign exchange products, primarily foreign exchange spot and forward contracts, to hedge certain net investments in branches and subsidiaries with non-U.S. dollar functional currencies and to manage currency exposure created by transactions denominated in foreign currencies.

Foreign currency exposures are hedged, where practical and economical, through foreign exchange spot and forward contracts. Foreign exchange contracts involve the purchase and sale of a designated currency at an agreed-upon rate for settlement on a specified date. Foreign exchange forward contracts generally mature within one year, whereas foreign exchange spot contracts generally settle within two days.

AEB purchases and writes both call and put options on foreign currencies. Foreign currency options represent contracts that convey a right to the purchaser, and may impose an obligation on the writer, to buy or sell foreign currencies at a specified price within a specified period of time. At December 31, 2001, the majority of these contracts had remaining maturities within one year.

### Interest Rate Products

Interest rate swaps are generally entered into with clients, with offsetting positions taken with major financial service institutions. From time to time, AEB may take limited proprietary positions in interest rate swaps, forward rate agreements, futures and exchange traded interest rate options as well. In addition, AEB may use interest rate products, principally interest rate swaps, to hedge balance sheet positions, including long-term debt and loans. The termination dates of these swaps are generally matched with the maturity dates of the underlying assets and liabilities. Interest rate swaps represent agreements between two parties to exchange periodic interest payments, most often fixed vs. floating, based on a notional principal amount. Cross currency interest rate swaps involve an exchange of principal balances denominated in two different currencies at the inception of the contract, exchange of interest payments during the life of the contract and re-exchange of the principal at a specified future date.

All client positions are entered into under the approved credit limits under the same policies and procedures used for lending activities to ensure that exposure to all clients is actively monitored and controlled.

### Note 17 Off-Balance Sheet Items

AEB's off-balance sheet financial instruments principally relate to extending credit to satisfy the needs of its clients. The contractual amount of these instruments, including those with Amexco which were immaterial, represents AEB's maximum potential credit risk, assuming the contract amount is fully utilized, the counterparty defaults and collateral held is worthless. Management does not expect any material adverse consequence to the company's financial position to result from these contracts:

December 31, (Millions)	2001	2000
Commitments to extend credit	\$ 627	\$ 670
Standby letters of credit and guarantees:		
Financial	708	739
Performance	137	223
Commercial and other letters of credit	260	447
<b>Total off-balance sheet items</b>	<b>\$1,732</b>	<b>\$2,079</b>

Commitments to extend credit represent both conditional and unconditional agreements to lend. These commitments primarily carry floating interest rates. The contractual amounts of these commitments do not necessarily represent future cash requirements, as some credit facilities will expire without being drawn. Lending commitments expose AEB to credit loss arising from the obligation to fund a loan in accordance with the terms of the commitment. AEB may require collateral or other security in support of these commitments, depending on the creditworthiness of the client.

Standby letters of credit and guarantees are commitments issued by AEB to insure the financial or nonfinancial performance of its clients to third parties. The average tenor of these commitments is generally one year or less. The credit risk arising from these commitments results from the potential need to satisfy, in whole or in part, the obligations of another party when certain specified future events occur. AEB held or obtained collateral or other security amounting to \$583 million at December 31, 2001 (financial related: \$459 million; performance related: \$124 million) and \$687 million at December 31, 2000 (financial related: \$481 million; performance related: \$206 million). The collateral or other security was predominantly represented by customers' deposits and guarantees.

AEB issues commercial and other letters of credit to facilitate the short-term trade-related activities of its clients. These letters of credit normally expire within six months. Commercial and other letters of credit represent contingent assets and liabilities until drawn and possess essentially similar credit risk as that of commitments to extend credit. AEB often obtains collateral or other security based on an evaluation of each client. At December 31, 2001 and 2000, AEB was in possession of or had rights to \$158 million and \$239 million, respectively, of collateral or other security, consisting primarily of customers' deposits and guarantees.

## Note 18 Fair Values of Financial Instruments

The fair value of a financial instrument is the amount for which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following table discloses fair value information for on- and off-balance sheet financial instruments. Certain items, such as employee benefit obligations and investments accounted for under the equity method, are excluded. The fair values of financial instruments are estimates based upon market conditions and perceived risks at December 31, 2001 and 2000 and require management judgment. These figures may not be indicative of their future fair values.

For certain classes of financial instruments with short maturities, the carrying amounts of the instruments approximate their fair values. These financial instruments, for which fair values are not separately disclosed, are cash and deposits with banks, federal funds sold, customers' acceptance liabilities, noninterest-bearing customers' deposits, short-term borrowings, acceptances outstanding, trade receivables and payables, AEB's receivables and payables with other American Express Company entities, and certain other assets and liabilities.

The fair value of the remaining financial instruments was as follows:

December 31, (Millions)	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Securities	\$3,044	\$3,044	\$2,518	\$2,518
Trading assets (see Note 5)	223	223	418	418
Loans, net of reserve for loan losses	4,652	4,652	5,206	5,270
Derivative financial instruments, net	51	51	57	56
<b>Financial Liabilities</b>				
Interest-bearing customers' deposits	\$7,687	\$7,575	\$7,173	\$7,177
Long-term debt	215	215	530	530
Trading liabilities (see Note 5)	115	115	254	254

The carrying and fair values of other off-balance sheet financial instruments were not material as of December 31, 2001 and 2000. The following methods were used to estimate the fair values of financial assets and financial liabilities:

#### Financial Assets

For variable loan rates that mature or reprice within six months, fair values are based on carrying values as long as there has been no significant change in borrower creditworthiness.

The fair value of all other loans, except those with significant credit deterioration, is 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 the fair value of the collateral.

#### Financial Liabilities

For interest-bearing deposit liabilities that mature or reprice within six months, fair values are based on carrying values.

The fair value of all other interest-bearing liabilities is estimated by discounting the contractual future cash flows at the current interest rates AEB would pay for deposits with the same remaining maturities.

For variable rate long-term debt, fair values are based on carrying values. The fair value of the remaining long-term debt is determined using discounted cash flows, based on changes in the underlying interest rate indices since the debt was issued.

#### Note 19 Credit Concentrations

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities or activities in the same geographical region or have similar economic characteristics that would cause their ability to meet contractual obligations to be affected similarly by changes in economic or other conditions. AEB's business activities generate significant investments in certain on- and off-balance sheet financial instruments. The counterparties to these financial instruments, which were primarily unrelated to AEB, operate mainly in Asia/Pacific and Europe.

The maximum credit exposure, which excludes the effect of any collateral or security, associated with AEB's on- and off-balance sheet financial instruments distributed by industry segment was as follows:

December 31, (Millions)	2001			2000		
	On-Balance Sheet	Off-Balance Sheet	Total	On-Balance Sheet	Off-Balance Sheet	Total
Banks and other financial institutions	\$ 3,840	\$ 540	\$ 4,380	\$ 4,927	\$ 721	\$ 5,648
Other businesses	2,372	426	2,798	1,992	526	2,518
Foreign governments	1,126	—	1,126	1,110	7	1,117
Individuals	2,634	765	3,399	2,286	800	3,086
Real estate	1,161	—	1,161	982	22	1,004
All other	2	1	3	52	3	55
<b>Total</b>	<b>\$11,135</b>	<b>\$1,732</b>	<b>\$12,867</b>	<b>\$11,349</b>	<b>\$2,079</b>	<b>\$13,428</b>

The credit risk associated with these on-balance sheet financial instruments was principally reflected by the book values of loans, securities and deposits with banks. Total credit risk related to the off-balance sheet financial instru-

ments was primarily represented by the contractual amounts of letters of credit (standby and commercial), commitments and guarantees.

The following table presents AEB's credit exposure by category, country and region as of December 31, 2001 and 2000, respectively (billions):

Country	Loans	Foreign Exchange and Derivatives	Net Guarantees and Contingents	Other Credit Exposures <sup>(a)</sup>	12/31/01 Total Credit Exposure <sup>(b)</sup>	12/31/00 Total Credit Exposure <sup>(b)</sup>
Hong Kong	\$ 0.6	\$ —	\$ 0.1	\$ 0.1	\$ 0.7	\$ 0.7
Indonesia	—	—	—	—	0.1	0.3
Singapore	0.5	—	0.1	0.1	0.7	0.7
Korea	0.1	—	—	0.1	0.2	0.4
Taiwan	0.2	—	—	0.1	0.3	0.3
Japan	—	—	—	0.2	0.2	0.1
Other	0.1	—	—	0.1	0.1	0.2
Total Asia/Pacific Region <sup>(b)</sup>	1.5	—	0.2	0.7	2.4	2.9
Chile	0.1	—	—	—	0.2	0.3
Brazil	0.3	—	—	—	0.3	0.3
Mexico	0.1	—	—	—	0.1	0.1
Peru	—	—	—	—	—	0.1
Argentina <sup>(c)</sup>	—	—	—	—	0.1	0.1
Other	0.4	—	0.2	0.1	0.8	0.5
Total Latin America <sup>(b)</sup>	0.9	0.1	0.3	0.2	1.4	1.4
India	0.3	—	0.1	0.3	0.7	0.7
Pakistan	0.1	—	—	0.1	0.2	0.3
Other	—	—	—	0.1	0.2	0.2
Total Subcontinent <sup>(b)</sup>	0.3	—	0.1	0.5	1.1	1.2
Egypt	0.2	—	—	0.2	0.4	0.5
Other	0.1	—	—	—	0.2	0.2
Total Middle East/Africa <sup>(b)</sup>	0.3	—	—	0.2	0.6	0.7
Total Europe <sup>(d)</sup>	1.4	—	0.4	2.5	4.4	4.5
Total North America	0.3	—	0.2	1.6	2.1	2.1
Total Worldwide <sup>(b)</sup>	\$ 4.8	\$ 0.2	\$ 1.3	\$ 5.8	\$ 12.1	\$ 12.7

Includes cross-border and local credit exposure and does not net local funding or liabilities against any local credit exposure. In addition, the above excludes the activities of AEB's non-banking units.

(a) Includes cash, placements and securities.

(b) Individual items may not add to totals due to rounding.

(c) Total Argentine credit exposures at 12/31/01 were \$56 million, which includes loans of \$25 million.

(d) Total credit exposure at 12/31/00 includes \$3 million of credit exposures to Russia.

## Note 20 Geographical Operations

AEB operates in the financial services business on a global basis in three lines of business: the Financial Institutions Group, the Private Bank and the Personal Financial Services group. These services are subject to significant competition in highly regulated markets.

It is not practical to precisely disaggregate operations by geographical region. Accordingly, the presentation set forth in the following table is based upon internal allocations and adjustments which reflect certain management judgments.

Total assets, net financial revenues and (loss) income before income taxes have been allocated to geographical regions based upon internal allocations, which necessarily involve management's judgment.

AEB's operations by geographical regions at December 31, 2001, 2000 and 1999 and for the years then ended were (millions):

	North America	Europe	Middle East/ Africa	Asia/ Pacific(a)	Latin America and Other	Consolidated
<b>2001</b>						
Total assets	\$1,599	\$3,698	\$ 610	\$3,813	\$1,843	\$11,563
Net financial revenues <sup>(b)</sup>	51	198	39	312	87	687
(Loss) income before income taxes	(41)	(4)	(2)	(9)	47	(9)
<b>2000</b>						
Total assets	\$1,838	\$3,137	\$ 897	\$4,150	\$1,517	\$11,539
Net financial revenues <sup>(b)</sup>	30	201	56	275	86	648
Income (loss) before income taxes	(31)	(4)	21	—	48	34
<b>1999</b>						
Total assets	\$2,209	\$2,922	\$ 877	\$3,981	\$1,566	\$11,555
Net financial revenues <sup>(b)</sup>	37	207	61	288	80	673
Income (loss) before income taxes	(18)	(21)	29	1	36	27

(a) Includes the Subcontinent.

(b) Excludes provision for credit losses.

# Report of Ernst & Young LLP Independent Auditors

The Board of Directors  
American Express Bank Ltd.

We have audited the accompanying consolidated balance sheets of American Express Bank Ltd. as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholder's equity and cash flows, for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the management of American Express Bank Ltd. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 Bank Ltd. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.



New York, New York

January 28, 2002

# Board of Directors and Senior Management

## Board of Directors

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Trinity Industries

**Charles A. Bowsher**

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**Kenneth I. Chenault**

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Chief Executive Officer,  
American Express Company

**James M. Cracchiolo**

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American Express Bank Ltd.  
and Group President,  
Global Financial Services,  
American Express Company

**W. Richard Holmes**

President and  
Chief Executive Officer,  
American Express Bank Ltd.

**Bruce K. MacLaury**

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The Brookings Institution

**Aldo Papone**

Senior Advisor,  
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**Vijay Parekh**

President,  
International Consumer Card  
Services,  
American Express Travel Related  
Services Company, Inc.

**Francis X. Stankard**

Former Vice Chairman,  
American Express Bank Ltd.

## Senior Management

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Managing Director and Head,  
Financial Institutions Group

**Graham T. Brown**

Vice President,  
Technologies

**Jill Freeman**

Executive Director and Head,  
Human Resources

**Robert M. Friedman**

Executive Director and Head,  
Global Investment Services

**Norman R. Gilchrist**

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Operations

**Giampiero Grandi**

Managing Director and Head,  
Global Personal Financial Services

**Andrew J. Grant**

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Financial Markets Services

**Mark W. Gross**

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Business Transformation

**W. Richard Holmes**

President and  
Chief Executive Officer,  
American Express Bank Ltd.

**S. Lachlan Hough**

Managing Director and Head,  
Asia/Pacific/Subcontinent Region

**P. Nicholas Kourides**

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General Counsel

**Kathleen M. Kramer**

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Global Private Banking

**Lee Middleton**

Senior Director and Head,  
Public Affairs

**Kathryn S. Reimann**

Executive Director and  
Chief Compliance Officer

**Robert D. Welch**

Executive Director and Head,  
Affiliates

## General Auditor

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**Edward C. Smith**

Executive Director