2002

ANNUAL REPORT **AMERICAN EXPRESS BANK**

2002

(Millions, except percentage amounts)	2002	2001
FOR THE YEAR		
Net income (loss)	$ 93	$ (10)
Return on average assets [(a)]	.78%	(0.09%)
Return on average common equity [(b)]	13.50%	(1.52%)
AT YEAR-END		
Available-for-sale securities	$ 3,169	$ 3,044
Loans	5,298	4,771
Total assets	13,056	11,563
Customers' deposits	9,505	8,483
Long-term debt	215	215
Shareholder's equity	947	766
Risk-based capital ratios:		
Tier 1	10.9%	11.1%
Total	11.4%	12.2%
Leverage ratio	5.3%	5.3%

(a) Computed based on a trailing 12-month basis excluding the effect on total assets of unrealized gains or losses related to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to the extent that they directly effect Shareholder's Equity.

(b) Computed based on a trailing 12-month basis excluding the effect on Shareholder's Equity of unrealized gains or losses related to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

W. RICHARD HOLMES
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

PRESIDENT'S LETTER DESPITE AN UNSETTLED ECONOMY AND DIFFICULT MARKETS, WE ACHIEVED DOUBLE-DIGIT GROWTH IN OUR CORE BUSINESSES, HELPING US GAIN VALUABLE MARKET SHARE.

Two thousand and two was a very good year for American Express Bank.

Despite an unsettled economy and difficult markets, we achieved double-digit growth in our core businesses, helping us gain valuable market share. We continued to successfully exit corporate lending and further strengthened our foundation for profitable, sustainable growth over the medium- and long-term.

Strong growth in our core businesses, offset by a planned reduction in corporate lending, resulted in an overall revenue increase of 3 percent, while total operating expenses declined 19 percent. The Bank reported net income of $93 million, up sharply from a net loss of $10 million in 2001. Even excluding restructuring, earnings growth in 2002 was outstanding. We achieved these results while funding investments in technology, new products and improved service which are business-building initiatives that will better enable us to reach our long-term objectives.

The Bank continued to benefit from higher net interest income and lower operating expenses due to re-engineering. We remained well-capitalized with a Tier 1 Capital Ratio of 10.9 percent and a Total Capital Ratio of 11.4 percent.

Progress in 2002 was across the board.

In our Financial Institutions Group (FIG), non-credit fee income increased 12 percent, reflecting higher payments and trade finance volumes. Clients continued to look for correspondent banks with strong financials, proven business continuity plans and superior service.

FIG launched eAccess in September, an innovative payments product that allows clients to handle most of their inquiries on line. By moving towards online self-service, we increase our clients' cost-effectiveness by improving their employees' productivity. Over the long-term we believe this combination of technology and customer-centered service will further differentiate us from our competitors.

FIG's investment distribution business also made headway, increasing assets under management by 22 percent. This business provides mutual funds to banks and other financial institutions that then distribute the funds to their retail clients. In 2002, we launched seven new mutual funds, bringing to 26 the number of American Express-branded portfolios we offer. Of these, 20 are sub-advised by our investment management affiliate, American Express Financial Advisors.

In the Private Bank client holdings grew by 12 percent to $13.9 billion as clients turned to us to preserve capital during a period of unusual market and economic uncertainty.

We launched a new and enhanced discretionary asset management product in March, giving Private Bank clients access to additional portfolio managers, regional diversification, different investment styles, pricing alternatives and statement enhancements. In the fourth quarter, we welcomed a number of new clients into the Private Bank with the acquisition of the Latin American private banking business of Schroders Private Bank. Throughout the year we continued to attract top talent despite a very tight job market for high-performing relationship managers.

OUR PRIVATE BANK CONTINUED TO BE A MAJOR DISTRIBUTOR OF AMERICAN EXPRESS INVESTMENT PRODUCTS WHILE MAKING AVAILABLE THE EXCLUSIVE CENTURION CARD® AND PLATINUM CARD® FROM AMERICAN EXPRESS TO OUR CLIENTS.

In Personal Financial Services (PFS) loans, deposits and other holdings grew 15 percent. Here we integrated customer-facing activities, such as marketing and call center management into American Express' international Card business. The result was to leverage further banking capabilities of the Bank with the marketing and service expertise of International Consumer and Small Business Payments and Financial Services. To augment future growth in the personal financial services segment, we opened a branch in Bangalore, one of India's top technology centers, and acquired a savings and trust bank in the Philippines.

We continued to leverage the expertise and resources of other American Express businesses. Our Private Bank continued to be a major distributor of American Express investment products while making available the exclusive Centurion Card® and Platinum Card® from American Express to our clients. Just over half of our clients now have a Private Bank-linked card relationship with us. FIG employees worked with their Travelers Cheque counterparts to create comprehensive deals that combine correspondent banking services, such as payments and check clearing, with the sale of American Express® Travelers Cheques. And Financial Markets Services, our trading and structured products group, again increased the volume of the foreign exchange and futures business it handles for other American Express units.

We made progress in other areas as well. We reduced our commercial loans to businesses, including loans secured by real estate, from $871 million at year-end 2001 to $368 million. Throughout our 42-country network we pursued initiatives in cost control, re-engineering and Six Sigma quality improvement while essentially completing the reorientation of our activities from commercial lending to services for financial institutions and individual clients. This work helped us become a more flexible organization that can prosper in a variety of economic scenarios and freed up funds for investment in future growth. We also continued to devote considerable time and attention to maintaining a strong control and compliance environment.

Our accomplishments were made possible in large part by the terrific job done by the dedication and commitment of our employees. Their hard work and perseverance over the past several years have been absolutely critical in getting the Bank back onto a firm footing for growth. Despite an unpredictable environment, they stayed focused on anticipating and meeting our clients' needs. It is a pleasure to work with such a fine team.

Looking ahead, we expect the global economy and geopolitical environment to remain unsettled. That said, we are prepared for the challenge. We have a sound and successful business model. We have a clear direction for the future. And above all, we have the people capable of helping our clients cope with, and prosper during the uncertain period ahead.

W. Richard Holmes
President and Chief Executive Officer
March 15, 2003

Argentina
Buenos Aires
(54) 11 4312 9034

Austria
Vienna
(43) 1 515 670

Bangladesh
Dhaka
(880) 2 956 1751
Chittagong
(880) 31 714 905/8

Brazil
São Paulo
(55) 11 3030 3089
American Express Bank, Brasil
(55) 11 3030 3000
Belo Horizonte American Express Bank, Brasil
(55) 31 3 261 8381

Canada
Vancouver
(1) 604 691 7708

Cayman Islands
George Town
(1) 345 949 8806

Channel Islands
Guernsey
(44) 1481 721787

Chile
Santiago
(56) 2 350 6700

China
Hong Kong (SAR)
(852) 2 844 0688
Beijing
(86) 10 6505 2838
Shanghai
(86) 21 5396 6611

Egypt
Cairo
(20) 2 791 0003
Egyptian American Bank
(20) 2 738 2994
Alexandria
(20) 3 495 0918
Mohandessin
(20) 2 760 8228
Heliopolis
(20) 2 290 9528
Port Said
(20) 66 341 088
Zamalek
(20) 2 738 2118

France
Paris
(33) 1 47 14 50 00

Germany
Frankfurt
(49) 69 9797 0

Greece
Athens
(302) 10 322 4061 5
Maroussi
(30) 10 682 0191 4
Glyfada
(30) 10 894 3530
Piraeus
(30) 10 429 5120

India
Mumbai
(91) 22 5636 1000
(91) 22 2204 9421
Bangalore
(91) 80 212 5020
Calcutta
(91) 33 2248 6281/84
Chennai
(91) 44 2852 4313/4320
New Delhi
(91) 11 2332 7602/6129

Indonesia
Jakarta
(62) 21 521 6000
Surabaya
(62) 31 535 2888

Italy
Milan
(39) 02 77901

Japan
Tokyo
(81) 3 3220 6900

Korea
Seoul
(82) 2 399 2929

Lebanon
Beirut
(961) 1 987 722

Luxembourg
Luxembourg
(352) 471 7541

Malaysia
Kuala Lumpur
(60) 3 2050 0130

Mexico
Mexico City
(52) 55 5488 3840

Monaco
Monte Carlo
(377) 97 97 32 32

Nepal
Kathmandu
(977) 1 257616

Pakistan
Karachi
(92) 21 263 0343
Clifton, Karachi
(92) 21 583 2011
Islamabad
(92) 51 282 7053/55
Lahore
(92) 42 587 9183

Philippines
Manila
(63) 2 818 6731/33
American Express Bank Philippines (Savings Bank) Inc.
(63) 2 840 6888

Romania
Bucharest
(40) 21 310 42 62/3

Russia
Moscow
(7) 095 933 8448

Singapore
Singapore
(65) 6538 4833

South Africa
Johannesburg
(27) 11 721 4196

Spain
Madrid
(34) 917 437 483

Sri Lanka
Colombo
(94) 1 682787

Switzerland
Geneva
(41) 22 319 08 08

Taiwan
Taipei
(886) 2 2715 1581
Kaohsiung
(886) 7 230 7240

Thailand
Bangkok
(66) 2 273 0066

Turkey
Istanbul
(90) 212 275 95 26

United Arab Emirates
Dubai
(971) 4 397 5000

United Kingdom
London
(44) 20 7 824 6000
Brighton
(44) 1273 693 555
Poole
(44) 1202 787 000

United States
New York
(1) 212 640 2000
Los Angeles
(1) 213 312 3500
Los Angeles (FIG)
(1) 213 312 3507
Miami
(1) 305 350 7750
Miami (FIG)
(1) 305 530 2533
San Diego
(1) 619 744 3773
San Francisco
(1) 415 227 2709

Uruguay
Montevideo
(598) 2 916 0000
Punta del Este
(598) 42 44 2004

Venezuela
Caracas
(58) 212 991 5122

Vietnam
Hanoi
(84) 4 824 3214
(84) 4 936 0902

	LINES OF BUSINESS AND SERVICES	2002 OPERATING HIGHLIGHTS
FINANCIAL INSTITUTIONS GROUP	Mutual Funds Distribution Payment Products Cash Management Check Clearing Letters of Credit Bankers' Acceptances Export Finance Reimbursements Documentary Collections	Fee-based payment services continued to grow at double digit rates. The launch of eAccess in September, a new internet-based payments inquiry system, provided financial institution clients a leading edge tool that will help them improve staff productivity while enhancing the service they provide to their clients.
THE PRIVATE BANK	Discretionary Asset Management Mutual Funds Distribution Alternative Funds Deposits Trust and Estate Planning Secured Lending The American Express® Card Global Trading Products	Client holdings grew by 12 percent thanks to a conservative, client-centered approach to wealth management. In October, the Private Bank acquired Schroders Latin American private banking business.
PERSONAL FINANCIAL SERVICES	Mutual Funds Distribution Money Market Funds Savings Deposits Mortgages Installment Loans Insurance Lines of Credit Direct Banking The American Express® Card	Despite a difficult operating environment in Hong Kong, total client volume was up 15 percent worldwide. In April, the business entered the Philippines with the acquisition of a local savings and trust institution.
FINANCIAL MARKETS SERVICES	Capital Markets Products Treasury Products Foreign Exchange Derivatives	This group continued to increase revenue from AEB's Private Bank and Financial Institution Group clients by providing superior risk management products and services. Another major objective was also met in 2002 with significant growth in business volumes from other American Express businesses.
GLOBAL INVESTMENT SERVICES	Discretionary Asset Management Mutual Funds Management Alternative Funds	Global Investment Services provides products to clients of AEB's Financial Institutions Group, Private Bank, and Personal Financial Services units. In 2002 the group launched an enhanced discretionary asset management product and seven new funds for institutional sales.

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CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31, (Millions)	2002	2001	2000
Interest income:			
Loans	$287	$356	$415
Securities	196	186	195
Deposits with banks	45	102	122
Total	528	644	732
Interest expense:			
Deposits	185	304	398
Short-term borrowings	33	35	17
Long-term debt	10	27	40
Total	228	366	455
Net interest expense from related party transactions	7	18	27
Net interest income	293	260	250
Provision for credit losses:			
Ongoing	50	50	31
Restructuring related	—	26	—
Net interest income after provision for credit losses	243	184	219
Noninterest income:			
Commissions, fees and other revenues	347	351	311
Foreign exchange income	68	76	87
Total	415	427	398
Net financial revenues	658	611	617
Noninterest expenses:			
Salaries and employee benefits	251	264	274
Net occupancy and equipment	68	75	95
Professional fees	51	52	55
Marketing and promotion	20	23	29
Travel and entertainment	18	20	22
Communications	11	12	12
Other	100	104	96
Restructuring charges	(3)	70	—
Total	516	620	583
Income (loss) before income taxes	142	(9)	34
Income tax provision	49	1	5
Net income (loss)	$ 93	$ (10)	$ 29

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

December 31, (Millions)	2002	2001
ASSETS		
Cash and noninterest-earning deposits with banks	$ 254	$ 436
Interest-earning deposits with banks	1,454	1,583
Federal funds sold	728	206
Trading assets	486	223
Available-for-sale securities	3,169	3,044
Loans	5,298	4,771
Reserve for loan losses	(112)	(119)
Customers' acceptance liability	51	59
Due from Amexco	520	258
Accrued interest and other receivables	294	259
Land, buildings and equipment, net of accumulated depreciation and amortization (2002, $168; 2001, $146)	141	125
Other assets	773	718
Total assets	$13,056	$11,563
LIABILITIES AND SHAREHOLDER'S EQUITY		
Customers' deposits:		
Noninterest bearing	$ 891	$ 796
Interest bearing	8,614	7,687
Total	9,505	8,483
Short-term borrowings	339	486
Trading liabilities	274	115
Acceptances outstanding	51	59
Accounts payable	222	227
Long-term debt	215	215
Other liabilities	515	606
Due to Amexco	988	606
Total liabilities	12,109	10,797
Shareholder's equity:		
Common stock	46	46
Preferred stock	75	75
Additional paid-in capital	595	553
Retained earnings	231	170
Other comprehensive income (loss), net of tax:		
Net unrealized gains on available-for-sale securities	103	36
Net unrealized derivatives gains	4	—
Foreign currency translation adjustments	(105)	(98)
Minimum pension liability	(2)	(16)
Accumulated other comprehensive income (loss)	—	(78)
Total shareholder's equity	947	766
Total liabilities and shareholder's equity	$13,056	$11,563

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(Millions)	Total	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings
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 adjustment	(16)				(16)	
Total comprehensive loss	(6)					
Capital contributions from Amexco	25			25		
Cash dividends paid to Amexco	(9)					(9)
Balance, December 31, 2001	$766	$46	$75	$553	$ (78)	$170
Comprehensive income:						
Net income	93					93
Change in net unrealized gains on available-for-sale securities	67				67	
Change in net unrealized derivatives gains	4				4	
Foreign currency translation adjustments	(7)				(7)	
Minimum pension liability adjustment	14				14	
Total comprehensive income	171					
Capital contributions from Amexco	42			42		
Ownership transfer of certain operations to Amexco	(27)					(27)
Cash dividends paid to Amexco	(5)					(5)
Balance, December 31, 2002	$947	$46	$75	$595	$ —	$231

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, (Millions)	2002	2001	2000
Operating activities:			
Net income (loss)	$ 93	$ (10)	$ 29
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for credit losses	50	76	31
Depreciation and amortization	26	26	27
Accretion of unearned income	(38)	(42)	(52)
Non-cash portion of restructuring charge	(3)	55	—
Undistributed earnings of equity method affiliates	(24)	(26)	(12)
Net realized gains on sales and other dispositions of assets	(11)	(8)	(1)
Net deferred income tax benefit	(2)	(35)	(6)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Trading assets	(238)	191	5
Trading liabilities	121	(151)	86
Receivables/payables with Amexco	68	48	29
Accrued interest and other receivables	(18)	96	(149)
Accounts payable	(20)	(52)	88
Other liabilities	(99)	33	25
Net cash (used in) provided by operating activities	(95)	201	100
Investing activities:			
Net change in interest-earning deposits with banks	182	209	199
Net change in federal funds sold	(522)	(143)	111
Proceeds from sales of available-for-sale securities	791	1,396	756
Principal collected on available-for-sale securities	1,079	627	762
Purchases of available-for-sale securities	(1,736)	(2,549)	(1,541)
Principal collected on held-to-maturity securities	—	—	5
Loan operations and principal collections, net	(341)	477	(385)
Net change in loans to Amexco	(293)	(48)	(2)
Proceeds from sales of land, buildings and equipment	13	5	2
Purchases of land, buildings and equipment	(56)	(50)	(25)
Dispositions, net of cash	13	—	9
Other, net	(33)	(147)	(56)
Net cash used in investing activities	(903)	(223)	(165)
Financing activities:			
Net change in customers' deposits	514	848	(184)
Net change in short-term borrowings	(203)	(154)	519
Net change in borrowings from Amexco	331	(31)	(204)
Principal payments on long-term debt	—	(313)	(36)
Cash capital contributions from Amexco	25	25	—
Cash dividends paid to Amexco	(5)	(9)	—
Net cash provided by financing activities	662	366	95
Effect of exchange rate changes on cash and noninterest-earning deposits with banks	154	(192)	(12)
Net change in cash and noninterest-earning deposits with banks	(182)	152	18
Cash and noninterest-earning deposits with banks at the beginning of the year	436	284	266
Cash and noninterest-earning deposits with banks at the end of the year	$ 254	$ 436	$ 284

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 United States 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. (AEBC)) and its majority-owned subsidiaries (AEB). 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 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 AEB's non-banking units in AEB's financial information reported therein.

Significant banking affiliates that are 20% to 50% owned by AEB 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. Certain reclassifications of prior period amounts have been made to conform to the current presentation.

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 available-for-sale securities are reported, net of taxes, as a component of shareholder's equity. Trading assets, 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 assets 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.

PROVISION 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, 2002 and 2001 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.

ACCOUNTING DEVELOPMENTS

Effective January 1, 2002, the company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which established new accounting and reporting standards for goodwill and other intangible assets. Under the new rules, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are instead subject to annual impairment tests. See Note 7 for further discussion of AEB's goodwill and other intangibles.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), which provides accounting and disclosure requirements for certain guarantees. The accounting provisions of FIN 45, which are effective for certain guarantees issued or modified beginning January 1, 2003, will impact AEB based upon the fair value amount of guarantees that are issued or modified beginning at that time. AEB is still evaluating the impact of adopting FIN 45 on the consolidated financial statements; the disclosure requirements of FIN 45 are addressed in Note 18 to the consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), which addresses consolidation by business enterprises of variable interest entities (VIEs). The accounting provisions and disclosure requirements of FIN 46 are effective immediately for VIEs created after January 31, 2003, and are effective for reporting periods beginning after June 15, 2003, for VIEs created prior to February 1, 2003. The impact to AEB's financial statements is expected to be immaterial.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. AEB has adopted the provisions of the Statement as of January 1, 2003. The impact to AEB's financial statements is expected to be immaterial.

In July 2002, the FASB issued SFAS No. 146, "Obligations Associated with Disposal Activities." The Statement is effective for exit or disposal activities initiated after December 31, 2002. Previously issued financial statements shall not be restated. The provisions of EITF Issue 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of Issue 94-3 prior to this Statement's initial application. This Statement will impact AEB's accounting for any future restructuring activities.

NOTE 2 CASH FLOWS

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

Cash paid for interest and income taxes was:

Year ended December 31, (Millions)	2002	2001	2000
Interest	$252	$435	$443
Income taxes	25	31	30

Cash paid for income taxes does not include amounts received under a tax-sharing agreement with Amexco.

AEB is required to maintain reserve balances with various foreign central banks. The balances are primarily based upon deposit liabilities. At December 31, 2002 and 2001, required reserves were $147 million and $133 million, respectively.

NOTE 3 TRANSACTIONS WITH RELATED PARTIES

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

Related party balances, including amounts with Amexco, which are reflected in the Consolidated Balance Sheets, were:

December 31, (Millions)	2002	2001
Assets:		
Loans	$443	$161
Investments in affiliates	187	222
Other assets	79	115
Total assets	$709	$498
Liabilities:		
Deposits and borrowed funds	$858	$513
Other liabilities	90	117
Total liabilities	$948	$630

Additionally, from time to time, AEB sells and securitizes certain consumer loans to Amexco related parties. Remaining balances on such loans were $356 million and $210 million at December 31, 2002 and 2001, respectively.

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

Year ended December 31, (Millions)	2002	2001	2000
Interest income[1]	$ 2	$ 2	$ 2
Interest expense	9	20	29
Net interest expense from related party transactions	$ (7)	$(18)	$(27)

(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 due 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 rate at December 31, 2002 for both the $100 million and $30 million of intercompany Subordinated Notes due to Amexco was 1.91%, 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 4 TRADING ASSETS AND TRADING LIABILITIES

The components of trading assets and trading liabilities, which are carried at fair value, were:

December 31, (Millions)	2002	2001
Foreign government obligations	$167	$ 55
Commercial paper	5	2
Foreign exchange and derivative contracts[1][2]	267	154
Other trading assets	47	12
Total trading assets	$486	$223
Foreign exchange and derivative contracts[2]	274	115
Total trading liabilities	$274	$115

(1) Net of reserves for credit losses related to foreign exchange and derivatives contracts of $6 million and $4 million at December 31, 2002 and 2001, respectively.

(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 $106 million and $92 million at December 31, 2002 and 2001, respectively.

NOTE 5 AVAILABLE-FOR-SALE SECURITIES

The following is a summary of available-for-sale securities:

December 31, 2002

(Millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Foreign government obligations	$1,097	$ 56	$ (3)	$1,150
Mortgage-backed securities	1,003	49	—	1,052
Other bonds and obligations	899	59	(2)	956
U.S. government and agencies obligations	10	—	—	10
Marketable equity securities	1	—	—	1
Total	$3,010	$164	$ (5)	$3,169

December 31, 2001

(Millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$1,079	$21	$ (2)	$1,098
Foreign government obligations	975	28	(7)	996
Other bonds and obligations	926	22	(2)	946
Marketable equity securities	2	—	—	2
U.S. government and agencies obligations	1	—	—	1
State and municipal obligations	1	—	—	1
Total	$2,984	$71	$(11)	$3,044

The following table shows the remaining maturities for available-for-sale securities, distributed by type as of December 31, 2002:

(Millions)	Within One Year	After One Year but within Five	After Five Years but within 10	After 10 Years	Total
Foreign government obligations	$366	$390	$371	$23	$1,150
Other bonds and obligations	150	308	498	—	956
U.S. government and agencies obligations	7	3	—	—	10
	$523	$701	$869	$23	$2,116
Mortgage-backed securities					$1,052
Marketable equity securities					1
Total available-for-sale securities					$3,169

The table below includes purchases, sales and maturities of available-for-sale securities.

Year ended December 31, (Millions)	2002	2001
Purchases	$1,736	$2,549
Sales	791	1,396
Maturities	1,079	627

Gross realized gains on sales of available-for-sale securities were $11 million, $10 million and $2 million for the years ended December 31, 2002, 2001 and 2000, respectively. Gross realized losses on sales were $2 million and $1 million for the years ended December 31, 2002 and 2001, and were deemed immaterial for the year ended December 31, 2000. The specific identification method was used to determine realized gains and losses.

The change in unrealized gains on available-for-sale securities recognized in other comprehensive income (loss) includes two components: (1) unrealized gains that arose during the period from changes in market value of securities that were held during the period (holding gains), and (2) gains that were previously unrealized but have been recognized in 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, net of tax:

December 31, (Millions, net of tax)	2002	2001	2000
Holding gains	$73	$20	$41
Reclassification for realized gains	(6)	(5)	(1)
Increase in unrealized gains on available-for-sale securities recognized in other comprehensive income (loss)	$67	$15	$40

Included in available-for-sale securities at December 31, 2002 and 2001 were $767 million and $409 million, respectively, which were pledged primarily to various domestic and foreign governmental agencies pursuant to their requirements.

NOTE 6 LOANS

The composition of loans by type of borrower, net of unearned income of $15 million and $12 million at December 31, 2002 and 2001, respectively, was:

December 31, (Millions)	2002	2001
Consumer loans[1]:		
Installment, revolving credit and other	$2,915	$2,123
Loans secured by real estate	397	486
	3,312	2,609
Commercial loans:		
Loans to banks and other financial institutions	1,399	1,168
Loans to businesses	307	732
Loans secured by real estate	61	139
Loans to governments and other institutions	29	28
All other loans	190	95
	1,986	2,162
Total loans	$5,298	$4,771

(1) Excluding consumer loans sold to and securitized with related parties with remaining balances of $356 million and $210 million at December 31, 2002 and 2001, respectively.

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

December 31, (Millions)	2002	2001
Recorded investment in impaired loans requiring an allowance	$115	$121
Recorded investment in impaired loans not requiring an allowance	4	2
Total recorded investment in impaired loans	$119	$123
Loan loss reserves for impaired loans	$ 73	$ 72

Year ended December 31, (Millions)	2002	2001	2000
Average recorded investment in impaired loans	$121	$152	$166
Interest income recognized on a cash basis	1	—	1

AEB had other nonperforming assets, primarily contingent liabilities and matured derivative contracts, totaling $15 million at December 31, 2002 and $22 million at December 31, 2001, respectively.

An analysis of the reserve for credit losses follows:

December 31, (Millions)	2002	2001	2000
Balances – January 1,	$139	$153	$189
Provision for credit losses	50	76	31
Write-offs	(86)	(101)	(73)
Recoveries	15	17	11
Translation and other	1	(6)	(5)
Balances – December 31, [1]	$119	$139	$153
(1) Allocation:			
Loans	$112	$119	$137
Trading assets	6	4	14
Other liabilities	1	16	2
Balances – December 31,	$119	$139	$153

NOTE 7 GOODWILL AND OTHER INTANGIBLES

Effective January 1, 2002, AEB adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which established new accounting and reporting standards for goodwill and other intangible assets. Under the new rules, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are instead subject to annual impairment tests.

As of December 31, 2002, AEB had net identifiable intangible assets with definite lives of $3 million. These intangible assets have a weighted average remaining useful life of 10 years, and mainly reflect the purchase of assets under management. The aggregate amortization expense for these intangible assets during the year ended December 31, 2002 was insignificant. Amortization expense associated with these intangible assets is estimated to be approximately $0.2 million for each of the next five years.

Net goodwill was approximately $28 million and $12 million at December 31, 2002 and 2001, respectively. The December 31, 2001 net loss and December 31, 2000 net income, excluding after-tax goodwill amortization of $0.6 million and $0.7 million, respectively, would have been $(9) million and $30 million, respectively.

NOTE 8 LONG-TERM DEBT

December 31, (Millions)	2002	2001
Floating Rate Subordinated Notes due 2004	$150	$150
Floating Rate Notes, Egyptian Pounds 300 million, due 2006	65	65
Total	$215	$215

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, 2002 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, 2002 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 reduce the 5% interest rate minimum. At December 31, 2002, the effective interest rate on the interest rate swap agreement was 2.40%.

NOTE 9 SHAREHOLDER'S EQUITY

The composition of shareholder's equity was:

December 31, (Millions, except share data)	2002	2001	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	595	553	—	—	—
Retained earnings	231	170	—	—	—
Other comprehensive income (loss), net of tax:					
Net unrealized gains on available-for-sale securities	103	36	—	—	—
Net unrealized derivatives gains	4	—	—	—	—
Foreign currency translation adjustments	(105)	(98)	—	—	—
Minimum pension liability adjustment	(2)	(16)	—	—	—
Accumulated other comprehensive income (loss)	—	(78)	—	—	—
Total	$947	$766	—	—	—

**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, 2002, that AEB meets all capital adequacy requirements to which it is subject.

As of December 31, 2002 and 2001, 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,	2002	2001	Minimum Regulatory Requirements
Tier 1 Capital[(a)]	10.9%	11.1%	4.0%
Total Capital[(a)]	11.4%	12.2%	8.0%
Leverage Capital[(b)]	5.3%	5.3%	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.

In January 2001, the Basel Committee on Banking Supervision ("the Basel Committee") released a proposal for a new risk-based bank capital accord to replace a prior accord that has been in effect since 1988. The Basel Committee is comprised of representatives of central banks and certain bank supervisors from the Group of Ten countries and establishes guidelines and recommendations governing the prudential supervision of banking institutions. The proposal would refine the current capital requirements for credit risk and market risk and would add capital requirements for operational risk. Operational risk means the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. The Basel Committee is expected to complete a new capital accord by the end of 2003 and member countries are expected to implement the new accord by 2006. The ultimate timing for a new accord and the specific new capital requirements incorporated in the final version of the new accord is uncertain. AEB is still evaluating the impact of implementing the new accord on the consolidated financial statements and regulatory capital.

NOTE 11 COMMISSIONS, FEES AND OTHER REVENUES

Commissions, fees and other revenues consisted of:

Year ended December 31, (Millions)	2002	2001	2000
Commissions and fees:			
Letters of credit, acceptances, guarantees and credit lines	$ 27	$ 28	$ 34
Asset management, fiduciary and client service fees	84	75	83
Other commissions and fees	125	127	126
	236	230	243
Other revenues:			
Equity in earnings of and dividends from affiliates	64	31	16
Trading income	15	11	12
Other	32	79	40
Total	$347	$351	$311

Other revenue included intercompany revenue of $5 million, $44 million and $21 million in 2002, 2001 and 2000, respectively.

NOTE 12 FOREIGN CURRENCY

Income from foreign exchange transactions was $77 million for both 2002 and 2001 and $89 million for 2000. Losses from certain foreign currency translation amounts included in income were $9 million in 2002, $1 million in 2001 and $2 million in 2000.

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

(Millions)	2002	2001	2000
Balances – January 1,	$ (98)	$(103)	$ (97)
Net restructuring charge	—	18	—
Net translation losses	(7)	(13)	(6)
Balances – December 31,	$(105)	$ (98)	$(103)

The net income tax (benefits) provision allocated to net translation losses during 2002, 2001 and 2000 were $(4) million, $3 million and $(4) million, respectively.

NOTE 13 RETIREMENT 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, compensation 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. Each pay period these balances are credited with an amount equal to a percentage, determined by an employee's age plus service, of base pay (which includes, but is not limited to regular earnings, incentive pay, shift differential, overtime, certain commissions, and transition pay). 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. 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," were:

(Millions)	2002	2001	2000
Service cost	$ 5	$ 5	$ 6
Interest cost	10	10	11
Expected return on plan assets	(13)	(12)	(11)
Amortization of net actuarial gain	—	(1)	—
Amortization of prior service cost	(1)	(1)	(1)
Settlement/curtailment gain	—	—	(5)
Net periodic pension benefit cost	$ 1	$ 1	$ —

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)	2002	2001
Benefit obligation, October 1 prior year	$149	$147
Service cost	5	5
Interest cost	10	10
Benefits paid	(8)	(6)
Actuarial loss (gain)	20	(3)
Settlements/curtailments	(2)	(2)
Foreign currency exchange rate changes	9	(2)
Benefit obligation at September 30,	$183	$149

Reconciliation of change in fair value of plan assets:

(Millions)	2002	2001
Fair value of plan assets, October 1 prior year	$114	$147
Actual return (loss) on plan assets	8	(28)
Employer contributions	25	5
Benefits paid	(8)	(6)
Settlements	(1)	(2)
Foreign currency exchange rate changes	4	(2)
Fair value of plan assets at September 30,	$142	$114

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

(Millions)	2002	2001
Funded status at September 30,	$(41)	$(35)
Unrecognized net actuarial loss	40	12
Unrecognized prior service cost	(1)	(2)
Unrecognized net transition (asset) obligation	—	(1)
Fourth quarter contributions (net of benefit payments)	1	1
Net amount recognized at December 31,	$ (1)	$(25)

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

(Millions)	2002	2001
Accrued benefit liability	$(49)	$(54)
Prepaid benefit cost	46	5
Minimum pension liability adjustment	2	24
Net amount recognized at December 31,	$ (1)	$(25)

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 $51 million, $48 million and $2 million, respectively, as of December 31, 2002, and $95 million, $89 million and $40 million, respectively, as of December 31, 2001. In 2002, AEB made a $22 million contribution to the United Kingdom pension plan such that at the measurement date the fair market value of the plan assets exceeded the accumulated benefit obligation.

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:

	2002	2001
Discount rates	6.2%	7.0%
Rates of increase in compensation levels	4.0%	4.2%
Expected long-term rates of return on assets*	9.3%	9.5%

** At the September 30, 2002 measurement date, AEB reduced the weighted average return on assets actuarial assumption to be used in calculating the 2003 pension expense to 8.1%.*

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 $3 million, $2 million and $3 million in 2002, 2001 and 2000, 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 2002, 2001 and 2000. 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, 2002 and 2001.

NOTE 14 LEASE COMMITMENTS AND OTHER CONTINGENT LIABILITIES

AEB leases certain office facilities and operating equipment under cancelable and noncancelable agreements. Total operating lease rental expense amounted to $18 million, $25 million and $27 million in 2002, 2001 and 2000, respectively. At December 31, 2002, the minimum aggregate rental commitments under all noncancelable operating leases, net of rentals to be received from noncancelable subleases, were (millions): 2003, $14; 2004, $13; 2005, $10; 2006, $9; 2007, $5; and $21 for future years.

Certain of AEB's operating 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.

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)	2002	2001	2000
Federal	$17	$(42)	$(29)
Foreign	31	42	32
State and local	1	1	2
Total	$49	$ 1	$ 5

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

Year ended December 31, (Millions)	2002	2001	2000
Current	$51	$ 36	$ 11
Deferred	(2)	(35)	(6)
Total	$49	$ 1	$ 5

AEB's net deferred tax assets consisted of:

December 31, (Millions)	2002	2001
Gross deferred tax assets	$163	$126
Gross deferred tax liabilities	(70)	(24)
Net deferred tax assets	$ 93	$102

Gross deferred tax assets at December 31, 2002 and 2001 consisted primarily of reserves not yet deducted for tax purposes of $107 million and $95 million, respectively, and foreign currency translation adjustments of $55 million and $23 million, respectively. A valuation allowance was not required with respect to such assets. Gross deferred tax liabilities at December 31, 2002 and 2001 consisted primarily of accelerated depreciation of $10 million and $13 million, respectively and unrealized gains on available-for-sale securities of $56 million and $9 million, respectively.

AEB's income tax payable to Amexco at December 31, 2002 was $61 million. AEB's income tax receivable from Amexco was $5 million at December 31, 2001.

The income tax provision in 2002, 2001 and 2000 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)	2002	2001	2000
Combined tax at U.S. statutory income tax rate	$50	$ (3)	$12
Increases (decreases) in income taxes resulting from:			
State and local income taxes	—	1	1
Foreign income taxed at rates other than U.S. statutory rate	—	4	(9)
Nondeductible expenditures	1	1	1
Tax preferred investments	(3)	(2)	—
Other	1	—	—
Total	$49	$ 1	$ 5

The items composing comprehensive income (loss) 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 $36 million, $12 million and $22 million for 2002, 2001 and 2000, respectively. The change in net unrealized derivatives gains is presented net of income tax provision of $2 million for 2002. The changes in foreign currency translation adjustments are presented net of income tax (benefit) provision of $(4) million, $3 million and $(4) million for 2002, 2001 and 2000, respectively. The changes in the minimum pension liability are presented net of income tax provision (benefit) of $8 million and $(8) million for 2002 and 2001, respectively.

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 income (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 income (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.

The amounts of gains and losses reclassified into earnings as a result of the discontinuance of cash flow hedges were not significant during either 2002 or 2001.

FAIR VALUE HEDGES

AEB uses derivatives to hedge against the change in fair value of some of its available-for-sale securities and deposit products. Changes in the fair value of such hedges 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 years ended December 31, 2002 and 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 certain foreign currency derivatives as hedges of net investments in certain foreign operations. For such hedges, unrealized gains and losses are recorded, net of tax, as part of foreign currency translation adjustments included in other comprehensive income (loss), whereas the related amounts due to or from counterparties are included in other liabilities or other assets. During the years ended December 31, 2002 and 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) $411 million and $285 million at December 31, 2002 and 2001, 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 trading 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, 2002, 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 versus 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 $48 million at December 31, 2002, 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 AEB's financial position to result from these contracts.

December 31, (Millions)	2002	2001
Commitments to extend credit	$ 538	$ 627
Standby letters of credit and guarantees:		
Financial	802	739
Performance	172	152
Commercial and other letters of credit	369	260
Total off-balance sheet items	$1,881	$1,778

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 unused. 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 term 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 of $684 million at December 31, 2002 (financial related: $578 million; performance related: $106 million) and $583 million at December 31, 2001 (financial related: $459 million; performance related: $124 million). The collateral or other security was predominantly represented by customers' deposits and counter-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, 2002 and 2001, AEB was in possession of or had rights to $148 million and $158 million, respectively, of collateral or other security, consisting primarily of customers' deposits and guarantees.

NOTE 18 GUARANTEES

AEB provides various guarantees to its customers in the ordinary course of business, including financial letters of credit, performance guarantees and financial guarantees, among others. Generally, guarantees range in term from three months to one year. AEB receives a fee related to most of these guarantees, many of which help to facilitate customer cross-border transactions. Virtually all of these guarantees are collateralized or supported by other types of recourse provisions (i.e. pledged assets, primarily comprised of cash and time deposits, and counter-guarantees). The following table provides information related to such guarantees; such information is also reflected in Note 17:

December 31, 2002 (Millions)	Maximum amount of undiscounted future payments	Amount of related liability
Financial Letters of Credit	$249	$0.2
Performance Guarantees	172	0.2
Financial Guarantees	553	0.1
Total	$974	$0.5

NOTE 19 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 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, 2002 and 2001 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:

December 31, (Millions)	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Available-for-sale securities	$3,169	$3,169	$3,044	$3,044
Trading assets	486	486	223	223
Loans, net	5,186	5,253	4,652	4,652
Derivative financial instruments, net	—	—	51	51
Financial Liabilities				
Interest-bearing customers' deposits	$8,614	$8,615	$7,687	$7,575
Long-term debt	215	215	215	215
Trading liabilities	274	274	115	115
Derivative financial instruments, net	21	21	—	—

The carrying and fair values of other off-balance sheet financial instruments were not material as of December 31, 2002 and 2001. 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 credit-worthiness.

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 20 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 was:

December 31, (Millions)	2002			2001		
	On-Balance Sheet	Off-Balance Sheet	Total	On-Balance Sheet	Off-Balance Sheet	Total
Banks and other financial institutions	$ 5,373	$ 688	$ 6,061	$ 3,840	$ 540	$ 4,380
Other businesses	1,393	326	1,719	2,372	472	2,844
Foreign governments	1,347	4	1,351	1,126	—	1,126
Individuals	3,400	863	4,263	2,634	765	3,399
Real estate	1,049	—	1,049	1,161	—	1,161
All other	33	—	33	2	1	3
Total	$12,595	$1,881	$14,476	$11,135	$1,778	$12,913

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 instruments 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, 2002 and 2001 (in billions):

Country	Loans	Foreign Exchange and Derivatives	Net Guarantees and Contingents	Other Credit Exposures(a)	2002 Total Credit Exposure(b)	2001 Total Credit Exposure(b)
Hong Kong	$ 0.5	$ —	$ —	$ 0.1	$ 0.7	$ 0.7
Indonesia	—	—	—	—	0.1	0.1
Singapore	0.6	—	0.1	0.1	0.9	0.7
Korea	0.2	—	—	—	0.3	0.2
Taiwan	0.3	—	—	0.1	0.4	0.3
Japan	—	—	—	0.1	0.1	0.2
Other	0.1	—	—	0.1	0.2	0.1
Total Asia/Pacific Region(b)	1.7	—	0.3	0.7	2.7	2.4
Chile	0.1	—	0.1	—	0.2	0.2
Brazil	0.2	—	—	0.1	0.3	0.3
Mexico	0.1	—	—	—	0.1	0.1
Argentina(c)	—	—	—	—	—	0.1
Other	0.4	—	0.2	0.2	0.7	0.8
Total Latin America(b)	0.8	—	0.3	0.3	1.4	1.4
India	0.3	—	0.1	0.3	0.7	0.7
Pakistan	0.1	—	—	0.1	0.2	0.2
Other	—	—	—	0.1	0.2	0.2
Total Subcontinent(b)	0.4	—	0.1	0.6	1.1	1.1
Egypt	0.1	—	—	0.2	0.3	0.4
Other	0.1	—	—	—	0.2	0.2
Total Middle East/Africa(b)	0.2	—	0.1	0.2	0.5	0.6
Total Europe(b)	1.6	0.1	0.5	2.7	4.9	4.4
Total North America	0.5	0.1	0.2	1.9	2.7	2.1
Total Worldwide(b)	$ 5.3	$ 0.2	$ 1.4	$ 6.4	$ 13.3	$ 12.1

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 December 31, 2002 were $28 million, which includes loans of $17 million, compared to December 31, 2001 exposures of $56 million, which included loans of $25 million.

NOTE 21 RESTRUCTURING CHARGES

In the third and fourth quarters of 2001, AEB recorded aggregate restructuring charges of $96 million ($65 million after-tax). The aggregate restructuring charges consisted of $36 million for severance relating to the elimination of approximately 500 jobs and $60 million of other charges primarily consisting of $26 million reflected in provision for credit losses, $24 million in currency translation losses, and $10 million of charges primarily relating to exit costs and asset impairment charges.

During the year ended December 31, 2002, AEB adjusted 2001's aggregate restructuring charge liability by taking back into income a net pre-tax amount of $8 million ($5 million after-tax). This is comprised primarily of the reversal of severance and related benefits of $7 million and $1 million of other charges. In the third and fourth quarters of 2002, AEB recorded new restructuring charges of $5 million ($3 million after-tax). The 2002 charges consist of $3 million in severance costs and $2 million of other costs. As of December 31, 2002, AEB had a liability of $11 million for the expected future cash outlays related to these charges.

The following table summarizes by category AEB's restructuring charges, cash payments, balance sheet charge-offs and the resulting liability balance as of December 31, 2001 and 2002:

(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
Cash paid	(12)	(5)	(17)
Net adjustments due to revisions to 2001 plans	(7)	(1)	(8)
Additional charges	3	2	5
Liability balance at December 31, 2002	$ 6	$ 5	$11

NOTE 22 GEOGRAPHIC OPERATIONS

AEB operates in the financial services business on a global basis and is subject to significant competition in highly regulated markets.

It is not practical to precisely disaggregate operations by geographic region. Accordingly, total assets, net financial revenues and income (loss) before income taxes have been allocated to geographic regions based upon internal allocations, which necessarily involve management's judgment.

AEB's operations by geographic regions at December 31, 2002, 2001 and 2000 and for the years then ended were (millions):

	North America	Europe	Middle East/ Africa	Asia/ Pacific(a)	Latin America and Other	Consolidated
2002						
Total assets	$1,738	$4,590	$ 512	$4,223	$1,993	$13,056
Net financial revenues(b)	73	190	31	316	98	708
Income before income taxes	4	17	—	81	40	142
2001						
Total assets	$1,599	$3,698	$ 610	$3,813	$1,843	$11,563
Net financial revenues(b)	51	198	39	312	87	687
(Loss) income before income taxes	(41)	(4)	(2)	(9)	47	(9)
2000						
Total assets	$1,838	$3,137	$ 897	$4,150	$1,517	$11,539
Net financial revenues(b)	30	201	56	275	86	648
Income (loss) before income taxes	(31)	(4)	21	—	48	34

(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, 2002 and 2001, 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, 2002. 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, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 7 to the financial statements, in 2002 American Express Bank Ltd. adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets."

Ernst + Young LLP

New York, New York
January 27, 2003

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EDWARD C. SMITH
Executive Director

SECRETARY

STEPHEN P. NORMAN

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

Produced by American Express Bank
Finance and Public Affairs and Communications Departments

Design: Jack Hough Associates, Inc. Norwalk CT

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