

## Notes to Consolidated Financial Statements

### **Note 1** ■ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Consolidated Financial Statements include the accounts of American Express Company and its subsidiaries (the company). All significant intercompany transactions are eliminated.

#### **AMOUNTS BASED ON ESTIMATES AND ASSUMPTIONS**

Accounting estimates are an integral part of the consolidated financial statements. In part they are based upon assumptions concerning future events. Among the more significant are those which relate to reserves for Cardmember credit losses, Membership Rewards, the recognition of other than temporary impairment within the investment portfolio (see Note 4) and the amortization of deferred acquisition costs. These reflect the best judgment of management and actual results could differ.

#### **REVENUES**

Cardmember lending net finance charge revenue is presented net of interest expense of \$953 million, \$1,039 million and \$674 million for the years ended December 31, 2001, 2000 and 1999, respectively. Interest and dividends is presented net of interest expense related primarily to the company's international banking activities of \$434 million, \$559 million and \$453 million for the years ended December 31, 2001, 2000 and 1999, respectively.

#### **RESERVES FOR CREDIT LOSSES**

Reserves for credit losses related to Cardmember loans and receivables are primarily based upon statistically driven models derived from historical experience, as well as management judgment as to the business and economic 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.

#### **MEMBERSHIP REWARDS**

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.

#### **DEFERRED ACQUISITION COSTS**

American Express Financial Advisors' (AEFA) 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.

## MARKETING AND PROMOTION

The company expenses advertising costs in the year in which the advertising first takes place.

## SEPARATE ACCOUNT ASSETS AND LIABILITIES

Separate account assets and liabilities are funds held for the exclusive benefit of variable annuity and variable life insurance contract holders. The company receives investment management fees, mortality and expense assurance fees, minimum death benefit guarantee fees and cost of insurance charges from the related accounts.

## CASH AND CASH EQUIVALENTS

At December 31, 2001 and 2000, cash and cash equivalents included \$1.0 billion and \$1.2 billion, respectively, segregated in special bank accounts for the benefit of customers. The company has defined cash equivalents to include time deposits with original maturities of 90 days or less.

## RECENTLY ADOPTED ACCOUNTING STANDARDS

Effective January 1, 2001, the company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," which 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 are recorded in earnings or directly to equity, depending on the instrument's designated use. The adoption of SFAS No. 133 resulted in a cumulative after-tax reduction to other comprehensive income of \$120 million. See Note 10 for further discussion of the company's derivatives and hedging activities.

Effective April 1, 2001, the company adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which clarified accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities, as well as the recognition and reclassification of collateral. SFAS No. 140 did not materially impact the company's securitized U.S. Cardmember loans and equipment lease receivables. The company's Charge Card receivables securitization structure did not meet certain sale criteria of SFAS 140. As a result, approximately \$3.1 billion of Charge Card receivables (which had also been securitized as of December 31, 2000) and a related amount of long-term debt were reinstated to the balance sheet. While the Charge Card receivables and associated long-term debt reappeared on the Consolidated Financial Statements, these securitized assets are not available to creditors of the company and are not the assets of the company, and the company has no liability for securities issued by securitization trusts. The impact of this adoption on results of operations was immaterial. In addition, there was no impact on capital requirements. See Note 6 for further discussion of the company's securitized loans and receivables.

In July 2000, the Financial Accounting Standards Board'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" (Issue 99-20), which prescribed new procedures for recording interest income and measuring impairment on retained and purchased beneficial interests. The rule, which the company adopted on January 1, 2001, primarily affected certain AEFA structured investments. See Note 4 for further discussion of the company's investments.

## Note 2 ■ RESTRUCTURING CHARGES

In the third and fourth quarters of 2001, as a result of accelerating certain reengineering initiatives, 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 fourth quarter pretax charge includes \$185 million for severance relating to the elimination of approximately 6,800 jobs, and \$94 million of other charges primarily relating to the consolidation of real estate facilities. The third quarter pretax charge includes \$184 million for severance relating to the elimination of approximately 6,100 jobs. It also includes \$26 million recorded in "Provisions for losses and benefits — Life insurance, international banking and other" on the Consolidated Statements of Income, and relates to plans to further scale back American Express

Bank's (AEB) corporate lending activities in parts of Asia, Latin America and Europe as well as \$142 million of other charges, including asset impairment charges and other exit costs relating to the exit of certain locations and \$24 million of currency translation losses previously recorded in shareholders' equity. As of December 31, 2001, other liabilities include \$460 million for the expected future cash outlays related to these charges. The pretax charge and employee reductions by operating segment are as follows:

(Dollars in millions)	Pretax	Restructuring Charges	After-tax	Employee Reductions(a)
Travel Related Services	\$ 414		\$ 267	10,900
American Express Financial Advisors	107		70	1,300
American Express Bank	96		65	500
Corporate and Other	14		9	200
<b>Total</b>	<b>\$ 631</b>		<b>\$ 411</b>	<b>12,900</b>

(a) 3,300 employees were terminated as of December 31, 2001.

The following table summarizes by category the company's 2001 restructuring charges, cash payments, balance sheet charge-offs and the resulting liability balance as of December 31, 2001:

(Millions)	Severance	Other	Total
Restructuring charges	\$ 369	\$ 262	\$ 631
Cash paid	37	14	51
Balance sheet charge-offs	—	120	120
<b>Liability balance at December 31, 2001</b>	<b>\$ 332</b>	<b>\$ 128</b>	<b>\$ 460</b>

### Note 3 ■ DISASTER RECOVERY CHARGE

As a result of the terrorist attacks on September 11, 2001, the company incurred a \$90 million (\$59 million after-tax) disaster recovery charge. This charge mainly includes provisions for credit exposures to travel industry service establishments and insurance claims. \$79 million of the pretax charge was incurred by Travel Related Services (TRS), while \$11 million was incurred by AEFA. In addition to the pretax charge, the company waived approximately \$8 million of 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.

### Note 4 ■ INVESTMENTS

The following is a summary of investments at December 31. Pursuant to the adoption of SFAS No. 133, the company elected to reclassify its Held-to-Maturity investments to Available-for-Sale as of January 1, 2001.

(Millions)	2001	2000
Available-for-Sale, at fair value	\$ 42,225	\$ 31,052
Held-to-Maturity, at amortized cost	—	8,404
Investment mortgage loans (fair value: 2001, \$4,195; 2000, \$4,178)	4,024	4,097
Trading	239	194
<b>Total</b>	<b>\$ 46,488</b>	<b>\$ 43,747</b>

Investments classified as Available-for-Sale and Held-to-Maturity at December 31 are distributed by type and maturity as presented below:

(Millions)	Available-for-Sale							
	2001				2000			
	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Corporate debt securities	\$ 16,644	\$ 393	\$ (276)	\$ 16,761	\$ 12,714	\$ 124	\$ (908)	\$ 11,930
Mortgage-backed securities	14,043	188	(55)	14,176	9,259	126	(25)	9,360
State and municipal obligations	6,715	276	(21)	6,970	5,886	267	(15)	6,138
Foreign government bonds and obligations	1,078	41	(7)	1,112	993	13	(4)	1,002
U.S. Government and agencies obligations	70	3	—	73	48	3	—	51
Equity securities	495	51	(11)	535	510	197	(27)	680
Other	2,605	6	(13)	2,598	1,891	—	—	1,891
<b>Total</b>	<b>\$ 41,650</b>	<b>\$ 958</b>	<b>\$ (383)</b>	<b>\$ 42,225</b>	<b>\$ 31,301</b>	<b>\$ 730</b>	<b>\$ (979)</b>	<b>\$ 31,052</b>

(Millions)	Held-to-Maturity			
	2000			
	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Corporate debt securities	\$ 5,304	\$ 138	\$ (130)	\$ 5,312
Mortgage-backed securities	1,785	12	—	1,797
State and municipal obligations	986	47	—	1,033
Foreign government bonds and obligations	83	10	—	93
U.S. Government and agencies obligations	50	4	—	54
Other	196	2	(1)	197
<b>Total</b>	<b>\$ 8,404</b>	<b>\$ 213</b>	<b>\$ (131)</b>	<b>\$ 8,486</b>

December 31, 2001 (Millions)	Available-for-Sale	
	Cost	Fair Value
Due within 1 year	\$ 3,630	\$ 3,663
Due after 1 year through 5 years	7,384	7,605
Due after 5 years through 10 years	8,032	8,142
Due after 10 years	8,066	8,104
	27,112	27,514
Mortgage-backed securities	14,043	14,176
Equity securities	495	535
<b>Total</b>	<b>\$ 41,650</b>	<b>\$ 42,225</b>

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.

Mortgage-backed securities primarily include GNMA, FNMA and FHLMC securities at December 31, 2001 and 2000.

The table below includes purchases, sales and maturities of investments classified as Available-for-Sale and Held-to-Maturity for the years ended December 31:

(Millions)	2001		2000	
	Available-for-Sale		Available-for-Sale	Held-to-Maturity
Purchases	\$ 19,427		\$ 8,465	\$ 110
Sales	\$ 11,058		\$ 2,998	\$ 61
Maturities	\$ 5,603		\$ 3,647	\$ 848

Investments classified as Held-to-Maturity were sold during 2000 due to credit deterioration. Gross realized gains and losses on sales were negligible.

Gross realized gains and (losses) on sales of securities classified as Available-for-Sale, using the specific identification method, were \$322 million and (\$1,035 million), including the effect of the sale of high-yield securities discussed below, \$170 million and (\$47 million) and \$64 million and (\$23 million) for the years ended December 31, 2001, 2000 and 1999, respectively.

The increase in net unrealized gains on Trading securities, which is included in income, was \$16 million, \$16 million and \$30 million for the years ended December 31, 2001, 2000 and 1999, respectively.

During the first half of 2001, the company recognized pretax losses of \$1.01 billion (\$182 million and \$826 million in the first and second quarters, respectively) from the write down and sale of certain high-yield securities. These losses are included in interest and dividends on the Consolidated Statements of Income. The second quarter pretax charge of \$826 million is comprised of: \$403 million to recognize the impact of higher default rate assumptions on certain structured investments; \$344 million to write down lower-rated securities (most of which were sold in the third quarter of 2001) in connection with the company's decision to lower its risk profile by reducing the level of its high-yield portfolio, allocating holdings toward stronger credits, and reducing the concentration of exposure to individual companies and industry sectors; and \$79 million to write down certain other investments to recognize losses incurred during the second quarter.

Subsequently, during 2001 the company placed a majority of its rated Collateralized Debt Obligation (CDO) (obligations of various credit ratings that are backed by high-yield bonds) 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 book amount is determined by allocating the previous carrying value of the transferred assets between assets sold and the retained interests based on their relative fair values. Fair values are based on the estimated present value of future cash flows. The retained interests are accounted for in accordance with EITF Issue 99-20.

In connection with the spin-off of Lehman Brothers Holdings Inc. (Lehman) in 1994, the company acquired 928 shares and Nippon Life Insurance company (Nippon Life) acquired 72 shares of Lehman's redeemable voting preferred stock for a nominal dollar amount. This security entitles its holders to receive an aggregate annual dividend of 50 percent of Lehman's net income in excess of \$400 million for each of eight years ending in May 2002, with a maximum dividend of \$50 million in any one year. In each of the three years ended December 31, 2001, the company received a pretax dividend of \$46 million on these shares.

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

The following table presents these components of other comprehensive loss net of tax:

(Millions, net of tax)	2001	2000	1999
Holding gains (losses)	\$ 16	\$ 231	\$ (852)
Reclassification for realized losses (gains)	463	(80)	(27)
Increase (decrease) in net unrealized securities gains recognized in other comprehensive loss	\$ 479	\$ 151	\$ (879)

## Note 5 ■ LOANS

Loans at December 31 consisted of:

(Millions)	2001	2000
Cardmember and consumer loans	\$ 23,887	\$ 22,486
Commercial loans:		
Commercial and industrial	1,286	1,879
Loans to banks and other institutions	1,306	1,591
Mortgage and real estate	140	159
Other, principally policyholders' loans	814	769
	<b>27,433</b>	<b>26,884</b>
Less: Reserves for credit losses	993	796
Total	\$ 26,440	\$ 26,088

Note: American Express Financial Advisors (AEFA) mortgage loans of \$4.0 billion and \$4.1 billion in 2001 and 2000, respectively, are included in Investment Mortgage Loans and are presented in Note 4.

The following table presents changes in Reserves for Credit Losses related to loans:

(Millions)	2001	2000
Balance, January 1	\$ 796	\$ 753
Provision for credit losses	1,415	924
Write-offs	(1,296)	(1,031)
Recoveries of amounts previously written-off	78	150
Balance, December 31	\$ 993	\$ 796

**Note 6 ■ SECURITIZED LOANS AND RECEIVABLES**

The company, through TRS, securitizes U.S. Cardmember loans and, in large part, subsequently transfers the interests in those assets' cash flows to third party investors. The company 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.

During 2001, 2000 and 1999, the company sold \$4.3 billion, \$4.0 billion and \$4.0 billion, respectively, of U.S. Cardmember loans, or \$3.9 billion, \$3.6 billion and \$3.7 billion net of investments in subordinated interests. During 2001, \$1.0 billion of investor certificates that were previously issued by the securitization trust matured, resulting in \$3.3 billion of net additional securitizations during the year. There were no certificate maturities in 2000. The pretax gains on these securitizations were \$155 million, \$142 million and \$154 million, respectively. Cash flows from interest-only strips as well as servicing revenue, which is 2 percent of principal, are recorded in other revenues. As of December 31, 2001, \$13.1 billion of U.S. Cardmember loans had been sold, net of investments in subordinated interests of \$1.2 billion.

The value of retained interests is primarily subject to changes in credit risk, average loan life and interest rates on the transferred financial assets. Key economic assumptions used in measuring the retained interests resulting from securitizations during 2001 and 2000 were as follows (rates are per annum):

	2001	2000
Average loan life (months)	6–8	8–12
Expected credit losses	4.54%–6.01%	4.46%–5.12%
Cash flows from retained interests discounted at	3.0%–12.0%	6.0%–12.0%
Returns to investors		
Variable	Contractual spread over LIBOR ranging from .09% to 1.05%	Contractual spread over LIBOR ranging from .09% to .9%
Fixed	5.5%–7.4%	5.6%–7.4%

The following table presents quantitative information about delinquencies, net credit losses and components of securitized U.S. Cardmember loans at December 31:

(Billions)	Total Principal Amount of Loans		Principal Amount of Loans 30 Days or More Past due		Net Credit Losses During the Year	
	2001	2000	2001	2000	2001	2000
Cardmember loans managed	\$ 30.2	\$ 28.3	\$ 1.1	\$ 0.8	\$ 1.7	\$ 1.1
Less: Securitized loans sold	14.3	11.0				
Cardmember loans on balance sheet	\$ 15.9	\$ 17.3				

At December 31, 2001 and 2000, interest-only strips were \$155 million and \$272 million, respectively.

The key economic assumptions and the sensitivity of the current year's fair value to immediate 10 percent and 20 percent adverse changes in assumed economics are as follows:

(Millions, except rates per annum)	Average Loan Life (months)	Expected Credit Losses	Cash Flows from Retained Interests Discounted at	Interest Rates
Assumption	6.6	5.43%	12%	2.98%
Impact on fair value of 10% adverse change	\$ 16.3	\$ 14.3	\$ 1.8	\$ 1.9
Impact on fair value of 20% adverse change	\$ 29.8	\$ 37.6	\$ 3.6	\$ 3.7

These sensitivities are hypothetical and will be different from what actually occurs in the future. As the figures indicate, any change in fair value based on a 10 percent variation in assumptions cannot be extrapolated because the relationship of the change in assumption on the fair value of the retained interest is calculated independent from any change in another assumption; in reality, changes in one factor may result in changes in another, which magnify or counteract the sensitivities.

The table below summarizes cash flows received from securitization trusts in:

(Millions)	2001	2000
Proceeds from new securitizations during the period	\$ 3,919	\$ 3,630
Proceeds from reinvestment of payments in Cardmember securitizations	\$ 24,433	\$ 12,480
Servicing fees received	\$ 267	\$ 191
Other cash flows received on retained interests	\$ 1,194	\$ 667

The company 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.

## Note 7 ■ SHORT- AND LONG-TERM DEBT AND BORROWING AGREEMENTS

### SHORT-TERM DEBT

At December 31, 2001 and 2000, the company's total short-term debt outstanding was \$31.6 billion and \$36.0 billion, respectively, with weighted average interest rates of 3.0% and 6.5%, respectively. At December 31, 2001 and 2000, \$17.1 billion and \$9.7 billion, respectively, of short-term debt outstanding was covered by interest rate swaps. The year-end weighted average effective interest rates were 4.6% and 6.4% for 2001 and 2000, respectively. The company generally paid fixed rates of interest under the terms of interest rate swaps. Unused lines of credit to support commercial paper borrowings were approximately \$10.4 billion and \$9.7 billion at December 31, 2001 and 2000, respectively.

## LONG-TERM DEBT

December 31, (Dollars in millions)

	2001					2000				
	Outstanding Balance	Notional Amount of Swaps	Year-End Stated Rate on Debt(a,b)	Year-End Effective Interest Rate with Swaps(a,b)	Maturity of Swaps	Outstanding Balance	Notional Amount of Swaps	Year-End Stated Rate on Debt(a,b)	Year-End Effective Interest Rate with Swaps(a,b)	Maturity of Swaps
Notes due September 12, 2006	\$ 1,000	—	5.50%	—	—	—	—	—	—	—
Notes due November 1, 2005	500	—	6.875%	—	—	\$ 496	—	6.875%	—	—
Notes due September 15, 2004	300	—	7.85%	—	—	—	—	—	—	—
Notes due June 23, 2004	497	—	6.75%	—	—	500	—	6.75%	—	—
Notes due January 22, 2004	498	—	5.625%	—	—	498	—	5.625%	—	—
Notes due May 15, 2003	1,000	—	5.90%	—	—	—	—	—	—	—
Notes due August 12, 2002	411	\$ 411	6.50%	6.43%	2002	400	\$ 400	6.50%	6.83%	2002
Notes due November 15, 2001	—	—	—	—	—	300	—	6.125%	—	—
Notes due August 15, 2001	—	—	—	—	—	300	—	8.50%	—	—
Floating Rate Notes due September 15, 2003	950	—	1.881%	—	—	—	—	—	—	—
Floating Rate Notes due September 15, 2003	750	—	1.881%	—	—	—	—	—	—	—
Floating Rate Notes due May 1, 2002	400	400	1.881%	1.881%	2002	400	400	6.81%	6.90%	2002
Floating Rate Notes due December 31, 2001	—	—	—	—	—	300	—	6.66%	—	—
Other Fixed Senior Notes due 2001–2022	256	133	7.95%	7.70%	2005–2012	538	410	7.35%	7.68%	2001–2012
Other Floating Senior Notes due 2001–2002	115	—	1.87%	—	—	505	—	6.57%	—	—
Other Fixed Rate Notes due 2001–2006	149	—	6.53%	—	—	207	36	5.42%	5.53%	2003–2004
Other Floating Rate Notes due 2001–2006	748	181	3.28%	3.17%	2003–2004	267	165	7.56%	7.55%	2001–2004
Subordinated Fixed Rate Notes due 2003–2004	153	—	6.90%	—	—	—	—	—	—	—
Subordinated Floating Rate Notes due 2003	61	—	1.88%	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 7,788</b>	<b>\$ 1,125</b>	<b>4.73%</b>			<b>\$ 4,711</b>	<b>\$ 1,411</b>	<b>6.73%</b>		

(a) For floating rate debt issuances, the stated and effective interest rates were based on the respective rates at December 31, 2001 and 2000; these rates are not an indication of future interest rates.

(b) Weighted average rates were determined where appropriate.

Certain of the above interest rate swaps require the company to pay a floating rate, with a predominant index of LIBOR (London Interbank Offered Rate).

The company paid interest (net of amounts capitalized) of \$2.8 billion, \$3.6 billion and \$2.6 billion in 2001, 2000 and 1999, respectively.

Aggregate annual maturities of long-term debt for the five years ending December 31, 2006 are as follows (millions): 2002, \$1,194; 2003, \$3,158; 2004, \$1,534; 2005, \$609; and 2006, \$1,146.

**Note 8** ■ CUMULATIVE QUARTERLY INCOME PREFERRED SHARES

In 1998, American Express Company Capital Trust I, a wholly-owned subsidiary of the company, established as a Delaware statutory business trust (the Trust), completed a public offering of 20 million shares (carrying value of \$500 million) of 7.0% Cumulative Quarterly Income Preferred Shares Series I (QUIPS) (liquidation preference of \$25 per share). Proceeds of the issue were invested in Junior Subordinated Debentures (the Debentures) issued by the company due 2028, which represent the sole assets of the Trust. The QUIPS are subject to mandatory redemption upon repayment of the Debentures at maturity or their earlier redemption. The company has the option to redeem the Debentures, in whole or in part, at any time on or after July 16, 2003, which will result in the redemption of a corresponding amount of QUIPS.

The company has unconditionally guaranteed all distributions required to be made by the Trust, but only to the extent the Trust has funds legally available for such distributions. The only source of funds for the Trust is the company's interest payments on the Debentures. The company has the right to defer such interest payments up to 20 consecutive quarters; as a consequence, quarterly dividend payments on the QUIPS can be deferred by the Trust during any such interest payment period. If the company defers any interest payments, the company may not, among other things, pay any dividends on its capital stock until all interest in arrears is paid to the Trust. Distributions on the QUIPS are reported as Interest Expense in the Consolidated Statements of Income.

**Note 9** ■ COMMON AND PREFERRED SHARES

In September 1998, the company's Board of Directors authorized the company to repurchase up to 120 million additional common shares over the subsequent two to three years, subject to market conditions. The company has repurchased approximately 357 million shares since 1994 pursuant to several authorizations, including 57 million under the current authorization (including the 8 million shares delivered to the company during 2001 as a result of the prepayment discussed below). These plans are designed to allow the company to purchase shares, both to offset the issuance of new shares as part of employee compensation plans and to reduce shares outstanding.

Of the common shares authorized but unissued at December 31, 2001, 164 million shares were reserved for issuance for employee stock, employee benefit and dividend reinvestment plans, as well as stock purchase agreements.

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.

Common shares activity for each of the last three years ended December 31 was:

(Millions)	2001	2000	1999
Shares outstanding at beginning of year	1,326	1,341	1,351
Repurchases of common shares	(14)	(25)	(27)
Net settlements pursuant to third party share purchase agreements	12	(2)	—
Other, primarily employee benefit plans	7	12	17
Shares outstanding at end of year	<b>1,331</b>	<b>1,326</b>	<b>1,341</b>

The Board of Directors is authorized to permit the company to issue up to 20 million preferred shares without further shareholder approval.

## **Note 10** ■ DERIVATIVES AND HEDGING ACTIVITIES

As prescribed by SFAS No. 133, derivative instruments that are designated and qualify as hedging instruments are further classified as either a cash flow hedge, a fair value hedge or a hedge of a net investment in a foreign operation, based upon the exposure being hedged.

For derivative instruments that are designated and qualify as a cash flow hedge, the portion of the gain or loss on the derivative instrument effective at offsetting changes in the hedged item is reported as a component of other comprehensive income (loss) and reclassified into earnings when the hedged transaction affects earnings. Any ineffective portion of the gain or loss on the derivative instrument is recognized currently in earnings. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk is recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign operation, the effective portion of the gain or loss on the derivative is reported in other comprehensive income (loss) as part of the cumulative translation adjustment. For derivative instruments not designated as hedging instruments, the gain or loss is recognized currently in earnings.

### **CASH FLOW HEDGES**

The company uses interest rate products, primarily swaps, to manage funding costs related to TRS' Charge Card business, as well as AEFA's investment certificate business. For its Charge Card products, TRS uses interest rate swaps to achieve a targeted mix of fixed and floating rate funding. These interest rate swaps are used to protect the company from the interest rate risk that arises from short-term funding. AEFA uses interest rate products to hedge the risk of rising interest rates on investment certificates which reset at shorter intervals than the average maturity of the investment portfolio.

At December 31, 2001, the company expects to reclassify \$208 million of net pretax losses on derivative instruments from accumulated other comprehensive income (loss) to earnings during the next twelve months. 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.

Currently, the longest period of time over which the company is hedging exposure to the variability in future cash flows is 5 years and relates to funding of foreign currency denominated receivables.

### **FAIR VALUE HEDGES**

The company uses derivatives to hedge against the change in fair value of some of its investments in public companies. Changes in the fair value of the derivatives are recorded in earnings along with related designated changes in the spot price of the underlying shares. Changes in the time value elements of these derivatives are considered as hedge ineffectiveness.

The company also uses interest rate swaps to hedge its firm commitments to transfer, at a fixed rate, receivables to trusts established in connection with its asset securitizations. AEFA is exposed to interest rate risk associated with its fixed rate corporate bond investments. AEFA enters into interest rate swaps to hedge the risk of changing interest rates as investment certificates reset at shorter intervals than the average maturity of the investment portfolio.

During 2001, the company recognized a pretax net loss of \$1.2 million primarily related to the time value element of its fair value hedging instruments. This amount is included in other expenses in the Consolidated Statements of Income.

#### HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS

The company designates foreign currency derivatives as hedges of net investments in certain foreign operations. For these hedges unrealized gains and losses are recorded in the cumulative translation adjustment account included in other comprehensive income (loss), whereas the related amounts due to or from counterparties are included in other liabilities or other assets.

During 2001, the change in the net unrealized amount was immaterial.

#### DERIVATIVES NOT DESIGNATED AS HEDGES UNDER SFAS NO. 133

The company has economic hedges that either do not qualify or are not designated for hedge accounting treatment under SFAS No. 133. In addition, AEB enters into derivative contracts both to meet the needs of its clients and, to a limited extent, for trading purposes, including taking proprietary positions. For the year ended December 31, 2001, the net effect on earnings of accounting for the net changes in fair value of the following undesignated derivatives under SFAS No. 133 compared with prior rules was immaterial.

- Foreign currency transaction exposures are economically hedged, where practical, through foreign currency contracts. Foreign currency contracts involve the purchase and sale of a designated currency at an agreed upon rate for settlement on a specified date. Such foreign currency forward contracts entered into by the company generally mature within one year. In addition, for selected major overseas markets, the company uses foreign currency forward contracts with maturities generally not exceeding one year to hedge future operating results. 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. The impact of these activities was not material.
- AEFA uses interest rate caps, swaps and floors to protect the margin between the interest rates earned on investments and the interest rates credited to holders of certain investment certificates and fixed annuities.
- Certain of AEFA's annuity and investment certificate products have returns tied to the performance of equity markets. These elements are considered derivatives under SFAS No. 133. AEFA manages this equity market risk by entering into options and futures with offsetting characteristics.
- Certain of the company's equity investments are in the form of warrants. Some of these warrants are deemed to be derivative financial instruments.

See Note 7 for further information regarding the company's use of interest rate products related to short- and long-term debt obligations.

#### Note 11 ■ OFF-BALANCE SHEET ITEMS

The company's off-balance sheet financial instruments principally relate to extending credit to satisfy the needs of its clients. The contractual amount of these instruments represents the maximum potential credit risk, assuming the contract amount is fully utilized, the counterparty defaults and collateral held is worthless. Management does not expect any material adverse consequence to the company's financial position to result from these contracts.

December 31, (Millions)	2001	2000
Unused credit available to Cardmembers	\$ 112,059	\$ 91,667
Loan commitments and other lines of credit	\$ 1,128	\$ 1,312
Bank standby letters of credit and bank guarantees	\$ 845	\$ 1,100
Bank commercial and other bank letters of credit	\$ 260	\$ 500

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 that are either required or contingent upon the occurrence of certain events.

Other financial institutions have committed to extend lines of credit to the company of \$13.8 billion and \$12.4 billion at December 31, 2001 and 2000, respectively.

The company leases certain office facilities and operating equipment under noncancellable and cancellable agreements. Total rental expense amounted to \$491 million, \$477 million and \$452 million in 2001, 2000 and 1999, respectively. At December 31, 2001, the minimum aggregate rental commitment under all noncancellable leases (net of subleases) was (millions): 2002, \$354; 2003, \$284; 2004, \$210; 2005, \$175; 2006, \$146; and thereafter, \$1,568.

The company is not a party to any pending legal proceedings that, in the opinion of management, would have a material adverse effect on the company's financial position.

#### Note 12 ■ FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table discloses fair value information for financial instruments. Certain items, such as life insurance obligations, employee benefit obligations and investments accounted for under the equity method are excluded. The fair values of financial instruments are estimates based upon market conditions and perceived risks at December 31, 2001 and 2000 and require management judgment. These figures may not be indicative of their future fair values.

December 31, (Millions)	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Assets for which carrying values approximate fair values	\$ 67,404	\$ 67,404	\$ 73,940	\$ 73,940
Investments	\$ 46,488	\$ 46,659	\$ 43,747	\$ 43,910
Loans	\$ 26,789	\$ 25,441	\$ 26,213	\$ 26,118
Derivative financial instruments, net <sup>(a)</sup>	\$ —	\$ —	\$ 105	\$ (93)
<b>Financial Liabilities</b>				
Liabilities for which carrying values approximate fair values	\$ 65,190	\$ 65,190	\$ 68,975	\$ 68,975
Fixed annuity reserves	\$ 18,139	\$ 17,672	\$ 18,021	\$ 17,479
Investment certificate reserves	\$ 8,205	\$ 8,223	\$ 7,322	\$ 7,289
Long-term debt	\$ 7,788	\$ 7,851	\$ 4,711	\$ 4,743
Separate account liabilities	\$ 24,280	\$ 23,717	\$ 28,792	\$ 27,823

(a) Effective January 1, 2001, the company adopted SFAS No. 133, which requires all derivatives to be recognized as either assets or liabilities on the balance sheet and be measured at fair value. Consequently, derivative financial instruments are included in assets and liabilities for which carrying values approximate fair values for 2001.

The carrying and fair values of off-balance sheet financial instruments are not material as of December 31, 2001 and 2000. See Note 4 for carrying and fair value information regarding investments. The following methods were used to estimate the fair values of financial assets and financial liabilities:

#### **FINANCIAL ASSETS**

Assets for which carrying values approximate fair values include cash and cash equivalents, accounts receivable and accrued interest, separate account assets, certain other assets, and, for 2001, derivative financial instruments.

Generally, investments 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.

For variable rate loans that reprice within a year where there has been no significant change in counterparties' creditworthiness, fair values are based on carrying values.

The fair values of all other loans, except those with significant credit deterioration, are estimated using discounted cash flow analysis, based on current interest rates for loans with similar terms to borrowers of similar credit quality. For loans with significant credit deterioration, fair values are based on estimates of future cash flows discounted at rates commensurate with the risk inherent in the revised cash flow projections, or for collateral dependent loans, on collateral values.

#### **FINANCIAL LIABILITIES**

Liabilities for which carrying values approximate fair values include customers' deposits, travelers cheques outstanding, accounts payable, short-term debt, certain other liabilities, and, for 2001, derivative financial instruments.

Fair values of fixed annuities in deferral status are estimated as the accumulated value less applicable surrender charges and loans. For annuities in payout status, fair value is estimated using discounted cash flows, based on current interest rates. The fair value of these reserves excludes life insurance-related elements of \$1.4 billion and \$1.3 billion in 2001 and 2000, respectively.

For variable rate investment certificates that reprice within a year, fair values approximate carrying values. For other investment certificates, fair value is estimated using discounted cash flows based on current interest rates. The valuations are reduced by the amount of applicable surrender charges and related loans.

For variable rate long-term debt that reprices within a year, fair values approximate carrying values. For other long-term debt, fair value is estimated using either quoted market prices or discounted cash flows based on the company's current borrowing rates for similar types of borrowing.

Fair values of separate account liabilities, after excluding life insurance related elements of \$3.0 billion and \$3.6 billion in 2001 and 2000, respectively, are estimated as the accumulated value less applicable surrender charges.

### Note 13 ■ SIGNIFICANT CREDIT CONCENTRATIONS

A credit concentration may exist if customers are involved in similar industries. The company's customers operate in diverse economic sectors. Therefore, management does not expect any material adverse consequences to the company's financial position to result from credit concentrations. Certain distinctions between categories require management judgment. The following table represents the company's maximum credit exposure by industry at December 31, 2001 and 2000:

December 31, (Dollars in millions)	2001	2000
Financial institutions <sup>(a)</sup>	\$ 17,075	\$ 19,221
Individuals <sup>(b)</sup>	164,212	143,926
U.S. Government and agencies <sup>(c)</sup>	22,145	17,015
All other	18,018	25,398
<b>Total</b>	<b>\$ 221,450</b>	<b>\$ 205,560</b>
Composition:		
On-balance sheet	49%	54%
Off-balance sheet	51	46
<b>Total</b>	<b>100%</b>	<b>100%</b>

(a) Financial institutions primarily include banks, broker-dealers, insurance companies and savings and loan associations.

(b) Charge Card products have no preset spending limit; therefore, the quantified credit amount includes only Cardmember receivables recorded on the Consolidated Balance Sheets.

(c) U.S. Government and agencies represent the U.S. Government and its agencies, states and municipalities, and quasi-government agencies.

### Note 14 ■ STOCK PLANS

Under the 1998 Incentive Compensation Plan and previously under the 1989 Long-Term Incentive Plan (the Plans), awards may be granted to officers, other key employees and other key individuals who perform services for the company and its participating subsidiaries. These awards may be in the form of stock options, stock appreciation rights, restricted stock, performance grants and similar awards designed to meet the requirements of non-U.S. jurisdictions. The company also has options outstanding pursuant to a Directors' Stock Option Plan. Under these plans, there were a total of 48 million, 88 million and 123 million common shares available for grant at December 31, 2001, 2000 and 1999, respectively. Each option has an exercise price at least equal to the market price of the company's common stock on the date of grant and a maximum term of 10 years. Options granted prior to 1999 generally vest at 33 1/3 percent per year beginning with the first anniversary of the grant date. Starting in 1999, options granted generally vest at 33 1/3 percent per year beginning with the second anniversary of the grant date. The company also sponsors the American Express Incentive Savings Plan, under which purchases of the company's common shares are made by or on behalf of participating employees.

In 1998, the Compensation and Benefits Committee adopted a restoration stock option program applicable to existing and future stock option awards. This program provides that employees who exercise options that have been outstanding at least five years by surrendering previously owned shares as payment will automatically receive a new (restoration) stock option with an exercise price equal to the market price on the date of exercise. The size of the restoration option is equal to the number of shares surrendered plus any shares surrendered or withheld to satisfy the employees' income tax requirements. The term of the restoration option, which is exercisable six months after grant, is equal to the remaining life of the original option. Senior officers must be in compliance with their stock ownership guidelines to exercise restoration options.

The company granted 3.0 million, 1.5 million and 1.3 million restricted stock awards (RSAs) with a weighted average grant date value of \$35.48, \$43.46 and \$36.25 per share for 2001, 2000 and 1999, respectively. Restrictions generally expire four years from date of grant. The compensation cost that has been charged against income for the company's restricted stock awards was \$36 million, \$41 million and \$38 million for 2001, 2000 and 1999, respectively.

The company has elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for its employee stock options. Therefore, no compensation cost has been recognized related to stock options. If the company had elected to account for its stock options under the fair value method of SFAS No. 123, "Accounting for Stock-Based Compensation," the company's net income and earnings per common share would have been reduced to the pro forma amounts indicated below:

(Millions, except per share amounts)	2001	2000	1999
Net income:			
As reported	\$ 1,311	\$ 2,810	\$ 2,475
Pro forma	\$ 1,074	\$ 2,616	\$ 2,348
Basic EPS:			
As reported	\$ 0.99	\$ 2.12	\$ 1.85
Pro forma	\$ 0.81	\$ 1.97	\$ 1.75
Diluted EPS:			
As reported	\$ 0.98	\$ 2.07	\$ 1.81
Pro forma	\$ 0.80	\$ 1.92	\$ 1.71

The fair value of each option is estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2001, 2000 and 1999, respectively:

	2001	2000	1999
Dividend yield	0.8%	1.1%	1.5%
Expected volatility	31%	29%	30%
Risk-free interest rate	4.9%	6.7%	5.1%
Expected life of stock option	5 years	5 years	5 years

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The weighted average fair value per option was \$14.69, \$14.92 and \$11.09 for options granted during 2001, 2000 and 1999, respectively.

A summary of the status of the company's stock option plans as of December 31 and changes during each of the years then ended is presented below:

(Shares in thousands)	2001		2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	114,460	\$ 34.23	94,512	\$ 27.96	76,658	\$ 21.49
Granted	42,883	\$ 44.21	39,273	\$ 44.38	36,529	\$ 36.53
Exercised	(5,649)	\$ 20.83	(14,114)	\$ 19.45	(16,033)	\$ 16.20
Forfeited/Expired	(5,625)	\$ 40.64	(5,211)	\$ 36.87	(2,642)	\$ 29.82
Outstanding at end of year	146,069	\$ 37.42	114,460	\$ 34.23	94,512	\$ 27.96
Options exercisable at end of year	49,428	\$ 29.08	33,966	\$ 23.61	32,476	\$ 18.70

The following table summarizes information about the stock options outstanding at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 6.25–\$28.99	19,202	4.5	\$ 18.91	16,365	\$ 17.53
\$29.00–\$34.99	19,157	6.2	\$ 29.51	15,897	\$ 29.48
\$35.00–\$41.99	30,855	7.2	\$ 36.24	11,776	\$ 36.64
\$42.00–\$43.99	33,142	8.2	\$ 43.66	1,574	\$ 43.58
\$44.00–\$61.44	43,713	8.8	\$ 45.13	3,816	\$ 47.64
\$ 6.25–\$61.44	146,069	7.4	\$ 37.42	49,428	\$ 29.08

### Note 15 ■ RETIREMENT PLANS

#### PENSION PLANS

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

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

Most employees outside the United States are covered by local retirement plans, some of which are funded, or receive payments at the time of retirement or termination under applicable labor laws or agreements.

Plan assets consist principally of equities and fixed income securities.

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

(Millions)	2001	2000	1999
Service cost	\$ 102	\$ 95	\$ 89
Interest cost	106	98	88
Expected return on plan assets	(122)	(102)	(93)
Amortization of:			
Prior service cost	(10)	(9)	(9)
Transition obligation	(1)	3	1
Reversion gain	—	(4)	(4)
Recognized net actuarial (gain) loss	(1)	5	7
Settlement/Curtailment gain	(1)	(22)	(16)
Net periodic pension benefit cost	\$ 73	\$ 64	\$ 63

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

**Reconciliation of Change in Benefit Obligation**

(Millions)	2001	2000
Benefit obligation, October 1 prior year	\$ 1,403	\$ 1,330
Service cost	102	95
Interest cost	106	98
Benefits paid	(43)	(40)
Actuarial loss	31	39
Settlements/Curtailments	(42)	(84)
Foreign currency exchange rate changes	(16)	(35)
Benefit obligation at September 30,	\$ 1,541	\$ 1,403

**Reconciliation of Change in Fair Value of Plan Assets**

(Millions)	2001	2000
Fair value of plan assets, October 1 prior year	\$ 1,480	\$ 1,347
Actual return on plan assets	(239)	244
Employer contributions	47	41
Benefits paid	(43)	(40)
Settlements/Curtailments	(42)	(80)
Foreign currency exchange rate changes	(13)	(32)
Fair value of plan assets at September 30,	\$ 1,190	\$ 1,480

The following table reconciles the plans' funded status to the amounts recognized on the Consolidated Balance Sheets:

**Funded Status**

(Millions)	2001	2000
Funded status at September 30,	\$ (351)	\$ 77
Unrecognized net actuarial loss (gain)	209	(237)
Unrecognized prior service cost	(42)	(51)
Unrecognized net transition obligation	(2)	(3)
Fourth quarter contributions (net of benefit payments)	4	3
Net amount recognized at December 31,	\$ (182)	\$ (211)

The following table provides the amounts recognized on the Consolidated Balance Sheets as of December 31:

(Millions)	2001	2000
Accrued benefit liability	\$ (359)	\$ (314)
Prepaid benefit cost	17	89
Intangible asset	1	14
Minimum pension liability adjustment	159	—
Net amount recognized at December 31,	\$ (182)	\$ (211)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$612 million, \$553 million and \$326 million, respectively, as of December 31, 2001, and \$191 million, \$171 million and \$16 million, respectively, as of December 31, 2000. As a result of a significant decrease in the fair value of plan assets in certain non-U.S. pension plans, more plans had an accumulated benefit obligation that exceeded the fair value of the plan assets, and a minimum liability adjustment was required.

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

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

	2001	2000
Discount rates	7.0%	7.4%
Rates of increase in compensation levels	4.2%	4.4%
Expected long-term rates of return on assets	9.5%	9.5%

The company also has a defined contribution retirement plan (a 401(k) savings plan with a profit sharing feature) covering most employees in the United States. The defined contribution plan expense was \$76 million, \$151 million and \$131 million in 2001, 2000 and 1999, respectively.

#### OTHER POSTRETIREMENT BENEFITS

The company sponsors postretirement benefit plans that provide health care, life insurance and other postretirement benefits to retired U.S. employees. Net periodic postretirement benefit expenses were \$25 million, \$26 million and \$20 million in 2001, 2000 and 1999, respectively. The liabilities recognized on the Consolidated Balance Sheets for the company's defined postretirement benefit plans (other than pension plans) at December 31, 2001 and 2000 were \$212 million and \$211 million, respectively.

#### Note 16 ■ INCOME TAXES

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

(Millions)	2001	2000	1999
Federal	\$ (36)	\$ 748	\$ 645
State and local	59	76	76
Foreign	262	274	242
Total	\$ 285	\$ 1,098	\$ 963

Accumulated net earnings of certain foreign subsidiaries, which totaled \$2.1 billion at December 31, 2001, are intended to be permanently reinvested outside the United States. Accordingly, federal taxes, which would have aggregated \$312 million, have not been provided on those earnings.

The current and deferred components of the provision for income taxes were as follows:

(Millions)	2001	2000	1999
Current	\$ 765	\$ 1,209	\$ 716
Deferred	(480)	(111)	247
Total	\$ 285	\$ 1,098	\$ 963

The company's net deferred tax assets at December 31 were as follows:

(Millions)	2001	2000
Deferred tax assets	\$ 4,269	\$ 3,500
Deferred tax liabilities	2,318	2,023
Net deferred tax assets	<b>\$ 1,951</b>	<b>\$ 1,477</b>

Deferred tax assets for 2001 and 2000 are primarily related to reserves not yet deducted for tax purposes of \$2.8 billion and \$1.9 billion, respectively; deferred Cardmember fees of \$278 million and \$254 million, respectively; deferred compensation of \$344 million and \$370 million, respectively; and, for 2000, deferred taxes related to SFAS No. 115 of \$71 million. Deferred tax liabilities for 2001 and 2000 are mainly related to deferred acquisition costs of \$1,025 million and \$987 million, respectively; depreciation and amortization of \$413 million and \$323 million, respectively; deferred taxes related to SFAS No. 140 (which superceded SFAS No. 125) of \$181 million and \$111 million, respectively; and, for 2001, deferred taxes related to SFAS No. 115 of \$172 million.

The principal reasons that the aggregate income tax provision is different from that computed by using the U.S. statutory rate of 35 percent are as follows:

(Millions)	2001	2000	1999
Combined tax at U.S. statutory rate	\$ 559	\$ 1,368	\$ 1,203
Changes in taxes resulting from:			
Tax-preferred investments	(247)	(211)	(171)
Tax-exempt element of dividend income	(27)	(26)	(43)
Foreign income taxed at rates other than U.S. statutory rate	(27)	(38)	(35)
State and local income taxes	38	50	49
All other	(11)	(45)	(40)
Income tax provision	<b>\$ 285</b>	<b>\$ 1,098</b>	<b>\$ 963</b>

Net income taxes paid by the company during 2001, 2000 and 1999 were \$545 million, \$858 million and \$392 million, respectively, and include estimated tax payments and cash settlements relating to prior tax years.

The items comprising comprehensive income in the Consolidated Statements of Shareholders' Equity are presented net of income tax provision (benefit). The changes in net unrealized securities gains are presented net of tax provision (benefit) of \$258 million, \$81 million and \$(473) million for 2001, 2000 and 1999, respectively. Net unrealized losses on derivatives are presented net of tax (benefit) of \$(159) million for 2001. Foreign currency translation adjustments are presented net of tax (benefit) provision of \$(21) million, \$18 million and \$3 million for 2001, 2000 and 1999, respectively. Minimum pension liability adjustment is presented net of tax (benefit) of \$(55) million for 2001.

**Note 17** ■ EARNINGS PER COMMON SHARE

Basic earnings per share (EPS) is computed using the average actual shares outstanding during the period. Diluted EPS is basic EPS adjusted for the dilutive effect of stock options, RSAs and other financial instruments that may be converted into common shares. The basic and diluted EPS computations are as follows:

(Millions, except per share amounts)	2001	2000	1999
Numerator:			
Net income	\$ 1,311	\$ 2,810	\$ 2,475
Denominator:			
Denominator for basic EPS—weighted-average shares	1,324	1,327	1,340
Effect of dilutive securities:			
Stock options, RSAs and other	12	33	29
Denominator for diluted EPS	1,336	1,360	1,369
Basic EPS	\$ 0.99	\$ 2.12	\$ 1.85
Diluted EPS	\$ 0.98	\$ 2.07	\$ 1.81

**Note 18** ■ OPERATING SEGMENTS AND GEOGRAPHIC OPERATIONS

**OPERATING SEGMENTS**

The company is principally engaged in providing travel related, financial advisory and international banking services throughout the world. TRS' products and services include, among others, Charge Cards, Cardmember lending products, Travelers Cheques, and corporate and consumer travel services. AEFA's services and products include financial planning and advice, investment advisory services and a variety of products, including insurance and annuities, investment certificates and mutual funds. AEB's products and services include providing private, financial institution and corporate banking, personal financial services and global trading. The company operates on a global basis, although the principal market for financial advisory services is the United States.

The following table presents certain information regarding these operating segments at December 31, 2001, 2000 and 1999 and for each of the years then ended. The segment results have been affected by charges discussed in Notes 2 and 3. For certain income statement items that are affected by asset securitizations at TRS, data is provided on both a managed basis, which excludes the effect of securitizations, as well as on a GAAP basis. See Note 6 to the Consolidated Financial Statements and the TRS Results of Operations section of the Financial Review for further information regarding the effect of securitizations on the financial statements. In addition, net revenues (managed basis) are presented net of provisions for losses and benefits for annuities, insurance and investment certificate products of AEFA.

(Millions)	Travel Related Services	American Express Financial Advisors	American Express Bank	Corporate and Other	Adjustments and Eliminations	Consolidated
<b>2001</b>						
Net revenues (managed basis)	\$ 18,102	\$ 2,825	\$ 649	\$ 123	\$ (340)	\$ 21,359
Revenues (GAAP basis)	17,359	4,791	649	123	(340)	22,582
Interest and dividends, net	710	1,162	302	123	(160)	2,137
Cardmember lending net finance charge revenue:						
Managed basis	3,138	—	—	—	—	3,138
GAAP basis	912	—	—	—	—	912
Interest expense:						
Managed basis	1,487	26	—	182	(161)	1,534
GAAP basis	1,454	26	—	182	(161)	1,501
Pretax income (loss)	1,979	(24)	(14)	(345)	—	1,596
Income tax provision (benefit)	520	(76)	(1)	(158)	—	285
Net income (loss) <sup>(a)</sup>	1,459	52	(13)	(187)	—	1,311
Assets	\$ 69,384	\$ 71,471	\$ 11,878	\$ 15,726	\$ (17,359)	\$ 151,100
<b>2000</b>						
Net revenues (managed basis)	\$ 17,441	\$ 4,219	\$ 591	\$ 167	\$ (333)	\$ 22,085
Revenues (GAAP basis)	17,120	6,130	591	167	(333)	23,675
Interest and dividends, net	803	2,292	251	165	(221)	3,290
Cardmember lending net finance charge revenue:						
Managed basis	2,383	—	—	—	—	2,383
GAAP basis	987	—	—	—	—	987
Interest expense:						
Managed basis	1,571	22	—	180	(214)	1,559
GAAP basis	1,366	22	—	180	(214)	1,354
Pretax income (loss)	2,713	1,483	33	(321)	—	3,908
Income tax provision (benefit)	784	451	4	(141)	—	1,098
Net income (loss)	1,929	1,032	29	(180)	—	2,810
Assets	\$ 71,419	\$ 73,560	\$ 11,413	\$ 16,487	\$ (18,456)	\$ 154,423
<b>1999</b>						
Net revenues (managed basis)	\$ 15,234	\$ 3,737	\$ 621	\$ 109	\$ (218)	\$ 19,483
Revenues (GAAP basis)	15,130	5,636	621	109	(218)	21,278
Interest and dividends, net	643	2,443	291	105	(136)	3,346
Cardmember lending net finance charge revenue:						
Managed basis	1,929	—	—	—	—	1,929
GAAP basis	1,333	—	—	—	—	1,333
Interest expense:						
Managed basis	1,204	32	—	164	(129)	1,271
GAAP basis	984	32	—	164	(129)	1,051
Pretax income (loss)	2,383	1,363	27	(335)	—	3,438
Income tax provision (benefit)	691	428	5	(161)	—	963
Net income (loss)	1,692	935	22	(174)	—	2,475
Assets	\$ 63,233	\$ 74,644	\$ 11,354	\$ 14,449	\$ (15,163)	\$ 148,517

(a) 2001 results include three significant items: (1) a charge at AEFA of \$1.01 billion pretax (\$669 million after-tax) reflecting losses associated with high-yield securities recorded during the first half of 2001; (2) consolidated restructuring charges of \$631 million pretax (\$411 million after-tax); and (3) the consolidated one-time adverse impact from the September 11th terrorist attacks of \$98 million pretax (\$65 million after-tax).

Income tax provision (benefit) is calculated on a separate return basis; however, benefits from operating losses, loss carrybacks and tax credits (principally foreign tax credits) recognizable for the company's consolidated reporting purposes are allocated based upon the tax sharing agreement among members of the American Express Company consolidated U.S. tax group.

Assets are those that are used or generated exclusively by each industry segment. The adjustments and eliminations required to determine the consolidated amounts shown above consist principally of the elimination of inter-segment amounts.

#### GEOGRAPHIC OPERATIONS

The following table presents the company's revenues and pretax income in different geographic regions.

(Millions)	United States	Europe	Asia/Pacific	All Other	Adjustments and Eliminations	Consolidated
<b>2001</b>						
Revenues	\$ 17,522	\$ 2,556	\$ 1,523	\$ 1,667	\$ (686)	\$ 22,582
Pretax income	\$ 1,177	\$ 101	\$ 159	\$ 159	—	\$ 1,596
<b>2000</b>						
Revenues	\$ 18,529	\$ 2,731	\$ 1,582	\$ 1,629	\$ (796)	\$ 23,675
Pretax income	\$ 3,049	\$ 411	\$ 199	\$ 249	—	\$ 3,908
<b>1999</b>						
Revenues	\$ 16,362	\$ 2,729	\$ 1,456	\$ 1,466	\$ (735)	\$ 21,278
Pretax income	\$ 2,756	\$ 316	\$ 175	\$ 191	—	\$ 3,438

Most services of the company are provided on an integrated worldwide basis. Therefore, it is not practical to separate precisely the U.S. and international services. Accordingly, the data in the above table are, in part, based upon internal allocations, which necessarily involve management's judgment.

#### Note 19 ■ TRANSFER OF FUNDS FROM SUBSIDIARIES

The SEC requires the disclosure of certain restrictions on the flow of funds to a parent company from its subsidiaries in the form of loans, advances or dividends.

Restrictions on the transfer of funds exist under debt agreements and regulatory requirements of certain of the company's subsidiaries. These restrictions have not had any effect on the company's shareholder dividend policy and management does not anticipate any effect in the future.

At December 31, 2001, the aggregate amount of net assets of subsidiaries that may be transferred to the Parent Company was approximately \$8.6 billion. Should specific additional needs arise, procedures exist to permit immediate transfer of short-term funds between the company and its subsidiaries, while complying with the various contractual and regulatory constraints on the internal transfer of funds.

**Note 20** ■ QUARTERLY FINANCIAL DATA (Unaudited)

Quarters Ended	2001				2000			
	12/31	9/30	6/30	3/31	12/31	9/30	6/30	3/31
Net revenues (managed basis)	\$ 5,590	\$ 5,478	\$ 4,910	\$ 5,381	\$ 5,714	\$ 5,554	\$ 5,558	\$ 5,259
Revenues (GAAP basis)	5,871	5,724	5,268	5,719	6,067	5,981	5,970	5,657
Pretax income	347	354	153	741	913	1,029	1,046	920
Net income <sup>(a)</sup>	297	298	178	538	677	737	740	656
Earnings per common share: <sup>(a)</sup>								
Basic	0.22	0.23	0.13	0.41	0.51	0.56	0.56	0.49
Diluted	0.22	0.22	0.13	0.40	0.50	0.54	0.54	0.48
Cash dividends declared per common share	.08	.08	.08	.08	.08	.08	.08	.08
Common share price:								
High	36.34	41.92	46.55	57.06	63.00	62.25	57.19	56.50
Low	26.69	24.20	35.96	34.00	50.06	50.69	43.94	39.83

*(a) 2001 results include three significant items: (1) charges of \$826 million pretax (\$537 million after-tax) and \$182 million pretax (\$132 million after-tax) in the second and first quarters, respectively, reflecting losses associated with high-yield securities; (2) restructuring charges of \$279 million pretax (\$179 million after-tax) and \$352 million pretax (\$232 million after-tax) in the fourth and third quarters, respectively; and (3) the one-time adverse impact from the September 11th terrorist attacks of \$98 million pretax (\$65 million after-tax) in the third quarter.*