American Express Bank Annual Report

2003

FINANCIAL HIGHLIGHTS

2003

(Millions, except percentage amounts)	2003	2002
FOR THE YEAR		
Net income	$ 98	$ 93
Return on average assets [a]	.72%	.78%
Return on average total shareholder's equity [a]	10.35%	11.24%
AT YEAR-END		
Available-for-sale securities	$ 3,342	$ 3,169
Loans	6,322	5,298
Total assets	14,217	13,056
Customers' deposits	10,776	9,743
Long-term debt	199	215
Shareholder's equity	957	947
Risk-based capital ratios:		
Tier 1	11.4%	10.9%
Total	11.3%	11.4%
Leverage ratio	5.5%	5.3%

(a) Computed on a trailing 12-month basis using total assets and total shareholder's equity as reported in the Consolidated Financial Statements prepared in accordance with GAAP. Prior period amounts have been revised to conform to current presentation.

BEHIND AEB'S STRONG PERFORMANCE IN 2003 WERE DOUBLE-DIGIT GROWTH IN THE PRIVATE BANK'S CLIENT HOLDINGS AND SOLID REVENUE GROWTH IN BOTH THE PRIVATE BANK AND FINANCIAL INSTITUTIONS GROUP.

American Express Bank (AEB) produced another year of good results in 2003, with solid growth across its core businesses.

For the year, net income increased 6 percent to $98 million from $93 million, while revenue rose 13 percent to $745 million from $658 million. We reinvested much of our revenue gains back into the business to drive future growth.

Behind AEB's strong performance in 2003 were double-digit growth in the Private Bank's client holdings and solid revenue growth in both the Private Bank and Financial Institutions Group (FIG). The Bank remained well capitalized as defined by regulatory guidelines. At year-end, risk-based capital ratios stood at 11.4 percent for Tier 1 Capital, and 11.3 percent for Total Capital.

We achieved success against a backdrop of an unsettled economic and geo-political environment. The Iraq war, the SARS epidemic and the lingering effects of the global economic slowdown affected many of our clients, creating additional market uncertainty in the early part of 2003. Our people worked closely with clients throughout the year, seeking to both understand and anticipate their changing financial needs in light of the year's events and to help them anticipate the longer-term changes that may impact their businesses and personal finances.

As a result of our efforts, we saw progress across the board in 2003.

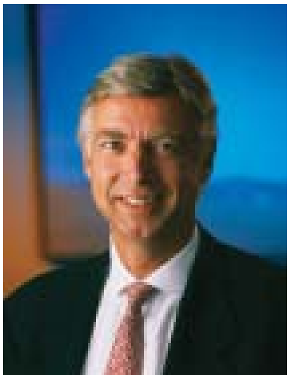
The Private Bank continued to deliver strong results. Client holdings rose 16 percent to $16.2 billion and investment product sales grew by 58 percent. We launched new mutual funds, hedge funds and alternative investment products and intensified our focus on making insurance products available to clients to better help them pass along wealth to future generations. Helping to tie all of these offerings together is Portfolio View, a web-based service that we launched in February 2003, which allows clients to view their statements securely online.

In the Europe/Middle East/Africa region we launched our new President's Circle service, an exclusive program for qualified Private Bank clients, which combines the financial services expertise of an AEB relationship manager with premium card and lifestyle services such as travel, shopping and concierge programs offered by other American Express units.

In the Financial Institutions Group, which serves over 1,700 banks around the world, we continued to grow our international payments business, gaining market share in almost all of the U.S. dollar, euro and yen categories in which we compete. In 2003, we launched FedBen®, which enables us to market our international payments services to U.S. banks for the first time. We also stepped up sales of our eAccess service, an innovative payments product that allows clients to handle most of their inquiries on line. This self-service approach helps our financial institution clients serve their customers better, reduce their costs and ultimately make them more successful businesses.

FIG's investment distribution business gained momentum, more than doubling, after 22 percent growth in 2002. This business provides international mutual funds to banks and other financial institutions that distribute the funds to their non-U.S. retail clients.

W. Richard Holmes
President and
Chief Executive Officer



OUR PEOPLE WORKED CLOSELY WITH CLIENTS THROUGHOUT THE YEAR, SEEKING TO BOTH UNDERSTAND AND ANTICIPATE THEIR CHANGING FINANCIAL NEEDS IN LIGHT OF THE YEAR'S EVENTS.

In 2003 we launched two new fund portfolios, Greater China Equities and European Short-Term Bonds, bringing to 28 the number of American Express fund portfolios we offer through FIG's investment distribution business. Of these, 22 are sub-advised by our investment management affiliates, American Express Financial Advisors or Threadneedle Asset Management.

The acquisition of Threadneedle by American Express in 2003 adds further depth to the investment services AEB can provide its clients. Based in London, Threadneedle has won numerous awards for investment performance and will serve as the international investment platform for American Express and an important resource for AEB's Private Bank and Financial Institution clients.

The Global Investment Services (GIS) unit makes use of Threadneedle as well as other American Express units and third parties to provide AEB individual and financial institution clients a comprehensive array of mutual funds, hedge funds, alternative investment products and deposit products. The group also offers discretionary asset management services.

In 2003, total assets under GIS management grew by 29 percent; managed investment products grew by more than 60 percent. The new products we introduced in 2003 generated approximately $600 million in assets. These included Cash Plus, a new discretionary asset management option, new British pound- and Australian dollar-denominated Premium Deposits, and 10 new portfolio, mutual and alternative investment fund products.

Financial Markets Services, which provides structured investment products, foreign exchange services and interest rate products for clients of the Private Bank, FIG as well as other American Express units, continued to generate substantial revenue for the Bank.

Throughout the year, AEB continued to draw upon the considerable product and service capabilities of other American Express businesses. The Private Bank and FIG continued to be important distributors of American Express-managed investments and products. The Private Bank makes premium card products such as the Centurion® Card available to its wealthy clients; FIG distributes American Express® Travelers Cheques and the International Dollar Card through its correspondent banking relationships. The Personal Financial Services business markets credit, savings and investment products directly to a targeted, affluent base of cardmembers in Germany, Hong Kong, India, Indonesia, Singapore, Taiwan and the United Kingdom.

While strengthening our core businesses, we continued our planned reduction in commercial lending activities. Corporate loans decreased by 47 percent to $173 million and now make up just 3 percent of the Bank's total loan portfolio.

Our progress is a testament to the hard work and dedication of our employees around the world. I am privileged to work with such a talented and resourceful group of people and look forward to seeing them as I travel throughout our 44-country network.

Looking ahead, I am optimistic about AEB. Over the past five years we have pursued a consistent, focused strategy, which has helped us become a much stronger organization. We are well positioned to deliver value to both our clients and American Express' shareholders.

Sincerely,

W. Richard Holmes

W. Richard Holmes
President and Chief Executive Officer
March 16, 2004

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03

	LINES OF BUSINESS AND SERVICES	OPERATING HIGHLIGHTS
FINANCIAL INSTITUTIONS GROUP	Mutual Funds Distribution Payment Products Cash Management Check Clearing Letters of Credit Bankers' Acceptances Export Finance Reimbursements Documentary Collections	This unit services more than 1,700 banks and financial institutions worldwide. New payment products such as FedBen®, which is geared to U.S. banking clients, helped fuel double-digit growth rates in payments revenue. Sales of e-Access to financial institution clients continued to grow. This innovative internet-based payments inquiry system helps organizations improve staff productivity while enhancing the service they provide to their customers.
THE PRIVATE BANK	Discretionary Asset Management Mutual Funds Distribution Alternative Funds Structured Investments Foreign Exchange and Risk Management Services Deposits Trust, Insurance and Estate Planning Secured Lending The American Express® Card	The Private Bank helps wealthy clients meet their financial needs through deposit products, asset management, and trust and estate planning services. Client holdings increased by 16 percent thanks to a conservative, client-centered approach to wealth management. Growth in investment product sales continued at an accelerated rate, up 58 percent. In February 2003, the Private Bank launched Portfolio View, a secure web-based service that allows clients to see their current portfolio valuations and statements.
PERSONAL FINANCIAL SERVICES	Mutual Funds Distribution Money Market Funds Savings Deposits Mortgages Installment Loans Insurance Product Distribution Lines of Credit Direct Banking The American Express® Card	Personal Financial Services is AEB's retail banking unit that provides customers non-card credit, deposit, savings and insurance products and services through direct channels – phone, Internet and mail. Despite a difficult operating environment, assets under management rose 8 percent, largely due to growth in investment products, which increased 16 percent. Retail banking was launched in the Philippines following the acquisition of a local savings and trust institution in 2002.
FINANCIAL MARKETS SERVICES	Foreign Exchange and Options Interest Rate Products Structured Investment Products Fixed Income and Equity Execution	Financial Markets Services, which provides structured investment products, foreign exchange services and interest rate products for clients of the Private Bank, FIG, as well as other American Express units, continued to generate substantial revenue for the Bank.
GLOBAL INVESTMENT SERVICES	Discretionary Asset Management Alternative Investment Funds Management Investment Certificates Management Mutual Funds Management Money Market Funds Management	Global Investment Services provides products to clients of AEB's Financial Institutions Group, Private Bank, and Personal Financial Services units. In 2003, total assets under GIS management grew by 29 percent; managed investment products grew by more than 60 percent. New products introduced in 2003 included Cash Plus, a new discretionary asset management option, new British pound- and Australian dollar- denominated Premium Deposits, and 10 new portfolio, mutual and alternative investment fund products.

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CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31, (Millions)	2003	2002	2001
Interest income:			
Loans	$298	$287	$356
Securities	183	196	186
Deposits with banks	45	45	102
Total	526	528	644
Interest expense:			
Deposits	203	209	328
Short-term borrowings	4	9	11
Long-term debt	7	10	27
Total	214	228	366
Net interest expense from related party transactions (Note 3)	1	7	18
Net interest income	311	293	260
Provision for credit losses:			
Ongoing	75	50	50
Restructuring related	—	—	26
Net interest income after provision for credit losses	236	243	184
Noninterest income (Note 11):			
Commissions and fees	258	236	230
Foreign exchange income and other revenues	251	179	197
Total	509	415	427
Net financial revenues	745	658	611
Noninterest expenses:			
Salaries and employee benefits	293	251	264
Net occupancy and equipment	85	68	75
Professional fees	56	51	52
Marketing and promotion	19	20	23
Travel and entertainment	21	18	20
Communications	13	11	12
Other	113	100	104
Restructuring charges (Note 20)	(2)	(3)	70
Total	598	516	620
Income (loss) before income taxes	147	142	(9)
Income tax provision (Note 15)	49	49	1
Net income (loss)	$ 98	$ 93	$ (10)

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

December 31, (Millions)	2003	2002
ASSETS		
Cash and noninterest-earning deposits with banks (Note 2)	$ 381	$ 254
Interest-earning deposits with banks	1,122	1,454
Federal funds sold	446	728
Trading assets (Note 4)	806	486
Available-for-sale securities (Note 5)	3,342	3,169
Loans (Note 6)	6,322	5,298
Reserve for loan losses (Note 6)	(84)	(112)
Customers' acceptance liability	60	51
Accrued interest and other receivables	334	294
Land, buildings and equipment, net of accumulated depreciation and amortization (2003, $178; 2002, $168)	156	141
Due from Amexco	634	520
Other assets	698	773
Total assets	$14,217	$13,056
LIABILITIES AND SHAREHOLDER'S EQUITY		
Customers' deposits:		
Noninterest bearing	$ 1,131	$ 891
Interest bearing	9,645	8,852
Total	10,776	9,743
Short-term borrowings	75	101
Trading liabilities (Note 4)	553	274
Acceptances outstanding	60	51
Accounts payable	174	222
Long-term debt (Note 8)	199	215
Due to Amexco	931	988
Other liabilities	492	515
Total liabilities	13,260	12,109
Shareholder's equity (Note 9):		
Common stock	121	46
Preferred stock	—	75
Additional paid-in capital	595	595
Retained earnings	280	231
Other comprehensive loss, net of tax:		
Net unrealized gains on available-for-sale securities	75	103
Net unrealized derivatives gains	—	4
Foreign currency translation adjustments (Note 12)	(112)	(105)
Minimum pension liability	(2)	(2)
Accumulated other comprehensive loss	(39)	—
Total shareholder's equity	957	947
Total liabilities and shareholder's equity	$14,217	$13,056

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, (Millions)	2003	2002	2001
Operating activities:			
Net income (loss)	$ 98	$ 93	$ (10)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for credit losses	75	50	76
Depreciation and amortization	58	26	26
Accretion of unearned income and other	(55)	(38)	(42)
Non-cash portion of restructuring charge	(2)	(3)	55
Undistributed earnings of equity method affiliates	(11)	(24)	(26)
Net realized gains on sales and other dispositions of assets	(19)	(11)	(8)
Deferred income taxes, net	35	(2)	(35)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Trading assets	(321)	(238)	191
Trading liabilities	192	121	(151)
Receivables and payables with Amexco	(115)	68	48
Accrued interest and other receivables	(10)	(18)	96
Accounts payable	(98)	(20)	(52)
Other liabilities	9	(99)	33
Net cash (used in) provided by operating activities	(164)	(95)	201
Investing activities:			
Net change in interest-earning deposits with banks	359	182	209
Net change in federal funds sold	283	(522)	(143)
Proceeds from sales of available-for-sale securities	587	791	1,396
Principal collected on available-for-sale securities	1,163	1,079	627
Purchases of available-for-sale securities	(1,766)	(1,736)	(2,549)
Loan operations and principal collections, net	(790)	(341)	477
Net change in loans to Amexco	(106)	(293)	(48)
Proceeds from sales of land, buildings and equipment	27	13	5
Purchases of land, buildings and equipment	(52)	(56)	(50)
Dispositions, net of cash	—	13	—
Other, net	57	(33)	(147)
Net cash used in investing activities	(238)	(903)	(223)
Financing activities:			
Net change in customers' deposits	779	515	835
Net change in short-term borrowings	(334)	(204)	(141)
Net change in borrowings from Amexco	51	331	(31)
Principal payments on long-term debt	—	—	(313)
Cash capital contributions from Amexco	—	25	25
Cash dividends paid to Amexco	(49)	(5)	(9)
Net cash provided by financing activities	447	662	366
Effect of exchange rate changes on cash and noninterest-earning deposits with banks	82	154	(192)
Net change in cash and noninterest-earning deposits with banks	127	(182)	152
Cash and noninterest-earning deposits with banks at the beginning of the year	254	436	284
Cash and noninterest-earning deposits with banks at the end of the year	$ 381	$ 254	$ 436

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, 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
Comprehensive income:						
Net income	98					98
Change in net unrealized gains on available-for-sale securities	(28)				(28)	
Change in net unrealized derivatives gains	(4)				(4)	
Foreign currency translation adjustments	(7)				(7)	
Total comprehensive income	59					
Purchase and retirement of preferred stock for common stock	—	75	(75)			
Cash dividends paid to Amexco	(49)					(49)
Balance, December 31, 2003	$957	$121	$—	$595	$ (39)	$280

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 primary 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). AEB does not directly or indirectly do business in the United States except as an incident to its activities outside the United States. American Express Bank segment information included in financial information issued by Amexco for use by its shareholders excludes activities of AEB's non-banking units and includes other Amexco affiliated businesses in AEB's financial information reported therein.

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 income tax provisions (benefits), as a component of shareholder's equity. In addition, losses are also recognized when management determines that a decline in value is other-than-temporary, which requires judgement regarding the amount and timing of recovery. Indicators of other-than-temporary impairment for debt securities include issuer down grade, default or bankruptcy. AEB also considers the extent to which cost exceeds fair value, the duration and size of that gap, and management's judgement about the issuers current and perspective financial condition. Fair value is generally based on quoted market prices. Trading securities, consisting primarily of foreign government obligations, are generally held for resale in the near term to benefit from short-term market movements. Gains and losses on trading assets are recognized in other revenue.

LOANS

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

Interest income for loans is accrued on unpaid principal balances in accordance with the terms of the loan. Loan fees and deferred acquisition costs are amortized over the life of the loan using the effective interest method. Generally, the accrual of interest on these loans is discontinued at the time the loan is 90 to 180 days delinquent, depending on loan type, or when an impairment is determined.

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.

For smaller-balance consumer loans related to the Personal Financial Services business, management establishes reserves it believes to be adequate to absorb credit losses inherent in the portfolio. Generally, these loans are written off in full when an impairment is determined or when the loan becomes 120 or 180 days past due, depending on loan type.

Loans other than 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.

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

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 nonperforming. Deferred net fees were not material at December 31, 2003 and 2002.

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, net of taxes, in other comprehensive income as part of shareholder's equity.

ACCOUNTING DEVELOPMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. AEB adopted the provisions of SFAS No. 143 on January 1, 2003; the impact on AEB's financial statements was 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. AEB will comply with the Statement's requirements in any future restructuring activities.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," as revised (FIN 46), which addresses consolidation by business enterprises of variable interest entities (VIEs) and was subsequently revised in December 2003. An entity is subject to consolidation according to the provisions of FIN 46, if, by design, either (i) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or, (ii) as a group, the holders of the equity investment at risk lack: (a) direct or indirect ability to make decisions about an entity's activities; (b) the obligation to absorb the expected losses of the entity if they occur; or (c) the right to receive the expected residual returns of the entity if they occur. In general, FIN 46 requires a VIE to be consolidated when an enterprise has a variable interest for which it is deemed to be a primary beneficiary which means that it will absorb a majority of the VIE's expected losses or receive a majority of the VIE's expected residual return. AEB adopted the provisions of FIN 46 on December 31, 2003; the impact on AEB's financial statements was immaterial.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The Statement amends and clarifies accounting for derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. The adoption of this Statement did not have a material impact on AEB's financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." The Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability; many of those instruments were previously classified as equity. The adoption of this Statement did not have a material impact on AEB's financial statements.

In November 2003, the FASB ratified a consensus on the disclosure provisions of Emerging Issues Task Force (EITF) Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The disclosure provisions of this rule, which are addressed in Note 5, require tabular presentation of certain information regarding investment securities with gross unrealized losses.

In December 2003, the FASB issued SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." This Statement amends the disclosure requirements of SFAS No. 87, "Employers' Accounting for Pensions," No. 88, "Employers' Accounting for Settlement and Curtailments of Defined Benefit Pension Plans and for the Termination of Benefits," and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Statement does not change the recognition and measurement requirements of those Statements. See Note 13 for disclosures regarding AEB's Retirement Plans.

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)	2003	2002	2001
Interest	$237	$252	$435
Income taxes	32	25	31

Net cash paid for income taxes does not include amounts received or paid 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, 2003 and 2002, required reserves held with various foreign central banks were $213 million and $147 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)	2003	2002
Assets:		
Loans	$554	$443
Investments in affiliates	183	187
Other assets	86	79
Total assets	$823	$709
Liabilities:		
Deposits and borrowed funds	$917	$858
Other liabilities	46	90
Total liabilities	$963	$948

From time to time, AEB has sold and securitized certain consumer loans to American Express Overseas Credit Corporation (a wholly-owned direct subsidiary of American Express Credit Corporation). Remaining balances on such loans were $271 million and $423 million at December 31, 2003 and 2002, respectively.

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

Year ended December 31, (Millions)	2003	2002	2001
Interest income(1)	$ 13	$ 2	$ 2
Interest expense	14	9	20
Net interest expense from related party transactions	$ (1)	$ (7)	$(18)

(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, 2003 for both the $100 million and $30 million of intercompany Subordinated Notes due to Amexco was 1.67%, and will vary quarterly based upon three-month U.S. dollar deposits of leading banks in the London interbank market plus 50 basis points.

AEB and American Express Financial Corporation (an affiliated company and a wholly-owned subsidiary of Amexco) each own 50 percent of American Express International Deposit Company (AEIDC). AEB's investment of $143 million as of December 31, 2003 is accounted for using the equity method and is included in Other Assets on the Consolidated Balance Sheet. AEB's share of AEIDC's pretax income included as a component of other revenues was $68 million, $63 million and $26 million for the years ended December 31, 2003, 2002 and 2001, respectively. AEIDC's total assets were $4.8 billion at December 31, 2003 and 2002 and were fully consolidated on American Express Financial Corporation's Consolidated Balance Sheets.

AEIDC is organized under the laws of the Cayman Islands, British West Indies and is in the business of issuing deposit certificates denominated in U.S. Dollars, Euros, Pound Sterling, and Australian Dollars, which are not insured by the Federal Deposit Insurance Corporation. AEB distributes these certificates through relationship managers at The Private Bank.

AEB also owns a 40.8 percent interest in Egyptian American Bank (EAB). EAB was established as a Joint Stock Company between the Bank of Alexandria and AEB. Today EAB is one of Egypt's largest private sector banks listed on the Cairo Stock Exchange conducting a full range of commercial banking services through its Head Office in Cairo and 30 branches.

AEB's investment in EAB of $38 million as of December 31, 2003 is accounted for using the equity method and is included in Other Assets on the Consolidated Balance Sheet. AEB's share of EAB's pretax income included as a component of other revenues was $8 million, $0.3 million and $3 million for the years ended December 31, 2003, 2002 and 2001, respectively. EAB's total assets were $1.7 billion and $1.8 billion at December 31, 2003 and 2002, respectively and were not reflected in AEB's Consolidated Balance Sheets.

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)	2003	2002
Foreign government obligations	$135	$167
Commercial paper	9	5
Foreign exchange and derivative contracts(1)(2)	602	267
Other trading assets	60	47
Total trading assets	$806	$486
Foreign exchange and derivative contracts(2)	553	274
Total trading liabilities	$553	$274

(1) Net of reserves for credit losses related to foreign exchange and derivatives contracts of $6 million at December 31, 2003 and 2002.

(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 $183 million and $106 million at December 31, 2003 and 2002, respectively.

NOTE 5 AVAILABLE-FOR-SALE SECURITIES

The following is a summary of available-for-sale securities at December 31:

	2003				2002			
(Millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Foreign government obligations	$1,273	$ 46	$ (2)	$1,317	$1,097	$ 56	$ (3)	$1,150
Mortgage-backed securities	1,020	23	(8)	1,035	1,003	49	—	1,052
Other bonds and obligations	921	59	(2)	978	899	59	(2)	956
U.S. government and agencies obligations	10	—	—	10	10	—	—	10
Marketable equity securities	2	—	—	2	1	—	—	1
Total	$3,226	$128	$ (12)	$3,342	$3,010	$164	$ (5)	$3,169

The following table provides information about available-for-sale securities with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2003:

	Less than 12 months		12 months or more		Total	
(Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other bonds and obligations	$ 68	$ 2	$—	$—	$ 68	$ 2
Mortgage-backed securities	337	8	—	—	337	8
Foreign government obligations	156	2	—	—	156	2
Total	$561	$12	$—	$—	$561	$12

Approximately 110 investment positions were in an unrealized loss position as of December 31, 2003. The gross unrealized losses on these securities are attributable to a number of factors including changes in interest rates and credit spreads and specific credit events associated with individual issuers. As part of its ongoing monitoring process, management has concluded that none of these securities are other-than-temporarily impaired at December 31, 2003. AEB has the ability and intent to hold these securities for a time sufficient to recover its amortized cost. See the Securities section of Note 1 for information regarding AEB's policy for determining when a security's decline in value is other-than-temporary.

The following table shows the remaining maturities for available-for-sale securities at fair value, distributed by type as of December 31, 2003:

(Millions)	Within One Year	After One Year but within Five	After Five Years but within 10	After 10 Years	Total
Foreign government obligations	$367	$366	$ 582	$2	$1,317
Other bonds and obligations	97	268	613	—	978
U.S. government and agencies obligations	8	2	—	—	10
	$472	$636	$1,195	$2	$2,305
Mortgage-backed securities					$1,035
Marketable equity securities					2
Total available-for-sale securities					$3,342

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

Year ended December 31, (Millions)	2003	2002
Purchases	$1,766	$1,736
Sales	587	791
Maturities	1,163	1,079

Gross realized gains on sales of available-for-sale securities were $10 million, $11 million and $10 million for the years ended December 31, 2003, 2002 and 2001, respectively. Gross realized losses on sales were negligible for the year ended December 31, 2003, and were $2 million and $1 million for the years ended December 31, 2002 and 2001, respectively. The specific identification method was used to determine realized gains and losses.

There were $8 million, $5 million and $3 million of net gains for the years ended December 31, 2003, 2002 and 2001, respectively, related to trading securities, which are included in trading assets, held at each balance sheet date.

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

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

December 31, (Millions, net of tax)	2003	2002	2001
Holding (losses) gains	$(22)	$73	$20
Reclassification for realized gains	(6)	(6)	(5)
Increase in unrealized (losses) gains on available-for-sale securities recognized in other comprehensive (loss) income	$(28)	$67	$15

Included in available-for-sale securities at December 31, 2003 and 2002 were securities totaling $711 million and $767 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 $18 million and $15 million at December 31, 2003 and 2002, respectively, was:

December 31, (Millions)	2003	2002
Consumer loans(1)(2):		
Installment, revolving credit and other	$3,946	$2,915
Loans secured by real estate	340	397
	4,286	3,312
Commercial loans:		
Loans to banks and other financial institutions	1,863	1,399
Loans to businesses	108	307
Loans secured by real estate	65	61
Loans to governments and other institutions	—	29
All other loans(2)	—	190
	2,036	1,986
Total loans	$6,322	$5,298

(1) Excluding consumer loans sold to and securitized with remaining balances of $539 million and $779 million at December 31, 2003 and 2002, respectively.

(2) During 2003, loans previously classified in "All other loans" were reclassified to the consumer category. These loans represent non-PFS consumer loans that are an ongoing part of AEB's consumer business.

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

December 31, (Millions)	2003	2002
Recorded investment in impaired loans requiring an allowance	$ 77	$115
Recorded investment in impaired loans not requiring an allowance	1	4
Total recorded investment in impaired loans	$ 78	$119
Loan loss reserves for impaired loans	$ 43	$ 73

Year ended December 31, (Millions)	2003	2002	2001
Average recorded investment in impaired loans	$98	$121	$152
Interest income recognized on a cash basis	1	1	—

AEB had other nonperforming assets, primarily matured foreign exchange and other derivative contracts and other credit-related commitments, totaling $15 million at December 31, 2003 and 2002.

An analysis of the reserve for credit losses follows:

December 31, (Millions)	2003	2002
Balances – January 1,	$119	$139
Provision for credit losses	75	50
Write-offs	(115)	(86)
Recoveries	16	15
Translation and other	(3)	1
Balances – December 31, (1)	$ 92	$119
(1) Allocation:		
Loans	$ 84	$112
Other assets, primarily matured foreign exchange and other derivative contracts	6	6
Other credit-related commitments	2	1
Balances – December 31,	$ 92	$119

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 SFAS 142, goodwill and other intangible assets deemed to have indefinite lives are not amortized but are instead subject to annual impairment tests. Management completed goodwill impairment tests as of the date of initial adoption and again during 2002 and 2003. Such tests did not indicate impairment.

As of December 31, 2003 and 2002, AEB had net identifiable intangible assets with definite lives of $4 million and $3 million, respectively. The aggregate amortization expense for these intangible assets was $0.4 million at December 31, 2003 and was negligible at December 31, 2002 and 2001. These assets have a weighted average useful life of 11 years, and mainly reflect the purchase of assets under management. Amortization expense associated with these intangible assets is estimated to be approximately $0.4 million for each of the next five years.

Net goodwill was $26 million at December 31, 2003 and 2002 and is included as a component of other assets. The net loss for the year ended December 31, 2001, excluding after-tax goodwill amortization of $0.6 million would have been $(9) million.

NOTE 8 LONG-TERM DEBT

December 31, (Millions)	2003	2002
Floating Rate Subordinated Notes due February 2004	$150	$150
Floating Rate Notes, Egyptian Pounds 300 million, due 2006	49	65
Total	$199	$215

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, 2003 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, 2003, the effective interest rate on the interest rate swap agreement was 1.89%. The notes matured and were fully repaid in February 2004.

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, 2003 was 10.5% and will vary quarterly based on the Central Bank of Egypt discount rate plus 1/2 of 1%.

AEB, American Express Travel Related Services Company, Inc. (a wholly-owned direct subsidiary of Amexco) (TRSCO); and American Express Credit Corporation (CREDCO) and American Express Centurion Bank (both wholly-owned direct subsidiaries of TRSCO); and American Express Overseas Credit Corporation Limited (a wholly-owned direct subsidiary of CREDCO), have established programs for the issuance, outside the United States, of debt instruments to be listed on the Luxembourg Stock Exchange. The maximum aggregate principal amount of debt instruments outstanding at any one time under this program will not exceed $6.0 billion. At December 31, 2003 and 2002, AEB did not have any debt outstanding under this program.

Other financial institutions have committed to extend lines of credit to AEB of $519 million and $524 million at December 31, 2003 and 2002, respectively.

NOTE 9 SHAREHOLDER'S EQUITY

The composition of shareholder's equity was:

December 31, (Millions, except share data)	2003	2002	Par Value	Authorized Shares	Issued and Outstanding Shares[1]
Common stock	$121	$ 46	$100	2,000,000	1,210,000
Preferred stock:					
Class A[1]	—	—	1	1,925,000	—
Class B[2][3]	—	75	1	75,000	75,000
Additional paid-in capital	595	595	—	—	—
Retained earnings	280	231	—	—	—
Other comprehensive (loss) income, net of tax:					
Net unrealized gains on available-for-sale securities	75	103	—	—	—
Net unrealized derivatives gains	—	4	—	—	—
Foreign currency translation adjustments	(112)	(105)	—	—	—
Minimum pension liability	(2)	(2)	—	—	—
Accumulated other comprehensive (loss) income	(39)	—	—	—	—
Total	$957	$947	—	—	—

(1) On November 19, 2003, in connection with the exchange described in (2) below, the Class A noncumulative adjustable rate preferred stock was canceled.

(2) On November 19, 2003, 75,000 shares of Class B noncumulative adjustable rate preferred stock then held by AEBC were exchanged for 750,000 shares of common stock of AEB.

(3) The Class B noncumulative preferred stock, which, prior to November 19, 2003, was held by AEBC, was 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 such capital adequacy guidelines, AEB must meet specific capital criteria 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, 2003, that AEB meets all capital adequacy requirements to which it is subject.

As of December 31, 2003 and 2002, 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:

December 31, ($ in Millions)	2003	2002	Minimum Regulatory Requirements
Capital Ratios			
Tier 1 capital[(a)]	11.4%	10.9%	4.0%
Total capital[(a)]	11.3%	11.4%	8.0%
Leverage[(b)]	5.5%	5.3%	4.0%
Qualifying capital			
Tier 1 capital	$ 775	$ 652	
Total capital	$ 767	$ 680	
Adjusted risk-weighted assets	$ 6,804	$ 5,985	
Adjusted average assets	$14,186	$12,208	

(a) Tier 1 Capital or Total Capital divided by adjusted risk-weighted assets. Adjusted 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 average assets.

In April 2003, the Basel Committee on Banking Supervision (the "Basel Committee") issued a final consultative paper on the proposed new Basel Capital Accord ("new Accord"). The new Accord proposes risk-based capital guidelines that will replace the previous guidelines that have been in effect since 1988. The Basel Committee is comprised of representatives of central banks and bank supervisors from the major industrialized countries and develops broad supervisory standards and guidelines governing the prudential supervision of banking institutions. The new Accord sets capital requirements for operational risk and refines the existing capital requirements for credit and market risk exposures. The goal of the Basel Committee is to complete the new Accord by mid-year 2004, with implementation to take effect in member countries by year-end 2006. AEB is monitoring the status and progress of the new Accord. AEB believes that implementation of the new Accord, to the extent applicable to AEB, could increase minimum risk-based capital requirements and result in changes to certain of AEB's information systems, processes and employee training.

NOTE 11 NONINTEREST INCOME

Noninterest income consisted of:

Year ended December 31, (Millions)	2003	2002	2001
Commissions and fees:			
Letters of credit, acceptances, guarantees and credit lines	$ 31	$ 27	$ 28
Asset management, fiduciary and client service fees	96	84	75
Other commissions and fees	131	125	127
	258	236	230
Foreign exchange income and other revenues:			
Foreign exchange income	40	68	76
Equity earnings of and dividends from affiliates	76	64	31
Trading income	76	15	11
Gain on sale of available-for-sale securities	10	9	9
Amexco-related revenues, net	36	5	44
Other revenues	13	18	26
	251	179	197
Total	$509	$415	$427

NOTE 12 FOREIGN CURRENCY

Income from foreign exchange transactions was $58 million in 2003 and $77 million for both 2002 and 2001. Losses from certain foreign currency transactions included in income were $18 million in 2003, $9 million in 2002 and $1 million in 2001. Included in 2003 pretax income is $9 million of foreign currency translation losses previously recorded in shareholder's equity, resulting from AEB's scaling back of activities in Europe. Included in 2001 pretax income is $24 million of foreign currency translation losses previously recorded in shareholder's equity, resulting from restructuring charges taken in 2001.

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

(Millions)	2003	2002	2001
Balances – January 1,	$(105)	$ (98)	$(103)
Net restructuring charge	—	—	18
Net translation losses	(7)	(7)	(13)
Balances – December 31,	$(112)	$(105)	$ (98)

The net income tax (benefits) provision allocated to the net change in foreign currency translation adjustments were $(4) million for 2003 and 2002 and $3 million for 2001.

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 compensation as defined by the Plan (which includes, but is not limited to base pay, certain incentive pay and commissions, shift differential, overtime 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, Amexco sponsors an unfunded non-qualified Supplemental Retirement Plan (the SRP) for certain highly compensated employees to replace the benefit that cannot be provided by the Plan. 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.

AEB measures the obligations and related asset values for its pension and other postretirement benefit plans as of September 30th.

The components of the net pension cost for all defined benefit plans accounted for under SFAS No. 87 were:

(Millions)	2003	2002	2001
Service cost	$ 6	$ 5	$ 5
Interest cost	11	10	10
Expected return on plan assets	(13)	(13)	(12)
Recognized net actuarial loss (gain)	2	—	(1)
Amortization of prior service cost	(1)	(1)	(1)
Net periodic pension benefit cost	$ 5	$ 1	$ 1

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)	2003	2002
Benefit obligation, October 1 prior year	$183	$149
Service cost	6	5
Interest cost	11	10
Benefits paid	(8)	(8)
Actuarial loss	2	20
Plan amendment	2	—
Settlements/curtailments	(2)	(2)
Foreign currency exchange rate changes	13	9
Benefit obligation at September 30,	$207	$183

Reconciliation of change in fair value of plan assets:

(Millions)	2003	2002
Fair value of plan assets, October 1 prior year	$142	$114
Actual gain on plan assets	23	8
Employer contributions	6	25
Benefits paid	(8)	(8)
Settlements	(2)	(1)
Foreign currency exchange rate changes	10	4
Fair value of plan assets at September 30,	$171	$142

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

(Millions)	2003	2002
Funded status at September 30,	$(36)	$(41)
Unrecognized net actuarial loss	33	40
Unrecognized prior service cost	2	(1)
Fourth quarter contributions	1	1
Net amount recognized at December 31,	$ —	$ (1)

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

(Millions)	2003	2002
Accrued benefit liability	$(55)	$(49)
Prepaid benefit cost	52	46
Minimum pension liability adjustment	3	2
Net amount recognized at December 31,	$ —	$ (1)

The accumulated benefit obligation for all retirement plans as of September 30, 2003 and 2002 was $197 million and $172 million, respectively. 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 $56 million, $53 million and $2 million, respectively, as of December 31, 2003, and $51 million, $48 million and $2 million, respectively, as of December 31, 2002.

The prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10 percent of the greater of the 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 to determine benefit obligations were:

	2003	2002
Discount rates	5.7%	6.2%
Rates of increase in compensation levels	4.0%	4.0%

The weighted average assumptions used to determine net periodic benefit cost were:

	2003	2002	2001
Discount rates	6.2%	7.0%	7.4%
Rates of increase in compensation levels	4.0%	4.2%	4.4%
Expected long-term rates of return on assets[(a)]	8.1%	9.3%	9.5%

(a) At the September 30, 2003 measurement date, AEB reduced the weighted average return on assets actuarial assumptions to be used in calculating the 2004 expense to 7.9%.

For 2003, AEB assumed a long-term rate of return on assets of 8.1%. In developing the 8.1% expected long-term rate assumption, management evaluated input from an external consulting firm, including their projection of asset class return expectations, and long-term inflation assumptions. AEB also considered the historical returns on the plan assets.

The asset allocation for AEB's pension plans at September 30, 2003 and 2002, and the target allocation for 2004, by asset category, is below. Actual allocations will generally be within 5% of these targets.

	Target Allocation	Percentage of Plan Assets at	
	2004	2003	2002
Equity securities	70%	66%	72%
Debt securities	26%	26%	22%
Real estate/Other	4%	8%	6%
Total	100%	100%	100%

AEB invests in a diversified portfolio to ensure that adverse or unexpected results from a security class will not have a detrimental impact on the entire portfolio. Diversification is interpreted to include diversification by asset type, performance and risk characteristics and number of investments. Asset classes and ranges considered appropriate for investment of the plans assets are determined by each plan's investment committee. The asset classes include U.S. and non-U.S equities, emerging market equities, U.S. and non-U.S. investment grade and high-yield bonds and real estate.

AEB's retirement plans expect to make benefit payments to retirees as follows (millions): 2004 $11; 2005, $12; 2006, $12; 2007, $13; 2008, $13; and 2009-2013, $76. In addition, AEB expects to contribute $6 million to its pension plans in 2004.

Amexco sponsors defined contribution retirement plans, the principal plan being a 401(K) savings plan with a profit sharing and stock bonus plan feature which covers most employees in the United States. AEB's defined contribution plan expense was $5 million in 2003 and 2002 and $3 million in 2001.

OTHER POSTRETIREMENT BENEFITS

Amexco 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 in 2003, 2002 and 2001. The liabilities recognized on the Consolidated Balance Sheets for AEB's defined postretirement benefit plans (other than pension plans) at December 31, 2003 and 2002 were $14 million and $13 million, respectively.

On December 8, 2003, the Medicare Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into U.S. law which expands Medicare to include an outpatient drug benefit beginning in 2006. The Act's Prescription Drug subsidy provided to plan sponsors will likely result in a financial benefit to AEB. The bill was signed into law subsequent to AEB's measurement valuation date of September 30, 2003; therefore, the expense and liability amounts shown in this disclosure do not reflect the potential effect of this Act. AEB is currently evaluating the impacts of the Act on its postretirement health care plan.

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 $24 million, $18 million and $25 million in 2003, 2002 and 2001, respectively. At December 31, 2003, the minimum aggregate rental commitments under all noncancelable operating leases were (millions): 2004, $14; 2005, $12; 2006, $11; 2007, $9; 2008, $2; and thereafter, $20.

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)	2003	2002	2001
Federal	$16	$17	$(42)
Foreign	32	31	42
State and local	1	1	1
Total	$49	$49	$ 1

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

Year ended December 31, (Millions)	2003	2002	2001
Current	$14	$51	$ 36
Deferred	35	(2)	(35)
Total	$49	$49	$ 1

AEB's net deferred tax assets consisted of:

December 31, (Millions)	2003	2002
Gross deferred tax assets	$158	$163
Gross deferred tax liabilities	(76)	(70)
Net deferred tax assets	$ 82	$ 93

Gross deferred tax assets at December 31, 2003 and 2002 consisted primarily of reserves not yet deducted for tax purposes of $98 million and $107 million, respectively, and foreign currency translation adjustments of $60 million and $55 million, respectively. A valuation allowance was not required with respect to such assets. Gross deferred tax liabilities at December 31, 2003 and 2002 consisted primarily of accelerated depreciation and amortization of $35 million and $10 million, respectively and unrealized gains on available-for-sale securities of $41 million and $56 million, respectively.

AEB's income tax receivable from Amexco at December 31, 2003 was $18 million. AEB's income tax payable to Amexco was $61 million at December 31, 2002.

The income tax provision in 2003, 2002 and 2001 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)	2003	2002	2001
Combined tax at U.S. statutory income tax rate	$52	$50	$ (3)
Increases (decreases) in income taxes resulting from:			
State and local income taxes	—	—	1
Foreign income taxed at rates other than U.S. statutory rate	—	—	4
Nondeductible expenditures	1	1	1
Tax preferred investments	(2)	(3)	(2)
Other	(2)	1	—
Total	$49	$49	$ 1

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 (benefit) provision of $(15) million, $36 million and $12 million for 2003, 2002 and 2001, respectively. The change in net unrealized derivatives gains is presented net of income tax (benefit) provision of $(2) million and $2 million for 2003 and 2002, respectively and was negligible for 2001. The changes in foreign currency translation adjustments are presented net of income tax (benefit) provision of $(5) million, $(4) million and $3 million for 2003, 2002 and 2001, respectively. The changes in the minimum pension liability are presented net of income tax provision (benefit) was nil, $8 million and $(8) million for 2003, 2002 and 2001, respectively.

NOTE 16 DERIVATIVES AND HEDGING INSTRUMENTS

As prescribed by SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," 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) income 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 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 is 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) income as part of the foreign currency translation adjustments. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the Consolidated Statement of Operations.

For the years ended December 31, 2003, 2002 and 2001, there were no significant gains or losses on derivative transactions or portions thereof that were ineffective as hedges, excluded from the assessment of hedge effectiveness or reclassified into earnings as a result of the discontinuance of cash flow hedges.

CASH FLOW HEDGES

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

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.

HEDGE OF NET INVESTMENT IN CERTAIN FOREIGN OPERATIONS

AEB designates certain foreign currency derivatives as hedges of net investments in certain foreign operations. For these hedges, unrealized gains and losses are recorded in the cumulative translation adjustment account included in other comprehensive (loss) income, whereas the related amounts due to or from counterparties are included in other liabilities or other assets. For the year ended December 31, 2003, the net amount of losses related to the hedges included in the cumulative translation adjustment was $7 million.

DERIVATIVES NOT DESIGNATED AS HEDGES UNDER SFAS NO. 133

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

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 derivative contracts in a gain position (asset) and totaled (unadjusted for the effects of master netting agreements and applicable portions of the reserve for credit losses) $811 million and $411 million at December 31, 2003 and 2002, 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, 2003, 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.

EQUITY MARKET PRODUCTS

A growing portion of AEB's deposit products are considered to be structured products and have returns tied to the performance of the equity markets. The embedded elements of structured products are considered derivatives under SFAS No. 133. AEB manages this equity market risk by entering into derivative contracts, primarily equity derivatives with offsetting characteristics.

NOTE 17 GUARANTEES AND OFF-BALANCE SHEET ITEMS

AEB provides various guarantees to its customers in the ordinary course of business that are within the scope of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which include 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.

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 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 $761 million at December 31, 2003 (financial related: $692 million; performance related: $69 million) and $684 million at December 31, 2002 (financial related: $578 million; performance related: $106 million). The collateral or other security was predominantly represented by customers' deposits and counter-guarantees.

The following table provides information related to such standby letters and guarantees:

December 31, 2003 (Millions)	Maximum amount of undiscounted future payments	Amount of related liability
Financial Letters of Credit	$207	$1.1
Performance Guarantees	147	0.4
Financial Guarantees	629	0.5
Total	$983	$2.0

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 $28 million at December 31, 2003, 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.

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.

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, 2003 and 2002, AEB was in possession of or had rights to $114 million and $148 million, respectively, of collateral or other security, consisting primarily of customers' deposits and guarantees.

Total guarantees and off-balance sheet items were as follows:

December 31, (Millions)	2003	2002
Commitments to extend credit	$ 423	$ 538
Standby letters of credit and guarantees:		
Financial	836	802
Performance	147	172
Commercial and other letters of credit	474	369
Total off-balance sheet items	$1,880	$1,881

NOTE 18 FAIR VALUES OF FINANCIAL INSTRUMENTS

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, 2003 and 2002 and require management judgment. These figures may not be indicative of their future fair values. Additionally, management believes the value of excluded assets and liabilities is significant. The fair value of AEB, therefore, cannot be estimated by aggregating the amounts presented.

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 Amexco entities, and certain other assets and liabilities.

The fair value of the remaining financial instruments was:

December 31, (Millions)	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Available-for-sale securities	$3,342	$3,342	$3,169	$3,169
Trading assets	$ 806	$ 806	$ 486	$ 486
Loans	$6,322	$6,304	$5,298	$5,253
Derivative financial instruments	$ 811	$ 811	$ 411	$ 411
Financial Liabilities				
Interest-bearing customers' deposits	$9,645	$9,662	$8,852	$8,863
Long-term debt	$ 199	$ 199	$ 215	$ 215
Trading liabilities	$ 553	$ 553	$ 274	$ 274
Derivative financial instruments	$ 788	$ 788	$ 432	$ 432

The carrying and fair values of off-balance sheet financial instruments discussed in Note 17 were not material as of December 31, 2003 and 2002. 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 geographic 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)	2003			2002		
	On-Balance Sheet	Off-Balance Sheet	Total	On-Balance Sheet	Off-Balance Sheet	Total
Banks and other financial institutions	$ 5,526	$ 839	$ 6,365	$ 5,373	$ 688	$ 6,061
Other businesses	1,133	300	1,433	1,393	326	1,719
Foreign governments	1,518	3	1,521	1,347	4	1,351
Individuals	4,402	738	5,140	3,400	863	4,263
Real estate	1,100	—	1,100	1,049	—	1,049
All other	42	—	42	33	—	33
Total	$13,721	$1,880	$15,601	$12,595	$1,881	$14,476

The credit risk associated with on-balance sheet financial instruments is principally reflected by the book values of loans, securities and deposits with banks. Total credit risk related to the off-balance sheet financial instruments is represented by the contractual amounts of commitments to extend credit, standby letters of credit and guarantees, commercial and other letters of credit.

The following table presents AEB's credit exposure by category, country and region as of December 31, 2003 and 2002 (billions):

Country	Loans	Foreign Exchange and Derivatives	Net Guarantees and Contingents	Other Credit Exposures[(a)]	2003 Total Credit Exposure[(b)]	2002 Total Credit Exposure[(b)]
Hong Kong	$ 0.5	$ —	$ —	$ —	$ 0.6	$ 0.7
Indonesia	0.1	—	—	—	0.1	0.1
Singapore	0.8	—	0.1	0.1	1.1	0.9
Korea	0.3	—	—	—	0.4	0.3
Taiwan	0.2	—	—	0.1	0.4	0.4
Japan	—	—	—	0.1	0.1	0.1
Other	0.1	—	0.1	0.1	0.2	0.2
Total Asia/Pacific Region[(b)]	2.0	0.1	0.3	0.6	3.0	2.7
Chile	0.1	—	—	—	0.1	0.2
Brazil	0.3	—	—	0.1	0.4	0.3
Mexico	—	—	—	—	0.1	0.1
Cayman Islands	0.8	—	0.2	0.1	1.2	0.6
Other	0.1	—	—	—	0.1	0.1
Total Latin America[(b)]	1.3	—	0.3	0.3	2.0	1.4
India	0.3	—	0.1	0.3	0.7	0.7
Pakistan	—	—	—	0.1	0.1	0.2
Other	—	—	—	0.1	0.2	0.2
Total Subcontinent[(b)]	0.4	—	0.1	0.5	1.1	1.1
Egypt	0.1	—	—	0.1	0.3	0.3
Other	0.1	—	0.1	—	0.2	0.2
Total Middle East/Africa[(b)]	0.2	—	0.1	0.2	0.5	0.5
Total Europe[(b)]	1.6	0.1	0.4	2.5	4.6	4.9
Total North America	0.8	0.1	0.2	1.8	2.8	2.7
Total Worldwide[(b)]	$ 6.3	$ 0.3	$ 1.4	$ 5.9	$ 13.9	$ 13.3

Includes cross-border and local credit exposure and does not net local funding or liabilities against any local credit exposure.

(a) Includes cash, placements and securities.
(b) Individual items may not add to totals due to rounding.

NOTE 20 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 original plans to eliminate 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 pretax amount of $8 million ($5 million after-tax). This was 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 pretax in severance costs and $2 million pretax of other costs.

During the year ended December 31, 2003, AEB adjusted 2002's aggregate restructuring charge liability by taking back into income a net pre-tax amount of $2 million ($1 million after-tax). As of December 31, 2003, AEB had a liability of $2 million for the expected future cash outlays related to aggregate restructuring charges recorded. In addition to employee attrition or redeployment, approximately 400 employees have been terminated since the inception of the restructuring plans in 2001 and 2002.

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, 2002 and 2003:

(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
Cash paid	(5)	(2)	(7)
Net adjustments due to revisions to 2002 plans	(1)	(1)	(2)
Liability balance at December 31, 2003	$—	$ 2	$ 2

NOTE 21 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, 2003, 2002 and 2001 and for the years then ended were (millions):

	North America	Europe	Middle East/ Africa	Asia/ Pacific(a)	Latin America and Other	Consolidated
2003						
Total assets	$1,945	$5,045	$ 531	$4,791	$1,905	$14,217
Net financial revenues(b)	77	240	39	358	106	820
Income (loss) before income taxes	(22)	30	21	83	35	147
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)

(a) Includes the Subcontinent.
(b) Excludes provision for credit losses.

REPORT OF ERNST & YOUNG LLP
INDEPENDENT AUDITORS

The Board of Directors of American Express Bank Ltd.

We have audited the accompanying consolidated balance sheets of American Express Bank Ltd. as of December 31, 2003 and 2002, 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, 2003. 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, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

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

Ernst & Young LLP

New York, New York
January 26, 2004

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