

## Financial Review

### CONSOLIDATED RESULTS OF OPERATIONS

2000 was a strong year for American Express Company (the company). We delivered very positive financial results while also making significant investments to develop our business. We had solid growth in cards-in-force, average spending per card and average loans in both the United States and internationally at Travel Related Services (TRS), as well as higher sales and greater average managed assets at American Express Financial Advisors (AEFA). The company's 2000 results met or exceeded its long-term targets of achieving, on average and over time: 12 to 15 percent earnings per share growth, at least 8 percent growth in revenues and return on equity of 18 to 20 percent.

The company reported record 2000 net income of \$2.81 billion, 14 percent higher than the \$2.48 billion in 1999, which represented 16 percent growth from 1998. The 1998 results included several first quarter items: a \$138 million (after-tax) credit loss provision at American Express Bank (AEB) relating to its Asia/Pacific portfolio, as well as income in the Corporate segment of \$78 million (after-tax) representing gains on the sale of First Data Corporation shares and a preferred dividend based on Lehman Brothers' earnings. Excluding these items, 1999 net income rose 12 percent.

Diluted earnings per share were \$2.07, \$1.81 and \$1.54 in 2000, 1999 and 1998, respectively. After adjusting 1998 for the above-mentioned AEB credit loss provision and the Corporate gains, diluted earnings per share were \$1.59 for that year. On this basis, 2000 and 1999 earnings per share both rose 14 percent.

Consolidated net revenues on a managed basis rose 13 percent in 2000 to \$22.1 billion, compared with \$19.5 billion in 1999, which also represented 13 percent growth from the prior year.

The company expects that the weak financial markets and the economic slowdown of the last quarter of 2000 will continue to present challenges in 2001, and be most pronounced early in the year, particularly at AEFA. These challenges are expected to be mitigated by reengineering and cost reduction initiatives that should gain momentum as the year progresses; as a result, full-year 2001 earnings per share growth is expected to be at the low end of our target range.

This financial review is presented on the basis used by management to evaluate operations. It differs in two respects from the accompanying financial statements, which are prepared in accordance with accounting principles generally accepted in the United States. First, results are presented as if there had been no asset securitizations at TRS. This format is generally termed on a "managed basis." Second, revenues are shown net of AEFA's provisions for annuities, insurance and investment certificates products, which are essentially spread businesses.

## TRAVEL RELATED SERVICES

*Results of Operations***STATEMENTS OF INCOME**

(Managed Basis)

Years Ended December 31, (Millions)	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>Net Revenues:</b>			
Discount Revenue	\$ 7,779	\$ 6,741	\$ 6,115
Net Card Fees	1,653	1,604	1,584
<b>Lending:</b>			
Finance Charge Revenue	3,977	2,884	2,470
Interest Expense	1,594	955	810
Net Finance Charge Revenue	2,383	1,929	1,660
Travel Commissions and Fees	1,821	1,802	1,647
Travelers Cheque Investment Income	387	345	330
Other Revenues	3,418	2,813	2,188
<b>Total Net Revenues</b>	<b>17,441</b>	<b>15,234</b>	<b>13,524</b>
<b>Expenses:</b>			
Marketing and Promotion	1,348	1,247	1,130
<b>Provision for Losses and Claims:</b>			
Charge Card	1,157	995	994
Lending	1,486	1,186	1,093
Other	105	85	90
<b>Total</b>	<b>2,748</b>	<b>2,266</b>	<b>2,177</b>
Charge Card Interest Expense	1,408	1,055	1,040
Human Resources	4,126	3,931	3,610
Other Operating Expenses	5,098	4,352	3,497
<b>Total Expenses</b>	<b>14,728</b>	<b>12,851</b>	<b>11,454</b>
Pretax Income	2,713	2,383	2,070
Income Tax Provision	784	691	579
<b>Net Income</b>	<b>\$ 1,929</b>	<b>\$ 1,692</b>	<b>\$ 1,491</b>

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) the company’s 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.

Travelers Cheque (TC) 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.

## SELECTED STATISTICAL INFORMATION

(Billions, except percentages and where indicated)  
Years Ended December 31,

	2000	1999	1998
<b>Total Cards-In-Force (millions):</b>			
United States	33.3	29.9	27.8
Outside the United States	18.4	16.1	14.9
<b>Total</b>	<b>51.7</b>	<b>46.0</b>	<b>42.7</b>
<b>Basic Cards-In-Force (millions):</b>			
United States	26.3	23.4	21.7
Outside the United States	13.9	12.3	11.5
<b>Total</b>	<b>40.2</b>	<b>35.7</b>	<b>33.2</b>
<b>Card Billed Business:</b>			
United States	\$ 221.7	\$ 186.4	\$ 165.6
Outside the United States	75.0	67.7	61.9
<b>Total</b>	<b>\$ 296.7</b>	<b>\$ 254.1</b>	<b>\$ 227.5</b>
Average Discount Rate*	2.70%	2.72%	2.73%
Average Basic Cardmember Spending (dollars)*	\$ 8,229	\$ 7,758	\$ 6,885
Average Fee per Card—Managed (dollars)*	\$ 36	\$ 39	\$ 38
<b>Non-Amex Brand:**</b>			
Cards-in-Force (millions)	0.6	0.3	0.2
Billed Business	\$ 3.2	\$ 0.7	\$ 0.2
Travel Sales	\$ 22.6	\$ 22.5	\$ 19.9
Travel Commissions and Fees/Sales	8.1%	8.0%	8.3%
<b>Travelers Cheque:</b>			
Sales	\$ 24.6	\$ 23.3	\$ 23.6
Average Outstandings	\$ 6.4	\$ 6.2	\$ 6.0
Average Investments	\$ 6.2	\$ 5.9	\$ 5.8
Tax Equivalent Yield	8.9%	8.8%	9.0%
<b>Managed Charge Card</b>			
Receivables:***			
Total Receivables	\$ 29.0	\$ 27.0	\$ 24.0
90 Days Past Due as a % of Total	2.3%	2.5%	2.7%
Loss Reserves (millions)	\$ 964	\$ 857	\$ 897
% of Receivables	3.3%	3.2%	3.7%
% of 90 Days Past Due	142%	126%	138%
Net Loss Ratio	0.36%	0.41%	0.46%
<b>Managed U.S. Cardmember</b>			
Lending:***			
Total Loans	\$ 28.7	\$ 23.4	\$ 16.7
Past Due Loans as a % of Total:			
30–89 Days	1.9%	1.8%	2.2%
90+ Days	0.9%	0.8%	0.9%
Loss Reserves (millions):			
Beginning Balance	\$ 672	\$ 619	\$ 589
Provision	1,258	994	961
Net Charge-Offs/Other	(1,110)	(941)	(931)
<b>Ending Balance</b>	<b>\$ 820</b>	<b>\$ 672</b>	<b>\$ 619</b>
% of Loans	2.9%	2.9%	3.7%
% of Past Due	104%	110%	120%
Average Loans	\$ 25.8	\$ 18.9	\$ 15.0
Net Write-Off Rate	4.4%	5.0%	6.4%
Net Interest Yield	7.6%	8.6%	9.5%

\* Computed from proprietary card activities only.

\*\* This data relates to Visa and Eurocards issued in connection with joint venture activities.

\*\*\* Managed Cardmember receivables and loans include securitized assets not reflected on the Consolidated Balance Sheets.

*Effect of Securitizations*

TRS securitizes loans and receivables in the normal course of its business. The above statements of income and related discussion present TRS results on a managed basis, as if there had been no securitization transactions. See Note 4 to the Consolidated Financial Statements for further information regarding the company's securitizations.

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. The following tables reconcile the TRS income statement from a managed basis to a GAAP basis. These tables are not complete statements of income, as they include only those income statement items that are affected by securitizations.

Year Ended December 31, (Millions)	2000		
	Managed Basis	Securitization Effect	GAAP Basis
<b>Net Revenues:</b>			
Net Card Fees	\$ 1,653	\$ (2)	\$ 1,651
Lending Net			
Finance Charge Revenue	2,383	(1,396)	987
Other Revenues	3,418	1,077	4,495
Total Net Revenues	17,441	(321)	17,120
<b>Expenses:</b>			
Marketing and Promotion	1,348	86	1,434
Provision for Losses and Claims:			
Charge Card	1,157	(151)	1,006
Lending	1,486	(595)	891
Charge Card Interest Expense	1,408	(206)	1,202
Net Discount Expense	—	489	489
Other Operating Expenses	5,098	56	5,154
Total Expenses	14,728	(321)	14,407
Pretax Income	<b>\$ 2,713</b>	<b>\$ —</b>	<b>\$ 2,713</b>
<b>1999</b>			
Year Ended December 31, (Millions)			
	Managed Basis	Securitization Effect	GAAP Basis
<b>Net Revenues:</b>			
Net Card Fees	\$ 1,604	\$ (5)	\$ 1,599
Lending Net			
Finance Charge Revenue	1,929	(596)	1,333
Other Revenues	2,813	497	3,310
Total Net Revenues	15,234	(104)	15,130
<b>Expenses:</b>			
Marketing and Promotion	1,247	91	1,338
Provision for Losses and Claims:			
Charge Card	995	(130)	865
Lending	1,186	(387)	799
Charge Card Interest Expense	1,055	(220)	835
Net Discount Expense	—	479	479
Other Operating Expenses	4,352	63	4,415
Total Expenses	12,851	(104)	12,747
Pretax Income	<b>\$ 2,383</b>	<b>\$ —</b>	<b>\$ 2,383</b>

Year Ended December 31, (Millions)	1998		
	Managed Basis	Securitization Effect	GAAP Basis
<b>Net Revenues:</b>			
Net Card Fees	\$ 1,584	\$ 3	\$ 1,587
<b>Lending Net</b>			
Finance Charge Revenue	1,660	(306)	1,354
Other Revenues	2,188	309	2,497
Total Net Revenues	13,524	6	13,530
<b>Expenses:</b>			
Marketing and Promotion	1,130	36	1,166
<b>Provision for Losses and Claims:</b>			
Charge Card	994	(293)	701
Lending	1,093	(171)	922
Charge Card Interest Expense	1,040	(231)	809
Net Discount Expense	—	665	665
Total Expenses	11,454	6	11,460
Pretax Income	\$ 2,070	\$ —	\$ 2,070

### Liquidity and Capital Resources

#### SELECTED BALANCE SHEET INFORMATION

December 31, (Billions, except percentages)	2000	1999
Accounts Receivable, net	\$ 29.6	\$ 25.6
Travelers Cheque Investments	\$ 6.5	\$ 6.0
U.S. Cardmember Loans	\$ 17.4	\$ 16.1
Total Assets	\$ 71.4	\$ 63.2
Travelers Cheques Outstanding	\$ 6.1	\$ 6.2
Short-term Debt	\$ 36.7	\$ 31.3
Long-term Debt	\$ 3.3	\$ 4.4
Total Liabilities	\$ 64.8	\$ 57.7
Total Shareholder's Equity	\$ 6.6	\$ 5.5
Return on Average Equity*	33.0%	31.2%
Return on Average Assets*	3.0%	3.1%

\*Excluding the effect of SFAS No. 115.

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 of loans arising in a portfolio of designated consumer American Express credit card, Optima Line of Credit and Sign & Travel/Special Purchase Account 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 (the 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 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.

In 2000, American Express Credit Corporation (Credco), a wholly-owned subsidiary of TRS, called \$150 million 1.125% Cash Exchangeable Notes due 2003. The 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.

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.

## AMERICAN EXPRESS FINANCIAL ADVISORS

### Results of Operations

#### STATEMENTS OF INCOME

Years Ended December 31, (Millions)	2000	1999	1998
Revenues:			
Investment Income	\$ 2,292	\$ 2,443	\$ 2,437
Management and Distribution Fees	2,812	2,270	1,851
Other Revenues	1,026	923	807
<b>Total Revenues</b>	<b>6,130</b>	<b>5,636</b>	<b>5,095</b>
Provision for Losses and Benefits:			
Annuities	1,018	1,071	1,150
Insurance	556	522	489
Investment Certificates	337	306	275
<b>Total</b>	<b>1,911</b>	<b>1,899</b>	<b>1,914</b>
<b>Net Revenues</b>	<b>4,219</b>	<b>3,737</b>	<b>3,181</b>
Expenses:			
Human Resources	2,093	1,744	1,530
Other Operating Expenses	643	630	459
<b>Total Expenses</b>	<b>2,736</b>	<b>2,374</b>	<b>1,989</b>
Pretax Income	1,483	1,363	1,192
Income Tax Provision	451	428	374
<b>Net Income</b>	<b>\$ 1,032</b>	<b>\$ 935</b>	<b>\$ 818</b>

American Express Financial Advisors (AEFA) reported increases in net revenues of 13 percent and 17 percent and earnings of 10 percent and 14 percent for 2000 and 1999, respectively. Revenues and earnings in both years benefited primarily from higher fees due to growth in average managed assets and product sales; in 2000 this was partially offset by the effect of narrower spreads on the investment portfolio.

Management and distribution fees rose 24 percent and 23 percent in 2000 and 1999, respectively; in both years, the increase was due to greater management fee revenue from higher average managed and separate account assets. These assets increased due to positive net sales in both years and strong market appreciation in 1999. In 2000, management

fees also rose from \$105 million of net year-over-year benefits from equity fee hedges, reflecting hedge value appreciation during 2000 compared with depreciation in 1999. Distribution fees also grew, reflecting greater mutual fund sales and asset levels. Investment income decreased in 2000, but increased in 1999. Both years benefited from growth in average investments, while in 2000 this was more than offset by the negative impact of deterioration in the high-yield bond sector, as well as a generally lower average yield. Losses on directly owned high-yield bonds and low grades in other structured investments reduced investment income by approximately \$123 million in 2000. Other revenues rose in both years from increased life and property-casualty insurance premiums and higher financial planning fees as well as the addition in 2000 of franchise fees from Platform 2 advisors (those that operate as independent contractors under the American Express brand) and certain revenues related to non-proprietary funds. The provision for losses and benefits for annuities declined due to lower fixed annuities in force in both years; this was partially offset by higher accrual rates in 2000, while 1999 benefited from lower accrual rates compared with prior year. The provisions for insurance and investment certificates rose in 2000 and 1999, reflecting higher in-force levels in both years and greater accrual rates in 2000. In 1999, the increase in certificate provisions also reflects growth in the stock market certificates, which are hedged by indexed options and resulted in a corresponding increase in investment income, with minimal effect on net income.

Human resources expense rose in both years due to higher financial advisors' compensation from growth in sales and asset levels and a greater number of advisors and employees to support business expansion; additionally, the increase in 2000 reflects costs related to the new advisor platforms. The increase in other operating expenses in both years includes higher data processing, technology and advertising expenditures and, in 1999, a \$74 million (pretax) fourth quarter charge (above reserves already established in prior periods) in connection with an agreement in principle to settle three class-action lawsuits related to the sales of insurance and annuity products. The growth in human resources and other operating expenses also reflected higher amortization of deferred acquisition costs (DAC) for variable insurance and annuity products in 2000. In 1999, these costs were mitigated by reduced amortization of DAC due to strong equity market performance during the year.

While AEFA's earnings in 2000 rose 10 percent for the full year, AEFA reported 2000 fourth quarter net income of \$242 million, a 2 percent increase over \$238 million a year ago. The modest growth in earnings and net revenues for the quarter reflected narrower spreads on the investment portfolio and the effect of a decline in equity markets during the quarter. The narrower spreads resulted from losses of \$49 million on high-yield securities and the continued impact of higher interest rates. Management fees for the quarter included a net year-over-year benefit of \$58 million from a fee hedge that minimized the effect of the equity market decline on management fees. The company expects that these challenges will continue into 2001 and be most pronounced early in the year as:

- Equity market levels at the outset of 2001 are lower versus last year and lower than expected later in 2001.
- The equity fee hedges that provided protection against the fourth quarter's substantial market decline expired at the end of 2000. The company's view is that hedging the market similarly in 2001 would not be economical.
- The current interest rate environment will continue to pressure spreads early in 2001, although comparisons are expected to improve as the year progresses.
- Default rates within the high-yield sector of the market enter 2001 at higher levels than a year ago.
- The higher relative platform-related compensation levels for advisors early in 2001 will not become comparable until the second quarter.

As a result, we expect AEFA's net income to be significantly adversely affected for the full year 2001.

**SELECTED STATISTICAL INFORMATION**

(Millions, except percentages and where indicated)

Years Ended December 31,	2000	1999	1998
Life Insurance in Force (billions)	\$ 98.1	\$ 89.2	\$ 81.1
Deferred Annuities in Force (billions)	\$ 45.3	\$ 47.4	\$ 42.8
Assets Owned, Managed or Administered (billions):			
Assets Managed for Institutions	\$ 55.0	\$ 55.5	\$ 45.7
Assets Owned, Managed or Administered for Individuals:			
Owned Assets:			
Separate Account Assets	32.3	35.9	27.3
Other Owned Assets	41.3	38.7	37.3
Total Owned Assets	<b>73.6</b>	<b>74.6</b>	<b>64.6</b>
Managed Assets	112.0	115.1	92.0
Administered Assets	34.4	24.8	16.6
Total	<b>\$ 275.0</b>	<b>\$ 270.0</b>	<b>\$ 218.9</b>

## Market Appreciation (Depreciation) During the Period:

Owned Assets:			
Separate Account Assets	\$ (5,109)	\$ 8,172	\$ 3,547
Other Owned Assets	\$ 106	\$ (1,126)	\$ (109)
Managed Assets	\$ (14,467)	\$ 23,774	\$ 13,954
Cash Sales:			
Mutual Funds	\$ 44,068	\$ 34,269	\$ 27,567
Annuities	5,886	3,902	3,298
Investment Certificates	3,297	3,591	2,342
Life and Other Insurance Products	900	746	605
Institutional	6,601	5,012	5,113
Other	3,557	3,514	3,167
Total Cash Sales	<b>\$ 64,309</b>	<b>\$ 51,034</b>	<b>\$ 42,092</b>
Number of Financial Advisors	12,663	11,366	10,350
Fees from Financial Plans and Advice Services (thousands)	\$ 97,680	\$ 88,509	\$ 72,366
Percentage of Total Sales from			
Financial Plans and Advice Services	68.1%	66.7%	65.4%

Note: In 2000, reporting of data related to cash sales and assets owned, managed and administered was revised to better reflect AEFA's multiple sales channel strategy and broadening of its product portfolio through additional non-proprietary offerings. All prior period amounts have been restated to conform to this presentation.

*Liquidity and Capital Resources***SELECTED BALANCE SHEET INFORMATION**

December 31, (Billions, except percentages)	2000	1999
Investments	\$ 30.5	\$ 30.3
Separate Account Assets	\$ 32.3	\$ 35.9
Total Assets	\$ 73.6	\$ 74.6
Client Contract Reserves	\$ 31.4	\$ 31.0
Total Liabilities	\$ 69.2	\$ 70.7
Total Shareholder's Equity	\$ 4.4	\$ 3.9
Return on Average Equity*	22.6%	22.9%

\*Excluding the effect of SFAS No. 115.

AEFA's total assets and liabilities decreased in 2000 due to a decline in separate account assets as a result of market depreciation, partly offset by positive net sales. Investments comprised primarily corporate bonds and mortgage-backed securities, including \$3.7 billion and \$3.6 billion in below investment grade debt securities, and \$4.1 billion and \$4.0 billion in mortgage loans at December 31, 2000 and 1999, respectively. Non-performing assets relative to invested assets were 0.9% (36% covered by reserves) and 0.3% (68% covered by reserves) at December 31, 2000 and 1999, respectively. Investments are principally funded by sales of insurance, annuities and certificates and by reinvested income. Maturities of these investments are largely matched with the expected future payments of insurance and annuity obligations.

Separate account assets, primarily investments carried at market value, are for the exclusive benefit of variable annuity and variable life insurance contract holders. AEFA earns investment management and administration fees from the related accounts.

## AMERICAN EXPRESS BANK

### Results of Operations

#### STATEMENTS OF INCOME

Years Ended December 31, (Millions)	2000	1999	1998
Net Revenues:			
Interest Income	\$ 735	\$ 737	\$ 854
Interest Expense	484	446	564
Net Interest Income	251	291	290
Commissions and Fees	214	179	167
Foreign Exchange Income and Other Revenues	126	151	163
<b>Total Net Revenues</b>	<b>591</b>	<b>621</b>	<b>620</b>
Expenses:			
Human Resources	257	271	256
Other Operating Expenses	273	294	261
Provision for Losses	28	29	238
<b>Total Expenses</b>	<b>558</b>	<b>594</b>	<b>755</b>
Pretax Income/(Loss)	33	27	(135)
Income Tax Provision/(Benefit)	4	5	(51)
<b>Net Income/(Loss)</b>	<b>\$ 29</b>	<b>\$ 22</b>	<b>\$ (84)</b>

American Express Bank (AEB) reported net income of \$29 million in 2000, compared with \$22 million in 1999 and a net loss of \$84 million in 1998. The 1998 results included a \$138 million (\$213 million pretax) credit loss provision related to AEB's business in the Asia/Pacific region, particularly Indonesia.

Net interest income in 2000 declined from a year ago, primarily due to the effects of higher funding costs. In 1999, net interest income was essentially unchanged versus the prior year as the effect of a lower loan portfolio was offset by the previous year's reversals of accrued interest on loans transferred to non-performing status in Indonesia. The increase in commissions and fees for both years reflects growth in the private banking and personal financial services (PFS) businesses; the current year increase also reflects growth in the financial institution (formerly correspondent banking) business. Foreign exchange income and other revenue declined in both years. The decline in 2000 is a result of lower securities gains and joint venture income. In 1999, the decline reflects lower foreign exchange revenues, primarily in Asia/Pacific, due to stabilization of currencies compared with 1998, when AEB posted strong trading results due to currency volatility.

Human resources and other operating expenses declined in 2000 from a year ago, reflecting reengineering savings and the benefits of lower employee levels, as AEB rationalizes certain country activities. The growth in other operating expenses in 1999 was primarily a result of costs related to business building initiatives in private banking and PFS, as well as reengineering costs incurred as AEB realigned business activities in certain countries.

**SELECTED STATISTICAL INFORMATION**

Years Ended December 31, (Billions, except percentages)	2000	1999	1998
Assets Managed*/Administered	\$ 10.6	\$ 8.6	\$ 6.2
Assets of Non-consolidated Joint Ventures	\$ 2.1	\$ 2.2	\$ 2.6

\* Includes assets managed by American Express Financial Advisors.

*Liquidity and Capital Resources***SELECTED BALANCE SHEET INFORMATION**

December 31, (Billions, except percentages and where indicated)	2000	1999
Total Loans	\$ 5.3	\$ 5.1
Total Non-performing Loans (millions)	\$ 137	\$ 168
Other Non-performing Assets (millions)	\$ 24	\$ 37
Reserve for Credit Losses (millions)*	\$ 153	\$ 189
Loan Loss Reserve as a % of Total Loans	2.6%	3.3%
Total Assets	\$ 11.4	\$ 11.4
Deposits	\$ 8.0	\$ 8.3
Total Liabilities	\$ 10.7	\$ 10.7
Total Shareholder's Equity (millions)	\$ 754	\$ 691
Return on Average Assets**	0.26%	0.20%
Return on Average Common Equity**	4.4%	3.5%
Risk-Based Capital Ratios:		
Tier I	10.1%	9.9%
Total	11.4%	12.0%
Leverage Ratio	5.9%	5.6%
*Allocation (millions)		
Loans	\$ 137	\$ 169
Other Assets, primarily derivatives	14	16
Other Liabilities	2	4
Total Credit Loss Reserves	\$ 153	\$ 189

\*\*Excluding the effect of SFAS No. 115.

AEB had approximately \$5.3 billion outstanding in worldwide loans at December 31, 2000, up from \$5.1 billion at December 31, 1999. Current year activities included a \$140 million decrease in corporate banking loans, as AEB continued to focus on reducing exposure in this activity and emphasizing consumer and private banking loans, which rose by \$410 million (\$340 million excluding the effect of asset sales and securitizations in the consumer loan portfolio). In addition, financial institution loans rose by \$40 million. Other banking activities, such as securities, unrealized gains on foreign exchange and derivatives contracts, various contingencies and market placements added approximately \$7.4 billion and \$7.6 billion to AEB's credit exposures at December 31, 2000 and December 31, 1999, respectively.

## CORPORATE AND OTHER

Corporate and Other reported net expenses of \$180 million, \$174 million and \$84 million in 2000, 1999 and 1998, respectively. 1998 results include income of \$78 million after-tax (\$106 million pretax) comprising a \$39 million after-tax (\$60 million pretax) gain from sales of common stock of First Data Corporation and a \$39 million after-tax (\$46 million pretax) preferred stock dividend based on earnings from Lehman Brothers. Excluding these items, Corporate and Other had net expenses of \$162 million in 1998.

Results for both 2000 and 1999 include a \$39 million after-tax (\$46 million pretax) preferred stock dividend based on earnings from Lehman Brothers. 1998 includes a benefit due to an earnings payout from Travelers Inc., related to the 1993 sale of the Shearson Lehman Brothers Division, and benefits from the sale of securities and adjustment of valuation allowances related to certain corporate assets. The above items were offset by business building initiatives in each year, and costs related to the Y2K issue in 1999 and 1998.

## OTHER REPORTING MATTERS

### *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 the company 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. 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. The company 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 the company's 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 (See Note 4 to Consolidated Financial Statements). The company does not expect SFAS No. 140 to have a material impact on the company's financial position or results of operations.

In July 2000, the FASB's Emerging Issues Task Force (EITF) 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. The rule primarily affects certain AEFA high-yield investments contained in off-balance sheet trusts whose cash flows have been negatively affected by credit experience. As of January 1, 2001, the rule would require AEFA to adjust the carrying amount of these investments downward by approximately \$30 million.

## CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

The company believes allocating capital to businesses with a return on risk-adjusted equity in excess of its cost of capital and sustained earnings growth in its core business will continue to build shareholder value.

The company's philosophy is to retain enough earnings to provide capital such that the company can meet its growth objectives. To the extent capital available exceeds investment opportunities, the company has returned excess capital to shareholders. As further described in Note 7 to the Consolidated Financial Statements, the company has undertaken share repurchase programs to offset new share issuances.

### *Financing Activities*

The company has procedures to immediately transfer short-term funds within the company to meet liquidity needs. These internal transfer mechanisms are subject to and comply with various contractual and regulatory constraints.

The parent company generally meets its short-term funding needs through an intercompany dividend policy and also has the ability to issue commercial paper. The Board of Directors has authorized a parent company commercial paper program that is supported by a \$1.2 billion multi-purpose credit facility that expires in increments from 2001 through 2002. No borrowings have been made under this credit facility. There was no parent company commercial paper outstanding during 2000 or 1999.

Total parent company long-term debt outstanding was \$1.4 billion and \$1.1 billion at December 31, 2000 and 1999, respectively. At December 31, 2000 and 1999, the parent company had \$4.6 billion and \$2.1 billion, respectively, of debt or equity securities available for issuance under shelf registrations filed with the Securities and Exchange Commission. In addition, TRS, Centurion Bank, Credco, American Express Overseas Credit Corporation Limited, a wholly-owned subsidiary of Credco, and AEB 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 both December 31, 2000 and 1999, \$1.6 billion of debt has been issued under this program.

### *Risk Management*

Management establishes and oversees implementation of Board-approved policies covering the company's funding, investments and use of derivative financial instruments and monitors aggregate risk exposures on an ongoing basis. The company's objective is to realize returns commensurate with the level of risk assumed while achieving consistent earnings growth. The company's treasury department is responsible for overseeing the individual business segments' management of their respective exposures within the context of Board-approved policies. See Note 8 to the Consolidated Financial Statements for a discussion of the company's use of derivatives.

The following sections include sensitivity analyses of three 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, a 10% strengthening of the U.S. dollar versus all other currencies, and a 10% decline in the value of equity securities under management at AEFA. Computations of the prospective effects of hypothetical interest rate, foreign exchange rate and equity market changes are based on numerous assumptions, including relative levels of market interest rates, foreign exchange rates and equity prices, 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. As a result, actual earnings consequences will differ from those quantified below.

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.

AEFA's owned investment securities are, for the most part, held by its life insurance and investment certificate subsidiaries, which primarily invest in long-term and intermediate-term fixed income securities to provide their clients with a competitive rate of return on their investments while controlling risk. Investment in fixed income securities provides AEFA with a dependable and targeted margin between the interest rate earned on investments and the interest rate credited to clients' accounts. AEFA does not invest in securities to generate trading profits for its own account.

AEFA's life insurance and investment certificate subsidiaries' investment committees regularly review models projecting different interest rate scenarios and their effect on the profitability of each subsidiary. The committees' objectives are to structure their investment security portfolios based upon the type and behavior of the products in the liability portfolios to achieve targeted levels of profitability and to meet contractual obligations.

Rates credited to customers' accounts are generally reset at shorter intervals than the maturity of underlying investments. Therefore, AEFA's margins may be affected by changes in the general level of interest rates. Part of the committees' strategies includes the use of derivatives, such as interest rate caps, swaps and floors, for risk-management purposes.

AEFA's fees earned on the management of fixed income securities in variable annuities, variable insurance and mutual funds are generally based on the value of the portfolios.

The negative effect on AEFA's pretax earnings of a 100 basis point increase in interest rates, which assumes repricings and customer behavior based on the application of proprietary models, to the book of business at December 31, 2000 and 1999, would be approximately \$44 million and \$40 million for 2000 and 1999, respectively.

AEFA's fees earned on the management of equity securities in variable annuities, variable insurance, mutual funds and other managed assets are generally based on the value of the portfolios. To manage the level of fee income in 2000, AEFA entered into a series of stock index option transactions in early 2000, to mitigate, for a substantial portion of the portfolios, the negative effect on fees that would result from a decline in the equity markets. In addition, AEFA writes and purchases index options to manage the margin related to certain investment certificate and annuity products that pay interest based upon the relative change in a major stock market index between the beginning and end of the product's term. The negative effect on AEFA's pretax earnings of a 10 percent decline in equity markets would be approximately \$99 million and \$103 million based on assets under management, certificate and annuity business in force, and index options as of December 31, 2000 and 1999, respectively. Had the series of stock index option transactions entered into in early 2000 been in effect at December 31, 1999, the 1999 effect would have been substantially lower.

AEB employs a variety of on- and off-balance sheet financial instruments in managing its exposure to fluctuations in interest and currency rates. Derivative instruments consist principally of foreign exchange spot and forward contracts, foreign currency options, interest rate swaps, futures, and forward rate agreements. Generally, they are used to manage specific on-balance sheet interest rate and foreign exchange exposures related to deposits, long-term debt, equity, loans and securities holdings.

The negative effect of the 100 basis point increase in interest rates on AEB's pretax earnings would be \$16 million and \$8 million as of December 31, 2000 and 1999, respectively. The effect on earnings of the 10 percent strengthening of the U.S. dollar would be negligible and, with respect to translation exposure of foreign operations, would result in a \$10 million and \$8 million pretax charge against equity as of December 31, 2000 and 1999, respectively.

AEB utilizes foreign exchange and interest rate products to meet the needs of its customers. Customer positions are usually, but not always, offset. They are evaluated in terms of AEB's overall interest rate or foreign exchange exposure. AEB also takes limited proprietary positions. Potential daily exposure from trading activities is calculated using a Value at Risk methodology. This model employs a parametric technique using a correlation matrix based on historical data. The Value at Risk measure uses a 99 percent confidence interval to estimate potential trading losses over a one-day period. During 2000 and 1999, the Value at Risk for AEB was less than \$3 million.

Asset/liability and market risk management at AEB are supervised by the Asset and Liability Committee, which comprises senior business managers of AEB. It meets monthly and monitors: (i) liquidity, (ii) capital exposure, (iii) capital adequacy, (iv) market risk and (v) investment portfolios. The committee evaluates current market conditions and determines AEB's tactics within risk limits approved by AEB's Board of Directors. AEB's treasury, risk management and global trading management issue policies and control procedures and delegate risk limits throughout AEB's regional trading centers.

AEB's overall credit policies are approved by the Finance and Credit Policy Committee of AEB's Board of Directors. Credit lines are based on a tiered approval ladder, with levels of authority delegated to each country, geographic area, AEB's senior management and AEB's Board of Directors. Approval authorities are based on factors such as type of borrower, nature of transaction, collateral, and overall risk rating. AEB controls the credit risk arising from derivative transactions through the same procedures. The Credit Audit department reviews all significant exposures periodically. Risk of all foreign exchange and derivative transactions is reviewed by AEB on a regular basis.

## FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements about the company's financial performance and business prospects. These are subject to certain risks and uncertainties which could cause actual results to differ materially from such statements. These statements are contained in the sections "Letter to Shareholders" and "Financial Review – Results of Operations," among others. The words "believe," "expect," "anticipate," "optimistic," "intend," "aim," "will," "should," "could," 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. The company undertakes no obligation to update publicly or revise any forward-looking statements. In addition to those described elsewhere in this report, factors that could cause actual results to differ materially from the forward-looking statements, including the company's goals referred to herein, include but are not limited to: fluctuation in the equity markets in 2001, which can affect the amount and types of investment products sold by AEFA, the market value of its managed assets, and management and distribution fees received based on those assets; potential deterioration in the high-yield sector, which could result in further losses in AEFA's investment portfolio; developments relating to AEFA's new platform structure for financial advisors, including the ability to increase advisor productivity, moderate the growth of new advisors and create efficiencies in the infrastructure; AEFA's ability to effectively manage the economics in selling a growing volume of non-proprietary products to clients; investment performance in AEFA's mutual fund business; the success and financial impact of reengineering initiatives being implemented at the company, including cost management, structural and strategic measures such as vendor and process consolidation, outsourcing and using lower cost internal distribution channels; the ability to control and manage operating, infrastructure, marketing and promotion and other expenses as business expands or changes, including balancing the need for longer-term investment spending; consumer and business spending on the company's travel-related services products, particularly credit and charge cards and growth in card lending balances, which depend in part on the ability to issue new and enhanced card products and increase revenues from such products, attract new cardholders, capture a greater share of existing cardholders' spending, sustain premium discount rates, increase merchant coverage, retain Cardmembers after low introductory lending rates have expired, and expand the global network services business; successfully expanding the company's on-line and off-line distribution channels and cross-selling financial, travel, card and other products and services to its customer base, both in the U.S. and abroad; effectively leveraging the company's assets, such as its brand, customers and international presence, in the Internet environment; investing in and competing at the leading edge of technology across all businesses; increasing competition in all of the company's major businesses; fluctuations in interest rates, which impact the company's borrowing costs, return on lending products and spreads in the investment and insurance businesses; credit trends and the rate of bankruptcies, which can affect spending on card products, debt payments by individual and corporate customers and returns on the company's investment portfolios; foreign currency exchange rates; political or economic instability in certain regions or countries, which could affect commercial lending activities, among other businesses; legal and regulatory developments, such as in the areas of consumer privacy and data protection; acquisitions; and outcomes in litigation. Other risks and uncertainties can be found in the company's most recent 10-K, 10-Q and 8-K reports filed with the SEC.

*Consolidated Statements of Income*

AMERICAN EXPRESS COMPANY

Years Ended December 31, (Millions, except per share amounts)	2000	1999	1998
<b>REVENUES</b>			
Discount revenue	\$ 7,779	\$ 6,741	\$ 6,115
Interest and dividends, net	3,290	3,346	3,277
Management and distribution fees	2,812	2,269	1,851
Net card fees	1,651	1,599	1,587
Travel commissions and fees	1,821	1,802	1,647
Other commissions and fees	2,344	1,824	1,657
Cardmember lending net finance charge revenue	987	1,333	1,354
Life and other insurance premiums	575	517	469
Other	2,416	1,847	1,175
<b>Total</b>	<b>23,675</b>	<b>21,278</b>	<b>19,132</b>
<b>EXPENSES</b>			
Human resources	6,633	6,038	5,470
Provisions for losses and benefits:			
Annuities and investment certificates	1,355	1,377	1,425
Life insurance, international banking and other	694	639	822
Charge card	1,006	865	701
Cardmember lending	891	799	922
Interest	1,354	1,051	999
Marketing and promotion	1,515	1,424	1,228
Occupancy and equipment	1,528	1,328	1,250
Professional services	1,530	1,322	1,191
Communications	514	518	474
Other	2,747	2,479	1,725
<b>Total</b>	<b>19,767</b>	<b>17,840</b>	<b>16,207</b>
Pretax income	3,908	3,438	2,925
Income tax provision	1,098	963	784
<b>Net income</b>	<b>\$ 2,810</b>	<b>\$ 2,475</b>	<b>\$ 2,141</b>
<b>EARNINGS PER COMMON SHARE</b>			
Basic	\$ 2.12	\$ 1.85	\$ 1.57
Diluted	\$ 2.07	\$ 1.81	\$ 1.54
Average common shares outstanding for earnings per common share:			
Basic	1,327	1,340	1,363
Diluted	1,360	1,369	1,388

See notes to consolidated financial statements.

*Consolidated Balance Sheets*

AMERICAN EXPRESS COMPANY

December 31, (Millions, except share data)	2000	1999
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,487	\$ 7,471
Accounts receivable and accrued interest:		
Cardmember receivables, less reserves: 2000, \$809; 1999, \$728	25,067	22,541
Other receivables, less reserves: 2000, \$123; 1999, \$78	5,476	3,926
Investments	43,747	43,052
Loans:		
Cardmember lending, less reserves: 2000, \$650; 1999, \$581	19,855	17,666
International banking, less reserves: 2000, \$137; 1999, \$169	5,207	4,928
Other, net	1,026	988
Separate account assets	32,349	35,895
Deferred acquisition costs	3,574	3,235
Land, buildings and equipment—at cost, less accumulated depreciation:		
2000, \$2,219; 1999, \$2,109	2,506	1,996
Other assets	7,129	6,819
<b>Total assets</b>	<b>\$ 154,423</b>	<b>\$ 148,517</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Customers' deposits	\$ 13,870	\$ 13,139
Travelers Cheques outstanding	6,127	6,213
Accounts payable	7,495	6,367
Insurance and annuity reserves:		
Fixed annuities	19,417	20,552
Life and disability policies	4,681	4,459
Investment certificate reserves	7,348	5,951
Short-term debt	36,030	30,627
Long-term debt	4,711	5,995
Separate account liabilities	32,349	35,895
Other liabilities	10,211	8,724
<b>Total liabilities</b>	<b>142,239</b>	<b>137,922</b>
<b>Guaranteed preferred beneficial interests in the company's junior subordinated deferrable interest debentures</b>	<b>500</b>	<b>500</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares, \$.20 par value, authorized 3.6 billion shares; issued and outstanding 1,326 million shares in 2000 and 1,341 million shares in 1999	265	268
Capital surplus	5,439	5,196
Retained earnings	6,198	5,033
Other comprehensive loss, net of tax:		
Net unrealized securities losses	(145)	(296)
Foreign currency translation adjustments	(73)	(106)
<b>Accumulated other comprehensive loss</b>	<b>(218)</b>	<b>(402)</b>
<b>Total shareholders' equity</b>	<b>11,684</b>	<b>10,095</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 154,423</b>	<b>\$ 148,517</b>

See notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**

AMERICAN EXPRESS COMPANY

Years Ended December 31, (Millions)	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 2,810	\$ 2,475	\$ 2,141
Adjustments to reconcile net income to net cash provided by operating activities:			
Provisions for losses and benefits	2,697	2,392	2,491
Depreciation, amortization, deferred taxes and other	393	13	(212)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Accounts receivable and accrued interest	(1,623)	(1,079)	(665)
Other assets	(426)	(294)	92
Accounts payable and other liabilities	2,377	2,371	131
(Decrease) increase in Travelers Cheques outstanding	(82)	392	253
Increase in insurance reserves	207	173	182
Net cash provided by operating activities	<b>6,353</b>	<b>6,443</b>	<b>4,413</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of investments	3,117	3,031	1,656
Maturity and redemption of investments	5,295	5,279	7,331
Purchase of investments	(9,121)	(11,287)	(10,176)
Net increase in Cardmember loans/receivables	(10,661)	(11,787)	(5,000)
Cardmember loans/receivables sold to trust, net	3,338	3,586	1,683
Proceeds from repayment of loans	24,288	21,002	24,560
Issuance of loans	(24,587)	(20,762)	(23,866)
Purchase of land, buildings and equipment	(919)	(737)	(391)
Sale of land, buildings and equipment	35	11	26
Dispositions (acquisitions), net of cash sold/acquired	212	(82)	(471)
Net cash used in investing activities	<b>(9,003)</b>	<b>(11,746)</b>	<b>(4,648)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase in customers' deposits	954	2,853	1,039
Sale of annuities and investment certificates	5,588	5,719	5,337
Redemption of annuities and investment certificates	(5,641)	(5,504)	(5,690)
Net increase in debt with maturities of 3 months or less	7,117	305	1,239
Issuance of debt	12,559	18,623	7,373
Principal payments on debt	(15,362)	(12,049)	(7,426)
Issuance of Trust preferred securities	—	—	500
Issuance of American Express common shares	226	233	137
Repurchase of American Express common shares	(1,377)	(1,120)	(1,890)
Dividends paid	(421)	(404)	(414)
Net cash provided by financing activities	<b>3,643</b>	<b>8,656</b>	<b>205</b>
Effect of exchange rate changes on cash	23	26	(57)
Net increase (decrease) in cash and cash equivalents	1,016	3,379	(87)
Cash and cash equivalents at beginning of year	7,471	4,092	4,179
Cash and cash equivalents at end of year	<b>\$ 8,487</b>	<b>\$ 7,471</b>	<b>\$ 4,092</b>

See notes to consolidated financial statements.

*Consolidated Statements of Shareholders' Equity*

AMERICAN EXPRESS COMPANY

Three Years Ended December 31, 2000 (Millions)	Total	Common Shares	Capital Surplus	Accumulated Other Comprehensive (Loss)/Income	Retained Earnings
<b>Balances at December 31, 1997</b>	<b>\$ 9,574</b>	<b>\$ 280</b>	<b>\$ 4,624</b>	<b>\$ 482</b>	<b>\$ 4,188</b>
Comprehensive income:					
Net income	2,141				2,141
Change in net unrealized securities gains	4			4	
Foreign currency translation adjustments	(15)			(15)	
Total comprehensive income	2,130				
Repurchase of common shares	(1,890)	(12)	(196)		(1,682)
Other changes, primarily employee plans	294	2	381		(89)
Cash dividends declared:					
Common, \$.30 per share	(410)				(410)
<b>Balances at December 31, 1998</b>	<b>9,698</b>	<b>270</b>	<b>4,809</b>	<b>471</b>	<b>4,148</b>
Comprehensive income:					
Net income	2,475				2,475
Change in net unrealized securities gains	(879)			(879)	
Foreign currency translation adjustments	6			6	
Total comprehensive income	1,602				
Repurchase of common shares	(1,170)	(5)	(98)		(1,067)
Other changes, primarily employee plans	369	3	485		(119)
Cash dividends declared:					
Common, \$.30 per share	(404)				(404)
<b>Balances at December 31, 1999</b>	<b>10,095</b>	<b>268</b>	<b>5,196</b>	<b>(402)</b>	<b>5,033</b>
Comprehensive income:					
Net income	2,810				2,810
Change in net unrealized securities gains	151			151	
Foreign currency translation adjustments	33			33	
Total comprehensive income	2,994				
Repurchase of common shares	(1,327)	(5)	(228)		(1,094)
Other changes, primarily employee plans	348	2	471		(125)
Cash dividends declared:					
Common, \$.32 per share	(426)				(426)
<b>Balances at December 31, 2000</b>	<b>\$ 11,684</b>	<b>\$ 265</b>	<b>\$ 5,439</b>	<b>\$ (218)</b>	<b>\$ 6,198</b>

See notes to consolidated financial statements.