

# AMERICAN EXPRESS CREDIT CORPORATION

## SELECTED FINANCIAL DATA

The following summary of certain consolidated financial information of Credco was derived from audited financial statements for the five years ended December 31:

(\$ in millions)	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>Income Statement Data</b>					
Revenues	\$ 1,987	\$ 2,153	\$ 2,842	\$ 2,601	\$ 2,168
Interest expense	852	916	1,458	1,459	1,130
Provision for losses, net of recoveries	701	846	937	689	672
Income tax provision	135	118	140	150	120
Net income	260	228	277	286	223
<b>Balance Sheet Data</b>					
Gross charge cardmember receivables	\$21,165	\$17,169	\$19,121	\$22,565	\$20,618
Reserve for credit losses, charge cardmember receivables	(555)	(498)	(683)	(640)	(587)
Gross lending receivables	5,067	4,858	3,927	2,145	2,707
Reserve for credit losses, lending receivables	(182)	(243)	(164)	(99)	(97)
Total assets	31,949	27,665	26,542	28,326	26,726
Short-term debt	15,718	15,145	20,584	22,972	20,231
Current portion of long-term debt	1,978	5,751	800	550	550
Long-term debt	10,217	2,117	1,030	1,811	2,575
Shareholder's equity	2,750	2,315	2,200	2,152	2,061
Cash dividends	-	-	-	200	150

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Certain Critical Accounting Policies

American Express Credit Corporation's (Credco) significant accounting policies are described in Note 1 to the Consolidated Financial Statements. The following provides information about certain critical accounting policies that are important to the Consolidated Financial Statements and that involve estimates requiring significant management assumptions and judgments about the effect of matters that are uncertain. These policies relate to reserves for cardmember credit losses and investment securities valuation.

#### *Reserves for cardmember credit losses*

Credco's reserves for credit losses relating to charge cardmember receivables and lending receivables represent management's estimate of the amount necessary to absorb future credit losses inherent in Credco's outstanding portfolio of charge cardmember and lending receivables. Management's evaluation process requires many estimates and judgments. Reserves for these credit losses are primarily based upon models that analyze specific portfolio statistics and also reflect, to a lesser extent, management's judgment regarding overall adequacy. The analytic models take into account several factors, including average write-off rates for various stages of receivable aging (i.e., current, 30 days, 60 days, 90 days) over a 24-month period and average bankruptcy and recovery rates. In exercising its judgment to adjust reserves that are calculated by the analytic model, management considers the level of coverage of past-due accounts, as well as external indicators, such as leading economic indicators, unemployment rate, consumer confidence index, purchasing manager's index, bankruptcy filings and the regulatory environment. Management believes the impact of each of these indicators can change from time to time and thus reviews these indicators in concert.

Receivables are charged off when management deems amounts to be uncollectible, which is generally determined by the numbers of days past due. For charge cardmember receivables, Credco generally writes off against its reserve for losses the total balance in an account for which any portion remains unpaid twelve months from the date of original billing. For lending receivables, Credco generally writes off against its reserve for losses the total balance in an account for which any portion remains unpaid after six contractual payments are past due. Accounts are written-off earlier if deemed uncollectible. In general, bankruptcy and deceased accounts are written-off upon notification. Given both the size and the volatility of write-offs, management continually monitors evolving trends and adjusts its business strategy accordingly. To the extent historic credit experience is not indicative of future performance or other assumptions used by management do not prevail, loss experience could differ significantly, resulting in either higher or lower future provisions for credit losses, as applicable. As of December 31, 2003, if average write-offs were 5% higher or lower, the reserve for credit losses would change by approximately \$37 million.

#### *Investment securities valuation*

Generally, investment securities are carried at fair value on the balance sheet with unrealized gains (losses) recorded in other comprehensive income (loss) within equity, net of income tax provisions (benefits). Gains and losses are recognized in results of operations upon disposition of the securities. In addition, losses are also recognized when management determines that a decline in value is other-than-temporary, which requires judgment regarding the amount and timing of recovery. Indicators of other-than-temporary impairment for debt securities include issuer downgrade, default or bankruptcy. Credco also considers the extent to which cost exceeds fair value, the duration and size of that gap, and management's judgment about the issuer's current and prospective financial condition. Fair

value is generally based on quoted market prices. As of December 31, 2003, there were \$11 million in unrealized gains that related to \$2.6 billion of securities.

## Liquidity and Capital Resources

### *Financing Activities*

Credco's funding strategy is designed to maintain high and stable debt ratings from the major credit rating agencies, Moody's, Standard & Poor's and Fitch Ratings. Maintenance of high and stable debt ratings is critical to ensuring Credco has continuous access to the capital and credit markets. It also enables Credco to reduce its overall borrowing costs. At December 31, 2003, Credco's debt ratings were as follows:

	Moody's	Standard & Poor's	Fitch Ratings
Short-term	P-1	A-1	F1
Senior unsecured	Aa3	A+	A+

Rating agencies review factors such as capital adequacy with a view towards maintaining certain levels of capital, liquidity, business volumes, asset quality and economic market trends, among others, in assessing Credco's and its subsidiaries' appropriate ratings.

Credco's portfolio consists principally of charge cardmember and lending receivables purchased without recourse from Card Issuers throughout the world and participation interests purchased without recourse in the seller's interest in both non-interest-bearing and interest-bearing cardmember receivables. These participation interests are owned by two master trusts operated by American Express Travel Related Services Company, Inc. (TRS) as part of its asset securitization programs. At December 31, 2003 and 2002, respectively, Credco owned \$21.2 billion and \$17.2 billion of charge cardmember receivables and participation in charge cardmember receivables, representing approximately 81 percent and 78 percent, respectively, of the total receivables owned. Lending receivables, representing approximately 19 percent and 22 percent of the total receivables owned, were \$5.1 billion and \$4.9 billion at December 31, 2003 and 2002, respectively.

Credco's assets are financed through a combination of short-term debt, medium-term notes, long-term senior notes and equity capital. Daily funding requirements are met primarily by the sale of commercial paper. Credco has readily sold the volume of commercial paper necessary to meet its funding needs as well as to cover the daily maturities of commercial paper issued. In 2003, Credco had uninterrupted access to the commercial paper and capital markets to fund its business operations.

The commercial paper market represents the primary source of short-term funding for Credco. Credco's commercial paper is a widely recognized name among short-term investors and is a principal source of debt.

The average amount of commercial paper outstanding was \$9.7 billion for 2003 and \$12.2 billion for 2002. At December 31, 2003, Credco had \$8.8 billion of commercial paper outstanding, net of cash equivalents. The outstanding amount, net of cash equivalents, declined \$0.5 billion or 5.6 percent from a year ago as part of Credco's efforts to lessen its reliance on short-term funding sources. Average commercial paper outstanding, net of cash equivalents, was \$7.7 billion and \$10.6 billion in 2003 and 2002, respectively. Credco currently manages the level of commercial paper outstanding, net of cash equivalents, such that the ratio of its committed bank credit facility to total short-term debt, which consists mainly of commercial paper, is not less than 100%.

Medium- and long-term debt is raised through the offering of debt securities principally in the U.S. capital markets. Medium-term debt is generally defined as any debt with an original maturity greater than 12 months but less than 36 months. Long-term debt is generally defined as any debt with an original maturity greater than 36 months. At December 31, 2003, Credco had an aggregate of \$9.4 billion of medium-term notes outstanding at fixed and floating rates with maturities of one to three years, a portion of which can be extended by the holders up to an additional four years. During 2003 and 2002, Credco's average medium- and long-term debt outstanding was \$10.4 billion and \$5.8 billion, respectively.

In 2003, medium- and long-term debt with maturities ranging from two to five years was issued. Credco's 2003 term offerings are highlighted in the table below:

Description	Amount (millions)	Coupon/Rate	Maturity
Floating Rate Medium-Term Notes	\$ 4,891	1.24%	Various
Floating Rate Medium-Term Extendible Notes	\$ 2,000	1.20%	February 14, 2005(1)
Floating Rate Extendible Notes	\$ 1,000	1.17%	January 21, 2005(2)
Fixed Rate Senior Notes	\$ 1,000	3.00%	May 16, 2008
Floating Rate Senior Notes	\$ 500	1.32%	May 16, 2006

(1) These floating rate medium-term extendible notes had an initial maturity date of March 5, 2004 and are subject to extension by the holders through March 5, 2008.

(2) These floating rate extendible notes had an initial maturity date of July 19, 2004 and are subject to extension by the holders through June 20, 2008.

These medium- and long-term debt issues have longer average maturities and a wider distribution along the maturity spectrum as compared to the 2002 medium- and long-term funding activity to reduce and spread out the refinancing requirement in future periods. In early 2004, Credco issued an additional \$2.2 billion of floating rate medium-term notes. Credco's aggregate annual maturities of medium- and long-term debt are as follows (millions): 2004, \$1,978; 2005, \$7,245; 2006, \$1,798; 2007, \$176; and 2008, \$998.

At December 31, 2003, Credco had approximately \$9.8 billion of medium- and long-term debt and warrants available for issuance under shelf registrations filed with the Securities and Exchange Commission (SEC). In addition, Credco had the ability to issue \$5.5 billion of debt under a Euro Medium-Term Note program for the issuance of debt outside the United States to non-U.S. persons. This program was established by Credco, TRS, American Express Overseas Credit Corporation Limited (AEOCC), American Express Centurion Bank (Centurion Bank) and American Express Bank Ltd. (a wholly owned indirect subsidiary of American Express). The maximum aggregate principal amount of debt instruments outstanding at any one time under the program will not exceed \$6.0 billion.

In 2003, the American Express Credit Account Master Trust (the Master Trust) securitized \$3.5 billion of lending receivables through the public issuances of two classes of investor certificates and privately placed collateral interests in the assets of the Master Trust. At the time of these issuances, Credco Receivables Corp. (CRC) sold an aggregate of \$110 million of gross seller's interest in lending receivables (\$106 million, net of reserves) to American Express Receivables Financing Corporation II (RFCII), a wholly owned subsidiary of TRS. In addition, at the time of these issuances, CRC purchased from the Master Trust, as an investment, an aggregate of \$87 million of Class C Certificates issued by the Master Trust, collateralized by the revolving credit receivables held by the Master Trust.

In connection with the June 2003 maturity of \$1.0 billion of investor certificates previously issued by the Master Trust, \$95 million of Class C Certificates, previously issued by the Master Trust, which were held by CRC as investments, matured.

During 2003, \$2.1 billion of investor certificates previously issued by the American Express Master Trust (the Trust) to securitize charge cardmember receivables matured. In connection with these maturities, \$135 million of Class B Certificates, previously issued by the Trust, which were held by CRC as investments, matured. At the time of these maturities, CRC purchased \$2.1 billion of gross seller's interest in charge cardmember receivables (\$2.1 billion, net of reserves) from American Express Receivables Financing Corporation (RFC), a wholly owned subsidiary of TRS.

Credco did not pay dividends to TRS in 2003 or 2002.

### *Liquidity*

Credco balances the trade-offs between having too much liquidity, which can be costly and limit financial flexibility, with having inadequate liquidity, which may result in financial distress during a liquidity crisis (see Contingent Liquidity Planning section below). Credco considers various factors in determining its liquidity needs, such as economic and financial market conditions, seasonality in business operations, cost and availability of alternative liquidity sources, and credit rating agency considerations.

During the normal course of business, funding activities may raise more proceeds than are necessary for immediate funding needs. These amounts are invested principally in overnight, highly liquid instruments.

Credco believes that its available liquidity provides sufficient funding to meet normal operating needs at all times. In addition, alternative liquidity sources are available, mainly in the form of the liquidity portfolio, and committed bank credit facilities, to provide uninterrupted funding over a twelve-month period should access to unsecured debt sources become impaired.

### *Liquidity Portfolio*

In the fourth quarter of 2003, Credco began a program to develop a liquidity portfolio in which proceeds raised from such borrowings are invested in two to three year U.S. Treasury securities. At December 31, 2003, Credco held \$800 million in two year U.S. Treasury notes under this program. This program was increased to \$3 billion in the first quarter of 2004.

The invested amounts of the liquidity portfolio provide back-up liquidity, primarily for Credco's commercial paper program. U.S. Treasury securities are the highest credit quality and most liquid of investment instruments available. Credco can easily sell these securities or enter into sale/repurchase agreements to immediately raise cash proceeds to meet liquidity needs.

From time to time, Credco may increase its liquidity portfolio in order to pre-refund maturing debt obligations or when financial market conditions are favorable. These levels are monitored and adjusted when necessary to maintain short-term liquidity needs in response to seasonal or changing business conditions.

### *Committed Bank Credit Facilities*

An alternate source of borrowing consists of committed credit line facilities. Committed credit line facilities at December 31, 2003 and 2002 totaled \$9.2 billion and \$10.0 billion, respectively. Credco has the right to borrow up to a maximum amount of \$10.5 billion, with a commensurate reduction in the amount available to American Express. Based on this maximum amount of available borrowing, Credco's committed bank line coverage of its net short-term debt would have been 117% as of December 31, 2003. These facilities expire as follows (billions): 2004, \$5.0; 2005, \$1.7; 2006, \$1.7 and 2007, \$0.8. The availability of credit lines is subject to Credco's maintenance of a 1.25 ratio of

combined earnings and fixed charges to fixed charges. For the year ended December 31, 2003, this ratio was 1.46.

In addition, Credco, through its wholly owned subsidiary, AEOCC, had short-term borrowings under uncommitted lines of credit totaling \$119 million and \$58 million at December 31, 2003 and 2002, respectively.

Committed bank credit facilities do not contain material adverse change clauses, which may preclude borrowing under the credit facilities. The facilities may not be terminated should there be a change in Credco's credit rating.

### *Contingent Liquidity Planning*

Credco also enhanced its contingent liquidity resources for alternative funding sources principally through the addition of an investment liquidity portfolio as discussed in the Liquidity Portfolio section earlier. Credco believes that its funding strategy allows for the continued funding of business operations through difficult economic, financial market and business conditions. Credco actively manages the risk of liquidity and cost of funds resulting from Credco's financing activities. Management believes a decline in Credco's long-term credit rating by two levels could result in Credco having to significantly reduce its commercial paper and other short-term borrowings. Remaining borrowing requirements would be addressed through other means such as the issuance of long-term debt, additional securitizations, the sale of investment securities or drawing on existing credit lines. This would result in higher interest expense on Credco's commercial paper and other debt, as well as higher fees related to unused lines of credit. Credco believes a two level downgrade is highly unlikely due to its capital position and growth prospects.

Credco has developed a contingent funding plan that enables it to meet its daily funding obligations when access to unsecured funds in the debt capital markets is impaired or unavailable. This plan is designed to ensure that Credco could continuously maintain normal business operations for at least a 12-month period in which its access to unsecured funds is interrupted. The contingent funding plan includes access to diverse sources of alternative funding, including but not limited to its liquidity portfolio, committed bank lines, intercompany borrowings, sale of consumer loans and cardmember receivables through existing TRS securitization programs and sale of other eligible receivables, such as corporate and small business receivables and international cardmember loans and receivables, through enhanced securitization programs.

The funding sources that would be relied upon depend on the exact nature of such a hypothetical liquidity crisis; nonetheless, Credco's liquidity sources are designed with the goal of ensuring there is sufficient cash on hand to fund business operations over a 12-month period regardless of whether the liquidity crisis was caused by an external, industry or company specific event. The simulated liquidity crisis is defined as a sudden and unexpected event that impairs access to or makes unavailable funding in the unsecured debt markets. It does not address asset quality deterioration. Asset quality deterioration, if it were to occur, would be expected to unfold over an extended time period and should allow management sufficient time to take appropriate corrective actions to mitigate further asset quality deterioration as it becomes more visible.

### **Results of Operations**

Credco purchases cardmember receivables without recourse from TRS. Non-interest-bearing charge cardmember receivables are purchased at face amount less a specified discount agreed upon from time to time and interest-bearing lending receivables are generally purchased at face amount. Non-interest-bearing receivables are purchased under Receivables Agreements that generally provide that the discount rate shall not be lower than a rate that yields earnings of at least 1.25 times fixed charges on an annual basis. The ratio of earnings to fixed charges was 1.46, 1.38 and 1.29 in 2003, 2002 and

2001, respectively. The ratio of earnings to fixed charges for American Express, for the years ended December 31, 2003, 2002 and 2001 was 3.43, 2.88 and 1.52, respectively. The Receivables Agreements also provide that consideration will be given from time to time to revising the discount rate applicable to purchases of new receivables to reflect changes in money market interest rates or significant changes in the collectibility of the receivables. Pretax income depends primarily on the volume of charge cardmember and lending receivables purchased, the discount rates applicable thereto, the relationship of total discount to Credco's interest expense and the collectibility of receivables purchased.

Credco's decrease in discount revenue earned on purchased accounts receivable during 2003 is attributable to lower discount rates, partially offset by an increase in the volume of receivables purchased. Finance charge revenue in 2003 decreased as a result of lower interest rates. Interest income in 2003 decreased due to a decrease in interest rates. Interest expense decreased in 2003 as a result of lower interest rates, partially offset by an increase in the volume of average debt outstanding. Provision for losses decreased in 2003 reflecting a decrease in the provision rates, partially offset by an increase in volume of receivables purchased.

The following is a further analysis of the changes attributable to the increase (decrease) in key revenue and expense accounts (millions):

	<b>2003</b>	<b>2002</b>
Discount revenue earned on purchased accounts receivable:		
Volume of receivables purchased	\$ 240	\$ (252)
Discount rates	(329)	(494)
Total	\$ (89)	\$ (746)
Finance charge revenue:		
Volume of receivables purchased	\$ (14)	\$ 150
Interest rates	(41)	(1)
Total	\$ (55)	\$ 149
Interest income from investments:		
Volume of average investments outstanding	\$ 12	\$ 27
Interest rates	(26)	(79)
Total	\$ (14)	\$ (52)
Interest income from affiliates:		
Volume of average investments outstanding	\$ (2)	\$ 9
Interest rates	(12)	(46)
Total	\$ (14)	\$ (37)
Interest expense other:		
Volume of average debt outstanding	\$ 72	\$ (178)
Interest rates	(108)	(302)
Total	\$ (36)	\$ (480)
Provision for losses:		
Volume of receivables purchased	\$ 146	\$ (110)
Provision rates and volume of recoveries	(291)	19
Total	\$ (145)	\$ (91)
Interest expense affiliates:		
Volume of average debt outstanding	\$ (2)	\$ 62
Interest rates	(26)	(124)
Total	\$ (28)	\$ (62)

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Credco's risk management objective is to monitor and control risk exposures to earn returns commensurate with the appropriate level of risk assumed. American Express management establishes and oversees implementation of Board-approved policies covering its funding, investments and the use of derivative financial instruments. American Express' Treasury department, along with various asset and liability committees in its business segments, is responsible for managing financial market risk exposures within the context of Board-approved policies. See Note 7 in the Consolidated Financial Statements appearing herein for a discussion of Credco's use of derivatives.

The American Express Enterprisewide Risk Management Committee (ERMC) supplements the risk management capabilities resident within American Express' business segments by routinely reviewing key financial market, credit, operational and other risk concentrations across American Express and recommending action where appropriate. The ERMC recommends risk limits, promotes a rigorous understanding of risks across American Express and supports senior management in making risk-return decisions.

The following sections include sensitivity analyses of two different types of market risk and estimate the effects of hypothetical sudden and sustained changes in the applicable market conditions on the ensuing year's earnings, based on year-end positions. The market changes, assumed to occur as of year-end, are a 100 basis point increase in market interest rates and a 10 percent strengthening of the U.S. dollar versus all other currencies. Computations of the prospective effects of hypothetical interest rate and foreign exchange rate changes are based on numerous assumptions, including relative levels of market interest rates and foreign exchange rates, as well as the levels of assets and liabilities. The hypothetical changes and assumptions will be different from what actually occurs in the future. Furthermore, the computations do not incorporate actions that management could take if the hypothetical market changes actually occur, including revising the discount rate applicable to purchases of new receivables. As a result, actual earnings consequences will differ from those quantified.

Credco's hedging strategies for financial market risk exposures are established, maintained and monitored by the American Express Treasury department and are employed to manage interest rate and foreign currency exposures over a multi-year time horizon. The extent of Credco's unhedged exposures varies over time based on current interest and foreign exchange rates, the macro-economic environment and the hedging impact on particular business objectives.

Credco's policies generally require that derivatives may be used only to meet business objectives and not to be used for speculative purposes. Hedging counterparties at Credco must be rated by a recognized rating agency in one of its three highest categories. Derivative credit and market exposures are aggregated to determine counterparty exposures. Netting agreements and, in certain instances, collateral are utilized to mitigate these exposures. Documentation is subject to counsel review and approval and is generally written on standard industry agreements.

In addition, Credco funds a portion of its local currency operations by raising U.S. dollar funding and converting U.S. dollars to local currency through foreign exchange derivative contracts. These foreign exchange instruments are sometimes combined with interest rate swaps to achieve the desired level of local market interest rate risk.

Credco funds its charge cardmember receivables and lending receivables using various funding sources such as long- and short-term debt, medium-term notes, commercial paper and other debt. For Credco's charge cardmember and fixed rate lending receivables, interest rate exposure is managed through a combination of shifting the mix of funding toward a fixed rate debt and through the use of derivative instruments, with an emphasis on interest rate swaps, that effectively fix Credco's interest expenses for the length of the swap. Credco endeavors to lengthen the maturity of interest rate

hedges in periods of falling interest rates and to shorten their maturity in periods of rising interest rates. For the majority of Credco's lending receivables, which are linked to a floating rate base and generally reprice each month, Credco uses floating rate funding.

The detrimental effect on Credco's pretax earnings of a hypothetical 100 basis point increase in interest rates would be approximately \$47 million and \$29 million, based on 2003 and 2002 year-end positions, respectively. This effect is primarily a function of the extent of variable rate funding of charge card and fixed rate lending products, to the degree that interest rate exposure is not managed by derivative financial instruments. With respect to the managed portion of that interest rate exposure, a substantial amount of the \$179 million of Credco's net after-tax unrealized losses recorded in other comprehensive income on the consolidated balance sheet at December 31, 2003 represents the fair value of the related derivative financial instruments. These losses will be recognized in earnings during the terms of those derivative contracts at the same time that Credco realizes the benefits of lower market rates of interest on its funding of charge card and fixed rate lending products.

Credco's foreign exchange risk arising from cross-currency charges and balance sheet exposures is managed primarily by entering into agreements to buy and sell currencies on a spot or forward basis. Based on the year-end 2003 and 2002 foreign exchange positions, the effect on Credco's earnings of the hypothetical 10 percent strengthening of the U.S. dollar would be immaterial.

### **Forward-looking Statements**

Various forward-looking statements have been made in this Form 10-K Annual Report. Forward-looking statements may also be made in Credco's other reports filed with the SEC and in other documents. In addition, from time to time, Credco through its management may make oral forward-looking statements. Forward-looking statements are subject to risks and uncertainties, including those identified below, which could cause actual results to differ materially from such statements. The words "believe", "expect", "anticipate", "optimistic", "intend", "evaluate", "plan", "aim", "will", "should", "could", "likely" and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. Credco undertakes no obligation to update publicly or revise any forward-looking statements. Factors that could cause actual results to differ materially from Credco's forward-looking statements include, but are not limited to:

- credit trends and the rate of bankruptcies, which can affect spending on card products and debt payments by individual and corporate customers;
- Credco's ability to accurately estimate the provision for credit losses in Credco's outstanding portfolio of charge cardmember and lending receivables;
- fluctuations in foreign currency exchange rates;
- negative changes in Credco's credit ratings, which could result in decreased liquidity and higher borrowing costs;
- the effect of fluctuating interest rates, which could affect Credco's borrowing costs; and
- the impact on American Express Company's business resulting from continuing geopolitical uncertainty.

**AMERICAN EXPRESS CREDIT CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

Years Ended December 31, (Millions)	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Revenues</b>			
Discount revenue earned from purchased accounts receivable	\$ 1,399	\$ 1,488	\$ 2,234
Finance charge revenue	476	531	382
Interest income from investments	69	83	135
Interest income from affiliates	31	45	82
Other	12	6	9
Total revenues	1,987	2,153	2,842
<b>Expenses</b>			
Interest expense – other	782	818	1,298
Provision for losses, net of recoveries of: 2003, \$204; 2002, \$221; 2001, \$193	701	846	937
Interest expense – affiliates	70	98	160
Other	39	45	30
Total expenses	1,592	1,807	2,425
Pretax income	395	346	417
Income tax provision	135	118	140
Net income	\$ 260	\$ 228	\$ 277

*See notes to consolidated financial statements.*

**AMERICAN EXPRESS CREDIT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

December 31, (Millions, except share data)	2003	2002
<b>Assets</b>		
Cash and cash equivalents	\$ 1,528	\$ 1,924
Investments	2,593	1,901
Charge cardmember receivables, less credit reserves: 2003, \$555; 2002, \$498	20,610	16,671
Lending receivables, less credit reserves: 2003, \$182; 2002, \$243	4,885	4,615
Loans and deposits with affiliates	1,923	2,047
Deferred charges and other assets	410	507
<b>Total assets</b>	<b>\$ 31,949</b>	<b>\$ 27,665</b>
<b>Liabilities and Shareholder's Equity</b>		
Short-term debt	\$ 10,563	\$ 11,366
Short-term debt with affiliates	5,155	3,779
Current portion of long-term debt	1,060	5,751
Current portion of long-term debt with affiliates	918	-
Long-term debt	9,497	1,174
Long-term debt with affiliates	<u>720</u>	<u>943</u>
<b>Total debt</b>	<b>27,913</b>	<b>23,013</b>
Due to affiliates	419	1,418
Accrued interest and other liabilities	867	919
<b>Total liabilities</b>	<b>29,199</b>	<b>25,350</b>
<b>Shareholder's Equity</b>		
Common stock-authorized 3 million shares of \$.10 par value; issued and outstanding 1.5 million shares	1	1
Capital surplus	161	161
Retained earnings	2,756	2,496
Other comprehensive loss, net of tax:		
Net unrealized securities gains (losses)	11	(11)
Net unrealized derivatives losses	(179)	(332)
<b>Accumulated other comprehensive loss</b>	<b>(168)</b>	<b>(343)</b>
<b>Total shareholder's equity</b>	<b>2,750</b>	<b>2,315</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 31,949</b>	<b>\$ 27,665</b>

*See notes to consolidated financial statements.*

**AMERICAN EXPRESS CREDIT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, (Millions)	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 260	\$ 228	\$ 277
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for losses	701	846	937
Amortization and other	-	-	(4)
Changes in operating assets and liabilities:			
Deferred tax assets	(3)	54	(183)
Increase (decrease) due to affiliates	16	(143)	316
Other operating assets and liabilities	182	388	173
Net cash provided by operating activities	1,156	1,373	1,516
<b>Cash Flows from Investing Activities</b>			
(Increase) decrease in accounts receivable	(3,166)	(1,329)	832
Recoveries of accounts receivable previously written off	204	221	193
Purchase of participation interest in seller's interest in accounts receivable from affiliate	(2,051)	(1,518)	(1,062)
Sale of participation interest in seller's interest in accounts receivable to affiliate	106	1,866	825
Sale of net accounts receivable to affiliate	460	1,543	700
Purchase of net accounts receivable from affiliate	(462)	(713)	(655)
Purchase of investments	(888)	(579)	(467)
Maturity of investments	230	95	54
Sale of investments	-	-	249
Loans and deposits due from affiliates	123	(140)	(165)
(Decrease) increase due to affiliates	(1,015)	136	383
Net cash (used in) provided by investing activities	(6,459)	(418)	887
<b>Cash Flows from Financing Activities</b>			
Net increase (decrease) in short-term debt with affiliates with maturities of ninety days or less	1,376	1,565	(71)
Net decrease in short-term debt – other with maturities of ninety days or less	(559)	(5,050)	(3,515)
Issuance of debt	13,560	11,209	7,629
Redemption of debt	(9,470)	(7,163)	(7,046)
Net cash provided by (used in) financing activities	4,907	561	(3,003)
Net (decrease) increase in cash and cash equivalents	(396)	1,516	(600)
Cash and cash equivalents at beginning of year	1,924	408	1,008
Cash and cash equivalents at end of year	\$ 1,528	\$ 1,924	\$ 408

*See notes to consolidated financial statements.*

**AMERICAN EXPRESS CREDIT CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY**

Three Years Ended December 31, (Millions)	Total	Common Stock	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings
<b>Balances at December 31, 2000</b>	<b>\$ 2,152</b>	<b>\$ 1</b>	<b>\$ 161</b>	<b>\$ (1)</b>	<b>\$ 1,991</b>
Comprehensive income:					
Net income	277				277
Change in net unrealized securities losses	(3)			(3)	
Cumulative effect of adopting SFAS No. 133	(59)			(59)	
Change in net unrealized derivatives losses	(456)			(456)	
Derivatives losses reclassified to earnings	289			289	
Total comprehensive income	48				
<b>Balances at December 31, 2001</b>	<b>2,200</b>	<b>1</b>	<b>161</b>	<b>(230)</b>	<b>2,268</b>
Comprehensive income:					
Net income	228				228
Change in net unrealized securities losses	(7)			(7)	
Change in net unrealized derivatives losses	(400)			(400)	
Derivatives losses reclassified to earnings	294			294	
Total comprehensive income	115				
<b>Balances at December 31, 2002</b>	<b>2,315</b>	<b>1</b>	<b>161</b>	<b>(343)</b>	<b>2,496</b>
Comprehensive income:					
Net income	260				260
Change in net unrealized securities gains	22			22	
Change in net unrealized derivatives losses	(147)			(147)	
Derivatives losses reclassified to earnings	300			300	
Total comprehensive income	435				
<b>Balances at December 31, 2003</b>	<b>\$ 2,750</b>	<b>\$ 1</b>	<b>\$ 161</b>	<b>\$ (168)</b>	<b>\$ 2,756</b>

*See notes to consolidated financial statements.*

**AMERICAN EXPRESS CREDIT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1 Summary of Significant Accounting Policies**

**Basis of Presentation**

American Express Credit Corporation together with its subsidiaries (Credco) is a wholly owned subsidiary of American Express Travel Related Services Company, Inc. (TRS), which is a wholly owned subsidiary of American Express Company (American Express). American Express Overseas Credit Corporation Limited together with its subsidiaries (AEOCC), Credco Receivables Corporation (CRC) and Credco Finance, Inc. together with its subsidiaries (CFI), are wholly owned subsidiaries of Credco.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Credco and its subsidiaries. All significant intercompany transactions are eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

**Amounts Based on Estimates and Assumptions**

Accounting estimates are an integral part of the consolidated financial statements. In part they are based upon assumptions concerning future events. Among the more significant are those that relate to reserves for cardmember credit losses and investment securities valuation. These accounting estimates reflect the best judgment of management and actual results could differ.

**Revenue Earned from Purchased Accounts Receivable**

Credco earns revenue from purchasing cardmember receivables. A portion of discount revenue earned on purchases of non-interest-bearing cardmember receivables equal to the provision for losses is recognized as revenue at the time of purchase; the remaining portion is deferred and recorded as revenue ratably over the period that the receivables are outstanding.

Finance charge revenue on interest-bearing lending receivables is recognized as it is earned. Credco ceases accruing finance charge revenue after six contractual payments are past due, or earlier, if deemed uncollectible. Accruals that cease generally are not resumed.

**Reserves for Credit Losses**

Credco's reserves for credit losses relating to charge cardmember and lending receivables represent management's estimate of the amount necessary to absorb future credit losses inherent in Credco's outstanding portfolio of charge cardmember and lending receivables. Management's evaluation process requires many estimates and judgments. Reserves for these credit losses are primarily based upon models that analyze specific portfolio statistics and also reflect, to a lesser extent, management's judgment regarding overall adequacy. The analytic models take into account several factors, including average write-off rates for various stages of receivable aging (i.e., current, 30 days, 60 days, 90 days) over a 24-month period and average bankruptcy and recovery rates. In exercising its judgment to adjust reserves that are calculated by the analytic model, management considers the level of coverage of past-due accounts, as well as external indicators, such as leading economic indicators, unemployment rate, consumer confidence index, purchasing manager's index, bankruptcy filings and the regulatory environment.

Receivables are charged off when management deems amounts to be uncollectible, which is generally determined by the numbers of days past due. For charge cardmember receivables, Credco generally writes off against its reserve for losses the total balance in an account for which any portion remains unpaid twelve months from the date of original billing. For lending receivables, Credco generally writes off against its reserve for losses the total balance in an account for which any portion remains unpaid after six contractual payments are past due. Accounts are written-off earlier if deemed uncollectible. In general, bankruptcy and deceased accounts are written-off upon notification. Given both the size and the volatility of write-offs, management continually monitors evolving trends and adjusts its business strategy accordingly. To the extent historic credit experience is not indicative of future performance or other assumptions used by management do not prevail, loss experience could differ significantly, resulting in either higher or lower future provisions for credit losses, as applicable.

### **Investment Securities Valuation**

Generally, investment securities are carried at fair value on the balance sheet with unrealized gains (losses) recorded in other comprehensive income (loss) within equity, net of income tax provisions (benefits). Gains and losses are recognized in results of operations upon disposition of the securities. In addition, losses are also recognized when management determines that a decline in value is other-than-temporary, which requires judgment regarding the amount and timing of recovery. Indicators of other-than-temporary impairment for debt securities include issuer downgrade, default or bankruptcy. Credco also considers the extent to which cost exceeds fair value, the duration and size of that gap, and management's judgment about the issuer's current and prospective financial condition.

### **Cash and Cash Equivalents**

Credco has defined cash and cash equivalents as cash and short-term investments with original maturities of ninety days or less.

### **Fair Values of Financial Instruments**

The fair values of financial instruments are estimates based upon current market conditions and perceived risks at December 31, 2003 and 2002 and require varying degrees of management judgment. The fair values of the financial instruments presented may not be indicative of their future fair values.

The fair values of investments and long-term debt are included in the related footnotes. For all other financial instruments, the carrying amounts in the consolidated balance sheets approximate the fair values.

### **Interest Rate Transactions**

Credco uses interest rate products, primarily swaps, to manage funding costs related to its charge cardmember and lending receivables. For its charge card and fixed rate lending products, Credco uses interest rate swaps to achieve a mix of fixed and floating rate funding. For the majority of its lending receivables, which are linked to a floating rate base and generally reprice each month, Credco uses floating rate funding. These interest rate products, which modify the terms of an underlying debt obligation, are accounted for by recording interest expense using the revised interest rate with any fees or other payments amortized as yield adjustments. It is Credco's normal practice not to terminate, sell or dispose of interest rate products or the underlying debt to which the products are designated prior to maturity. In the event Credco terminates, sells or disposes of an interest rate product prior to maturity, the gain or loss would be deferred and recognized as an adjustment of yield over the remaining life of the underlying debt.

## **Foreign Currency**

Foreign currency assets and liabilities are translated into their U.S. dollar equivalents based on rates of exchange prevailing at the end of each year. Revenue and expense accounts are translated at exchange rates prevailing during the year. Credco enters into various foreign exchange contracts as a means of managing foreign exchange exposure.

## **Recently Issued Accounting Standards**

In April 2003, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standards (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 Credco's financial statements.

In November 2003, the FASB ratified a consensus on the disclosure provisions of Emerging Issues Task Force Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application of Certain Investments." Credco adopted the disclosure provisions of this rule, however, at December 31, 2003, there were no investment securities with gross unrealized losses.

## **Note 2 Investments**

At December 31, 2003 and 2002, Credco held American Express Master Trust Class B Certificates with a fair value of \$220 million (cost of \$220 million) and \$357 million (cost of \$355 million), respectively, and American Express Credit Account Master Trust Class C Certificates with a fair value of \$1,570 million (cost of \$1,555 million) and \$1,544 million (cost of \$1,563 million), respectively. These securities are classified as Available-for-Sale. Additionally, Credco held two-year U.S. Treasury notes with a fair value of \$803 million (cost of \$801 million) at December 31, 2003. These securities are classified as Available-for-Sale securities. A distribution of Available-for-Sale securities by maturity as of December 31, 2003 is as follows: due within one year, \$334 million; due after one year through five years, \$2,200 million; and due after five years through ten years, \$59 million.

Available-for-Sale securities are reported at fair value, with the unrealized gains and losses included in shareholder's equity. The Available-for-Sale classification does not mean that Credco necessarily expects to sell these securities. They are available to meet possible liquidity needs should there be significant changes in market interest rates, customer demand or funding sources and terms.

The change in net unrealized securities gains (losses) recognized in other comprehensive income includes two components: (1) unrealized gains (losses) that arose from changes in market value of securities that were held during the period (holding gains (losses)), and (2) gains (losses) that were previously unrealized, but have been recognized in current period net income due to sales of Available-for-Sale securities (reclassification for realized gains). This reclassification has no effect on total comprehensive income (loss) or shareholder's equity. The components of the change in other comprehensive gain (loss) net of tax were \$22.3 million and (\$7.1) million in holding gains (losses) for the years ended December 31, 2003 and 2002, respectively.

## **Note 3 Accounts Receivable**

At December 31, 2003 and 2002, respectively, Credco owned \$21.2 billion and \$17.2 billion of charge cardmember receivables and participation in charge cardmember receivables, representing

approximately 81 percent and 78 percent, respectively, of the total receivables owned. In connection with TRS' securitization program for U.S. charge cardmember receivables, CRC purchases from American Express Receivables Financing Corporation (RFC), a wholly owned subsidiary of TRS, a participation interest in RFC's seller's interest in the receivables owned by the American Express Master Trust (the Trust). The gross participation interests represent undivided interests in the receivables conveyed to the Trust by RFC.

In 2003, \$2.1 billion of investor certificates previously issued by the Trust matured. In connection with these maturities, \$135 million of Class B Certificates, previously issued by the Trust, which were held by CRC as investments, matured. At the time of these maturities, CRC purchased \$2.1 billion of gross seller's interest in charge cardmember receivables (\$2.1 billion, net of reserves) from RFC. At December 31, 2003 and 2002, CRC owned approximately \$5.1 billion and \$3.1 billion, respectively, of participation interests in receivables conveyed to the Trust, representing approximately 20 percent and 14 percent, respectively, of Credco's total receivables owned.

At December 31, 2003 and 2002, Credco owned lending receivables totaling \$5.1 billion and \$4.9 billion, respectively, including certain interest-bearing and discounted extended payment plan receivables comprised of American Express credit card, Sign & Travel and Extended Payment Option receivables, lines of credit and loans to American Express Bank Ltd. customers and interest-bearing equipment financing installment loans and leases, representing approximately 19 percent and 22 percent, respectively, of the total receivables owned. At December 31, 2003, there was no participation interest in lending receivables owned by CRC. The lending receivables owned at December 31, 2002 included a \$189 million of participation interest owned by CRC. This represents a participation interest in the seller's interest in lending receivables that have been conveyed to the American Express Credit Account Master Trust (the Master Trust). In 2003, the Master Trust securitized \$3.5 billion of lending receivables through the public issuances of two classes of investor certificates and privately placed collateral interests in the assets of the Master Trust. At the time of these issuances, CRC sold an aggregate of \$110 million of gross seller's interest in lending receivables (\$106 million, net of reserves) to American Express Receivables Financing Corporation II (RFCII), a wholly owned subsidiary of TRS. In addition, at the time of these issuances, CRC purchased from the Master Trust, as an investment, an aggregate of \$87 million of Class C Certificates issued by the Master Trust, collateralized by the revolving credit receivables held by the Master Trust.

#### Note 4 Short-term Debt

December 31, (Millions)	2003	2002
Commercial paper	\$ 10,308	\$ 11,221
Borrowings from affiliates	5,155	3,779
Borrowings under lines of credit	119	58
Borrowing agreements with bank trust departments and others	136	87
<b>Total short-term debt</b>	<b>\$ 15,718</b>	<b>\$ 15,145</b>

Credco has various facilities available to obtain short-term funding, including the issuance of commercial paper and agreements with banks. Credco had committed credit line facilities totaling \$9.2 billion and \$10.0 billion at December 31, 2003 and 2002, respectively. Credco pays fees to the financial institutions that provide these credit line facilities. The fair value of the unused lines of credit is not significant at December 31, 2003 and 2002. At December 31, 2003 and 2002, Credco, through AEOCC, had short-term borrowings under uncommitted lines of credit totaling \$119 million and \$58 million, respectively.

At December 31, 2003 and 2002, the weighted average interest rate of Credco's short-term debt outstanding was 1.20 percent and 1.37 percent, respectively. At December 31, 2003 and 2002, \$5.5

billion and \$6.1 billion of short-term debt outstanding was hedged by interest rate swaps. The year-end weighted average interest rates after giving effect to hedges were 1.85 percent and 2.73 percent for 2003 and 2002, respectively.

Credco paid \$0.8 billion, \$0.7 billion and \$1.3 billion of interest on short-term debt obligations in 2003, 2002 and 2001, respectively.

## Note 5 Long-term Debt

December 31, (Millions)	2003					2002				
	Outstandin g Balance	Notional Amount of Swaps	Year- End Stated Rate on Debt (a,b)	Year-End Effective Interest Rate with Swaps (a,b)	Maturity of Swaps	Outstandin g Balance	Notional Amount of Swaps	Year- End Stated Rate on Debt (a,b)	Year-End Effective Interest Rate with Swaps (a,b)	Maturity of Swaps
Floating Rate Medium-Term Extendible Notes due February 14, 2005 (c)	\$ 2,000	\$ -	1.20%	-	-	\$ -	\$ -	-	-	-
Floating Rate Extendible Notes due January 21, 2005 (d)	1,000	-	1.17%	-	-	-	-	-	-	-
Fixed Rate Senior Notes due May 16, 2008	998	-	3.00%	-	-	-	-	-	-	-
Floating Rate Debt with American Express due 2004	910	-	1.04%	-	-	910	-	1.30%	-	-
Fixed Rate debt with affiliates due 2004 - 2007	729	-	2.41%	-	-	33	-	4.32%	-	-
Floating Rate Medium-Term Notes due 2003 - 2006	5,691	1,300	1.23%	1.76%	Various	6,550	6,550	1.45%	5.34%	2003 - 2004
Fixed Rate Medium-Term Notes due 2005	258	250	4.25%	1.24%	2005	261	250	4.25%	1.54%	2005
Floating Rate Senior Notes due May 16, 2006	500	-	1.32%	-	-	-	-	-	-	-
Fixed Rate Notes due 2003 - 2005	109	100	7.45%	1.36%	2005	114	100	7.45%	1.59%	2003 - 2005
<b>Total</b>	<b>\$ 12,195</b>	<b>\$ 1,650</b>	<b>1.55%</b>			<b>\$ 7,868</b>	<b>\$ 6,900</b>	<b>1.63%</b>		

(a) For floating rate debt issuances, the stated and effective interest rates were based on the respective rates at December 31, 2003 and 2002; these rates are not an indication of future interest rates.

(b) Weighted average rates were determined where appropriate.

(c) These issuances are subject to extension by the holders through March 5, 2008.

(d) These issuances are subject to extension by the holders through June 20, 2008.

The above table includes the current portion of long-term debt of \$1,978 million and \$5,751 million at December 31, 2003 and 2002, respectively. Aggregate annual maturities of long-term debt are as follows (millions): 2004, \$1,978; 2005, \$7,245; 2006, \$1,798; 2007, \$176; and 2008, \$998.

The book value of variable rate long-term debt that reprices within a year approximates fair value. The fair value of other long-term debt is based on quoted market price or discounted cash flow. The aggregate fair value of long-term debt, including the current portion outstanding, was \$12.2 billion and \$7.9 billion, at December 31, 2003 and 2002, respectively.

Credco paid interest on long-term debt obligations of \$170 million, \$121 million and \$119 million in 2003, 2002 and 2001, respectively.

## Note 6 Restrictions as to Dividends and Limitations on Indebtedness

The most restrictive limitation on dividends imposed by the debt instruments issued by Credco is the requirement that Credco maintain a minimum consolidated net worth of \$50 million. There are no limitations on the amount of debt that can be issued by Credco.

## **Note 7 Derivatives and Hedging Activities**

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 or a fair value hedge, 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 into earnings when the hedged transaction affects earnings. Any ineffective portion of the gain or loss on the derivative instrument is recognized currently in earnings. 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 current earnings during the period of the change in fair values. For derivative instruments not designated as hedging instruments, the gain or loss is recognized currently in earnings.

For the year ended December 31, 2003, Credco recorded \$0.5 million of realized gains on derivative transactions 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. For the years ended December 31, 2002 and 2001, there were no such realized gains or losses.

### ***Cash Flow Hedges***

Credco uses interest rate products, primarily swaps, to manage funding costs related to its purchase of charge cardmember receivables. For its charge cardmember receivables, Credco uses interest rate swaps to achieve a targeted mix of fixed and floating rate funding. These interest rate swaps are used to protect Credco from the interest rate risk that arises from short-term funding.

During 2003, 2002 and 2001, Credco reclassified into earnings pretax losses of \$461 million, \$452 million and \$445 million, respectively. At December 31, 2003, Credco expects to reclassify \$446 million of net pretax losses on derivative instruments from accumulated other comprehensive income (loss) to earnings during the next twelve months.

Currently, the longest period of time over which Credco is hedging exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is 7.4 years and relates to funding of foreign currency denominated receivables.

### ***Fair Value Hedges***

Credco is exposed to interest rate risk associated with fixed rate debt and uses interest rate swaps to convert certain fixed rate debt to floating rate.

### ***Derivatives not Designated as Hedges Under SFAS No. 133***

Credco has economic hedges that either do not qualify or are not designated for hedge accounting treatment under SFAS No. 133. Accordingly, the derivatives are marked to market and the gain or loss is included in net income.

Foreign currency transaction exposures are economically hedged, where practical, through foreign currency contracts. Foreign currency contracts involve the purchase and sale of a designated currency at an agreed upon rate for settlement on a specified date. Such foreign currency forward contracts entered into by Credco generally mature within one year.

See Notes 4 and 5 for further information regarding Credco's use of interest rate products related to short- and long-term debt obligations.

## Note 8 Transactions with Affiliates

In 2003, 2002 and 2001, Credco purchased charge cardmember and lending receivables without recourse from TRS and certain of its subsidiaries totaling approximately \$209 billion, \$184 billion and \$204 billion, respectively. Agreements for the purchase of charge cardmember receivables generally require that Credco purchase such receivables at discount rates that yield to Credco earnings of not less than 1.25 times its fixed charges on an annual basis. The agreements require TRS and other Card Issuers, at their expense, to perform accounting, clerical and other services necessary to bill and collect all cardmember receivables owned by Credco. Since settlements under the agreements occur monthly, an amount due from, or payable to, such affiliates may arise at the end of each month.

At December 31, 2003 and 2002, CRC held American Express Master Trust Class B Certificates with a fair value of \$220 million and \$357 million, respectively, and American Express Credit Account Master Trust Class C Certificates with a fair value of \$1,570 million and \$1,544 million, respectively.

At December 31, 2003 and 2002, CRC owned approximately \$5.1 billion and \$3.1 billion, respectively, of participation interests in charge cardmember receivables conveyed to the Trust, representing approximately 20 percent and 14 percent, respectively, of Credco's total accounts receivable.

At December 31, 2003, there was no participation interest in lending receivables owned by CRC. The lending receivables owned at December 31, 2002 include \$189 million of participation interest owned by CRC. This represents a participation interest in the seller's interest in lending receivables that have been conveyed to the Master Trust.

Other transactions with American Express and its subsidiaries for the years ended December 31 were as follows:

December 31, (Millions)	2003	2002	2001
Cash and cash equivalents	\$ 4	\$ 2	\$ 4
Maximum month-end level of cash and cash equivalents during the year	8	6	10
Loans and deposits to affiliates	1,923	2,047	1,907
Maximum month-end level of loans and deposits to affiliates during the year	1,923	2,047	1,907
Borrowings	6,793	4,722	3,124
Maximum month-end level of borrowings during the year	7,404	6,311	6,436
Interest income	31	45	82
Other income	12	6	9
Interest expense	70	98	160

At December 31, 2003, 2002 and 2001, Credco held variable rate loans to American Express due in 2004 of \$850 million. Additionally, Credco had \$385 million, \$489 million and \$468 million of loans to American Express ATM Holdings, Inc., a wholly owned subsidiary of TRS, at December 31, 2003, 2002 and 2001, respectively. Credco also had \$329 million, \$369 million and \$225 million of loans to American Express International Inc., a wholly owned subsidiary of TRS, at December 31, 2003, 2002 and 2001, respectively. At December 31, 2003, 2002 and 2001, CFI had \$359 million, \$339 million and \$330 million, respectively, of loans to Amex Bank of Canada, a wholly owned subsidiary of TRS.

During the first quarter of 2004, Credco lent \$660 million to American Express Bank, FSB, a wholly owned subsidiary of TRS, under a new revolving secured loan agreement.

## Note 9 Income Taxes

The taxable income of Credco is included in the consolidated U.S. federal income tax return of American Express. Under an agreement with TRS, taxes are recognized on a stand-alone basis. If benefits for all future tax deductions, foreign tax credits and net operating losses cannot be recognized on a stand-alone basis, such benefits are then recognized based upon a share, derived by formula, of those deductions and credits that are recognizable on a TRS consolidated reporting basis.

The provisions for income taxes were as follows (millions):

	2003	2002	2001
Federal	\$ 132	\$ 109	\$ 128
Foreign	3	9	12
Total	\$ 135	\$ 118	\$ 140

Deferred income tax assets and liabilities result from the recognition of temporary differences. Temporary differences are differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in differences between income for tax purposes and income for financial statement purposes in future years. The current and deferred components of the provision (benefit) for income taxes were as follows (millions):

	2003	2002	2001
Current	\$ 138	\$ 64	\$ 200
Deferred	(3)	54	(60)
Total income tax provision	\$ 135	\$ 118	\$ 140

Credco's deferred tax assets were \$350 million and \$435 million as of December 31, 2003 and 2002, respectively. These amounts were included in other assets. Credco's deferred tax liabilities were \$6 million as of December 31, 2003 and insignificant as of December 31, 2002.

Deferred tax assets for 2003 and 2002 are primarily related to loss reserves not yet deducted for tax purposes of \$254 million and \$251 million, respectively, and deferred taxes related to net unrealized derivative losses of \$96 million and \$179 million, respectively. Deferred tax liabilities for 2003 consist primarily of deferred taxes related to net unrealized securities gains of \$6 million. At December 31, 2003 and 2002, no valuation allowances were required.

In 2003 and 2002, due to affiliates included current federal tax payable to TRS of \$35 million and \$78 million, respectively.

In 2003, 2002 and 2001, total net income taxes paid, including taxes paid to TRS, were \$183 million, \$0.2 million and \$166 million, respectively. These amounts include estimated tax payments and cash settlements relating to prior tax years.

The principal reason that the aggregate income tax provision is different from that computed by using the U.S. statutory rate of 35 percent is due to a 1 percent impact of foreign operations, resulting in an effective tax rate of 34 percent for each of the years ended December 31, 2003, 2002 and 2001.

The items comprising comprehensive income in the Consolidated Statements of Shareholder's Equity are presented net of income tax (benefit) provision. The changes in net unrealized securities gains (losses) are presented net of tax provision (benefit) of \$12 million for 2003 and (\$4 million) for 2002. The changes in net unrealized derivatives losses are presented net of tax provision (benefit) of \$83 million for 2003 and (\$57 million) for 2002.

## Note 10 Geographic Segments

Credco is principally engaged in the business of purchasing cardmember receivables arising from the use of the American Express card in the United States and foreign locations. The following presents information about operations in different geographic areas (millions):

	2003	2002	2001
Revenues			
United States	\$ 1,408	\$ 1,550	\$ 2,353
International	579	603	489
Consolidated	\$ 1,987	\$ 2,153	\$ 2,842
Pretax income			
United States	\$ 313	\$ 308	\$ 357
International	82	38	60
Consolidated	\$ 395	\$ 346	\$ 417

**Note 11 Quarterly Financial Data (Unaudited)**

Quarters Ended, (Millions)	2003				2002			
	12/31	9/30	6/30	3/31	12/31	9/30	6/30	3/31
Revenues	\$ 510	\$ 488	\$ 507	\$ 482	\$ 566	\$ 516	\$ 554	\$ 517
Pretax income	107	82	105	101	119	65	82	80
Net income	71	54	69	66	78	43	54	53

## **REPORT OF INDEPENDENT AUDITORS**

### **The Board of Directors American Express Credit Corporation**

We have audited the accompanying consolidated balance sheets of American Express Credit Corporation as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholder's equity and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 14 (a). These financial statements and schedule are the responsibility of the management of American Express Credit Corporation. Our responsibility is to express an opinion on these financial statements and schedule 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 Credit Corporation 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. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/Ernst & Young LLP

New York, New York  
January 26, 2004