American Express Bank

Annual Report

2000

Financial Highlights

(Millions, except percentage amounts)	2000	1999
FOR THE YEAR		
Net income	$ 29	$ 22
Return on average assets*	.26%	.19%
Return on average common equity*	4.50%	3.47%
AT YEAR-END		
Available for sale securities – at fair value	$ 2,513	$ 2,460
Loans	5,343	5,097
Total assets	11,539	11,555
Customers' deposits	7,954	8,343
Long-term debt	530	574
Shareholder's equity	756	693
Risk-based capital ratios:		
Tier 1	10.1%	9.9%
Total	11.4%	12.0%
Leverage ratio	5.9%	5.6%

* ROA and ROE are calculated excluding the effect of SFAS No. 115.

President's Letter

W. Richard Holmes
President and
Chief Executive Officer

IN THE FINANCIAL INSTITUTIONS GROUP WE SIGNIFICANTLY INCREASED SALES OF PAYMENTS AND TRADE FINANCE PRODUCTS. WE ALSO MADE SUBSTANTIAL PROGRESS IN OUR NEWEST BUSINESS, THIRD PARTY MUTUAL FUND SALES.

The year 2000 was a successful one for American Express Bank. Our strategy of refocusing the business on more profitable activities and our efforts to reduce costs and our risk profile helped produce positive results for the period, with net income increasing 34 percent to $29 million from $22 million in 1999.

Behind this performance was a continued emphasis on accelerating growth in our Financial Institutions, Private Bank and Personal Financial Services (PSF) businesses and greater commission and fee revenues. Operating expenses were lower reflecting savings from reengineering initiatives and general cost control. These were partially offset by a decline in net interest income, mainly due to higher funding costs, as well as lower securities gains and joint venture income. Net financial revenue (excluding the provision for credit losses) decreased to $648 million in 2000 from $673 million in 1999. Provisions for credit losses remained at $31 million, unchanged from 1999.

The Bank remains well-capitalized as defined by regulatory guidelines. At year-end, risk-based capital ratios stood at 10.1 percent for Tier 1 capital, up from 9.9 percent in 1999 and 11.4 percent for total capital, down from 12.0 percent in 1999.

The progress we made in 2000 is a testament to the hard work and dedication of our employees around the world and the strong relationships we have built with our clients over the years.

In the Financial Institutions Group we significantly increased sales of payments and trade finance products. We also made substantial progress in our newest business, third party mutual fund sales. Here we market our American Express and World Express Funds to financial institutions who then distribute them through their branch and on-line networks to their consumer clients. In 2000, we added another 54 distributors to our network in Italy, launched new businesses in Spain and the U.K. and laid the foundation for a 2001 launch in Germany.

The Financial Institutions Group serves over 1,700 leading financial institutions, a critical business for us given the increasingly close partnerships American Express is developing with financial institutions around the world in cards, investments and Travelers Cheques.

The Private Bank also produced strong results with client holdings increasing 12 percent to more than $10.4 billion. In anticipation of client needs, AEB introduced three new investment alternatives within the American Express Fund family: Global Innovation and Focused U.S. Equity, both managed by American Express Financial Advisors (AEFA), and a Global High-Yield Euro debt fund. Additionally, the Bank launched a third portfolio in its offshore hedge fund family, the Global Long-Short Fund-of-Funds. We also opened new facilities in Los Angeles and Vancouver to better serve clients traveling to the west coast of North America.

In our Personal Financial Services unit, continued investments in new products and marketing helped increase client volumes by 19 percent to $4.1 billion. This business serves about 500,000 affluent clients in 11 countries with a broad range of credit, investment and savings, transaction and insurance products delivered through phone, fax, mail and the Internet. In PFS markets, over 60 percent of the clients are

Cardmembers, a reflection of our successful efforts to deepen relationships with clients.

Global Trading continued to grow its business with financial institutions and private banking clients and expanded its capabilities to meet the needs of other American Express units and clients.

Throughout the year, we continued to integrate the Bank's activities with those of other American Express units. We stepped up marketing of our Private Bank's services to a highly targeted group of Cardmembers outside the United States, while the company's international card business made Platinum Cards® available to qualified AEB clients. In addition, we continued to see increased sales of our American Express Funds and the American Express Offshore Alternative Investment Fund, both of which have portfolios managed by American Express Financial Advisors. We also market AEFA investment certificates, and operate a joint venture with AEFA to market deposit products.

WE STEPPED UP MARKETING OF OUR PRIVATE BANK'S SERVICES TO A HIGHLY TARGETED GROUP OF CARDMEMBERS OUTSIDE THE UNITED STATES, WHILE THE COMPANY'S INTERNATIONAL CARD BUSINESS MADE PLATINUM CARDS® AVAILABLE TO QUALIFIED AEB CLIENTS. IN ADDITION, WE CONTINUED TO SEE INCREASED SALES OF OUR AMERICAN EXPRESS FUNDS AND THE AMERICAN EXPRESS OFFSHORE ALTERNATIVE INVESTMENT FUND, BOTH OF WHICH HAVE PORTFOLIOS MANAGED BY AMERICAN EXPRESS FINANCIAL ADVISORS.

These efforts were helped with the creation of the new Global Financial Services (GFS) group in June. This internal American Express organization will help coordinate the activities and resources of AEB, American Express Financial Advisors, the company's international card and network businesses and Global Brokerage and Membership B@nking. For AEB clients this means increased availability of other American Express products and for clients of other American Express units greater access to the Bank's expertise and products. For American Express shareholders, it means AEB will be able to more effectively leverage the company's operational resources and expertise which will further help the Bank reduce costs.

In our Corporate Banking unit we continued to reduce the size of our corporate lending business. At year-end our corporate loan portfolio stood at $1.8 billion compared to $1.9 billion at the end of 1999. This reduction is in line with our stated strategy of emphasizing businesses that are core to American Express.

Finally, I would like to thank John Ward who led the Bank as Chairman from 1996 through the middle of last year. His many contributions helped position the Bank for the growth we are seeing today.

Looking ahead, we believe our strategy of focusing on building businesses that cater to individual clients and financial institutions will continue to build value for American Express shareholders and will also enhance the high level of service our customers expect from the American Express brand. It should be an exciting time for all of us, and we certainly look forward to working with our clients to help them take maximum advantage of the financial opportunities ahead.

Sincerely,

W. Richard Holmes

W. Richard Holmes
President and Chief Executive Officer
March 15, 2001

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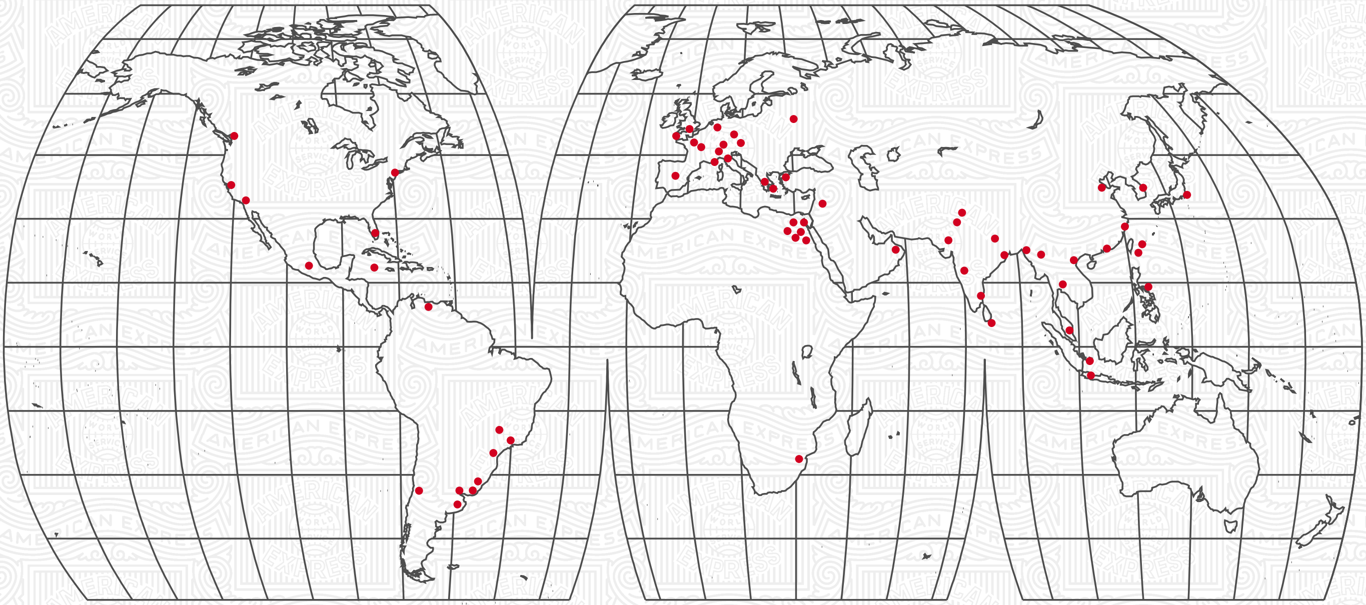

Worldwide Service

	Lines of Business and Services	Operating Highlights 2000
FINANCIAL INSTITUTIONS GROUP	Trade Finance Bankers' Acceptances Term Lending Payment Products Collections Check Clearing	Fee-based services such as payments, check clearing and letter of credit reimbursements continued to produce strong growth.
THE PRIVATE BANK	Discretionary Asset Management Mutual Funds Alternative Funds Capital Protection Products Deposits Trust and Estate Planning Secured Lending The American Express® Card Global Trading Products	Client holdings grew by 12 percent, helped by the performance of our mutual funds and a larger relationship manager force.
PERSONAL FINANCIAL SERVICES	Mutual Funds Money Market Funds Savings Deposits Mortgages Installment Loans Insurance Lines of Credit Direct Banking The American Express® Card	New distribution channels and products have helped produce a 19 percent increase in client volume. The group also launched a new joint venture company in Hong Kong, offering consultancy services for a wide range of property, financial services and lifestyle needs, leveraging innovative banking technologies.
GLOBAL TRADING	Capital Markets Products Treasury Products Foreign Exchange Derivatives	The group continued to provide superior risk management services and products to clients across the Financial Institutions Group, Private Banking, Personal Financial Services and Corporate Banking lines of business.
CORPORATE BANKING	Trade Finance Corporate Finance Advisory Services Working Capital Loans Equipment Finance Global Trading Products	The Bank's Trade Banking Group continued to help Corporate and Financial Institutions clients take advantage of growing trade flows around the world.

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Consolidated Statement of Operations

Year ended December 31, (Millions)	2000	1999	1998
Interest income:			
Loans	$ 415	$ 412	$ 527
Securities	195	199	206
Deposits with banks	122	120	115
Total	732	731	848
Interest expense:			
Deposits	398	359	469
Short-term borrowings	17	19	24
Long-term debt	40	37	49
Total	455	415	542
Net interest expense from related party transactions	27	23	20
Net interest income	250	293	286
Provision for credit losses	31	31	242
Net interest income after provision for credit losses	219	262	44
Noninterest income:			
Commissions, fees and other revenues	311	308	233
Foreign exchange income	87	72	151
Total	398	380	384
Net financial revenues	617	642	428
Noninterest expenses:			
Salaries and employee benefits	274	288	274
Net occupancy and equipment	95	105	146
Professional fees	55	65	56
Travel and entertainment	22	24	27
Communications	12	15	14
Marketing and promotion	29	31	18
Other	96	87	28
Total	583	615	563
Income (loss) before income taxes	34	27	(135)
Income tax provision (benefit)	5	5	(51)
Net income (loss)	$ 29	$ 22	$ (84)

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, (Millions)	2000	1999
Assets		
Cash and noninterest-earning deposits with banks	$ 284	$ 266
Interest-earning deposits with banks	1,831	2,113
Federal funds sold	63	174
Trading assets	418	421
Securities:		
Available for sale – at fair value	2,513	2,460
Held to maturity – at cost	5	10
Loans	5,343	5,097
Reserve for credit losses	(137)	(169)
Customers' acceptance liability	88	141
Due from American Express Company and subsidiaries	131	181
Accrued interest and other receivables	360	238
Land, buildings and equipment, net of accumulated depreciation and amortization (2000, $139; 1999, $155)	107	109
Other assets	533	514
	$11,539	$11,555
Liabilities and Shareholder's Equity		
Customers' deposits:		
Noninterest-bearing	$ 781	$ 839
Interest-bearing	7,173	7,504
Total	7,954	8,343
Short-term borrowings	666	181
Trading liabilities	254	171
Acceptances outstanding	88	141
Accounts payable	284	204
Long-term debt	530	574
Other liabilities	514	522
Due to American Express Company and subsidiaries	493	726
Total liabilities	10,783	10,862
Shareholder's equity:		
Common stock	46	46
Preferred stock	75	75
Additional paid-in capital	528	528
Retained earnings	189	160
Other comprehensive (loss) income, net of tax:		
Net unrealized gains (losses) on available for sale securities	21	(19)
Foreign currency translation adjustments	(103)	(97)
Accumulated other comprehensive loss	(82)	(116)
Total shareholder's equity	756	693
	$11,539	$11,555

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholder's Equity

Three Years ended December 31, 2000 (Millions)	Total	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings
Balances at December 31, 1997	$ 830	$ 46	$ 75	$ 528	$ (53)	$ 234
Comprehensive (loss) income:						
Net loss	(84)					(84)
Change in net unrealized gains (losses) on available for sale securities	25				25	
Foreign currency translation adjustments	(16)				(16)	
Total comprehensive (loss) income	(75)					
Cash dividends declared:						
Common	(11)					(11)
Preferred	(1)					(1)
Balances at December 31, 1998	743	46	75	528	(44)	138
Comprehensive (loss) income:						
Net income	22					22
Change in net unrealized (losses) gains on available for sale securities	(68)				(68)	
Foreign currency translation adjustments	(4)				(4)	
Total comprehensive (loss) income	(50)					
Balances at December 31, 1999	693	46	75	528	(116)	160
Comprehensive income (loss):						
Net income	29					29
Change in net unrealized gains (losses) on available for sale securities	40				40	
Foreign currency translation adjustments	(6)				(6)	
Total comprehensive income (loss)	63					
Balances at December 31, 2000	$ 756	$ 46	$ 75	$ 528	$ (82)	$ 189

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended December 31, (Millions)	2000	1999	1998
Cash flows from operating activities:			
Net income (loss)	$ 29	$ 22	$ (84)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for credit losses	31	31	242
Provision for depreciation and amortization	27	26	24
Accretion of unearned income	(52)	(52)	(60)
Undistributed earnings of equity method affiliates	(12)	(19)	(13)
Net realized (gains) losses on sales and other dispositions of assets	(1)	(7)	3
Net deferred income tax benefit	(6)	(42)	(84)
Net change in trading assets	5	(10)	694
Net change in trading liabilities	86	(64)	(670)
Net change in amounts with Amexco and subsidiaries, net	29	67	(16)
Net change in accrued interest and other receivables	(149)	51	(8)
Net change in accounts payable	88	44	4
Net change in other liabilities	25	(13)	(43)
Total adjustments	71	12	73
Net cash provided by (used in) operating activities	100	34	(11)
Cash flows from investing activities:			
Net change in interest-earning deposits with banks	199	(289)	(413)
Net change in federal funds sold	111	(18)	126
Proceeds from sales of available for sale securities	756	808	650
Principal collected on available for sale securities	762	1,059	1,426
Purchases of available for sale securities	(1,541)	(2,086)	(2,326)
Principal collected on held to maturity securities	5	4	27
Net change in loans	(385)	492	570
Net change in amounts with Amexco and subsidiaries, net	(2)	(10)	13
Proceeds from sales of land, buildings and equipment	2	2	3
Purchases of land, buildings and equipment	(25)	(32)	(30)
Sale of branch	9	—	—
Net change in other assets	(56)	(27)	148
Net cash (used in) provided by investing activities	(165)	(97)	194
Cash flows from financing activities:			
Net change in customers' deposits	(184)	188	(243)
Net change in short-term borrowings	519	(123)	67
Net change in amounts with Amexco and subsidiaries, net	(204)	170	(96)
Principal repayments of long-term debt	(36)	(200)	—
Cash dividends paid on common and preferred stock	—	—	(12)
Net cash provided by (used in) financing activities	95	35	(284)
Effect of exchange rate changes on cash and noninterest-earning deposits with banks	(12)	15	(23)
Net change in cash and noninterest-earning deposits with banks	18	(13)	(124)
Cash and noninterest-earning deposits with banks at the beginning of the year	266	279	403
Cash and noninterest-earning deposits with banks at the end of the year	$ 284	$ 266	$ 279

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

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

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

Basis of Presentation

The accompanying consolidated financial statements include the accounts of American Express Bank Ltd. (a wholly-owned direct subsidiary of American Express Banking Corp. (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 banking units, primarily correspondent banking and investment services for financial institutions, private banking, personal financial services, global trading and corporate banking, and those of AEB's non-banking units, which provide products of American Express Travel Related Services Company, Inc. (a wholly-owned subsidiary of American Express Company) under AEB banking licenses (credit and charge cards, Travelers Cheques and other travel services). Financial statements issued by American Express Company for use by its shareholders do not include activities of the non-banking units in AEB's financial information reported therein.

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

Certain prior years' amounts in the accompanying consolidated financial statements and notes have been restated to conform to the current year's presentation.

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

Securities

Debt securities classified as held to maturity are carried at amortized cost. Other debt securities and all marketable equity securities are classified as either available for sale or trading and carried at fair value. Unrealized gains and losses on securities classified as available for sale are reported, net of income taxes, as a component of shareholder's equity. Trading securities, consisting primarily of debt securities, are generally held for resale in the near term to benefit from short-term market movements. Gains and losses, both realized and unrealized, on trading securities are recognized in other revenue. In the event of an other than temporary decline in value, securities are carried at their estimated realizable value with the amount of the write-down charged against income.

Loans

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

Loans other than certain consumer loans (including loans impaired under Statement of Financial Accounting Standards (SFAS) No. 114, "Accounting by Creditors for Impairment of a Loan") are placed on nonperforming status when payments of principal or interest are 90 days past due or if, in management's opinion, the borrower is unlikely to meet its contractual obligations. When loans are placed on nonperforming status, all previously accrued but unpaid interest is reversed against current interest income. Cash receipts of interest on nonperforming loans are recognized either as interest income or as a reduction of principal, based on management's judgment as to the ultimate collectibility of principal. Generally, a nonperforming loan may be returned to performing status when all contractual amounts due are reasonably assured of repayment within a reasonable period and the borrower shows sustained repayment performance, in accordance with the contractual terms of the loan or when the loan has become well secured and is in the process of collection.

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

Reserve for Credit Losses

AEB separately maintains and provides for reserves relating to credit losses for loans, foreign exchange and derivative contracts and other credit-related commitments. The reserve is established by charging a provision for credit losses against income. The amount charged to income is based on several factors, including historical credit loss experience in relation to outstanding credits, a continuous assessment of the collectibility of each credit, and management evaluation of exposures in each applicable country as related to current and anticipated economic and political conditions. Management's assessment of the adequacy of the reserve is inherently subjective, as significant estimates are required.

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

The reserve for credit losses related to loans is reported as a reduction of loans. The reserve related to foreign exchange and derivative contracts is reported as a reduction of trading assets and the reserve related to other credit-related commitments is reported in other liabilities. In the opinion of management the reserve for credit losses is adequate to absorb credit losses inherent in AEB's portfolio. Included in the reserve for credit losses is a valuation allowance for impaired loans. Impairment is measured as the excess of the loan's recorded investment over either the present value of expected principal and interest payments discounted at the loan's effective interest rate or, if more practical for collateral dependent loans, the fair value of collateral. For floating rate impaired loans, the effective interest rate is fixed at the rate in effect at the date the impairment criteria are met.

Land, Buildings and Equipment

Buildings and equipment, including leasehold improvements, are stated at cost net of accumulated depreciation and amortization. Land is reported at cost. Depreciation is recognized over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the remaining lives of the respective leases or buildings or the estimated useful lives of the improvements. Depreciation and amortization are computed by the straight-line method.

Lending-related Fees and Costs

Material fees on extensions of credit and credit-related commitments are offset by direct costs, with the resulting net fee or cost deferred. Deferred net fees or costs are recognized as a yield adjustment over the life of the related credit. Net fees or costs deferred on unexercised commitments are recognized in income upon expiration. Deferred net fees or costs are not amortized during periods in which a credit is nonperforming. Deferred net fees at December 31, 2000 and 1999 were not material.

Foreign Currency Translation

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

Foreign Exchange and Derivative Contracts

Foreign exchange products used for trading purposes (primarily spot, forward and option contracts) are reported at fair value in trading assets or trading liabilities, as appropriate with unrealized gains and losses recognized currently in foreign exchange income. Unrealized gains and losses on foreign exchange contracts that are designated and effective as accounting hedges are reflected in the measurement of the related hedged financial instrument for income statement purposes. Premiums and discounts on forward foreign exchange contracts that convert funding in one currency to another are considered a component of net interest income and are amortized over the terms of the respective contracts.

Interest rate trading contracts are reported in trading assets or trading liabilities at fair value, with unrealized gains and losses recognized currently in other revenues. Unrealized gains and losses on interest rate and equity index contracts specifically designated to manage existing exposures created by financial assets and liabilities are treated as adjustments to the yields of those financial instruments.

Accounting Changes

In June 1998, the Financial Accounting Standards Board (FASB) issued and subsequently amended SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which AEB adopted on January 1, 2001. This Statement establishes accounting and reporting standards for derivative instruments, including some embedded in other contracts, and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Changes in the fair value of a derivative will be recorded in income or directly to shareholder's equity, depending on the instrument's designated use. As of January 1, 2001, the cumulative impact of applying the statement's requirements to AEB's results of operations and shareholder's equity is not significant.

Note 2 Cash Flows

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

Cash expended for interest and income taxes totaled:

Year ended December 31, (Millions)	2000	1999	1998
Interest	$443	$432	$572
Income taxes	30	28	71

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

AEB is required to maintain reserve balances with various foreign central banks. The balances are primarily based upon deposit liabilities. At December 31, 2000 and 1999, required reserves were $150 million and $214 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 loans, deposits and borrowed funds in 2000 and 1999 and technology initiatives in 1999.

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

December 31, (Millions)	2000	1999
Assets:		
Loans	$ 77	$ 67
Investments in affiliates	187	166
Other assets	73	142
Total assets	$337	$375
Liabilities:		
Deposits and borrowed funds	$469	$707
Other liabilities	39	64
Total liabilities	$508	$771

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

Year ended December 31, (Millions)	2000	1999	1998
Interest income(1)	$ 2	$ 2	$ 2
Interest expense	29	25	22
Net interest expense from related party transactions	$(27)	$(23)	$(20)

(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 intercompany Subordinated Notes to Amexco which mature December 15, 2007 and qualify as Tier 2 capital for U.S. bank regulatory purposes. The interest rate at December 31, 2000 was 7.18% and will vary quarterly based upon three month U.S. Dollar deposits of leading banks in the London interbank market plus ½ of 1%.

Note 4 Trading Assets and Trading Liabilities

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

December 31, (Millions)	2000	1999
Foreign government obligations	$ 36	$ 59
Commercial paper	26	83
Money market funds	26	10
Foreign exchange and derivative contracts(1)(2)	282	228
Other trading assets	48	41
Total trading assets	$418	$421
Foreign exchange and derivative contracts(2)	254	171
Total trading liabilities	$254	$171

(1) Net of reserves for credit losses related to trading assets of $14 million at December 31, 2000 and $16 million at December 31, 1999.

(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 $122 million and $68 million at December 31, 2000 and 1999, respectively.

Note 5 Securities

The cost and fair value of securities classified as held to maturity and available for sale, distributed by type were as follows:

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

December 31, 1999	Held to Maturity				Available for Sale			
(Millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies obligations	$—	$—	$—	$—	$ 31	$—	$ —	$ 31
State and municipal obligations	10	—	—	10	—	—	—	—
Foreign government obligations	—	—	—	—	982	9	(15)	976
Other bonds and obligations	—	—	—	—	590	5	(9)	586
Mortgage-backed securities	—	—	—	—	886	1	(23)	864
Marketable equity securities	—	—	—	—	1	2	—	3
Total	$10	$—	$—	$10	$2,490	$17	$(47)	$2,460

The following table shows the remaining maturities for securities classified as held to maturity and available for sale distributed by type as of December 31, 2000:

(Millions)	Within one year	After one year but within five	After five years but within ten	After ten years	Total
Held to Maturity (at cost)					
State and municipal obligations	$ 4	$ 1	$ —	$—	$ 5
Available for Sale (at fair value)					
U.S. government and agencies obligations	$ —	$ 11	$ 21	$—	$ 32
Foreign government obligations	262	530	202	5	999
Other bonds and obligations	177	384	94	—	655
	$439	$925	$317	$ 5	$1,686
Mortgage-backed securities					825
Marketable equity securities					2
Total Available for Sale Securities					$2,513

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

Year ended December 31, (Millions)	2000		1999	
	Held to Maturity	Available for Sale	Held to Maturity	Available for Sale
Purchases	$ —	$1,541	$ —	$2,086
Sales	—	756	—	808
Maturities	5	762	4	1,059

Gross realized gains on sales of securities classified as available for sale amounted to $2 million, $9 million and $2 million for the years ended December 31, 2000, 1999 and 1998, respectively. Gross realized losses amounted to $4 million for the year ended December 31, 1998. Gross realized losses were immaterial for the years ended December 31, 2000 and 1999. The specific identification method was used to determine the realized gain or loss.

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

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

December 31, (Millions, net of tax)	2000	1999	1998
Holding gains (losses)	$ 41	$ (63)	$ 24
Reclassification adjustment	(1)	(5)	1
Increase (decrease) in net unrealized gains (losses) on available for sale securities recognized in other comprehensive income (loss)	$ 40	$ (68)	$ 25

The Consolidated Balance Sheet included securities of $430 million and $476 million pledged primarily to various domestic and foreign governmental agencies pursuant to their requirements at December 31, 2000 and 1999, respectively.

Note 6 Loans

The composition of loans by type of borrower, net of unearned income of $11 million at both December 31, 2000 and 1999, was as follows:

December 31, (Millions)	2000	1999
Consumer and Private Banking loans[(1)]:		
Loans secured by real estate	$ 361	$ 255
Installment, revolving credit and other	1,839	1,600
	2,200	1,855
Commercial loans:		
Loans secured by real estate	157	141
Loans to businesses	1,397	1,545
Loans to banks and other financial institutions	1,519	1,475
Loans to governments and other institutions	34	37
All other loans	36	44
	3,143	3,242
Total loans	$5,343	$5,097

(1) After the sale and securitization of $370 million and $300 million of consumer loans at December 31, 2000 and 1999, respectively.

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

December 31, (Millions)	2000	1999
Recorded investment in impaired loans not requiring an allowance	$ 6	$ 11
Recorded investment in impaired loans requiring an allowance	131	157
Total recorded investment in impaired loans	$137	$168
Credit loss reserves for impaired loans	$ 65	$ 62

December 31, (Millions)	2000	1999	1998
Average recorded investment in impaired loans	$166	$200	$176
Interest income recognized on a cash basis	1	5	2

AEB had other nonperforming assets totaling $24 million at December 31, 2000 and $37 million at December 31, 1999. These balances primarily represent matured foreign exchange and derivative contracts which are included in accrued interest and other receivables in the Consolidated Balance Sheet.

An analysis of the reserve for credit losses follows:

(Millions)	2000	1999	1998
Balances – January 1,	$ 189	$ 259	$ 137
Provision for credit losses	31	31	242
Write-offs	(73)	(112)	(129)
Recoveries	11	11	13
Translation and other	(5)	—	(4)
Balances – December 31, (1)	$ 153	$ 189	$ 259
(1) Allocation*:			
Loans	$ 137	$ 169	$ 215
Trading assets	14	16	43
Other liabilities	2	4	1
Balances – December 31,	$ 153	$ 189	$ 259

*AEB has allocated its total reserve for credit losses as a reduction of loans, a reduction of trading assets and as other liabilities.

Note 7 Long-term Debt

Long-term debt consisted of:

December 31, (Millions)	2000	1999
Floating Rate Notes due 2001	$300	$300
Floating Rate Bonds, Egyptian Pounds 300 million, due 2001	80	88
Floating Rate Subordinated Notes due 2004	150	150
Other debt	—	36
Total	$530	$574

The $300 million Floating Rate Notes are unsecured obligations and unsubordinated debts of AEB. The interest rate at December 31, 2000 was 6.66%, and will vary quarterly based upon three month U.S. Dollar deposits of leading banks in the London interbank market plus ⅛ of 1%.

The 300 million Egyptian Pounds Floating Rate Bonds are unsecured obligations of AEB. The bonds are redeemable at par and with repayment of one installment on the final maturity date, with an early redemption option at the end of the 4th year from the Public Subscription date. The interest rate at December 31, 2000 was 9.09%, and will vary based on the three month Egyptian Treasury bill rate.

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, 2000 was 6.94%, and will vary semi-annually based upon the U.S. Dollar London interbank rate plus ⅒ of 1% with a minimum rate of 5%. AEB has entered into an interest rate swap agreement in order to eliminate the interest rate minimum. At December 31, 2000 the effective interest rate on the swap agreement was 7.54%.

At December 31, 1999, other debt consisted of AEB's obligations for its share of Amexco's headquarters. This financing is secured by certain mortgages on AEB's interest in the building.

The aggregate annual maturities of long-term debt for the years ending December 31 are (millions): 2001, $380; 2002, $0; 2003, $0; 2004, $150; 2005, $0; and thereafter, $0.

Note 8 Shareholder's Equity

The composition of shareholder's equity was as follows:

December 31, (Millions, except share data)	2000	1999	Par Value	Authorized Shares	Issued and Outstanding Shares
Common stock	$ 46	$ 46	$100	2,000,000	460,000
Preferred stock:					
Class A	—	—	1	1,925,000	—
Class B	75	75	1	75,000	75,000
Additional paid-in capital	528	528	—	—	—
Retained earnings	189	160	—	—	—
Other comprehensive (loss) income, net of tax:					
Net unrealized gains (losses) on available for sale securities	21	(19)	—	—	—
Foreign currency translation adjustments	(103)	(97)	—	—	—
Accumulated other comprehensive loss	(82)	(116)	—	—	—
Total	$ 756	$ 693	—	—	—

The Class B noncumulative preferred stock, which is held by Amexco, is at an adjustable rate and redeemable at $1,001 per share. No dividends were declared or paid during 2000.

Note 9 Regulatory Capital

AEB is subject to various regulatory capital requirements administered by the federal banking agencies. Under capital adequacy guidelines, AEB must meet specific capital guidelines that involve quantitative measures of AEB's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Failure to meet minimum capital requirements can initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on AEB's financial statements. AEB's capital amounts and classification are also 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, 2000, that AEB meets all capital adequacy requirements to which it is subject.

As of December 31, 2000 and 1999, AEB is well capitalized under the regulatory framework. To be categorized as well capitalized AEB must maintain a Tier 1 Capital ratio of at least 6%, a Total Capital ratio of at least 10% and a Leverage ratio of at least 5% and not be subject to a directive, order or written agreement to meet and maintain specific capital levels.

Capital Ratios

December 31,	2000	1999	Minimum Regulatory Requirements
Tier 1 Capital[a]	10.1%	9.9%	4.0%
Total Capital[a]	11.4%	12.0%	8.0%
Leverage Capital[b]	5.9%	5.6%	4.0%

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

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

Note 10 Commissions, Fees and Other Revenues

Commissions, fees and other revenues consisted of:

Year ended December 31, (Millions)	2000	1999	1998
Commissions and fees:			
Letters of credit, acceptances, guarantees and credit lines	$ 34	$ 36	$ 39
Asset management, fiduciary and client service fees	83	71	70
Other commissions and fees	126	98	84
	243	205	193
Other revenues:			
Equity in earnings of and dividends from affiliates	16	27	17
Trading account income (loss)	12	26	(14)
Other	40	50	37
Total	$311	$308	$233

Other revenue included intercompany revenue of $21 million, $18 million and $19 million in 2000, 1999 and 1998, respectively.

Note 11 Foreign Currency

Income from foreign exchange transactions was $89 million, $67 million and $146 million in 2000, 1999 and 1998, respectively. (Losses) gains from certain foreign currency translation included in income were $(2) million in 2000 and $5 million in both 1999 and 1998.

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

(Millions)	2000	1999	1998
Balances – January 1,	$ (97)	$(93)	$(77)
Net translation losses	(6)	(4)	(16)
Balances – December 31,	$(103)	$(97)	$(93)

The net income tax benefits allocated to net translation losses during 2000, 1999 and 1998 were $4 million, $2 million and $8 million, respectively.

Note 12 Retirement Benefit Plans

Pension Plans

AEB employees in the United States are eligible to participate in the American Express Retirement Plan (the Plan), a noncontributory defined benefit plan which is a qualified plan under the Employee Retirement Income Security Act of 1974, as amended (ERISA), under which the cost of retirement benefits for eligible employees in the United States is measured by length of service, compensation and other factors and is currently being funded through a trust. Funding of retirement costs for the Plan complies with the applicable minimum funding requirements specified by ERISA. Employees' accrued benefits are based on recordkeeping account balances which are maintained for each individual and are credited with additions equal to a percentage, based on age plus service, of base pay, certain commissions and bonuses, overtime and shift differential, each pay period. Employees' balances are also credited daily with a fixed rate of interest that is updated each January 1 and is based on the average of the daily five-year U.S. Treasury Note yields for the previous October 1 through November 30. Employees have the option to receive annuity payments or a lump sum payout at vested termination or retirement.

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

Employees outside the United States, who represent the majority of AEB's work force, 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.

Plan assets consist principally of equities and fixed income securities.

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

(Millions)	2000	1999	1998
Service cost	$ 6	$ 6	$ 4
Interest cost	11	11	11
Expected return on plan assets	(11)	(11)	(10)
Amortization of prior service cost	(1)	(1)	(1)
Amortization of transition obligation	—	1	—
Recognized net actuarial loss	—	—	1
Settlement/Curtailment gain	(5)	(1)	—
Net periodic pension benefit cost	$—	$ 5	$ 5

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

Reconciliation of change in benefit obligation:

(Millions)	2000	1999
Benefit obligation, October 1 prior year	$156	$171
Service cost	6	6
Interest cost	11	11
Benefits paid	(6)	(7)
Actuarial gain	(1)	(16)
Settlements/Curtailments	(14)	(4)
Foreign currency exchange rate changes	(5)	(5)
Benefit obligation at September 30,	$147	$156

Reconciliation of change in fair value of plan assets:

(Millions)	2000	1999
Fair value of plan assets, October 1 prior year	$142	$127
Actual return on plan assets	25	22
Employer contributions	2	7
Benefits paid	(6)	(8)
Settlements/Curtailments	(12)	(3)
Foreign currency exchange rate changes	(4)	(3)
Fair value of plan assets at September 30,	$147	$142

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

Funded status (Millions)	2000	1999
Funded status at September 30,	$ —	$(14)
Unrecognized net actuarial gain	(31)	(19)
Unrecognized prior service cost	(2)	(3)
Unrecognized net transition asset	(1)	—
Fourth quarter contributions (net of benefit payments)	1	1
Net amount recognized at December 31,	$(33)	$(35)

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

(Millions)	2000	1999
Accrued benefit liability	$(46)	$(46)
Prepaid benefit cost	11	10
Intangible asset	2	1
Net amount recognized at December 31,	$(33)	$(35)

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 $45 million, $41 million and $2 million, respectively, as of December 31, 2000, and $40 million, $38 million and $2 million, respectively, as of December 31, 1999.

The prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market related value of assets are amortized over the average remaining service period of active participants.

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

	2000	1999
Discount rates	7.4%	7.3%
Rates of increase in compensation levels	4.4%	4.3%
Expected long-term rates of return on assets	9.5%	9.4%

American Express Company also has a defined contribution retirement plan (a 401(k) savings plan with a profit sharing feature) covering most employees in the United States. AEB's defined contribution plan expense was $3 million, $4 million and $3 million in 2000, 1999 and 1998, respectively.

Other Postretirement Benefits

American Express Company sponsors postretirement benefit plans that provide health care, life insurance and other postretirement benefits to retired U.S. employees. AEB does not provide other postretirement benefits to retired non-U.S. employees. Net periodic postretirement benefit expenses were $1 million annually in 2000, 1999 and 1998. The liabilities recognized in the Consolidated Balance Sheet for AEB's defined postretirement benefit plans (other than pension plans) were $13 million at both December 31, 2000 and 1999.

Note 13 Lease Commitments and Other Contingent Liabilities

AEB leases certain office facilities and operating equipment under cancelable and noncancelable agreements. Total rental expense amounted to $27 million in both 2000 and 1999, and $28 million in 1998. At December 31, 2000, the minimum aggregate rental commitments under all noncancelable operating leases, net of rentals to be received from noncancelable subleases, were (millions): 2001, $17; 2002, $15; 2003, $12; 2004, $10; 2005, $9 and $51 for future years.

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

In December 1994, AEB entered into a ten year contract with Electronic Data Systems Corporation (EDS) for the outsourcing of AEB's global systems support and development and data processing functions. In 1999, AEB entered into an Amended and Restated Agreement with EDS, for a term of ten years, for data center processing and related activities. The responsibility for global systems support and development was insourced to Amexco.

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

Note 14 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 provision (benefit) for income taxes consisted of:

Year ended December 31, (Millions)	2000	1999	1998
Federal	$(29)	$(24)	$(89)
Foreign	32	28	35
State and local	2	1	3
Total	$ 5	$ 5	$(51)

The current and deferred components of the provision (benefit) for income taxes consisted of:

Year ended December 31, (Millions)	2000	1999	1998
Current	$ 11	$ 47	$ 33
Deferred	(6)	(42)	(84)
Total	$ 5	$ 5	$(51)

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

December 31, (Millions)	2000	1999
Gross deferred tax assets	$ 80	$ 92
Gross deferred tax liabilities	(15)	(15)
Net deferred tax assets	$ 65	$ 77

Gross deferred tax assets for 2000 and 1999 consisted primarily of reserves not yet deducted for tax purposes of $59 million and $53 million, respectively. For 2000 and 1999, a valuation allowance was not required with respect to such assets. Gross deferred tax liabilities for 2000 and 1999 consisted primarily of accelerated depreciation of $11 million and $12 million, respectively.

AEB's intercompany income tax receivable from Amexco at December 31, 2000 and 1999 totaled $23 million and $46 million, respectively.

The aggregate income tax provision (benefit) in 2000, 1999 and 1998 was different than 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)	2000	1999	1998
Combined tax at U.S. statutory income tax rate	$ 12	$ 9	$(47)
(Decreases) increases in income taxes resulting from:			
Tax-exempt interest income	—	—	(1)
State and local income taxes	1	1	1
Foreign income taxed at rates other than U.S. statutory rate	(9)	(6)	(2)
Non deductible expenditures	1	1	—
All other	—	—	(2)
Total	$ 5	$ 5	$(51)

The items composing comprehensive income (loss) in the Consolidated Statement of Shareholder's Equity are presented net of income tax provision (benefit). The changes in net unrealized gains (losses) on available for sale securities are presented net of income tax provision (benefit) of $22 million, $(37) million and $13 million for 2000, 1999 and 1998, respectively. Foreign currency translation adjustments are presented net of income tax benefit of $4 million, $2 million and $8 million for 2000, 1999 and 1998, respectively.

Note 15 Derivatives and Financial Instruments with Off-Balance Sheet Risk

AEB enters into derivative contracts both to meet the needs of its clients and, to a limited extent, for proprietary trading purposes. In addition, AEB uses derivative financial instruments for nontrading purposes to manage its exposure to interest and foreign exchange rates, financial indices and its funding costs.

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 (VaR) limits. AEB does not enter into derivative contracts with features that would leverage or multiply its market risk.

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

Credit risk approximates the fair market value of contracts in a gain position (asset) and totaled (unadjusted for the effects of master netting agreements and reserve for credit losses) $462 million and $357 million at December 31, 2000 and 1999, 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.

Derivative Financial Instruments

The following tables present information on AEB's derivatives activities for 2000 and 1999. The contractual or notional principal amounts represent neither amounts at risk nor potential future cash requirements. The tables include contracts with Amexco.

		Nontrading			
		Carrying Value		Fair Value	
December 31, 2000 (Millions)	Notional Amount	Asset	Liability	Asset	Liability
Foreign Exchange Products					
Foreign exchange spot and forward contracts	$ 3,017	$ 25	$ 10	$ 42	$ 27
Foreign currency options purchased	12	—	—	1	—
Interest Rate Products					
Interest rate swaps	175	5	5	—	3
Equity Index Options Purchased	64	—	—	1	—
December 31, 1999					
Foreign Exchange Products					
Foreign exchange spot and forward contracts	$ 2,162	$ 6	$ 16	$ 44	$ 37
Foreign currency options purchased	13	—	—	—	—
Interest Rate Products					
Interest rate swaps	198	4	5	—	4
Equity Index Options Purchased	52	—	—	1	—

		Trading(1)			
		Fair Value		Average Fair Value	
December 31, 2000 (Millions)	Notional Amount	Asset	Liability	Asset	Liability
Foreign Exchange Products					
Foreign exchange spot and forward contracts	$17,185	$329	$300	$270	$225
Foreign currency options purchased	1,642	42	—	38	—
Foreign currency options written	1,550	—	38	—	36
Interest Rate Products					
Interest rate swaps	2,238	44	35	47	40
Forward rate agreements and futures	1,027	1	1	—	1
Interest rate options purchased	1,068	1	—	1	—
Interest rate options written	1,116	—	1	—	2
Equity Products					
Equity options purchased	64	1	—	—	—
Equity options written	64	—	1	—	—
December 31, 1999					
Foreign Exchange Products					
Foreign exchange spot and forward contracts	$13,939	$210	$153	$205	$167
Foreign currency options purchased	1,272	45	—	37	—
Foreign currency options written	1,263	—	39	—	37
Interest Rate Products					
Interest rate swaps	2,259	55	45	55	45
Forward rate agreements and futures	125	—	—	—	—
Interest rate options purchased	136	2	—	1	—
Interest rate options written	185	—	2	—	4

(1) Derivatives trading contracts are predominantly contracts with clients and the related hedges of those contracts. AEB's net trading foreign currency exposure was $72 million and $93 million at December 31, 2000 and 1999, respectively. Total foreign currency exposure, including exposure related to unhedged net investments in foreign branches and subsidiaries, was approximately $192 million and $208 million, respectively.

The average aggregate fair values of derivative financial instruments held for trading purposes were computed based on monthly information. Net trading gains on these instruments recognized in noninterest income were $94 million and $81 million for 2000 and 1999, respectively, and were primarily due to foreign exchange spot and forward contracts.

Foreign Exchange Products

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

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

AEB purchases and writes both call and put options on foreign currencies. Foreign currency options represent contracts that convey a right to the purchaser, and may impose an obligation on the writer, to buy or sell foreign currencies at a specified price within a specified period of time. At December 31, 2000 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. 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 uses interest rate products, principally interest rate swaps, to hedge balance sheet positions, including long-term debt and loans. The termination dates of these swaps are generally matched with the maturity dates of the underlying assets and liabilities. Interest rate swaps represent agreements between two parties to exchange periodic interest payments, most often fixed vs. floating, based on a notional principal amount. Cross currency interest rate swaps involve an exchange of principal balances denominated in two different currencies at the inception of the contract, exchange of interest payments during the life of the contract, and re-exchange of the principal at a specified future date.

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

Other Off-Balance Sheet Financial Instruments

AEB's other off-balance sheet financial instruments principally relate to extending credit to satisfy the needs of its clients. The contractual amount of these instruments, including those with Amexco which were immaterial, reflect AEB's maximum exposure to credit loss:

December 31, (Millions)	**2000**	**1999**
Commitments to extend credit	$670	$735
Standby letters of credit		
and guarantees:		
Financial	739	693
Performance	223	358
Commercial and other letters of credit	447	358

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

Standby letters of credit and guarantees are commitments issued by AEB to insure the financial or nonfinancial performance of its clients to third parties. The average tenor of these commitments is generally one year or less. The credit risk arising from these commitments results from the potential need to satisfy, in whole or in part, the obligations of another party when certain specified future events occur. AEB held or obtained collateral or other security amounting to $687 million at December 31, 2000 (financial related: $481 million, performance related: $206 million) and $935 million at December 31, 1999 (financial related: $623 million, performance related: $312 million). The collateral or other security was predominantly represented by customers' deposits and guarantees.

AEB issues commercial and other letters of credit to facilitate the short-term trade-related activities of its clients. These letters of credit normally expire within six months. Commercial and other letters of credit represent contingent assets and liabilities until drawn and possess essentially similar credit risk as that of commitments to extend credit. AEB often obtains collateral or other security based on an evaluation of each client. At December 31, 2000 and 1999, AEB was in possession of or had rights to $239 million and $192 million, respectively, of collateral or other security, consisting primarily of guarantees and customers' deposits.

Note 16 Fair Values of Financial Instruments

The fair value of a financial instrument is the amount for which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following table discloses fair value information for on- and off-balance sheet financial instruments. Certain items, such as employee benefit obligations and investments accounted for under the equity method are excluded. The fair values of financial instruments are estimates based upon market conditions and perceived risks at December 31, 2000 and 1999 and require management judgement. These figures may not be indicative of their future fair values.

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

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

December 31, (Millions)	2000		1999	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Securities	$2,518	$2,518	$2,470	$2,470
Trading assets (see Note 4)	418	418	421	421
Loans, net of reserve for credit losses	5,206	5,270	4,928	5,018
Derivative financial instruments, net	57	56	62	77
Financial Liabilities				
Interest-bearing customers' deposits	7,173	7,177	7,504	7,397
Long-term debt	530	530	574	570
Trading liabilities (see Note 4)	254	254	171	171

The carrying and fair values of other off-balance sheet financial instruments are not material as of December 31, 2000 and 1999. See Note 15 for carrying and fair value information on derivative financial instruments. 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 had been no significant change in borrower credit worthiness.

The fair value of all other loans, except those with significant credit deterioration, are estimated using discounted cash flow analysis, based on current interest rates for loans with similar terms to borrowers of similar credit quality. For loans with significant credit deterioration, fair values are based on estimates of future cash flows discounted at rates commensurate with the risk inherent in the revised cash flow projections, or for collateral dependent loans, on 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 interst-bearing liabilities were 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 was determined using discounted cash flows, based on changes in the underlying interest rate indices since the debt was issued.

Note 17 Credit Concentrations

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

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

December 31, (Millions)	2000			1999		
	On-Balance Sheet	Off-Balance Sheet	Total	On-Balance Sheet	Off-Balance Sheet	Total
Banks and other financial institutions	$ 4,927	$ 721	$ 5,648	$ 5,147	$ 663	$ 5,810
Other businesses	1,992	526	2,518	2,602	725	3,327
Foreign governments	1,110	7	1,117	1,077	8	1,085
Individuals	2,286	800	3,086	1,489	696	2,185
Real estate	982	22	1,004	1,004	25	1,029
All other	52	3	55	45	27	72
Total	$11,349	$2,079	$13,428	$11,364	$2,144	$13,508

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

At December 31, 2000, AEB had exposures throughout the Asia/Pacific region, including in Hong Kong, Singapore, Taiwan, Indonesia and Korea, among other countries. AEB had approximately $1.8 billion outstanding in loans in the entire Asia/Pacific region at year-end. In addition to these loans, there are other banking activities, such as forward contracts, various contingencies and market placements, which added another approximately $1.1 billion to the credit exposures in the region at year-end.

In an ongoing effort to mitigate the effects of these risks, as well as AEB's decision to shift its business focus from corporations to individuals, AEB has reduced its wholesale credit exposure in 2000 particularly with respect to its Asia/Pacific commercial loan portfolio. AEB continues to carefully monitor its credit exposures.

The following table presents AEB's worldwide credit exposures at December 31, 2000 and 1999 (billions):

Country	Loans	Foreign Exchange and Derivatives	Net Guarantees and Contingents	Other(a)	12/31/00 Total Exposure(b)	12/31/99 Total Exposure(b)
Hong Kong	$ 0.6	$ —	$ 0.1	$ 0.1	$ 0.7	$ 0.8
Indonesia	0.1	—	0.1	0.1	0.3	0.4
Singapore	0.5	—	0.1	0.1	0.7	0.6
Korea	0.2	—	—	0.2	0.4	0.3
Taiwan	0.2	—	—	—	0.3	0.4
China	—	—	—	—	—	—
Japan	0.1	—	—	0.1	0.1	0.1
Thailand	—	—	—	—	—	—
Other	0.1	—	—	0.1	0.2	0.3
Total Asia/Pacific Region(b)	1.8	0.1	0.3	0.6	2.9	2.9
Chile	0.2	—	—	0.1	0.3	0.3
Brazil	0.2	—	—	0.1	0.3	0.3
Mexico	0.1	—	—	—	0.1	0.1
Peru	0.1	—	—	—	0.1	—
Argentina	0.1	—	—	—	0.1	0.1
Other	0.2	—	0.2	0.1	0.5	0.5
Total Latin America(b)	0.9	—	0.2	0.3	1.4	1.2
India	0.3	—	0.1	0.3	0.7	0.7
Pakistan	0.1	—	—	0.1	0.3	0.3
Other	0.1	—	—	0.1	0.2	0.2
Total Subcontinent(b)	0.4	—	0.2	0.6	1.2	1.2
Egypt	0.2	—	—	0.2	0.5	0.5
Other	0.2	—	—	—	0.2	0.2
Total Middle East & Africa(b)	0.4	—	0.1	0.2	0.7	0.8
Total Europe(c)	1.5	0.1	0.5	2.4	4.5	4.7
Total North America	0.4	0.1	0.3	1.4	2.1	2.0
Total Worldwide(b)	$ 5.3	$ 0.3	$ 1.6	$ 5.5	$ 12.7	$ 12.7

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

(a) Includes cash, placements and securities
(b) Individual items may not add to totals due to rounding
(c) Total exposure at 12/31/00 includes $3 million of exposures to Russia, which decreased from $11 million at 12/31/99

Note 18 Geographical Operations

AEB operates in the financial services business on a global basis, primarily providing correspondent banking and investment services for financial institutions, private banking, personal financial services, global trading and corporate banking. These services are subject to significant competition in highly regulated markets.

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

Assets and the related revenues and expenses have been distributed to geographical regions primarily on the basis of the domicile of the customer.

The following table presents selected financial information regarding AEB's operations in different geographical regions at December 31, 2000, 1999 and 1998, and for the years then ended (millions):

	North America	Europe	Middle East/ Africa	Asia/ Pacific(a)	Latin America and Other	Consolidated
2000						
Total Assets	$1,838	$3,137	$ 897	$4,150	$1,517	$11,539
Net Revenues[b]	30	201	56	275	86	648
Pretax Income (Loss)	(31)	(4)	21	—	48	34
1999						
Total Assets	$2,209	$2,922	$ 877	$3,981	$1,566	$11,555
Net Revenues[b]	37	207	61	288	80	673
Pretax Income (Loss)	(18)	(21)	29	1	36	27
1998						
Total Assets	$1,678	$3,140	$1,027	$4,224	$1,723	$11,792
Net Revenues[b]	34	175	75	320	66	670
Pretax (Loss) Income	(29)	5	40	(174)	23	(135)

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

Report of Ernst & Young LLP Independent Auditors

The Board of Directors
American Express Bank Ltd.

We have audited the accompanying consolidated balance sheet of American Express Bank Ltd. as of December 31, 2000 and 1999, 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, 2000. 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, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

New York, New York

February 8, 2001

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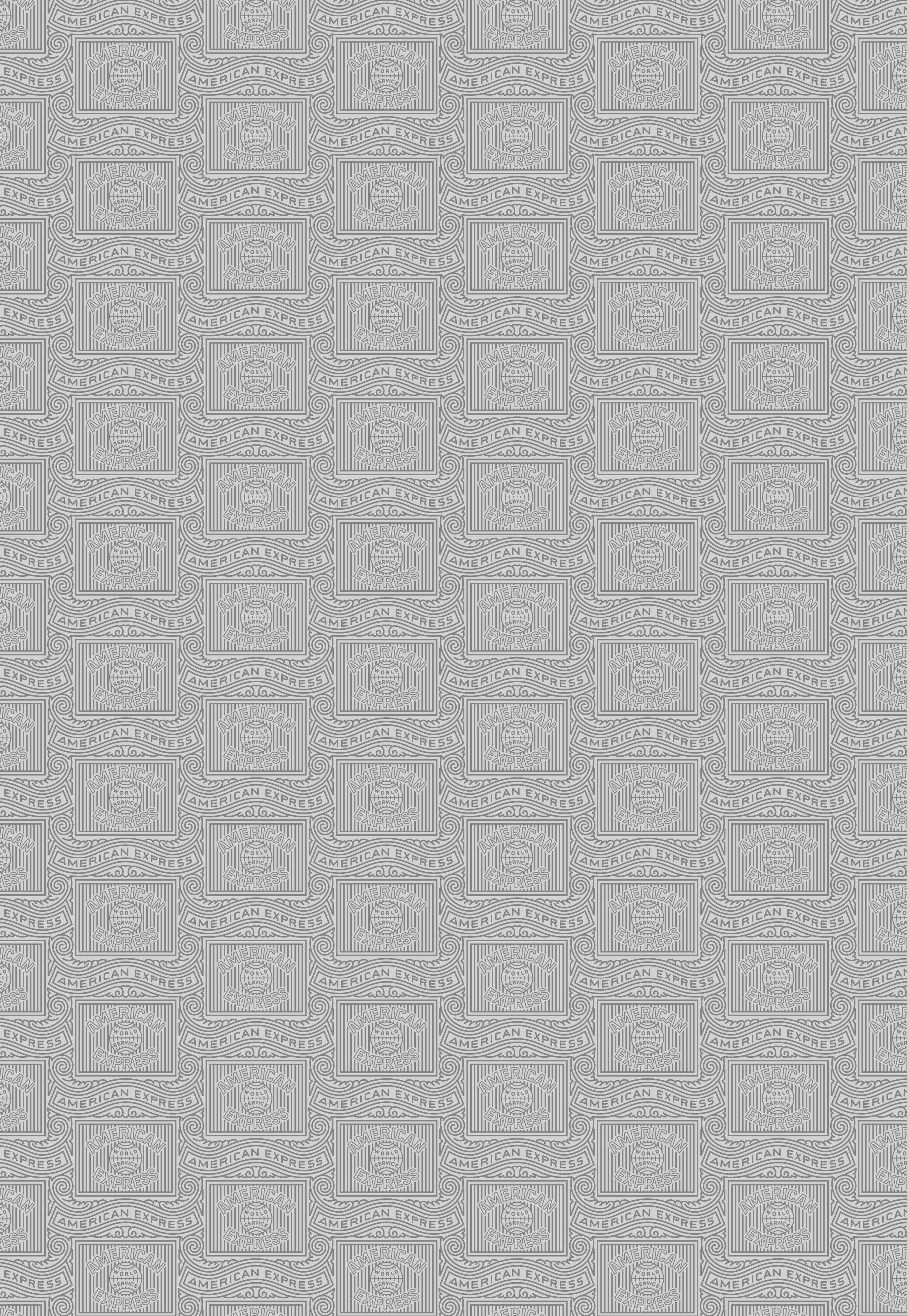
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