

Financial Review

CONSOLIDATED RESULTS OF OPERATIONS

During 2001, American Express Company's (the company) financial results reflected generally worsening economic conditions throughout the year, including weakness in billings and investment activity, as well as significantly lower travel and entertainment related spending after the terrorist attacks of September 11th.

The company reported 2001 net income of \$1.31 billion, 53 percent lower than the \$2.81 billion in 2000, which represented 14 percent growth from 1999. The 2001 results included restructuring charges of \$411 million (after-tax) and \$65 million (after-tax) of one-time costs and business interruption losses related to the terrorist attacks of September 11th. These costs are discussed in greater detail below. Excluding these items, 2001 net income fell 36 percent to \$1.79 billion.

Diluted earnings per share were \$0.98, \$2.07 and \$1.81 in 2001, 2000 and 1999, respectively. After adjusting 2001 for the above-mentioned restructuring and September 11th related items, diluted earnings per share were \$1.34. On this basis, 2001 earnings per share declined 35 percent.

2001 results also included losses of \$1.01 billion (\$669 million after-tax) recorded in the first half of the year related to the write down and sale of some high-yield securities and the reduction of risk within American Express Financial Advisors' (AEFA) investment portfolio. 2000 results reflect approximately \$123 million (\$88 million after-tax) of such losses.

Consolidated net revenues on a managed basis declined 3 percent in 2001 to \$21.4 billion, compared with \$22.1 billion in 2000, which represented 13 percent growth from 1999. 2001 net revenues declined due to lower spreads on AEFA's investment portfolio, which reflect the investment losses and portfolio repositioning mentioned above, weaker travel revenues, as well as lower management and distribution fees. These items were partially offset by an increase in cards-in-force, larger loan balances and greater insurance revenues. Consolidated expenses on a managed basis rose 8 percent in 2001 due to the previously mentioned charges, larger provisions for losses and higher operating expenses. These increases were partially offset by lower marketing costs, a decline in human resource expenses, reengineering activities and other expense control initiatives.

In the third and fourth quarters of 2001, the company incurred restructuring charges of \$352 million (\$232 million after-tax) and \$279 million (\$179 million after-tax), respectively, resulting in total charges of \$631 million (\$411 million after-tax) for the full year. The pretax charges include \$369 million for severance and \$262 million of other charges, including facility consolidations and exit costs. The savings for 2002 resulting from these initiatives is expected to be approximately \$605 million, a portion of which will flow through to earnings in the form of improved operating expense margins. The rest is expected to be reinvested back into business areas with high-growth potential. The combined charges, planned employee reductions and estimated cost savings by segment are as follows. See Note 2 to the Consolidated Financial Statements for further information.

(Dollars in millions)	Restructuring Charges		Employee Reductions*	Expected Cost Savings	
	Pretax	After-tax		2002	2003
Travel Related Services	\$ 414	\$ 267	10,900	\$ 495	\$ 575
American Express Financial Advisors	107	70	1,300	60	95
American Express Bank	96	65	500	30	45
Corporate and Other	14	9	200	20	25
Total	\$ 631	\$ 411	12,900	\$ 605	\$ 740

*The majority of employee reductions will occur in 2002. These are in addition to approximately 1,600 reductions identified this year from ongoing reengineering activities.

Overall, the full year results reflected strong progress on reengineering efforts, which, including the effect of the two restructuring charges, resulted in benefits in excess of \$1.0 billion distributed among reduced operating expenses and provisions, and to a lesser extent, increased revenues. A portion of these benefits flowed through to results of operations while the rest was reinvested back into high-growth areas of the business.

In the third quarter of 2001, the company incurred \$98 million (\$65 million after-tax) of one-time costs and business interruption losses related to the September 11th terrorist attacks. These losses included provisions for credit exposures to travel industry service establishments and insurance claims, as well as approximately \$8 million of waived finance charges and late fees. The company also incurred costs of approximately \$58 million since September 11th, which are expected to be covered by insurance and, consequently, did not impact results. These include the cost of duplicate facilities and equipment associated with the relocation of the company's offices in lower Manhattan and certain other business recovery expenses. Costs associated with the damage to the company's offices, extra operating expenses and business interruption losses are still being evaluated. As of January 2002, approximately \$30 million of such costs relating to the company's portion of the repair of its headquarters building have been identified. The company expects that a substantial portion of these losses will be covered by insurance.

The company expects a weak economy in 2002. As a result, achieving revenue growth targets will be a challenge as, at a minimum, year-over-year revenue trends will be under pressure in the first half of 2002 as two key drivers, Cardmember spending and equity valuations, will face difficult comparisons. During 2001, the company made some important changes to reduce risk and build a more flexible cost structure. The benefits expected from the restructuring charges and ongoing reengineering efforts position the business so earnings growth and solid returns can be achieved at lower levels of revenue growth.

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 (GAAP). First, results are presented as if there had been no asset securitizations at Travel Related Services (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.

CERTAIN CRITICAL ACCOUNTING POLICIES

In December 2001, the Securities and Exchange Commission (SEC) issued a financial reporting release, FR-60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies." In this connection, the following information has been provided about certain critical accounting policies that are important to the Consolidated Financial Statements and that entail, to a significant extent, the use of estimates, assumptions and the application of management's judgment. These policies relate to reserves for Cardmember credit losses, Membership Rewards costs, the recognition of impairment within the investment portfolio and deferred acquisition costs.

- Provisions for credit losses related to Cardmember loans and receivables is one of the largest operating expenses of the company. Reserves for these credit losses are primarily based upon statistically driven models derived from historical experience, as well as management judgment as to the economic and business environment. In determining the reserves, management evaluates both internal credit metrics, such as migration analysis, write-off rates, recovery rates and net write-off coverage, as well as external economic data, such as unemployment, bankruptcy filings and consumer confidence, among other indicators that may impact the portfolios. To the extent historical credit experience is not indicative of future performance or other assumptions used by management do not prevail, loss experience could differ significantly, resulting in either higher or lower future provision for losses, as applicable.
- The company's Membership Rewards Loyalty Program allows Cardmembers to earn points that can be redeemed for a broad range of travel rewards, retail merchandise and gourmet gifts. The company makes payments to merchants when Cardmembers redeem their points and establishes reserves in connection with such redemptions. The provision for the cost of Membership Rewards is based upon points awarded in the current year which are ultimately expected to be redeemed by program members and the current average cost per point of redemption. The cumulative liability for unredeemed points is adjusted over time based on actual experience and current trends with respect to redemptions. To the extent that the assumptions differ from actual redemptions, the company's future Membership Reward program cost could be higher or lower, as applicable.
- Generally, investment securities are carried at fair value on the balance sheet. Gains and losses are recognized in the results of operations upon disposition of the securities. In addition, losses are also recognized when management determines that a decline in value is not temporary, which requires judgment regarding the amount and timing of recovery. Typically, the company

defines an event of impairment for debt securities as issuer default or bankruptcy. Fair value is generally based on quoted market prices. However, the company's investment portfolio also contains structured investments of various asset quality, including Collateralized Debt Obligations (CDOs) and Structured Loan Trusts (backed by high-yield bonds and bank loans, respectively), which are not readily marketable. As a result, the carrying values of these structured investments are based on cash flow projections which require a significant degree of judgment and as such are subject to change. If actual future cash flows are less than projected, additional losses would be realized.

- AEFA's deferred acquisition costs (DAC) represent costs of acquiring new business, principally sales and other distribution and underwriting costs, that have been deferred on the sale of annuity, insurance, and certain mutual fund and other long-term products. DACs are amortized over the lives of the products, either as a constant percentage of projected earnings or as a constant percentage of the projected liabilities associated with such products. Such projections require the use of certain assumptions, including interest margins, mortality rates, persistency rates, maintenance expense levels and, for variable products, separate account performance. As actual experience differs from the current assumptions, management considers on a quarterly basis the need to change key assumptions underlying the amortization models prospectively. For example, if the stock market trend rose or declined appreciably, it could impact assumptions made about separate account performance and result in an adjustment to income, either positively or negatively. The impact on results of operations of changing prospective assumptions with respect to the amortization of DACs is reflected in the period in which such changes are made.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

The company believes allocating capital to its growing businesses with a return on risk-adjusted equity in excess of their cost of capital 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 has exceeded investment opportunities, the company has returned excess capital to shareholders. The company has in place share repurchase programs to both offset the issuance of new shares as part of employee compensation plans and reduce shares outstanding. Due to the negative impact of the 2001 restructuring and disaster recovery charges and high-yield losses discussed in the Consolidated Results of Operations, no share repurchases occurred during the second half of 2001 and none are anticipated for approximately the first half of 2002.

In 1999 and 2000, the company entered into agreements under which a third party purchased 29 million company common shares at an average purchase price of \$50.41 per share. These agreements, which partially offset the company's exposure from its stock option program, are separate from the company's previously authorized share repurchase program. During the term of these agreements, the company will periodically issue shares to or receive shares from the third party so that the value of the shares held by the third party equals the original purchase price for the shares. At maturity in five years, the company is required to deliver to the third party an amount equal to such original purchase price. The company may elect to settle this amount (i) physically, by paying cash against delivery of the shares held by the third party or (ii) on a net cash or net share basis. The company may also prepay outstanding amounts at any time prior to the end of the five-year term. In 2001, the company elected to prepay \$350 million of the aggregate outstanding amount, which resulted in 8 million shares being delivered to the company. Net settlements under these agreements resulted in the company issuing 12 million shares in 2001 and receiving 2 million shares in 2000.

In January 2002, the SEC issued a financial reporting release, FR-61, "Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations." In this release, the SEC recommended that registrants enhance their disclosure of matters concerning liquidity and capital resources, including off-balance sheet arrangements, certain trading activities involving non-exchange traded contracts, and transactions with related and certain other parties. The specific matters significant to the company include on-balance sheet funding, off-balance sheet asset securitizations and contingent obligations, such as Cardmember credit lines, letters of credit and guarantees. These areas are discussed either in this section of the financial review or in each operating segment's financial review. The company does not believe it has any significant transactions with related parties.

Further, the company's transactions with its executive officers, such as use of American Express Cards and AEFA financial services, are on terms and conditions available to its employees generally.

The following table presents certain contingencies and commitments of the company relating to long-term debt and off-balance sheet financial instruments.

(Millions)	Less than one year	One through three years	Four years and thereafter
Long-term debt	\$ 1,194	\$5,301	\$1,293
Off-balance sheet financial instruments:			
Noncancellable leases (net of subleases)	\$ 354	\$ 669	\$1,714
Unused credit available to Cardmembers	\$112,059	—	—
Loan commitments and other lines of credit	\$ 968	\$ 160	—
Bank standby letters of credit and bank guarantees	\$ 731	\$ 114	—
Bank commercial and other bank letters of credit	\$ 252	\$ 8	—

Note: Years reflect maturities of debt and lease operating expenses and periods other obligations are outstanding.

The company is committed to extend credit to certain Cardmembers as part of established lending product agreements. Many of these are not expected to be drawn; therefore, total unused credit available to Cardmembers does not represent future cash requirements. The company's Charge Card products have no preset spending limit and are not reflected in unused credit available to Cardmembers.

The company issues commercial and other letters of credit to facilitate the short-term trade-related needs of its banking clients, which typically mature within six months. At December 31, 2001 and 2000, the company held \$583 million and \$687 million, respectively, of collateral supporting standby letters of credit and guarantees and \$159 million and \$242 million, respectively, of collateral supporting commercial and other letters of credit.

In addition to the contingencies and commitments listed above, the company has entered into many other contracts in the normal course of business that involve future cash payments, which are either required or contingent upon the occurrence of certain events. Management believes payments under these contracts will not have a material adverse impact on liquidity.

FINANCING ACTIVITIES

The company's most significant borrowing and liquidity needs are associated with TRS' card businesses. TRS pays merchants for point of sale card transactions and bills Cardmembers accordingly. TRS must fund merchant payments during the period Cardmember loans and receivables are outstanding. As of December 31, 2001, Cardmember loans and receivables managed were approximately \$62 billion.

AEFA's borrowing needs are less significant as its funds are generated through operations, primarily by the sale of insurance or certificate products. American Express Bank's (AEB) principal funding source is customer deposits. It could experience a tightening of liquidity if customer deposits were withdrawn to the extent that loans, which are generally not readily marketable, would have to be liquidated. Such a tightening, which is not expected to occur, could be funded, among other means, by the sale of investment securities.

The company has procedures to immediately transfer short-term funds within the company to meet liquidity needs. These procedures include Parent Company support of its subsidiaries' funding. Internal transfer mechanisms are subject to and comply with various contractual and regulatory constraints.

The company's major borrowing sources (and amounts outstanding at December 31, 2001) include commercial paper issued by American Express Credit Corporation (Credco), a wholly-owned subsidiary of TRS (\$18 billion), bank notes issued and Fed Funds purchased by American Express Centurion Bank (Centurion Bank), a wholly-owned subsidiary of TRS (\$10 billion), Cardmember lending securitizations (\$13 billion off-balance sheet), and Charge Card receivable securitizations (\$3 billion on-balance sheet). In

addition, the company maintains committed back-up lines of credit (\$10 billion to support Credco commercial paper and \$3 billion for other purposes). See each segment's Liquidity and Capital Resources section for discussion of specific activities.

The availability of the credit lines is subject to the company's compliance with certain financial covenants, including the maintenance by the company of consolidated tangible net worth of at least \$6.5 billion, the maintenance by Credco of a 1.25 ratio of combined earnings and fixed charges to fixed charges and the compliance by Centurion Bank with applicable regulatory capital adequacy guidelines. At December 31, 2001, consolidated tangible net worth was approximately \$11.1 billion, Credco's ratio of combined earnings and fixed charges to fixed charges was 1.29 and Centurion Bank exceeded the FDIC's "well capitalized" regulatory capital adequacy guidelines.

The company's credit ratings are critical to maintaining short-term funding sources and determining related interest costs. Rating agencies review factors such as capital adequacy with a view towards maintaining certain levels of capital, liquidity, business volumes, asset quality and economic market trends, among others, in assessing the company's appropriate ratings. Subsequent to the terrorist attacks of September 11th, the company's A+ and its subsidiaries' credit ratings were affirmed by Standard & Poor's and Fitch, two credit rating agencies. At the same time, however, each agency revised its respective rating outlook on the company and its subsidiaries from stable to negative in light of the ensuing weak climate for business and consumer travel and spending and weaker capital markets. In their statements, the rating agencies indicated that while the company has significant financial resources to address short-term business volume disruptions, if business volumes remained depressed for an extended period, its credit ratings would be under pressure. See Risk Management section below for a discussion of the effect of a two level downgrade.

The Parent Company has short-term funding needs relating to shareholder dividends and other general corporate purposes. These are generally met through an intercompany dividend policy. The Board of Directors has authorized a Parent Company commercial paper program that is supported by a \$1.9 billion multi-purpose credit facility that expires in increments through 2006. No borrowings have been made under this credit facility, and there was no Parent Company commercial paper outstanding during 2001 or 2000.

Total Parent Company long-term debt outstanding was \$2.1 billion and \$1.4 billion at December 31, 2001 and 2000, respectively. During 2001, the Parent Company issued in two tranches an aggregate of \$1 billion of 5.5 percent notes due 2006, using the proceeds for general corporate purposes. At December 31, 2001 and 2000, the Parent Company had \$3.6 billion and \$4.6 billion, respectively, of debt or equity securities available for issuance under shelf registrations filed with the SEC. 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 December 31, 2001 and 2000, \$1.3 billion and \$1.6 billion of debt, respectively, was outstanding under this program.

RISK MANAGEMENT

The company's objective is to monitor and control risk exposures to earn returns commensurate with the level of risk assumed.

Management establishes and oversees implementation of Board-approved policies covering the company's funding, investments and the use of derivative financial instruments. The company's treasury department, along with various asset and liability committees in the businesses, is responsible for managing financial market risk exposures within the context of Board-approved policies. See Note 10 to the Consolidated Financial Statements for a discussion of the company's use of derivatives.

In the second half of 2001, the company established the Corporate Risk Management Committee (CRMC) to supplement the risk management capabilities resident within its business segments by routinely reviewing key market, credit and other risk concentrations across the company and recommending corrective action where appropriate. The CRMC promotes a rigorous understanding of risks across the company and supports senior management in making risk-return decisions.

Management considers the risk of liquidity and cost of funds from the company's market related activities. Management believes a decline in the company's long-term credit rating by two levels could result in the company having to significantly reduce its commercial paper and other short-term market borrowings and replace them, in part, by taking down existing credit lines. Remaining

borrowing requirements would be addressed through other means such as additional securitizations and sale or repurchase of investment securities. This would result in higher interest expense on the company's commercial paper and other debt, as well as higher fees related to unused lines of credit. The company believes a two level downgrade is unlikely due to its capital position and growth prospects.

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 percent strengthening of the U.S. dollar versus all other currencies, and a 10 percent 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 various funding sources, such as long- and short-term debt, medium-term notes, commercial paper and 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 2001, TRS continued its strategy by augmenting its portfolio of interest rate swaps that convert 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 repriced 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 \$48 million (\$31 million related to the U.S. dollar) and \$80 million (\$61 million related to the U.S. dollar), based on 2001 and 2000 year-end positions, respectively. This effect is primarily a function of the extent of variable rate funding of Charge Card and fixed rate lending products, to the degree that interest rate exposure is not managed by derivative financial instruments. With respect to the managed portion of that interest rate exposure, a substantial amount of the \$296 million of the company's net after-tax unrealized losses recorded in other comprehensive income on the consolidated balance sheet at December 31, 2001 represents the fair value of the related derivative financial instruments. These losses will be recognized in earnings during the terms of those derivatives contracts at the same time that the company realizes the benefits of lower market rates of interest on its funding of Charge Card and fixed rate lending products. Notwithstanding the unrealized losses, the company expects a year-over-year benefit from lower interest rates in 2002 that is in excess of \$400 million.

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. Additionally, in the latter parts of 2001 and 2000, foreign currency forward sales (with notional amounts of \$323 million and \$386 million, respectively) and, in the latter part of 2000, foreign currency forward purchases (with notional amounts of \$92 million) were contracted to manage a portion of anticipated cash flows from operations in major overseas markets for the subsequent year. In early 2002, the company entered into additional forward contracts covering a substantial portion of the remaining cash flows from operations.

Based on the year-end 2001 and 2000 foreign exchange positions, but excluding the forward contracts managing the anticipated overseas operating results for the subsequent year, the effect on TRS' earnings of a hypothetical 10 percent strengthening of the U.S. dollar would be immaterial. With respect to the forward contracts related to anticipated overseas operating results for the subsequent year, a 10 percent strengthening would create hypothetical pretax gains of \$29 million and \$27 million related to the 2001 and 2000 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.

TRS' Argentine card business is a small part of its global card operations. In December 2001 and January 2002, the Argentine government mandated the conversion of dollar denominated assets into pesos and simultaneously devalued the peso. This development has created a foreign exchange translation exposure that previously did not exist with respect to TRS' Argentine operations. The devaluation has been given effect in the financial statements as of December 31, 2001 by recording a loss of \$49 million in "foreign currency translation adjustments" in the shareholders' equity section of the consolidated balance sheet. TRS is taking steps to manage this risk to the extent practicable and efficient. The effect of the devaluation on the 2001 results of operations was immaterial.

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 is designed to provide AEFA with a 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 various interest rate scenarios and risk/return measures 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 within defined risk parameters 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 include 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, 2001 and 2000, would be approximately \$35 million and \$44 million for 2001 and 2000, 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. 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 \$81 million and \$99 million based on assets under management, certificate and annuity business in-force, and index options as of December 31, 2001 and 2000, respectively.

AEB employs a variety of 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 interest rate and foreign exchange exposures related to deposits, long-term debt, equity, loans and securities holdings.

The negative effect of a 100 basis point increase in interest rates on AEB's pretax earnings would be \$18 million and \$16 million as of December 31, 2001 and 2000, respectively. The effect on earnings of a 10 percent strengthening of the U.S. dollar would be negligible and, with respect to translation exposure of foreign operations, would result in an \$11 million and \$10 million pretax charge against equity as of December 31, 2001 and 2000, 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. At December 31, 2001 and 2000, the Value at Risk for AEB was less than \$1 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 and risk management issue policies and control procedures and delegate risk limits throughout AEB's regional trading centers.

TRAVEL RELATED SERVICES

RESULTS OF OPERATIONS

Statements of Income

(Managed Basis)

Years Ended December 31, (Millions)	2001	2000	1999
Net revenues:			
Discount revenue	\$ 7,714	\$ 7,779	\$ 6,741
Net card fees	1,691	1,653	1,604
Lending:			
Finance charge revenue	4,622	3,977	2,884
Interest expense	1,484	1,594	955
Net finance charge revenue	3,138	2,383	1,929
Travel commissions and fees	1,537	1,821	1,802
Travelers Cheque investment income	394	387	345
Other revenues	3,628	3,418	2,813
Total net revenues	18,102	17,441	15,234
Expenses:			
Marketing and promotion	1,145	1,348	1,247
Provision for losses and claims:			
Charge card	1,231	1,157	995
Lending	2,243	1,486	1,186
Other	164	105	85
Total	3,638	2,748	2,266
Charge card interest expense	1,476	1,408	1,055
Human resources	3,992	4,126	3,931
Other operating expenses	5,379	5,098	4,352
Restructuring charges	414	—	—
Disaster recovery charge*	79	—	—
Total expenses	16,123	14,728	12,851
Pretax income	1,979	2,713	2,383
Income tax provision	520	784	691
Net income	\$ 1,459	\$ 1,929	\$ 1,692

* Excludes approximately \$8 million of waived finance charges and late fees recognized in the third quarter of 2001.

Travel Related Services reported net income of \$1.46 billion in 2001, a 24 percent decrease from \$1.93 billion in 2000. Excluding restructuring charges of \$414 million (\$267 million after-tax) and one-time costs and waived fees directly related to the September 11th terrorist attacks of \$87 million (\$57 million after-tax), earnings were \$1.78 billion, down 8 percent from last year.

In 2001, TRS' net revenues rose 4 percent as increased cards in force, growth in Cardmember loans outstanding and higher fee revenue were partially offset by relatively flat worldwide billed business and lower travel commissions and fees. The 2001 performance reflects overall weakness in the economy, especially within the travel and entertainment sectors. In 2000, TRS' net revenues benefited from growth in worldwide billed business and Cardmember loans outstanding. Billed business rose less than 1 percent

in 2001, after a 17 percent increase in 2000. The slower growth in worldwide billings during 2001 was due primarily to significantly lower corporate card spending in the travel and entertainment sector, particularly after the attacks on September 11th. U.S. billed business increased 1 percent reflecting 6 percent growth within the consumer card business on 12 percent higher transaction volume, a 2 percent increase within small business services and an 11 percent decline within Corporate Services. Excluding the impact of foreign exchange translation, total billed business outside the U.S. rose approximately 3 percent on growth in Europe and Asia, offset by declines in Canada and Latin America. U.S. non-travel and entertainment related volume categories (which represented approximately 60 percent of U.S. billed business during 2001) grew 9 percent versus last year. U.S. travel and entertainment volume declined 9 percent. Worldwide airline related volume declined 15 percent on high single digit declines in both the average airline charge and transaction volumes. In 2000, growth in billed business was due to higher average spending per basic Cardmember and growth in cards-in-force. U.S. cards-in-force rose 4 percent and 11 percent in 2001 and 2000, respectively. The smaller increase during 2001 reflected more selective consumer card and small business acquisition activities as the year progressed, in light of weakening economic conditions. International cards-in-force increased 12 percent and 14 percent in 2001 and 2000, respectively, due to growth in proprietary card products, as well as network card growth.

Discount revenue fell 1 percent in 2001 as slight billed business growth was offset by a lower discount rate. The decline in the discount rate from last year reflects the cumulative impact of stronger than average growth in the lower rate retail and other "everyday spend" merchant categories (eg., supermarkets, discounters, etc.), as well as significantly weaker T&E spending during the year. Conversely, discount revenue rose 15 percent in 2000 due to higher worldwide billed business.

Net card fees increased slightly in 2001 and 2000, reflecting growth in cards-in-force. Lending net finance charge revenue rose 32 percent and 23 percent in 2001 and 2000, respectively, from higher worldwide lending balances and, in 2001, wider net interest margins. The wider margins were due to a decrease in the proportion of the portfolio on introductory rates and the benefit of lower funding costs, partially offset by the evolving mix of products toward more lower-rate offerings. In 2000, the higher volume was partly offset by a narrowing of net 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 declined 16 percent in 2001 as a result of a 24 percent contraction in travel sales due to the effects of the September 11th terrorist attacks and the weaker corporate travel environment throughout the year. Travel commissions and fees increased only slightly in 2000, reflecting the impact of the sale of an international leisure travel business. The increases in other revenues in 2001 and 2000 include the effect of higher card related fee income and larger insurance premiums.

Marketing and promotion expense declined 15 percent in 2001 as certain marketing efforts were rationalized in light of the weaker business environment. Marketing and promotion expense increased in 2000 reflecting higher media, card acquisition and merchant-related advertising costs.

The worldwide Charge Card provision increased in both years due to higher volumes and, in 2001, generally weaker economic and business conditions. The worldwide lending provision rose in both 2001 and 2000, reflecting portfolio growth and the natural maturation process for loans added over the past several years. In 2001, the increase was also due to generally weaker economic and business conditions, as unemployment and bankruptcies increased. Charge Card interest expense rose in 2001 and 2000 as a result of higher borrowing rates which, in 2001, were partly offset by lower billed business volumes.

In 2001, human resources expenses decreased as a result of a lower average number of employees, reflecting ongoing reengineering efforts throughout the year, lower levels of incentive compensation, and reduced contract programmer expenses. Conversely, in 2000 human resources expense rose due to a higher average number of employees and merit increases. In 2001, other operating expenses rose due to Cardmember loyalty programs, business growth and lower gains than the prior year, partially offset by reengineering activities and other cost containment efforts. Similarly, in 2000, other operating expenses rose due to increased Cardmember loyalty programs and business growth as well as greater investment spending, partially offset by gains related to the sale of an international leisure travel business and an investment in an internet company.

Selected Statistical Information

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

	2001	2000	1999
Total cards-in-force (millions):			
United States	34.6	33.3	29.9
Outside the United States	20.6	18.4	16.1
Total	55.2	51.7	46.0
Basic cards-in-force (millions):			
United States	26.8	26.3	23.4
Outside the United States	15.6	13.9	12.3
Total	42.4	40.2	35.7
Card billed business:			
United States	\$ 224.5	\$ 221.7	\$ 186.4
Outside the United States	73.5	75.0	67.7
Total	\$ 298.0	\$ 296.7	\$ 254.1
Average discount rate*	2.67%	2.70%	2.72%
Average basic Cardmember spending (dollars)*	\$ 7,666	\$ 8,229	\$ 7,758
Average fee per card—managed (dollars)*	\$ 34	\$ 36	\$ 39
Non-Amex brand:**			
Cards-in-force (millions)	0.7	0.6	0.3
Billed business	\$ 3.4	\$ 3.2	\$ 0.7
Travel sales	\$ 17.2	\$ 22.6	\$ 22.5
Travel commissions and fees/sales	8.9%	8.1%	8.0%
Travelers Cheque:			
Sales	\$ 23.5	\$ 24.6	\$ 23.3
Average outstandings	\$ 6.4	\$ 6.4	\$ 6.2
Average investments	\$ 6.6	\$ 6.2	\$ 5.9
Tax equivalent yield	9.0%	8.9%	8.8%
Managed Charge Card			
Receivables:***			
Total receivables	\$ 26.2	\$ 29.0	\$ 27.0
90 days past due as a % of total	2.9%	2.3%	2.5%
Loss reserves (millions)	\$ 1,032	\$ 964	\$ 857
% of receivables	3.9%	3.3%	3.2%
% of 90 days past due	136%	142%	126%
Net loss ratio	0.42%	0.36%	0.41%
Managed U.S. Cardmember			
Lending:***			
Total loans	\$ 32.0	\$ 28.7	\$ 23.4
Past due loans as a % of total:			
30–89 days	2.1%	1.9%	1.8%
90+ days	1.2%	0.9%	0.8%
Loss reserves (millions):			
Beginning balance	\$ 820	\$ 672	\$ 619
Provision	1,933	1,258	994
Net charge-offs/other	(1,676)	(1,110)	(941)
Ending balance	\$ 1,077	\$ 820	\$ 672
% of loans	3.4%	2.9%	2.9%
% of past due	101%	104%	110%
Average loans	\$ 30.7	\$ 25.8	\$ 18.9
Net write-off rate	5.6%	4.4%	5.0%
Net interest yield	8.8%	7.6%	8.6%

* 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, receivables and, to a limited extent, leases, 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 loan or receivable securitization transactions. See Note 6 to the Consolidated Financial Statements for further information regarding the company's securitizations.

As discussed in Consolidated Liquidity and Capital Resources, one of TRS' primary sources of funding is securitization of Cardmember loans and receivables. TRS securitizes U.S. Cardmember loans and, in large part, transfers the interests in those assets' cash flows to third party investors. TRS continues to service the accounts and receives a fee for doing so; the fair value and carrying amount of these future servicing fees, net of related costs, are not material. Each new sale of securitized loans results in the removal of the sold assets from the balance sheet, a reduction in a previously established reserve for credit losses and the recognition of the present value of the future net cash flows (i.e., finance charge income less interest paid to investors, credit losses and servicing fees) related to the sold assets. This present value amount represents a retained interest known as an interest-only strip. For the securitized assets whose interests are not sold, the company retains the rights to all their related cash flows. Those assets, therefore, are not taken off the balance sheet and are known as seller's interests. In some instances, the company, through affiliates, invests in subordinated interests issued by the securitization trust; these are recorded as Investments classified as Available-for-Sale.

The gain or loss recorded when loans are securitized is the difference between the proceeds of sale and the book basis of the assets sold. That book basis is determined by allocating the carrying amount of the assets, net of applicable reserve for losses, between the assets sold and the retained interests based on their relative fair values. Fair values are based on market prices at date of transfer for assets sold and on the estimated present value of future cash flows for retained interests.

On a GAAP reporting basis, TRS results included securitization gains of \$155 million (\$101 million after-tax) in 2001, \$142 million (\$92 million after-tax) in 2000, and \$154 million (\$100 million after-tax) in 1999. These gains were offset by 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)	2001		
	Managed Basis	Securitization Effect	GAAP Basis
Net revenues:			
Net card fees	\$ 1,691	\$ (16)	\$ 1,675
Lending net finance charge revenue	3,138	(2,226)	912
Other revenues	3,628	1,499	5,127
Total net revenues	18,102	(743)	17,359
Expenses:			
Marketing and promotion	1,145	92	1,237
Provision for losses and claims:			
Charge card	1,231	(36)	1,195
Lending	2,243	(925)	1,318
Charge card interest expense	1,476	(33)	1,443
Net discount expense	—	96	96
Other operating expenses	5,379	63	5,442
Total expenses	16,123	(743)	15,380
Pretax income	\$ 1,979	\$ —	\$ 1,979

Year Ended December 31, (Millions)	2000		
	Managed Basis	Securitization Effect	GAAP Basis
Net revenues:			
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
Expenses:			
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	\$ 2,713	\$ —	\$ 2,713

Year Ended December 31, (Millions)	1999		
	Managed Basis	Securitization Effect	GAAP Basis
Net revenues:			
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
Expenses:			
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	\$ 2,383	\$ —	\$ 2,383

LIQUIDITY AND CAPITAL RESOURCES
Selected Balance Sheet Information

December 31, (Billions, except percentages)	2001	2000
Accounts receivable, net	\$ 28.5	\$ 29.6
Travelers Cheque investments	\$ 6.8	\$ 6.5
U.S. Cardmember loans	\$ 16.9	\$ 17.4
Total assets	\$ 69.4	\$ 71.4
Travelers Cheques outstanding	\$ 6.2	\$ 6.1
Short-term debt	\$ 31.8	\$ 36.7
Long-term debt	\$ 6.0	\$ 3.3
Total liabilities	\$ 62.7	\$ 64.8
Total shareholder's equity	\$ 6.7	\$ 6.6
Return on average equity*	21.9%	33.0%
Return on average assets*	2.1%	3.0%

*Excluding the effect of SFAS No. 115 and SFAS No. 133. The company adopted SFAS No. 133 on January 1, 2001.

The American Express Credit Account Master Trust (the Trust) securitized \$4.3 billion and \$4.0 billion of loans in 2001 and 2000, respectively, through the public issuance of investor certificates. During 2001, \$1.0 billion of investor certificates that were previously issued by the Trust matured, resulting in \$3.3 billion of net additional securitizations during the year. There were no certificate maturities in 2000. The securitized assets consist 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, 2001 and 2000, TRS had a total of \$14.3 billion and \$11.0 billion, respectively, of Trust-related securitized loans which are not on the Consolidated Balance Sheets. In early 2002, the company securitized an additional \$920 million of loans.

Under the terms of the Trust pooling and servicing agreement, the occurrence of certain events, or triggers, could result in the Trust being required to pay down the investor certificates before their expected payment dates over an early amortization period. Examples of these events include: the failure or the decline of the securitized assets to generate specified yields over a defined period of time, and the decline of the total of the securitized assets' principal balances below a specified percentage of total investor certificates outstanding after the failure to add additional securitized assets as required by the agreement. The company does not expect an early amortization event to occur. In the event of a pay-down, \$13.1 billion of assets (\$14.3 billion securitized less \$1.2 billion retained subordinated interests) would come back on-balance sheet and an alternate source of funding of a commensurate amount would have to be obtained. Had a total pay-down hypothetically occurred at a single point in time at December 31, 2001, the one-time negative effect on results of operations would have been approximately \$600 million pretax, reflecting approximately \$445 million of additional reserve for credit losses related to the \$14.3 billion of Cardmember loans that would come back on the balance sheet, plus \$155 million of final amortization of the interest-only strip.

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 both 2001 and 2000, \$600 million of accounts receivable trust certificates that were previously issued by the Master Trust matured from the Charge Card securitization portfolio. In 2001, the Master Trust securitized \$750 million of Charge Card receivables which remain on the Consolidated Balance Sheets. In early 2002, the Master Trust securitized an additional \$750 million of Charge Card receivables, which also remain on the balance sheet. As a result of the company's adoption of SFAS No. 140 during 2001, as further discussed in Note 1 to the Consolidated Financial Statements, TRS had securitized receivables of \$3.0 billion on the Consolidated Balance Sheets at December 31, 2001; whereas at December 31, 2000, TRS' \$2.85 billion of comparable securitized receivables were not reflected on the Consolidated Balance Sheets. The Master Trust specifies events, the occurrence of which would result in a pay-down. The company does not expect a pay-down to occur. While virtually no financial statement impact would result from a pay-down, as the assets are already on-balance sheet, an alternate source of funding for \$3.0 billion of receivables would have to be obtained.

Further, with respect to both the American Express Credit Account Master Trust and the American Express Master Trust, a decline in the actual or implied short-term credit rating of TRS below A-1/P-1 will trigger a requirement that TRS, as servicer, transfer collections on the securitized assets to investors on a daily, rather than a monthly, basis or make alternative arrangements with the rating agencies so as to allow TRS to continue to transfer collections on a monthly basis. Examples of such alternative arrangements include obtaining appropriate guaranties for the performance of the payment and deposit obligations of TRS, as servicer.

TRS also securitizes equipment lease receivables. At December 31, 2001 and 2000, the amount sold and outstanding to third party investors was \$675 million and \$242 million, respectively. These sales result in a reduction of interest expense and provisions for losses, as well as servicing revenue, all of which are insignificant to the company's results of operations.

In 2000, Credco 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 \$18.0 billion at an average interest rate of 1.9% and approximately \$20.4 billion at an average interest rate of 6.4% at December 31, 2001 and 2000, respectively. Unused lines of credit of approximately \$10.4 billion, which expire in increments from 2002 through 2006, were available at December 31, 2001 to support a portion of TRS' commercial paper borrowings.

Borrowings under bank lines of credit totaled \$1.3 billion and \$1.4 billion at December 31, 2001 and 2000, respectively.

In early 2002, Credco issued an aggregate of \$1.4 billion of medium-term notes at fixed and floating rates with maturities of one to three years.

AMERICAN EXPRESS FINANCIAL ADVISORS

RESULTS OF OPERATIONS

Statements of Income

Years Ended December 31, (Millions)	2001	2000	1999
Revenues:			
Investment income	\$ 1,162	\$ 2,292	\$ 2,443
Management and distribution fees	2,458	2,812	2,270
Other revenues	1,171	1,026	923
Total revenues	4,791	6,130	5,636
Provision for losses and benefits:			
Annuities	989	1,018	1,071
Insurance	648	556	522
Investment certificates	329	337	306
Total	1,966	1,911	1,899
Net revenues	2,825	4,219	3,737
Expenses:			
Human resources	1,969	2,093	1,744
Other operating expenses	762	643	630
Restructuring charges	107	—	—
Disaster recovery charge	11	—	—
Total expenses	2,849	2,736	2,374
Pretax (loss) income	(24)	1,483	1,363
Income tax (benefit) provision	(76)	451	428
Net income	\$ 52	\$ 1,032	\$ 935

American Express Financial Advisors reported a 95 percent decline in net income in 2001. Included in these results are restructuring charges of \$107 million (\$70 million after-tax) and insurance claims of \$11 million (\$8 million after-tax) directly related to the September 11th terrorist attacks. The restructuring charge primarily reflects severance for the elimination of approximately 1,300 jobs and costs related to facility consolidation. Excluding these items, net income would have been \$130 million, an 87 percent decrease from a year ago. In addition, during the first half of 2001 AEFA incurred \$1.01 billion in charges (\$669 million after-tax) from the write down and sale of some high-yield securities and from reducing risk within its investment portfolio. Net revenues fell 33 percent in 2001 due to lower spreads on investment portfolio products, reduced management and distribution fees and the high-yield losses noted above. Net revenues and net income in 2000 increased 13 percent and 10 percent, respectively, over 1999 levels. These results reflected higher fees due to growth in average managed assets and product sales, partially offset by the effect of narrower spreads on the investment portfolio. The spreads included a \$123 million pretax (\$88 million after-tax) charge to write down high-yield securities.

Management and distribution fees declined 13 percent in 2001 due to lower average assets under management and weaker sales, particularly in mutual fund products, reflecting the negative impact of weak equity market conditions throughout the year. Conversely, in comparing 2000 with 1999, management and distribution fees increased 24 percent due to greater management fee revenue from higher average assets under management, positive net sales and net year-over-year benefits from equity fee hedges. Investment income decreased in both 2001 and 2000. Both years benefited from growth in average investments, although this was more than offset by the high-yield losses mentioned earlier and from the decrease in the value of options hedging the outstanding stock market certificates, which are offset in the certificate provisions. Lower average yields, primarily due to the portfolio repositioning, also contributed to the decline in investment income during 2001. Other revenues rose in both years from increased life and property-casualty insurance premiums and charges and from higher financial planning fees. Starting in 2000, franchise fees from Platform 2 advisors (those that operate as independent contractors under the American Express brand) were collected and have been included in other revenues. The provision for losses and benefits for annuities declined due to lower fixed annuities in-force in both years; 2001 also benefited from lower accrual rates, while in 2000, higher accrual rates partially offset the decline. Insurance provisions rose in 2001 and 2000, reflecting higher in-force levels in both years and greater accrual rates in 2000. Investment certificate provisions decreased in 2001 as higher in-force levels were offset by lower accrual rates. In 2000, investment certificate provisions rose due to both higher in-force levels and accrual rates. In both years, investment certificate provisions were decreased by the impact of depreciation in the S&P 500 on the stock market certificate product.

Human resources expenses declined in 2001, reflecting lower field force compensation-related expenses due to the decline in advisors and the impact of lower volumes on advisor compensation, as well as the benefits of reengineering and cost containment initiatives within the home office where the average number of employees was down 7 percent from last year. In 2000, human resources expenses rose due to higher advisor compensation from growth in sales volumes and asset levels and a greater number of advisors and employees; additionally the increase in 2000 reflected costs related to the new advisor platforms. Other operating expenses increased in both years. In 2001, the increase reflects accelerated investing activities for various strategic, reengineering, technology and product development projects and a higher minority interest related to a joint venture with AEB. In 2000, the increase was due to costs related to higher business volumes and the implementation of the new advisor platforms, including greater rent and equipment support costs. In both 2001 and 2000, human resources and other operating expenses included higher amortization of DAC for variable insurance and annuity products.

Selected Statistical Information

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

	2001	2000	1999
Life insurance in-force (billions)	\$ 107.9	\$ 98.1	\$ 89.2
Deferred annuities in-force (billions)	\$ 41.3	\$ 45.3	\$ 47.4
Assets owned, managed or administered (billions):			
Assets managed for institutions	\$ 49.7	\$ 55.0	\$ 55.5
Assets owned, managed or administered for individuals:			
Owned assets:			
Separate account assets	27.3	32.3	35.9
Other owned assets	44.2	41.3	38.7
Total owned assets	71.5	73.6	74.6
Managed assets	98.7	112.0	115.1
Administered assets	33.4	34.4	24.8
Total	\$ 253.3	\$ 275.0	\$ 270.0
Market appreciation (depreciation) during the period:			
Owned assets:			
Separate account assets	\$ (5,752)	\$ (5,109)	\$ 8,172
Other owned assets	\$ 879	\$ 106	\$ (1,126)
Managed assets	\$ (18,662)	\$ (14,467)	\$ 23,774
Cash sales:			
Mutual funds	\$ 33,581	\$ 44,068	\$ 34,269
Annuities	5,648	5,886	3,902
Investment certificates	3,788	3,297	3,591
Life and other insurance products	895	900	746
Institutional	5,006	6,601	5,012
Other	5,276	3,557	3,514
Total cash sales	\$ 54,194	\$ 64,309	\$ 51,034
Number of financial advisors	11,535	12,663	11,366
Fees from financial plans and advice services (thousands)	\$ 107,518	\$ 97,680	\$ 88,509
Percentage of total sales from financial plans and advice services	72.5%	68.1%	66.7%

LIQUIDITY AND CAPITAL RESOURCES

Selected Balance Sheet Information

December 31, (Billions, except percentages)

	2001	2000
Investments	\$ 33.6	\$ 30.5
Separate account assets	\$ 27.3	\$ 32.3
Deferred acquisition costs	\$ 3.7	\$ 3.5
Total assets	\$ 71.5	\$ 73.6
Client contract reserves	\$ 32.8	\$ 31.4
Separate account liabilities	\$ 27.3	\$ 32.3
Total liabilities	\$ 66.1	\$ 69.2
Total shareholder's equity	\$ 5.4	\$ 4.4
Return on average equity*	1.0%	22.6%

*Excluding the effect of SFAS No. 115 and SFAS No. 133. The company adopted SFAS No. 133 on January 1, 2001.

AEFA's total assets and liabilities decreased in both 2001 and 2000 due to declines in separate account assets and liabilities as a result of market depreciation, partly offset by positive net sales. Investments are comprised primarily of corporate bonds and mortgage-backed securities, including \$1.3 billion and \$3.7 billion in below investment grade debt securities, and \$4.0 billion and \$4.1 billion in mortgage loans at December 31, 2001 and 2000, respectively. Non-performing assets relative to invested assets were

0.1% and 0.9% at December 31, 2001 and 2000, 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.

During 2001 the company placed a majority of its rated CDO securities and related accrued interest, as well as a relatively minor amount of other liquid securities (collectively referred to as transferred assets), having an aggregate book value of \$905 million, into a securitization trust. In return, the company received \$120 million in cash (excluding transaction expenses) relating to sales to unaffiliated investors and retained interests with allocated book amounts aggregating \$785 million. The company has no obligations, contingent or otherwise, to such unaffiliated investors. One of the results of this transaction is that increases and decreases in future cash flows of the individual CDOs are combined into one overall cash flow for purposes of determining the carrying value of the retained interests and related impact on results of operations.

AEFA's client contract reserves are for current and future obligations related to fixed annuities, investment certificates, and life and disability insurance. The obligations for fixed annuities, universal life contracts and investment certificates are based on the underlying contract accumulation values. The obligations for other traditional life insurance products are based on various assumptions, including mortality rates, morbidity rates and policy persistency. To the extent that actual future experience differs with respect to other traditional life insurance products, these reserves would be adjusted through the provision for losses and benefits.

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

In light of the investment losses recorded during the first half of 2001, AEFA received a capital contribution of \$490 million from the Parent Company during the year.

AMERICAN EXPRESS BANK

RESULTS OF OPERATIONS

Statements of Income

Years Ended December 31, (Millions)	2001	2000	1999
Net revenues:			
Interest income	\$ 698	\$ 735	\$ 737
Interest expense	396	484	446
Net interest income	302	251	291
Commissions and fees	203	214	179
Foreign exchange income and other revenues	144	126	151
Total net revenues	649	591	621
Expenses:			
Human resources	247	257	271
Other operating expenses	255	273	294
Provision for losses:			
Ongoing	65	28	29
Restructuring related	26	—	—
Total provision for losses	91	28	29
Restructuring charge	70	—	—
Total expenses	663	558	594
Pretax (loss) income	(14)	33	27
Income tax (benefit) provision	(1)	4	5
Net (loss) income	\$ (13)	\$ 29	\$ 22

American Express Bank reported a net loss of \$13 million in 2001, compared with net income of \$29 million in 2000. Excluding restructuring charges of \$96 million (\$65 million after-tax), 2001 net income would have been \$52 million, an 82 percent increase from 2000. Net revenues rose 10 percent in 2001, reflecting strong performance in Personal Finance Services (PFS) and Private Banking, partially offset by lower revenue from Corporate Banking activities as the company continues to shift its business focus away from that sector. In 2000, net revenues declined 5 percent.

Net interest income in 2001 increased from a year ago due to higher consumer loans and the effects of lower funding costs, partially offset by decreases in corporate banking volumes. In 2000, net interest income declined, primarily due to the effects of higher funding costs. In 2001, commissions and fees decreased due to lower results in corporate banking, and lower mutual fund fees within the financial institution business, partially offset by higher loan volumes in PFS. In 2000, commissions and fees increased, reflecting growth in private banking, PFS, and the financial institution business. In 2001, foreign exchange income and other revenue increased due to higher income from a joint venture with AEFA, partially offset by lower corporate banking revenue and other joint venture income. In 2000, foreign exchange income and other revenues declined from the prior year as a result of lower securities gains and joint venture income.

Human resources and other operating expenses declined in both years, reflecting reengineering savings and the benefits of lower employee levels, as AEB continued to rationalize certain country activities. Provision for losses increased substantially in 2001 primarily due to higher PFS loan volumes.

Selected Statistical Information

Years Ended December 31, (Billions, except percentages)	2001	2000	1999
Assets managed*/administered	\$ 11.4	\$ 10.6	\$ 8.6
Assets of non-consolidated joint ventures	\$ 1.9	\$ 2.1	\$ 2.2

*Includes assets managed by American Express Financial Advisors.

LIQUIDITY AND CAPITAL RESOURCES

Selected Balance Sheet Information

December 31, (Billions, except percentages and where indicated)	2001	2000
Total loans	\$ 5.3	\$ 5.3
Total non-performing loans (millions)	\$ 123	\$ 137
Other non-performing assets (millions)	\$ 22	\$ 24
Reserve for credit losses (millions)*	\$ 148	\$ 153
Loan loss reserve as a % of total loans	2.4%	2.6%
Total assets	\$ 11.9	\$ 11.4
Deposits	\$ 8.4	\$ 8.0
Total liabilities	\$ 11.1	\$ 10.7
Total shareholder's equity (millions)	\$ 761	\$ 754
Return on average assets**	(0.11)%	0.26%
Return on average common equity**	(2.0)%	4.4%
Risk-based capital ratios:		
Tier I	11.1%	10.1%
Total	12.2%	11.4%
Leverage ratio	5.3%	5.9%
*Allocation of reserves (millions)		
Loans	\$ 128	\$ 137
Other assets, primarily derivatives	4	14
Other liabilities	16	2
Total reserve for credit losses	\$ 148	\$ 153

**Excluding the effect of SFAS No. 115 and SFAS No. 133. The company adopted SFAS No. 133 on January 1, 2001.

AEB had approximately \$5.3 billion outstanding in worldwide loans at December 31, 2001 and 2000. Current year activities included a \$900 million decrease in corporate banking loans, as AEB continued to focus on reducing exposure in this activity while emphasizing consumer and private banking loans, which rose by \$800 million (\$1.0 billion excluding the effect of asset sales and securitizations in the consumer loan portfolio). In addition, financial institution loans decreased by \$100 million. Other banking activities, such as securities, unrealized gains on foreign exchange and derivatives contracts, various contingencies and market placements added approximately \$7.3 billion and \$7.4 billion to AEB's credit exposures at December 31, 2001 and 2000, respectively. In December 2001 and January 2002, the Argentine government mandated the conversion of dollar denominated assets into pesos and simultaneously devalued the peso. AEB's credit exposures to Argentina at December 31, 2001 were \$56 million, which includes loans of \$25 million.

CORPORATE AND OTHER

Corporate and Other reported net expenses of \$187 million, \$180 million and \$174 million in 2001, 2000 and 1999, respectively. 2001 results include \$14 million pretax (\$9 million after-tax) of the restructuring charges noted earlier.

Results for 2001, 2000 and 1999 include a \$46 million pretax (\$39 million after-tax) preferred stock dividend based on earnings from Lehman Brothers. The dividend was offset by business building initiatives in each year, and costs related to the Y2K issue in 1999.

OTHER REPORTING MATTERS

ACCOUNTING DEVELOPMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. The company adopted the new rules as of January 1, 2002. As a result, goodwill is no longer being amortized. The impact on the company's net income in 2001 and 2000 from goodwill amortization was \$106 million (\$82 million after-tax) and \$98 million (\$77 million after-tax), respectively. While the company is currently evaluating the provisions of the new rules related to impairment testing, it does not expect that such tests will result in any material effect on the company's results of operations or financial position.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The company is required to adopt SFAS No. 143 as of January 1, 2003. The adoption of this Statement is not expected to have a material impact on the company's financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This new Statement also supersedes certain aspects of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," with regard to reporting the effects of a disposal of a segment of a business. The new rule requires operating losses from discontinued operations to be reported in future periods, as incurred. In addition, businesses below the operating segment level may qualify for discontinued operations treatment. The company adopted the provisions of the Statement as of January 1, 2002, which will primarily affect the company if and when qualifying future business dispositions occur.

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," among others. The words "believe," "expect," "anticipate," "optimistic," "intend," "aim," "will," "should," "could," and similar expressions are intended to identify such 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 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 these forward-looking statements include, but are not limited to: fluctuation in the equity markets, 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 and other investment areas, which could result in further losses in AEFA's investment portfolio; the ability of AEFA to sell certain high-yield investments at expected values and within anticipated timeframes and to maintain its high-yield portfolio at certain levels in the future; 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 roll out new and attractive products in a timely manner and effectively manage the economics in selling a growing volume of non-proprietary products; investment performance in AEFA's businesses; the success, timeliness and financial impact, including costs, cost savings and other benefits of reengineering initiatives being implemented or considered by the company, including cost management, structural and strategic measures such as vendor, process, facilities and operations consolidation, outsourcing, relocating certain functions to lower cost overseas locations, moving internal and external functions to the Internet to save costs, the scale-back of corporate lending in certain regions, and planned staff reductions relating to certain of such reengineering actions; the ability to control and manage operating, infrastructure, advertising and promotion and other expenses as business expands or changes, including balancing the need for longer-term investment spending; the impact on the company's businesses and uncertainty created by the September 11th terrorist attacks, and the potential negative effect on the company of any such attacks in the future; the company's ability to recover under its insurance policies for losses resulting from the September 11th terrorist attacks; 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; the ability to execute the company's global corporate services strategy including greater penetration of middle market companies, increasing capture of non-T&E spending through greater use of the company's purchasing card and other means, and further globalizing business capabilities; 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; a downturn in the company's businesses and/or negative changes in the company's and its subsidiaries' credit ratings which could result in contingent payments under contracts, decreased liquidity and higher borrowing costs; 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 businesses that accept the company's card products 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 and other 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. A further description of these and 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.