

## 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. Certain reclassifications of prior period amounts have been made to conform to the current presentation.

#### Principles of Consolidation

The company consolidates all entities in which it holds a greater than 50% interest, except for immaterial seed money investments in mutual and hedge funds. Entities in which the company holds a greater than 20% but less than 50% equity interest are accounted for under the equity method. All other investments are accounted for under the cost method unless the company determines that it exercises significant influence over the entity by means other than voting rights.

Qualifying Special Purpose Entities (SPEs) under Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," are not consolidated. Such SPEs include those that the company utilizes in connection with asset securitizations at the Travel Related Services (TRS) segment, as well as the securitization trust containing a majority of the company's rated collateralized debt obligations (CDOs) described in Note 2 of the Consolidated Financial Statements. All other SPEs are evaluated using the control, risk and reward criteria as outlined under accounting principles generally accepted in the United States (GAAP) in determining whether to consolidate all other SPEs where the company is the sponsor or transferor. See Recently Issued Accounting Standards below for further information regarding consolidation of such entities. Additionally, the company has securitized charge card receivables totaling \$4.8 billion and \$3.0 billion as of December 31, 2002 and 2001, respectively, which are included in cardmember receivables on the Consolidated Balance Sheets as they do not qualify for off-balance sheet treatment under SFAS No. 140.

#### 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 that relate to reserves for cardmember credit losses, Membership Rewards, investment securities valuation and the amortization of deferred acquisition costs. These accounting estimates reflect the best judgment of management and actual results could differ.

#### Revenues

The company generates revenue from a wide range of business activities, including payment instruments such as charge and credit cards, travel services including airline, hotel, and rental car reservations, and a wide range of investment, savings, lending and insurance products.

##### *Discount revenue*

The company earns discount revenue from fees charged to service establishments with whom the company has entered into card acceptance agreements for processing cardmember transactions. The discount is deducted from payment to the service establishment and recorded as discount revenue at the time the charge is captured.

##### *Interest and dividends, net*

Interest income for the company's performing fixed income securities and investment loans is generally accrued as earned using the effective interest method, which makes an adjustment of the yield for security premiums and discounts, fees and other payments, so that the related loan or security recognizes a constant rate of return on the outstanding balance throughout its term. Gains and losses are recognized on a trade date basis, and other-than-temporary impairment charges are recorded in the period when contractual cash flows are no longer expected to be received when due.

Interest income for the company's international banking loans is accrued on unpaid principal balances in accordance with the terms of the loan. Loan fees and deferred loan acquisition costs are amortized over the life of the loan using the effective interest method. Generally, the accrual of interest on these loans is discontinued at the time the loan is 90 to 180 days delinquent, depending on loan type, or when an impairment is determined. Interest and dividends is presented net of interest expense of \$254 million, \$434 million and \$559 million for the years ended December 31, 2002, 2001 and 2000, respectively.

For the year ended December 31, 2001, interest and dividends, net was reduced by a \$34 million charge (\$22 million after-tax) related to the cumulative effect of the adoption of Emerging Issues Task Force (EITF) Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" as of January 1, 2001. Before this accounting change, income for the year ended December 31, 2001 was \$1,333 million, basic earnings per common share (EPS) was \$1.01 and diluted EPS was \$1.00.

#### *Management and distribution fees*

Management fees relate primarily to managed assets for proprietary mutual funds and proprietary account assets, and are generally based on the underlying asset values which are accrued daily and generally collected monthly. Many of the proprietary mutual funds have a performance incentive adjustment (PIA). This PIA adjusts the level of management fees received based on the specific fund's relative performance as measured against a designated external index. Distribution fees primarily include point-of-sale fees (i.e., front-load mutual fund fees) and asset-based fees (i.e., 12b-1 fees) that are generally based on a contractual fee as a percentage of assets and recognized when received.

#### *Securitization income*

Securitization income includes revenue associated with retained and subordinated interests in securitized loans, servicing income from loans sold and gains recorded at the time of securitization.

#### *Net card fees*

Card fees are recognized as revenue over the card membership period covered by the card fee, net of provision for projected refunds of card fees for cancellation of card membership.

#### *Cardmember lending net finance charge revenue*

Cardmember lending finance charges are assessed using the average daily balance method for receivables owned and are recognized based upon the principal amount outstanding in accordance with the terms of the applicable account agreement until the outstanding balance is paid or charged off. Cardmember lending net finance charge revenue is presented net of interest expense of \$510 million, \$939 million and \$1,025 million for the years ended December 31, 2002, 2001 and 2000, respectively.

#### *Travel commissions and fees*

Customer revenue is earned by charging a transaction or management fee for airline or other transactions based on contractual agreements with the travel clients. Customer related fees and other revenues are recognized at the time a client books travel arrangements.

Travel suppliers pay commission on airline tickets issued and on sales and transaction volumes, based on contractual agreements. These revenues are recognized at the time a ticket is purchased. Revenue from other travel suppliers is generally not under firm contractual agreements and is recognized when cash is received.

#### *Life and other insurance revenues*

Premiums on traditional life, disability income and long-term care insurance are recognized as revenue when due. Premiums on property/casualty insurance are recognized ratably over the coverage period.

#### *Other*

Other revenues include fees from financial planning, consulting and business services and miscellaneous investment income.

## **Marketing and Promotion**

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

## Cash and Cash Equivalents

At December 31, 2002 and 2001, cash and cash equivalents included \$1.1 billion and \$1.0 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.

## Reserves for Credit Losses

Reserves for credit losses related to cardmember loans and receivables is one of the largest operating expenses of the company. The company's reserves for credit losses represents management's estimate of the amount necessary to absorb future credit losses inherent in the company's outstanding portfolio of loans and receivables. Management's evaluation process requires numerous estimates and judgments. Reserves for these credit losses are primarily based upon models which analyze portfolio statistics and management's judgment. The analytic models take into account numerous factors, including average write-off rates for various stages of receivable aging (i.e., current, 30 days, 60 days, 90 days) over a 24-month period, average bankruptcy rates and average recovery rates. In exercising its judgment in setting reserve levels, management considers levels derived from these models, and external indicators, such as leading economic indicators, unemployment rate, consumer confidence index, purchasing manager's index, bankruptcy filings and the regulatory environment. Loans are charged-off when management deems amounts to be uncollectible, which is generally determined by the number of days the amount is past due. 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 provisions for credit losses, as applicable.

## Investments

Generally, investment securities are carried at fair value on the balance sheet with unrealized gains (losses) recorded in equity, net of income tax provisions (benefits). 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 other-than-temporary, which requires judgment regarding the amount and timing of recovery. Indicators of other-than-temporary impairment for debt securities include issuer downgrade, default or bankruptcy. The company also considers the extent to which cost exceeds fair value, the duration of time of that decline, and management's judgment about the issuer's current and prospective financial condition. Fair value is generally based on quoted market prices. However, the company's investment portfolio also contains structured investments of various asset quality, including CDOs and secured loan trusts (backed by high-yield bonds and bank loans) 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 management judgment as to default and recovery rates of the underlying investments and as such are subject to change.

## 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.

## Deferred Acquisition Costs

American Express Financial Advisors' (AEFA) deferred acquisition costs (DAC) represent the costs of acquiring new insurance, annuity and certain mutual fund business, including, for example, direct sales commissions, related sales incentive bonuses and awards, underwriting costs, policy issue costs and other related costs attributable to sales. The costs for universal life and variable universal life insurance and certain installment annuities are amortized as a percentage of the estimated gross profits expected to be realized on the policies. DAC for other annuities are amortized using the interest method. For traditional life, disability income and long-term care insurance policies, the costs are amortized in proportion to premium revenue. For mutual fund products, DAC are generally amortized over fixed periods on a straight-line basis.

For annuity and insurance products, the projections underlying the amortization of DAC require the use of certain assumptions, including interest margins, mortality rates, persistency rates, maintenance expense levels and customer asset value

growth rates for variable products. Management routinely monitors a wide variety of trends in the business, including comparisons of actual and assumed experience. Management reviews and, where appropriate, adjusts its assumptions with respect to customer asset value growth rates on a quarterly basis. Management monitors other principal DAC assumptions, such as persistency, mortality rate, interest margin and maintenance expense level assumptions, each quarter. Unless management identifies a material deviation over the course of the quarterly monitoring, management reviews and updates these DAC assumptions annually in the third quarter of each year. When assumptions are changed, the percentage of estimated gross profits or portion of interest margins used to amortize DAC may also change. A change in the required amortization percentage is applied retrospectively; an increase in amortization percentage will result in an acceleration of DAC amortization while a decrease in amortization percentage will result in a deceleration of DAC amortization. The impact on results of operations of changing assumptions with respect to the amortization of DAC can be either positive or negative in any particular period, and is reflected in the period in which such changes are made.

### **Insurance and Annuity Reserves**

Liabilities for reported and unpaid life insurance claims are equal to the death benefits payable. For disability income and long-term care claims, unpaid claim liabilities are equal to benefit amounts due and accrued. Liabilities for incurred but not reported claims are estimated based on periodic analysis of the actual reported claim lag. Where applicable, amounts recoverable from reinsurers are separately recorded as receivables. For life insurance, no claim adjustment expense reserve is held. The claim adjustment expense reserves for disability income and long-term care are based on the claim reserves.

Liabilities for fixed and variable universal life insurance and fixed and variable deferred annuities are accumulation values.

Liabilities for equity indexed deferred annuities issued before 1999 are equal to the present value of guaranteed benefits and the intrinsic value of index-based benefits. Liabilities for equity indexed deferred annuities issued in 1999 or later are equal to the accumulation of host contract values covering guaranteed benefits and the market value of embedded equity options.

Liabilities for fixed annuities in a benefit status are based on established industry mortality tables and interest rates, ranging from 5% to 9.5%, depending on year of issue, with an average rate of approximately 6.5%.

Liabilities for future benefits on term and whole life insurance are based on the net level premium method, using anticipated mortality, policy persistency and interest earning rates. Anticipated mortality rates are based on established industry mortality tables, with modifications based on company experience. Anticipated policy persistency rates vary by policy form, issue age and policy duration with persistency on level term and cash value plans generally anticipated to be better than persistency on yearly renewable term insurance plans. Anticipated interest rates range from 4% to 10%, depending on policy form, issue year and policy duration.

Liabilities for future disability income and long-term care policy benefits include both policy reserves and claim reserves. Policy reserves are based on the net level premium method, using anticipated morbidity, mortality, policy persistency and interest earning rates. Anticipated morbidity and mortality rates are based on established industry morbidity and mortality tables. Anticipated policy persistency rates vary by policy form, issue age, policy duration and, for disability income policies, occupation class. Anticipated interest rates for disability income and long-term care policy reserves are 3% to 9.5% at policy issue and grade to ultimate rates of 5% to 7% over 5 to 10 years.

Claim reserves are calculated based on claim continuance tables and anticipated interest earnings. Anticipated claim continuance rates are based on established industry tables. Anticipated interest rates for claim reserves for both disability income and long-term care range from 5% to 8%. The company issues only non-participating life insurance contracts and has no short duration life insurance liabilities.

### **Guaranteed Minimum Death Benefits**

The majority of the variable annuity contracts offered by AEFA contain guaranteed minimum death benefit (GMDB) provisions. At time of issue, these contracts typically guarantee the death benefit payable will not be less than the amount invested, regardless of the performance of the customer's account. Most contracts also provide for some type of periodic adjustment of the guaranteed amount based on the change in value of the contract. A large portion of AEFA's contracts containing a GMDB

provision adjust once every six years. The periodic adjustment of these contracts can either increase or decrease the guaranteed amount though not below the amount invested adjusted for withdrawals. When market values of the customer's accounts decline, the death benefit payable on a contract with a GMDB may exceed the accumulated contract value. Currently, the amount paid in excess of contract value is expensed when payable. Amounts expensed in 2002, 2001 and 2000 were \$37 million, \$16 million and \$1 million, respectively.

## Membership Rewards

The company's Membership Rewards loyalty program allows enrolled 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 its reward partners when cardmembers redeem their points and establishes reserves to cover the cost of future reward redemptions. The provision for the cost of Membership Rewards is based upon points awarded which are ultimately expected to be redeemed by cardmembers and the current weighted average cost per point of redemption. The ultimate points to be redeemed are estimated based on many factors, including a review of past behavior of cardmembers segmented by product, year of enrollment in the program, spend level and duration in the program. Past behavior is used to predict when current enrollees will attrite and their ultimate redemption rate. In addition, the cumulative balance sheet liability for unredeemed points is adjusted over time based on actual redemption and cost experience as well as current trends with respect to redemptions.

## Stock Options

At December 31, 2002, the company has two stock-based employee compensation plans, which are described in more detail in Note 14. Effective January 1, 2003, the company has adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," prospectively for all stock options granted after January 1, 2003. Prior to 2003, the company accounted for those plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No employee compensation cost is reflected in net income for stock options granted, since all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and EPS assuming the company had followed the fair value recognition provisions of SFAS No. 123 for stock options for the years ended December 31, 2002, 2001 and 2000.

(Millions, except per share amounts)	2002	2001	2000
Net income:			
As reported	\$ 2,671	\$ 1,311	\$ 2,810
Deduct: Total stock option employee compensation expense determined under fair value based method, net of related tax effects	(329)	(237)	(194)
Pro forma	\$ 2,342	\$ 1,074	\$ 2,616
Basic EPS:			
As reported	\$ 2.02	\$ 0.99	\$ 2.12
Pro forma	\$ 1.77	\$ 0.81	\$ 1.97
Diluted EPS:			
As reported	\$ 2.01	\$ 0.98	\$ 2.07
Pro forma	\$ 1.76	\$ 0.80	\$ 1.92

## Recently Issued Accounting Standards

Effective January 1, 2002, the company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which established new accounting and reporting standards for goodwill and other intangible assets. Under the new rules, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are instead subject to annual impairment tests. Management has completed goodwill impairment tests as of the date of initial adoption, and again during 2002. Such tests did not indicate impairment. See Note 5 for further discussion of the company's goodwill and other intangibles.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," (FIN 45) which provides accounting and disclosure requirements for certain guarantees. The accounting provisions of FIN 45, which are effective for certain guarantees issued or modified beginning January 1, 2003, will impact the company based upon the fair value amount of guarantees that are issued or modified beginning at that time. The company is still evaluating the impact of adopting FIN 45 on the Consolidated Financial Statements; the disclosure requirements of FIN 45 are addressed in Note 11 to the Consolidated Financial Statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), which addresses consolidation by business enterprises of variable interest entities (VIEs). The accounting provisions and expanded disclosure requirements for VIEs existing at December 31, 2002, are fully effective for reporting periods beginning after June 15, 2003. An entity shall be subject to consolidation according to the provisions of FIN 46, if, by design, either (i) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or, (ii) as a group, the holders of the equity investment at risk lack: (a) direct or indirect ability to make decisions about an entity's activities; (b) the obligation to absorb the expected losses of the entity if they occur; or (c) the right to receive the expected residual return of the entity if they occur. In general, FIN 46 will require a VIE to be consolidated when an enterprise has a variable interest that will absorb a majority of the VIE's expected losses or receive a majority of the VIE's expected residual return.

It is likely that the company will either consolidate or disclose additional information about VIEs when FIN 46 becomes fully effective in the third quarter of 2003. The entities primarily impacted by FIN 46 relate to structured investments, including CDOs and secured loan trusts (SLTs), which are both managed and partially owned by the company's AEFA operating segment. The application of FIN 46 for CDOs and SLTs will have no effect on the cash flows of the company. The CDO entities contain debt issued to investors, which are non-recourse to the company and are solely supported by portfolios of high-yield bonds and loans. AEFA manages the portfolios of high-yield bonds and loans with a fair value at December 31, 2002 of approximately \$3.0 billion for the benefit of the \$3.7 billion in CDO debt investors and often retains an interest in the residual and rated debt tranches of the CDO structures. The company's interest in the rated debt tranches along with rated tranches of non-managed CDOs were placed in a securitization trust described in Note 2. The SLTs provide returns to investors primarily based on the performance of an underlying portfolio of \$3.4 billion in high-yield loans with a market value at December 31, 2002 of \$3.1 billion, which are generally managed by the company.

While the potential consolidation of these entities may impact the results of operations at adoption and for each reporting period thereafter, the company's maximum exposure to economic loss as a result of its investment in these entities is represented by the carrying values at December 31, 2002 because any further reduction in the value of the assets will be absorbed by third-party investors. The CDO residual tranches have an adjusted cost basis of \$28 million and the SLTs have an adjusted cost basis of \$684 million.

The company continues to evaluate other relationships and interests in entities that may be considered VIEs, including affordable housing investments. The impact of adopting FIN 46 on the Consolidated Financial Statements is still being reviewed.

## Note 2 INVESTMENTS

The following is a summary of investments at December 31:

(Millions)	2002	2001
Available-for-Sale, at fair value	\$ 49,102	\$ 42,225
Investment loans (fair value: 2002, \$4,405; 2001, \$4,195)	3,981	4,024
Trading	555	239
<b>Total</b>	<b>\$ 53,638</b>	<b>\$ 46,488</b>

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

(Millions)	2002				2001			
	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Corporate debt securities	\$ 13,129	\$ 782	\$ (146)	\$ 13,765	\$ 13,641	\$ 388	\$ (138)	\$ 13,891
Mortgage and other asset-backed securities	19,463	653	(15)	20,101	15,374	188	(55)	15,507
State and municipal obligations	6,985	510	(2)	7,493	6,715	276	(21)	6,970
Structured investments <sup>(a)</sup>	3,475	10	(94)	3,391	3,106	11	(151)	2,966
Foreign government bonds and obligations	1,153	67	(4)	1,216	1,078	41	(7)	1,112
U.S. Government and agencies obligations	140	14	—	154	70	3	—	73
Other	2,976	25	(19)	2,982	1,666	51	(11)	1,706
<b>Total</b>	<b>\$ 47,321</b>	<b>\$ 2,061</b>	<b>\$ (280)</b>	<b>\$ 49,102</b>	<b>\$ 41,650</b>	<b>\$ 958</b>	<b>\$ (383)</b>	<b>\$ 42,225</b>

(a) Includes CDOs, SLTs and retained interests from the company's cardmember lending securitizations.

December 31, 2002 (Millions)	Cost	Fair Value
Due within 1 year	\$ 4,702	\$ 4,736
Due after 1 year through 5 years	7,544	7,850
Due after 5 years through 10 years	8,428	8,909
Due after 10 years	7,060	7,400
	27,734	28,895
Mortgage and other asset-backed securities	19,463	20,101
Other	124	106
<b>Total</b>	<b>\$ 47,321</b>	<b>\$ 49,102</b>

Mortgage and other asset-backed securities primarily include GNMA, FNMA and FHLMC securities at December 31, 2002 and 2001.

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

(Millions)	2002	2001
Purchases	\$ 22,692	\$ 19,427
Sales	\$ 12,321	\$ 11,058
Maturities	\$ 6,229	\$ 603

Gross realized gains on sales of securities classified as Available-for-Sale, using the specific identification method, were \$373 million, \$322 million and \$170 million for the years ended December 31, 2002, 2001 and 2000, respectively. Gross realized losses on sales were (\$171 million), (\$574 million) and (\$47 million) for the same periods. The company also recognized losses of (\$204 million), (\$428 million) and (\$55 million) in other-than-temporary impairments on structured securities and corporate debt securities for the years ended December 31, 2002, 2001 and 2000, respectively. The 2001 losses include the effect of the write down and sale of high-yield securities discussed below.

The increase in net unrealized gains on Trading securities, which is included in income, was \$12 million, \$16 million and \$16 million for the years ended December 31, 2002, 2001 and 2000, 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 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. As of December 31, 2002, the retained interests had a carrying value of \$754 million, of which \$520 million is considered investment grade. 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 acquired 72 shares of Lehman's redeemable voting preferred stock for a nominal dollar amount. This security entitled 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, 2002, the company received a pretax dividend of \$46 million on these shares. In the third quarter of 2002, the company received the final dividend of \$23 million under the terms of this security based on earnings from Lehman for the six months ended May 31, 2002.

The change in net unrealized securities gains (losses) recognized in other comprehensive income includes two components: (i) unrealized gains (losses) that arose from changes in market value of securities that were held during the period (holding gains (losses)), and (ii) 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 income (loss) or shareholders' equity.

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

(Millions)	2002	2001	2000
Holding gains	\$ 769	\$ 16	\$ 231
Reclassification for realized (gains) losses	1	463	[80]
Increase in net unrealized securities gains recognized in other comprehensive income	<b>\$ 770</b>	<b>\$ 479</b>	<b>\$ 151</b>

### Note 3 LOANS

Loans at December 31 consisted of:

(Millions)	2002	2001
Cardmember, consumer and private banking loans	\$ 26,509	\$ 24,551
Commercial loans:		
Commercial and industrial	308	732
Loans to banks and other institutions	1,428	1,196
Mortgage and real estate	61	140
Other, principally policyholders' loans	742	814
	<b>29,048</b>	<b>27,433</b>
Less: Reserves for credit losses	1,226	993
Total	<b>\$ 27,822</b>	<b>\$ 26,440</b>

Note: American Express Financial Advisors' (AEFA) investment loans of \$4.0 billion in both 2002 and 2001 are included in Investment Loans and are presented in Note 2.

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

(Millions)	2002	2001
Balance, January 1	\$ 993	\$ 796
Provision for credit losses	1,526	1,415
Write-offs	(1,361)	(1,296)
Recoveries of amounts previously written-off	68	78
Balance, December 31	\$ 1,226	\$ 993

#### Note 4 SECURITIZED LOANS AND RECEIVABLES

The company, through TRS, securitizes U.S. cardmember loan balances and, in large part, subsequently transfers the interests in those assets' cash flows to third party investors. These loan balances are comprised of existing balances as of the date of the initial securitization, as well as all future charges on these accounts. The company accounts for these transactions as sales under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The company continues to service the accounts and receives a fee for doing so; the fair value and carrying amounts 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 2002, 2001 and 2000, the company sold \$4.6 billion, \$4.3 billion and \$4.0 billion, respectively, of U.S. cardmember loans, or \$4.2 billion, \$3.9 billion and \$3.6 billion net of investments in subordinated interests. During 2002 and 2001, \$2.0 billion and \$1.0 billion, respectively, of investor certificates that were previously issued by the securitization trust matured. The pretax gains on these securitizations were \$136 million, \$155 million and \$142 million, respectively. Cash flows from interest-only strips as well as servicing revenue, which is 2 percent of principal, are recorded in securitization income. As of December 31, 2002, \$15.4 billion of U.S. cardmember loans had been sold, net of investments in subordinated interests of \$1.5 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 2002 and 2001 were as follows (rates are per annum):

	2002	2001
Average loan life (months)	5 – 6	6 – 8
Expected credit losses	5.05% – 6.03%	4.54% – 6.01%
Cash flows from retained interests discounted at	2.0% – 12.0%	3.0% – 12.0%
Returns to investors		
Variable	Contractual spread over LIBOR ranging from .04% to 1.05%	Contractual spread over LIBOR ranging from .09% to 1.05%
Fixed	5.5% – 7.4%	5.5% – 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	
	2002	2001	2002	2001	2002	2001
Cardmember loans managed	\$ 32.8	\$ 30.2	\$ 1.1	\$ 1.1	\$ 1.9	\$ 1.7
Less: Securitized cardmember loans sold	16.9	14.3	0.6	0.6	1.0	0.8
Cardmember loans on balance sheet	\$ 15.9	\$ 15.9	\$ 0.5	\$ 0.5	\$ 0.9	\$ 0.9

At December 31, 2002 and 2001, interest-only strips were \$413 million and \$295 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	5.4	5.43%	12%	2.19%
Impact on fair value of 10% adverse change	\$ 14.3	\$ 15.4	\$ 1.6	\$ 0.9
Impact on fair value of 20% adverse change	\$ 23.4	\$ 38.4	\$ 3.1	\$ 1.7

These sensitivities are hypothetical and will be different from what actually occurs in the future. 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 of 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)	2002	2001
Proceeds from new securitizations during the period	\$ 4,163	\$ 3,919
Proceeds from reinvestment of payments in cardmember securitizations	\$ 36,942	\$ 24,433
Servicing fees received	\$ 331	\$ 267
Other cash flows received on retained interests	\$ 1,514	\$ 1,194

The company also securitizes equipment lease receivables. At December 31, 2002 and 2001, the amounts sold and outstanding to third party investors were \$254 million and \$675 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 5 GOODWILL AND OTHER INTANGIBLES

Effective January 1, 2002, the company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which established new accounting and reporting standards for goodwill and other intangible assets. Under the new rules, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are instead subject to annual impairment tests. Management completed goodwill impairment tests as of the date of initial adoption, and again during 2002. Such tests did not indicate impairment.

As of December 31, 2002, the company had acquired identifiable intangible assets with definite lives of \$238 million (net of accumulated amortization of \$84 million). These intangible assets have a weighted-average remaining useful life of 5 years, and mainly reflect purchased credit card relationships and certain automated teller machine merchant contracts. The aggregate amortization expense for these intangible assets during the year ended December 31, 2002 was \$42 million. Estimated amortization expense associated with these intangible assets for the five years ending December 31, 2007 are as follows (millions): 2003, \$47; 2004, \$47; 2005, \$47; 2006, \$45 and 2007, \$26.

Net goodwill was approximately \$1.3 billion and \$1.2 billion at December 31, 2002 and 2001, respectively. At December 31, 2002, this consisted of approximately \$1.1 billion at TRS and \$0.2 billion at AEFA. At December 31, 2001, the net balance consisted of approximately \$1.0 billion at TRS and \$0.2 billion at AEFA.

The following table presents the impact to net income and EPS of goodwill amortization for the year ended December 31, 2001:

(Millions, except per share amounts)	Net Income	Basic EPS	Diluted EPS
Reported	\$ 1,311	\$ 0.99	\$ 0.98
Add back: Goodwill amortization (after-tax)	\$ 82	\$ 0.06	\$ 0.06
Adjusted	\$ 1,393	\$ 1.05	\$ 1.04

## Note 6 SHORT- AND LONG-TERM DEBT AND BORROWING AGREEMENTS

### Short-Term Debt

At December 31, 2002 and 2001, the company's total short-term debt outstanding was \$21.1 billion and \$31.6 billion, respectively, with weighted average interest rates of 1.7% and 3.0%, respectively. At December 31, 2002 and 2001, \$8.7 billion and \$17.1 billion, respectively, of short-term debt outstanding was hedged by interest rate swaps. The year-end weighted average effective interest rates were 2.4% and 4.6% for 2002 and 2001, 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 \$10.0 billion and \$10.4 billion at December 31, 2002 and 2001, respectively.

### Long-Term Debt

December 31, (Dollars in millions)	2002					2001				
	Outstanding Balance	Notional Amount of Swaps	Year-End Stated Rate on Debt <sup>(a,b)</sup>	Year-End Effective Interest Rate with Swaps <sup>(a,b)</sup>	Maturity of Swaps	Outstanding Balance	Notional Amount of Swaps	Year-End Stated Rate on Debt <sup>(a,b)</sup>	Year-End Effective Interest Rate with Swaps <sup>(a,b)</sup>	Maturity of Swaps
Notes due November 20, 2007	\$ 744	—	3.75%	—	—	—	—	—	—	—
Notes due September 12, 2006	1,003	—	5.50%	—	—	\$ 1,000	—	5.50%	—	—
Notes due November 1, 2005	498	—	6.88%	—	—	497	—	6.88%	—	—
Notes due December 16, 2004	500	\$ 500	6.50%	5.92%	various	—	—	—	—	—
Notes due June 23, 2004	500	—	6.75%	—	—	500	—	6.75%	—	—
Notes due December 17, 2003	1,306	1,306	6.50%	5.92%	various	—	—	—	—	—
Notes due April 8, 2003	510	510	6.50%	5.92%	various	—	—	—	—	—
Notes due May 15, 2003	1,000	—	5.90%	—	—	1,000	—	5.90%	—	—
Notes due February 14, 2003	600	600	6.50%	5.92%	various	—	—	—	—	—
Floating Rate Notes due June 15, 2006	1,000	—	1.43%	—	—	—	—	—	—	—
Floating Rate Notes due January 15, 2005	750	—	1.45%	—	—	—	—	—	—	—
Floating Rate Notes due October 15, 2004	750	—	1.47%	—	—	750	—	1.88%	—	—
Floating Rate Notes due September 15, 2003	950	—	1.53%	—	—	950	—	1.88%	—	—
Other Fixed Senior Notes due 2002 – 2005	4,547	3,734	6.52%	5.90%	various	1,465	\$ 544	6.73%	6.67%	2002–2012
Other Floating Senior Notes due 2002 – 2005	601	250	1.72%	1.60%	2005	515	400	1.88%	1.88%	2002
Other Fixed Rate Notes due 2002 – 2007	142	—	6.73%	—	—	149	—	6.53%	—	—
Other Floating Rate Notes due 2002 – 2008	551	232	4.10%	2.98%	various	748	181	3.28%	3.17%	2003–2004
Subordinated Fixed Rate Notes due 2003 – 2004	153	—	6.90%	—	—	153	—	6.90%	—	—
Subordinated Floating Rate Notes due 2004 – 2006	203	—	1.71%	—	—	61	—	1.88%	—	—
<b>Total</b>	<b>\$ 16,308</b>	<b>\$ 7,132</b>	<b>4.93%</b>			<b>\$ 7,788</b>	<b>\$ 1,125</b>	<b>4.73%</b>		

(a) For floating rate debt issuances, the stated and effective interest rates were based on the respective rates at December 31, 2002 and 2001; 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. The company paid interest (net of amounts capitalized) of \$1.7 billion, \$2.8 billion and \$3.6 billion in 2002, 2001 and 2000, respectively.

Aggregate annual maturities of long-term debt for the five years ending December 31, 2007 are as follows (millions): 2003, \$8,438; 2004, \$3,151; 2005, \$1,683; 2006, \$2,234, and 2007, \$748.

#### **Note 7** 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 \$511 million) of 7.0% Cumulative Quarterly Income Preferred Shares Series I (QUIPS) (liquidation preference of \$25 per share). The \$11 million excess carrying amount over the \$500 million liquidation preference reflects the valuation of an interest rate swap designated as a fair value hedge of changes in the QUIPS' fair value due to changes in interest rates. 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.

QUIPS have been reclassified to liabilities at December 31, 2002 under the caption guaranteed preferred beneficial interests in the company's junior subordinated deferrable interest debentures on the Consolidated Balance Sheets.

#### **Note 8** COMMON AND PREFERRED SHARES

In November 2002, the company's Board of Directors authorized the company to repurchase up to 120 million additional common shares, from time to time as market conditions allow. Since the inception of repurchase programs in September 1994, the company has repurchased approximately 389.9 million shares pursuant to several authorizations. Included in the total repurchased amount are 24.5 million shares delivered to the company during 2001 and 2002 as a result of the prepayments discussed below. These repurchase authorizations 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, 2002, 157 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 financial institution purchased an aggregate 29.5 million company common shares at an average purchase price of \$50.41 per share. These agreements were entered into to partially offset the company's exposure to the effect on diluted earnings per share of outstanding in-the-money stock options issued under the company's stock option program. Each of the agreements terminates after five years, at which time the company is required to deliver an amount equal to the original purchase price for the shares. The company may elect to settle this amount at any time (i) physically, by paying cash against delivery of the shares held by the financial institution or (ii) on a net cash or net share basis. During the term of these agreements, the company, on a monthly basis, will either receive from or issue to the financial institution a quantity of shares so that the value of the remaining shares held by the financial institution is equal to the original aggregate purchase price.

The contracts were initially recorded at their fair value within equity on the company's balance sheet in accordance with EITF Issue 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." Subsequent activity is recorded in equity as long as the contracts continue to meet the requirements of EITF Issue 00-19. Net settlements under the agreements resulted in the company issuing 0.4 million shares and 12.3 million shares in 2002 and 2001, respectively. The company has the right to terminate these agreements at any time upon full settlement. The company may prepay outstanding amounts at any time prior to the end of the five-year term, and from time to time, may make such prepayments in lieu of, or in addition to, its share repurchase program, which either or together would be expected to have the same effect on outstanding shares as a purchase under the share repurchase program. In 2001, the company elected to prepay \$350 million of the aggregate outstanding amount. In addition, in 2002, the company elected to prepay \$600 million of the aggregate outstanding amount. At December 31, 2002, 15.3 million shares of the company's common stock continued to be held by the financial institution in support of the remaining balance of approximately \$535 million.

To the extent that the price of the company's common stock declines to levels substantially lower than current levels for a sustained period of time, thereby resulting in significant net issuances of shares under these agreements, there could be an adverse impact on basic and diluted earnings per share. The maximum number of company common shares that could potentially be distributed pursuant to the agreements would not exceed 62 million shares as adjusted for shares delivered by the company and shares delivered to the company.

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

(Millions)	2002	2001	2000
Shares outstanding at beginning of year	1,331	1,326	1,341
Repurchases of common shares:			
Open market/purchases from Incentive Savings Plan	(16)	(6)	(25)
Prepayments under share purchase agreements	(17)	(8)	—
Net settlements pursuant to share purchase agreements	—	12	(2)
Other, primarily employee benefit plans	7	7	12
Shares outstanding at end of year	<b>1,305</b>	<b>1,331</b>	<b>1,326</b>

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

## Note 9 DERIVATIVES AND HEDGING ACTIVITIES

As prescribed by SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," 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.

During 2002 and 2001, the company reclassified into earnings pretax losses of \$572 million and \$660 million, respectively. At December 31, 2002, the company expects to reclassify \$571 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 5.3 years and relates to funding of foreign currency denominated receivables. The amounts of gains and losses reclassified into earnings as a result of the discontinuance of cash flow hedges were not significant during either 2002 or 2001.

### **Fair Value Hedges**

In addition to the fair value hedge discussed in Note 7, 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.

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.

During 2002 and 2001, the company recognized pretax net losses of \$1.4 million and \$1.2 million, respectively, 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. During the years ending December 31, 2002 and 2001, the company recognized immaterial amounts of net gains or losses related to the ineffective portion of its fair value hedging instruments.

### **Hedges 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.

For the years ended December 31, 2002 and 2001, the net amount of losses included in the cumulative translation adjustment was not significant.

### **Derivatives Not Designated as Hedges**

The company has economic hedges that either do not qualify or are not designated for hedge accounting treatment under SFAS No. 133. In addition, American Express Bank (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.

- | 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 not exceeding fifteen months to offset the effect of changes in foreign currency exchange rates on future operating results.
- | 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 6 for further information regarding the company's use of interest rate products related to short- and long-term debt obligations.

#### Note 10 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)	2002	2001
Loan commitments and other lines of credit	\$ 1,036	\$ 1,128
Bank standby letters of credit and bank guarantees	\$ 1,029	\$ 845
Bank commercial and other bank letters of credit	\$ 371	\$ 260

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, 2002 and 2001, the company held \$684 million and \$583 million, respectively, of collateral supporting bank standby letters of credit and bank guarantees and \$148 million and \$159 million, respectively, of collateral supporting commercial and other letters of credit.

The company has commitments aggregating \$126 billion and \$112 billion related to its card business in 2002 and 2001, respectively, primarily related to commitments 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 also has committed payments for worldwide business arrangements, principally related to TRS, with maximum related future payments which would not exceed \$3.8 billion.

Other financial institutions have committed to extend lines of credit to the company of \$12.1 billion and \$13.8 billion at December 31, 2002 and 2001, respectively.

The company leases certain office facilities and operating equipment under noncancellable and cancellable agreements. Total rental expense amounted to \$461 million, \$491 million and \$477 million in 2002, 2001 and 2000, respectively. At December 31, 2002, the minimum aggregate rental commitment under all noncancellable operating leases (net of subleases) was (millions): 2003, \$273; 2004, \$229; 2005, \$192; 2006, \$157; 2007, \$132; and thereafter, \$1,418.

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.

The company and its subsidiaries are involved in a number of legal and arbitration proceedings, including class actions, concerning matters arising in connection with the conduct of their respective business activities. The company believes it has meritorious defenses to each of these actions and intends to defend them vigorously. The company believes it is not a party to, nor are any of its properties the subject of, any pending legal or arbitration proceedings which would have a material adverse effect on the company's consolidated financial condition, results of operations or liquidity. However, it is possible that the outcome of any such proceedings could have a material impact on results of operations in any particular reporting period as the proceedings are resolved.

#### Note 11 GUARANTEES

The company, through its TRS operating segment, provides cardmember protection plans that cover losses associated with purchased products, as well as certain other guarantees in the ordinary course of business. In the hypothetical scenario that all claims occur within one year, the aggregate maximum amount of potential future losses associated with such guarantees would not exceed \$86 billion. The total amount of related liability accrued at December 31, 2002 for such programs was

\$301 million, which management believes to be adequate based on actual experience. The company has no collateral or other recourse provisions related to these guarantees. Expenses relating to claims under these guarantees did not exceed \$60 million in 2002.

The company, through its AEB operating segment, provides various guarantees to its customers in the ordinary course of business, including financial letters of credit, performance guarantees and financial guarantees, among others. Generally, guarantees range in term from three months to one year. AEB receives a fee related to most of these guarantees, many of which help to facilitate customer cross-border transactions. Virtually all of these guarantees are collateralized or supported by other types of recourse provisions (i.e., pledged assets, primarily comprised of cash and time deposits, and counter-guarantees). The following table provides information related to such guarantees as of December 31, 2002; such information is also reflected in Note 10.

(Millions) Type of Guarantee	Maximum amount of undiscounted future payments	Amount of related liability at 12/31/02
Financial letters of credit	\$ 249	\$ 0.2
Performance guarantees	124	0.2
Financial guarantees	553	0.1
<b>Total</b>	<b>\$ 926</b>	<b>\$ 0.5</b>

## 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, 2002 and 2001 and require management judgment. These figures may not be indicative of their future fair values.

December 31, (Millions)	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Assets for which carrying values approximate fair values	\$ 64,855	\$ 64,855	\$ 67,404	\$ 67,404
Investments	\$ 53,638	\$ 54,062	\$ 46,488	\$ 46,659
Loans	\$ 28,398	\$ 28,478	\$ 26,789	\$ 25,441
<b>Financial Liabilities</b>				
Liabilities for which carrying values approximate fair values	\$ 59,600	\$ 59,600	\$ 65,190	\$ 65,190
Fixed annuity reserves	\$ 21,911	\$ 21,283	\$ 18,139	\$ 17,672
Investment certificate reserves	\$ 8,647	\$ 8,673	\$ 8,205	\$ 8,223
Long-term debt	\$ 16,308	\$ 16,571	\$ 7,788	\$ 7,851
Separate account liabilities	\$ 19,392	\$ 18,539	\$ 24,280	\$ 23,717

The carrying and fair values of off-balance sheet financial instruments discussed in Note 10 are not material as of December 31, 2002 and 2001. See Note 2 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 derivative financial instruments.

Generally, investments are carried at fair value on the Consolidated Balance Sheets. Gains and losses are recognized in the results of operations upon disposition of the securities. In addition, losses are recognized when management determines that a decline in value is other-than-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 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 in both 2002 and 2001.

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 \$2.6 billion and \$3.0 billion in 2002 and 2001, 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, 2002 and 2001:

December 31, (Dollars in millions)	2002	2001
Financial institutions <sup>(a)</sup>	\$ 16,635	\$ 17,075
Individuals <sup>(b)</sup>	181,534	164,212
U.S. Government and agencies <sup>(c)</sup>	29,604	22,145
All other	25,733	18,018
<b>Total</b>	<b>\$ 253,506</b>	<b>\$ 221,450</b>
Composition:		
On-balance sheet	49%	49%
Off-balance sheet	51	51
<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 85 million, 48 million and 88 million common shares available for grant at December 31, 2002, 2001 and 2000, 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 and in 2002 generally vest at 33 $\frac{1}{3}$  percent per year beginning with the first anniversary of the grant date. Options granted in 1999, 2000 and 2001 generally vest at 33 $\frac{1}{3}$  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 U.S. employees.

In 1998, the Compensation and Benefits Committee adopted a restoration stock option program. 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 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 2002, 2001 and 2000:

	2002	2001	2000
Dividend yield	0.9%	0.8%	1.1%
Expected volatility	33%	31%	29%
Risk-free interest rate	4.3%	4.9%	6.7%
Expected life of stock option	4.5 years	5.0 years	5.0 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 \$11.68, \$14.69 and \$14.92 for options granted during 2002, 2001 and 2000, 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)	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	146,069	\$ 37.42	114,460	\$ 34.23	94,512	\$ 27.96
Granted	40,430	\$ 36.59	42,883	\$ 44.21	39,273	\$ 44.38
Exercised	(7,934)	\$ 24.98	(5,649)	\$ 20.83	(14,114)	\$ 19.45
Forfeited/expired	(12,333)	\$ 40.93	(5,625)	\$ 40.64	(5,211)	\$ 36.87
Outstanding at end of year	<b>166,232</b>	<b>\$ 37.54</b>	<b>146,069</b>	<b>\$ 37.42</b>	<b>114,460</b>	<b>\$ 34.23</b>
Options exercisable at end of year	<b>61,903</b>	<b>\$ 32.86</b>	<b>49,428</b>	<b>\$ 29.08</b>	<b>33,966</b>	<b>\$ 23.61</b>

The following table summarizes information about the stock options outstanding at December 31, 2002:

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
\$ 8.26 – \$29.99	31,026	4.1	\$ 24.21	27,792	\$ 23.84
\$ 30.00 – \$35.99	23,191	6.4	\$ 35.20	14,774	\$ 35.25
\$ 36.00 – \$42.99	42,351	8.9	\$ 37.10	4,028	\$ 40.36
\$ 43.00 – \$43.99	29,507	7.2	\$ 43.66	10,849	\$ 43.66
\$ 44.00 – \$61.44	40,157	7.8	\$ 45.15	4,460	\$ 48.12
<b>\$ 8.26 – \$61.44</b>	<b>166,232</b>	<b>7.1</b>	<b>\$ 37.54</b>	<b>61,903</b>	<b>\$ 32.86</b>

The company granted 0.3 million, 3.0 million and 1.5 million restricted stock awards (RSAs) with a weighted average grant date value of \$35.97, \$35.48 and \$43.46 per share for 2002, 2001 and 2000, respectively. Restrictions generally expire four years from date of grant. The compensation cost charged against income for the company's RSAs was \$40 million, \$36 million and \$41 million for 2002, 2001 and 2000, respectively.

## 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. Each pay period these balances are credited with an amount equal to a percentage, determined by an employee's age plus service, of base pay (which includes, but is not limited to regular earnings, incentive pay, shift differential, overtime, certain commissions, and transition pay). 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)	2002	2001	2000
Service cost	\$ 106	\$ 102	\$ 95
Interest cost	112	106	98
Expected return on plan assets	(127)	(122)	(102)
Amortization of:			
Prior service cost	(9)	(10)	(9)
Transition obligation	(1)	(1)	3
Reversion gain	—	—	(4)
Recognized net actuarial loss (gain)	6	(1)	5
Settlement/curtailment loss (gain)	12	(1)	(22)
Net periodic pension benefit cost	<b>\$ 99</b>	<b>\$ 73</b>	<b>\$ 64</b>

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)	2002	2001
Benefit obligation, October 1 prior year	\$ 1,541	\$ 1,403
Service cost	106	102
Interest cost	112	106
Benefits paid	(52)	(43)
Actuarial loss	141	31
Settlements/curtailments	(66)	(42)
Foreign currency exchange rate changes	63	(16)
Benefit obligation at September 30,	<b>\$ 1,845</b>	<b>\$ 1,541</b>

#### RECONCILIATION OF CHANGE IN FAIR VALUE OF PLAN ASSETS

(Millions)	2002	2001
Fair value of plan assets, October 1 prior year	\$ 1,190	\$ 1,480
Actual loss on plan assets	(78)	(239)
Employer contributions	306	47
Benefits paid	(52)	(43)
Settlements	(65)	(42)
Foreign currency exchange rate changes	51	(13)
Fair value of plan assets at September 30,	<b>\$ 1,352</b>	<b>\$ 1,190</b>

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

#### FUNDED STATUS

(Millions)	2002	2001
Funded status at September 30,	\$ (493)	\$ (351)
Unrecognized net actuarial loss	563	209
Unrecognized prior service cost	(28)	(42)
Unrecognized net transition obligation	—	(2)
Fourth quarter contributions (net of benefit payments)	6	4
Net amount recognized at December 31,	<b>\$ 48</b>	<b>\$ (182)</b>

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

(Millions)	2002	2001
Accrued benefit liability	\$ (429)	\$ (359)
Prepaid benefit cost	400	17
Intangible asset	1	1
Minimum pension liability adjustment	76	159
Net amount recognized at December 31,	<b>\$ 48</b>	<b>\$ (182)</b>

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 \$1,222 million, \$1,149 million and \$726 million, respectively, as of December 31, 2002, and \$612 million, \$553 million and \$326 million, respectively, as of December 31, 2001. As a result of a significant decrease in the fair value of plan assets in the company's U.S. and certain non-U.S. pension plans, more plans had an accumulated benefit obligation that exceeded the fair value of the plan assets. In 2002, the company made a \$289 million contribution to the United Kingdom pension plan such that at the measurement date the fair market value of the plan assets exceeded the accumulated benefit obligation.

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 accounting for the company's defined benefit plans were:

	2002	2001
Discount rates	6.2%	7.0%
Rates of increase in compensation levels	4.0%	4.2%
Expected long-term rates of return on assets <sup>(a)</sup>	9.3%	9.5%

(a) At the September 30, 2002 measurement date, the company reduced the weighted average return on assets actuarial assumption to be used in calculating the 2003 pension expense to 8.1%.

The company also has a defined contribution retirement plan (a 401(k) savings plan with a profit sharing and stock bonus plan feature) covering most employees in the United States. The defined contribution plan expense was \$121 million, \$76 million and \$151 million in 2002, 2001 and 2000, 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 \$38 million, \$25 million and \$26 million in 2002, 2001 and 2000, respectively. The liabilities recognized on the Consolidated Balance Sheets for the company's defined postretirement benefit plans (other than pension plans) at December 31, 2002 and 2001 were \$223 million and \$212 million, respectively.

## Note 16 INCOME TAXES

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

(Millions)	2002	2001	2000
Federal	\$ 725	\$ (36)	\$ 748
State and local	81	59	76
Foreign	250	262	274
Total	<b>\$ 1,056</b>	<b>\$ 285</b>	<b>\$ 1,098</b>

Accumulated net earnings of certain foreign subsidiaries, which totaled \$2.4 billion at December 31, 2002, are intended to be permanently reinvested outside the United States. Accordingly, federal taxes, which would have aggregated \$332 million, have not been provided on those earnings.

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

(Millions)	2002	2001	2000
Current	\$ 903	\$ 765	\$ 1,209
Deferred	153	(480)	(111)
Total	<b>\$ 1,056</b>	<b>\$ 285</b>	<b>\$ 1,098</b>

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

(Millions)	2002	2001
Deferred tax assets	\$ 4,486	\$ 4,269
Deferred tax liabilities	2,952	2,318
Net deferred tax assets	<b>\$ 1,534</b>	<b>\$ 1,951</b>

Deferred tax assets for 2002 and 2001 are primarily related to reserves not yet deducted for tax purposes of \$2.8 billion in both years; deferred compensation of \$337 million and \$344 million, respectively; deferred cardmember fees of \$287 million and \$278 million, respectively; and deferred taxes related to net unrealized derivatives losses of \$289 million and \$147 million, respectively. Deferred tax liabilities for 2002 and 2001 are mainly related to deferred acquisition costs of \$1,053 million and \$1,025 million, respectively; depreciation and amortization of \$586 million and \$413 million, respectively; deferred taxes related to net unrealized securities gains of \$589 million and \$172 million, respectively; and deferred taxes related to asset securitizations of \$233 million and \$181 million, respectively.

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

(Millions)	2002	2001	2000
Combined tax at U.S. statutory rate	\$ 1,304	\$ 559	\$ 1,368
Changes in taxes resulting from:			
Tax-preferred investments	(237)	(247)	(211)
Tax-exempt element of dividend income	(34)	(27)	(26)
Foreign income taxed at rates other than U.S. statutory rate	(34)	(27)	(38)
State and local income taxes	52	38	50
All other	5	(11)	(45)
Income tax provision	<b>\$ 1,056</b>	<b>\$ 285</b>	<b>\$ 1,098</b>

Net income taxes paid by the company during 2002, 2001 and 2000 were \$872 million, \$545 million and \$858 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 of \$415 million, \$258 million and \$81 million for 2002, 2001 and 2000, respectively. The changes in net unrealized losses on derivatives are presented net of tax (benefit) of (\$130 million) and (\$159 million) for 2002 and 2001, respectively. Foreign currency translation adjustments are presented net of tax (benefit) provision of (\$14 million), (\$21 million) and \$18 million for 2002, 2001 and 2000, respectively. Minimum pension liability adjustment is presented net of tax provision (benefit) of \$29 million and (\$55 million) for 2002 and 2001, respectively.

## Note 17 EARNINGS PER COMMON SHARE

Basic 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)	2002	2001	2000
Numerator:			
Net income	\$ 2,671	\$ 1,311	\$ 2,810
Denominator:			
Basic: Weighted-average shares outstanding during the period	1,320	1,324	1,327
Add: Dilutive effect of stock options, restricted stock awards and other dilutive securities	10	12	33
Diluted	1,330	1,336	1,360
Basic EPS	\$ 2.02	\$ 0.99	\$ 2.12
Diluted EPS	\$ 2.01	\$ 0.98	\$ 2.07

Stock options having an exercise price greater than the average market price of the company's common shares for each period presented are excluded from the computation of EPS because the effect would be antidilutive. The number of these excluded stock options for the years ended December 31, 2002, 2001 and 2000 was 101 million, 72 million and 0.5 million, respectively.

## 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, 2002, 2001 and 2000 and for each of the years then ended. The segment results have been affected by charges discussed in Notes 19 and 20. 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 4 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.

The following table presents certain information regarding these operating segments at December 31, 2002, 2001 and 2000 and for each of the years then ended:

(Millions)	Travel Related Services	American Express Financial Advisors	American Express Bank	Corporate and Other	Adjustments and Eliminations	Consolidated
<b>2002</b>						
Revenues (GAAP basis)	\$ 17,721	\$ 5,617	\$ 745	\$ 99	\$ (375)	\$ 23,807
Net revenues (managed basis)	18,669	3,663	745	99	(375)	22,801
Interest and dividends, net	598	2,058	360	99	(124)	2,991
Cardmember lending net finance charge revenue:						
GAAP basis	1,485	—	—	—	—	1,485
Managed basis	3,654	—	—	—	—	3,654
Interest expense:						
GAAP basis	1,001	32	—	175	(126)	1,082
Managed basis	987	32	—	175	(126)	1,068
Pretax income (loss)	3,080	865	121	(339)	—	3,727
Income tax provision (benefit)	945	233	41	(163)	—	1,056
Net income (loss)	2,135	632	80	(176)	—	2,671
Assets	\$ 72,205	\$ 73,724	\$ 13,234	\$ 17,014	\$ (18,924)	\$ 157,253
<b>2001</b>						
Revenues (GAAP basis)	\$ 17,359	\$ 4,791	\$ 649	\$ 123	\$ (340)	\$ 22,582
Net revenues (managed basis)	18,102	2,825	649	123	(340)	21,359
Interest and dividends, net	710	1,162	302	123	(160)	2,137
Cardmember lending net finance charge revenue:						
GAAP basis	1,424	—	—	—	—	1,424
Managed basis	3,138	—	—	—	—	3,138
Interest expense:						
GAAP basis	1,454	26	—	182	(161)	1,501
Managed basis	1,487	26	—	182	(161)	1,534
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>						
Revenues (GAAP basis)	\$ 17,120	\$ 6,130	\$ 591	\$ 167	\$ (333)	\$ 23,675
Net revenues (managed basis)	17,441	4,219	591	167	(333)	22,085
Interest and dividends, net	803	2,292	251	165	(221)	3,290
Cardmember lending net finance charge revenue:						
GAAP basis	1,255	—	—	—	—	1,255
Managed basis	2,383	—	—	—	—	2,383
Interest expense:						
GAAP basis	1,366	22	—	180	(214)	1,354
Managed basis	1,571	22	—	180	(214)	1,559
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

(a) 2001 results include three significant items: (1) a charge at AEFA of \$1.01 billion (\$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 (\$411 million after-tax); and (3) the consolidated one-time adverse impact from the September 11th terrorist attacks of \$98 million (\$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>2002</b>						
Revenues	\$ 19,286	\$ 1,943	\$ 1,685	\$ 1,586	\$ (693)	\$ 23,807
Pretax income	\$ 2,983	\$ 310	\$ 181	\$ 253	—	\$ 3,727
<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

Foreign currency transaction (losses) gains amounted to (\$77 million), \$16 million and \$102 million in 2002, 2001 and 2000, respectively.

Most services of the company are provided on an integrated worldwide basis. Therefore, it is not practicable 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 RESTRUCTURING CHARGES

In the third and fourth quarters of 2001, the company recorded aggregate restructuring charges of \$631 million (\$411 million after-tax). The aggregate restructuring charges consisted of \$369 million for severance related to the original plans to eliminate approximately 12,900 jobs and \$262 million of exit costs primarily consisting of \$138 million of charges related to the consolidation of real estate facilities, \$35 million of asset impairment charges, \$26 million recorded in loss provisions, \$25 million in contract termination costs and \$24 million of currency translation losses.

During the year ended December 31, 2002, the company adjusted the prior year's aggregate restructuring charge liability by taking back into income a net pretax amount of \$31 million (\$20 million after-tax). This is comprised of the reversal of severance and related benefits of \$62 million, primarily caused by voluntary attrition or redeployment into open jobs of approximately 4,100 employees whose jobs were eliminated, partially offset by additional net exit costs of \$31 million. These net exit costs include \$46 million of additional costs relating to certain domestic and international office facilities, a \$20 million reduction primarily due to revisions to plans relating to certain travel office locations and a \$5 million additional charge for write-offs of building and related costs in facilities affected by the restructuring plan. As of December 31, 2002, the company had executed all restructuring plans related to the 2001 charges. The severance component of the remaining restructuring related reserve includes \$44 million in severance for employees terminated as part of the 2001 plan and will be substantially paid out by the end of 2003. In addition, the remaining other component of the restructuring reserve includes \$62 million primarily related to lease commitments on facilities and \$22 million of costs associated with travel office closures as a result of the 2001 plans. The payments on these obligations are spread over the next several years due to lease terminations for which the company is still obligated to make payments.

Of the \$31 million net pretax aggregate adjustment activity recognized in 2002, related to the reserves established in 2001, \$23 million was recorded at TRS and \$8 million was recorded at AEB.

During the second half of 2002, the company recorded new restructuring charges of \$19 million (\$12 million after-tax) at TRS and, due to additional reviews of operations, \$5 million (\$3 million after-tax) at AEB. The TRS charge consists of \$14 million of severance, relating to the elimination of approximately 500 jobs, and \$5 million of other costs primarily related to the relocation of certain international operations. AEB's \$5 million charge consisted of \$3 million of severance costs and \$2 million of other costs.

As of December 31, 2002, other liabilities include \$152 million for the expected future cash outlays related to aggregate restructuring charges recorded. In addition to employee attrition or redeployment, approximately 10,000 employees have been terminated since the inception of the restructuring plans in 2001. The following table summarizes by category the company's restructuring charges, cash payments, balance sheet charge-offs, liability reductions and resulting liability balance as of December 31, 2001 and 2002:

(Millions)	Severance	Other	Total
Restructuring charges	\$ 369	\$ 262	\$ 631
Cash paid	(37)	(14)	(51)
Balance sheet charge-offs	—	(120)	(120)
Liability balance at December 31, 2001	<b>332</b>	<b>128</b>	<b>460</b>
Cash paid	(226)	(65)	(291)
Balance sheet charge-offs	—	(10)	(10)
Net adjustments due to revisions to 2001 plans	(62)	31	(31)
Additional charges	17	7	24
Liability balance at December 31, 2002	<b>\$ 61</b>	<b>\$ 91</b>	<b>\$ 152</b>

#### Note 20 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 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. During 2002, \$7 million (\$4 million after-tax) of the original AEFA charge was reversed due to lower than anticipated insured loss claims.

As of December 31, 2002, the company has incurred costs of approximately \$198 million related to the terrorist attacks of September 11th, which are expected to be substantially 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.

#### Note 21 TRANSFER OF FUNDS FROM SUBSIDIARIES

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, 2002, the aggregate amount of net assets of subsidiaries that may be transferred to the Parent Company was approximately \$9.3 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 22** QUARTERLY FINANCIAL DATA (Unaudited)

(Millions, except per share amounts)	2002				2001			
Quarters ended	12/31	9/30	6/30	3/31	12/31	9/30	6/30	3/31
Revenues	\$ 6,196	\$ 5,907	\$ 5,945	\$ 5,759	\$ 5,871	\$ 5,724	\$ 5,268	\$ 5,719
Pretax income	949	959	961	858	347	354	153	741
Net income <sup>(a)</sup>	683	687	683	618	297	298	178	538
Earnings per common share: <sup>(a)</sup>								
Basic	0.52	0.52	0.52	0.47	0.22	0.23	0.13	0.41
Diluted	0.52	0.52	0.51	0.46	0.22	0.22	0.13	0.40
Cash dividends declared per common share	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
Common share price:								
High	39.84	38.47	44.91	42.70	36.34	41.92	46.55	57.06
Low	26.55	26.92	34.53	32.52	26.69	24.20	35.96	34.00

(a) 2001 results include three significant items: (1) charges of \$826 million (\$537 million after-tax) and \$182 million (\$132 million after-tax) in the second and first quarters, respectively, reflecting losses associated with high-yield securities; (2) restructuring charges of \$279 million (\$179 million after-tax) and \$352 million (\$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 (\$65 million after-tax) in the third quarter.