TRAVEL RELATED SERVICES
GENERAL DISCUSSION REVIEW

American Express Travel Related Services Company, Inc. (including its subsidiaries, unless the context indicates otherwise, “TRS”) provides a variety of products and services, including, among others, global card network, issuing and processing services, the American Express? Card, the Optima? Card, a number of cobranded Cards, and other consumer and corporate lending and banking products, the American Express? Travelers Cheque (the “Travelers Cheque” or the “Cheque”), stored value products, business expense management products and services, corporate and consumer travel products and services, tax preparation and business planning services, magazine publishing, and merchant transaction processing, point of sale and back office products and services. TRS offers products and services in more than 200 countries. In certain countries, partly owned affiliates and unaffiliated entities offer some of these products and services under licenses from TRS.

TRAVEL RELATED SERVICES
FINANCIAL REVIEW

Results of Operations [1]

Travel Related Services reported earnings of $1.93 billion in 2000, a 14 percent increase from $1.69 billion in 1999. 1998 earnings were $1.49 billion.

TRS' net revenues on a managed basis rose 14 percent and 13 percent in 2000 and 1999, respectively. In both years, TRS' net revenues benefited from growth in worldwide billed business and Cardmember loans outstanding; in addition, 1999 benefited from higher travel commissions and fees. In both 2000 and 1999, growth in billed business was due to higher average spending per Basic Cardmember and growth in average cards outstanding. Greater average spending per Basic Cardmember resulted from several factors, including the benefits of rewards programs and expanded merchant coverage. The increase in U.S. cards during both 2000 and 1999 reflects a greater level of consumer and small business services card acquisition activities, including those related to the Blue and co-branded Costco card products launched in 1999. The international increase in both 2000 and 1999 includes growth in proprietary products, as well as the addition of a substantial number of new network cards.

Discount revenue rose 15 percent in 2000 and 10 percent in 1999 as a result of higher worldwide billed business. The growth in billed business in both 2000 and 1999 reflects increases in retail and "everyday spend" categories. The increase in 2000 is also the result of growth in airline billings. In 1999, billed business increased despite (i) a general tightening of corporate travel and entertainment expenses which began in the latter half of 1998 and (ii) American Express' (the Company) decision to withdraw from the U.S. Government Card business in the fourth quarter of 1998, which caused the cancellation of 1.6 million U.S. Government cards, representing approximately $3.5 billion in annualized spending.

Net card fees increased slightly in 2000 and 1999, reflecting growth in cards-in-force. Lending net finance charge revenue rose 23 percent and 16 percent in 2000 and 1999, respectively, from higher worldwide lending balances. In both 2000 and 1999, the increases were partly offset by a narrowing of interest margins in the U.S. portfolio, as a greater portion of the portfolio was on lower introductory rates, and relatively more products were offered with fixed and lower rates.

Travel commissions and fees improved in 2000 and 1999 on an increase in travel sales; the slight increase for 2000 reflects the impact of the sale of an international leisure travel business. In 1999, the improvement was a result of acquisitions during 1998; these acquisitions increased revenues and expenses but did not have a material effect on net income. Both 2000 and 1999 include increased travel sales volumes, offset in part by the continued efforts by airlines to reduce distribution costs and by corporate travel and entertainment expense containment efforts.

(1) Results of Operations discussion addresses the managed basis statements of income.

Travelers Cheque investment income rose in both years because of an increase in average investments. The increase in other revenues in 2000 and 1999 include the effect of acquisitions and higher fee income.

The growth in marketing and promotion expense in both years reflects higher media, card acquisition and merchant-related advertising costs.

In 2000, the worldwide Charge Card provision rose mainly due to higher volumes; in 1999, the provision was essentially unchanged from the prior year, as higher volumes were offset by lower loss rates. The worldwide lending provision rose in both 2000 and 1999 due to portfolio growth, offset in part by improved credit quality. Charge Card interest expense rose in 2000 and 1999 as a result of higher volumes; in addition, the increase in 2000 was due to higher borrowing rates. In 1999, the increase was partly offset by lower borrowing rates.

The growth in human resources expense in both years was primarily due to larger business volumes and merit increases; in 1999, this increase was also due to acquisitions and greater contract programmer costs for technology-related projects. Other operating expenses rose in 2000 and 1999 due to Cardmember loyalty programs, business growth and investment spending.

Effect of Securitizations

TRS securitizes loans and receivables in the normal course of its business. On a GAAP reporting basis, TRS results included securitization gains of $142 million ($92 million after-tax) in 2000, $154 million ($100 million after-tax) in 1999, and $36 million ($23 million after-tax) in 1998. These gains were offset by higher expenses related to card acquisition initiatives and, therefore, had no material impact on net income or total expenses in any year.

Liquidity and Capital Resources

The American Express Credit Account Master Trust (the Trust) securitized $4 billion of loans in both 2000 and 1999, through the public issuance of investor certificates. The securitized assets consist primarily of loans arising in a portfolio of designated consumer American Express credit card, Optima Line of Credit and Sign & Travel/Extended Payment Option revolving credit accounts or features owned by American Express Centurion Bank (Centurion Bank), a wholly-owned subsidiary of TRS, and, in the future, may include other charge or credit accounts or features or products. At December 31, 2000 and 1999, TRS had a total of $11 billion and $7 billion, respectively, of Trust-related securitized loans, which are not on the Consolidated Balance Sheets. In February 2001, the Trust securitized an additional $750 million of loans.

In addition, the American Express Master Trust securitizes Charge Card receivables generated under designated American Express Card, Gold Card and Platinum Card consumer accounts through the issuance of trust certificates. In 2000 and 1999, $600 million and $500 million Class A Fixed Rate Accounts Receivable Trust

Certificates, respectively, matured from the Charge Card securitization portfolio. At December 31, 2000 and 1999, TRS had securitized receivables of $2.85 billion and $3.45 billion, respectively, which are not on the Consolidated Balance Sheets.

In 2000, American Express Credit Corporation (Credco), a wholly-owned subsidiary of TRS, called $150 million 1.125% Cash Exchangeable Notes due 2003. These notes were exchangeable for an amount in cash which was linked to the price of the common shares of the Company. Credco had entered into agreements to fully hedge its obligations. Accordingly, the related hedging agreements were called at the same time.

In 1999, TRS issued and sold, exclusively outside the United States and to non-U.S. persons, $500 million 5.625% Fixed Rate Notes. These notes are listed on the Luxembourg Stock Exchange, and will mature in 2004.

TRS, primarily through Credco, maintained commercial paper outstanding of approximately $20.4 billion at an average interest rate of 6.4% and approximately $18.5 billion at an average interest rate of 5.6% at December 31, 2000 and 1999, respectively. Unused lines of credit of approximately $9.7 billion, which expire in increments from 2001 through 2002, were available at December 31, 2000 to support a portion of TRS' commercial paper borrowings.

Borrowings under bank lines of credit totaled $1.4 billion and $1.5 billion at December 31, 2000 and 1999, respectively.

Financing Activities

TRS, Centurion Bank, Credco, American Express Overseas Credit Corporation Limited, a wholly-owned subsidiary of Credco, and American Express Bank Ltd., a wholly owned indirect subsidiary of the Company, have established programs for the issuance, outside the United States, of debt instruments to be listed on the Luxembourg Stock Exchange. The maximum aggregate principal amount of debt instruments outstanding at any one time under the program will not exceed $6.0 billion. At December 31, 2000, this program had the ability to issue $4.4 billion of debt.

Risk Management

TRS' hedging policies are established, maintained and monitored by the Company's treasury department. TRS generally manages its exposures along product lines. A variety of interest rate and foreign exchange hedging strategies are employed to manage interest rate and foreign currency risks.

TRS funds its Charge Card receivables and Cardmember loans using both on-balance sheet funding sources, such as long- and short-term debt, medium-term notes and commercial paper, as well as asset securitizations. Cardmember receivables are predominantly funded by Credco and its subsidiaries; funding for Cardmember loans is primarily through Centurion Bank. For its Charge Card and fixed rate lending products, interest rate exposure is managed through the issuance of long- and short-term debt and the use of interest rate swaps and, to a lesser extent, caps. During 2000, TRS continued its strategy by augmenting its portfolio of interest rate swaps that convert a majority of its domestic funding from floating rate to fixed rate. TRS regularly reviews its strategy and may modify it. For the majority of its Cardmember loans, which are linked to a floating rate base and generally reprice each month, TRS uses floating rate funding.

The detrimental effect on TRS' pretax earnings of a hypothetical 100 basis point increase in interest rates would be approximately $80 million ($61 million related to the U.S. dollar) and $124 million ($109 million related to the U.S. dollar), based on 2000 and 1999 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. The above detrimental effect that was calculated based on year-end 1999 positions was substantially reduced by additional swaps that were put in place in early 2000. In early 2001, TRS initiated additional interest rate swap transactions designed to offset interest rate exposure related to actual and anticipated growth in Cardmember receivables.

TRS' 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. In the latter parts of 2000 and 1999, foreign currency forward contracts were both sold (with notional amounts of $386 million and $611 million, respectively) and purchased (with notional amounts of $92 million and $25 million, respectively) to manage a majority of anticipated cash flows in major overseas markets for the subsequent year.

Based on the year-end 2000 and 1999 foreign exchange positions, but excluding the forward contracts managing the anticipated overseas cash flows for the subsequent year, the effect on TRS' earnings of the hypothetical 10 percent strengthening of the U.S. dollar would be immaterial. With respect to the forward contracts related to anticipated cash flows for the subsequent year, the 10 percent strengthening would create hypothetical pretax gains of $27 million and $53 million related to the 2000 and 1999 year-end positions, respectively. Such gains, if any, would mitigate the negative effect of a stronger U.S. dollar on overseas earnings for the subsequent year.

Accounting Developments

In June 1998, the Financial Accounting Standards Board (FASB) issued, and subsequently amended, Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," which TRS 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 equity, depending on the instrument's designated use. Upon adoption, a one-time opportunity to reclassify held-to-maturity investments to available-for-sale is allowed without tainting the remaining securities in the held-to-maturity portfolio. TRS has elected to take this opportunity to reclass its held-to-maturity investments to available-for-sale.

As of January 1, 2001, the cumulative impact of applying the Statement's requirements to TRS' results of operations and equity is not significant.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," a replacement of FASB Statement No. 125. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. TRS does not expect SFAS No. 140 to have a material impact on its financial position or results of operations.

In July 2000, the FASB's Emerging Issues Task Force issued a consensus on Issue 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." The consensus must be adopted for fiscal quarters beginning after March 15, 2001, with earlier adoption permitted. Issue 99-20 prescribes new procedures for recording interest income and measuring impairment on retained and purchased beneficial interests. TRS does not expect Issue 99-20 to have a material impact on its financial position or results of operations.