

## FINANCIAL HIGHLIGHTS

American Express Bank Ltd.

(Millions, except percentage amounts)	2004	2003
<b>For The Year</b>		
Net income	\$ 68	\$ 98
Return on average total assets *	.50%	.72%
Return on average total shareholder's equity *	7.09%	10.35%
<b>At Year-End</b>		
Available-for-sale securities	\$ 3,036	\$ 3,342
Loans	6,844	6,322
Total assets	13,475	14,217
Customers' deposits	10,448	10,776
Long-term debt	49	199
Shareholder's equity	923	957
Risk-based capital ratios:		
Tier 1	11.0%	11.4%
Total	10.1%	11.3%
Leverage ratio	5.8%	5.5%

\* Excluding restructuring charges, ROA and ROE for 2004 were 0.82% and 11.60%, respectively.

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# Consolidated Statements of Operations

Year ended December 31, (Millions)	2004	2003	2002
Interest income:			
Loans	\$ 311	\$ 298	\$ 287
Securities	161	183	196
Deposits with banks	44	45	45
Total	516	526	528
Interest expense:			
Deposits	210	203	209
Short-term borrowings	3	4	9
Long-term debt	4	7	10
Total	217	214	228
Net interest income (expense) from related party transactions (Note 3)	2	(1)	(7)
Net interest income	301	311	293
Provision for credit losses	64	75	50
Net interest income after provision for credit losses	237	236	243
Noninterest income (Note 11):			
Commissions and fees	321	258	236
Foreign exchange income and other revenues	275	251	179
Total	596	509	415
Net financial revenues	833	745	658
Noninterest expenses:			
Salaries and employee benefits	328	293	251
Net occupancy and equipment	90	85	68
Professional fees	66	56	51
Marketing and promotion	26	19	20
Travel and entertainment	21	21	18
Communications	12	13	11
Intercompany operating expenses and other	141	113	100
Restructuring charges (Note 20)	44	(2)	(3)
Total	728	598	516
Income before income taxes	105	147	142
Income tax provision (Note 15)	37	49	49
Net income	\$ 68	\$ 98	\$ 93

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Balance Sheets

December 31, (Millions)	2004	2003
<b>ASSETS</b>		
Cash and noninterest-earning deposits with banks	\$ 446	\$ 381
Interest-earning deposits with banks	537	1,122
Federal funds sold	416	446
Trading assets (Note 4)	794	806
Available-for-sale securities (Note 5)	3,036	3,342
Loans, less reserves: 2004, \$87; 2003, \$84 (Note 6)	6,757	6,238
Customers' acceptance liability	71	60
Accrued interest and other receivables	421	334
Land, buildings and equipment, net of accumulated depreciation and amortization: 2004, \$202; 2003, \$178	158	156
Due from Amexco (Note 1 and Note 3)	177	634
Other assets	662	698
<b>Total assets</b>	<b>\$ 13,475</b>	<b>\$ 14,217</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
Customers' deposits:		
Noninterest-bearing	\$ 1,086	\$ 1,131
Interest-bearing	9,362	9,645
Total	10,448	10,776
Short-term borrowings	27	75
Trading liabilities (Note 4)	585	553
Acceptances outstanding	71	60
Accounts payable	229	174
Long-term debt (Note 8)	49	199
Due to Amexco (Note 1 and Note 3)	752	931
Other liabilities	391	492
Total liabilities	12,552	13,260
Shareholder's equity (Note 9):		
Common stock	121	121
Additional paid-in capital	595	595
Retained earnings	243	280
Other comprehensive loss, net of tax:		
Net unrealized gains on available-for-sale securities	77	75
Foreign currency translation adjustments (Note 12)	(110)	(112)
Minimum pension liability	(3)	(2)
Accumulated other comprehensive loss	(36)	(39)
Total shareholder's equity	923	957
<b>Total liabilities and shareholder's equity</b>	<b>\$ 13,475</b>	<b>\$ 14,217</b>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

Year ended December 31, (Millions)	2004	2003	2002
<b>Operating activities:</b>			
Net income	\$ 68	\$ 98	\$ 93
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for credit losses	64	75	50
Depreciation and amortization	56	58	26
Accretion of unearned income and other	(3)	(55)	(38)
Non-cash portion of restructuring charge	44	(2)	(3)
Undistributed earnings of equity method affiliates	(25)	(11)	(24)
Net realized gains on sales and other dispositions of assets	(2)	(19)	(11)
Deferred income taxes, net	(5)	35	(2)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Trading assets	26	(321)	(238)
Trading liabilities	32	192	121
Receivables and payables with Amexco	51	(115)	68
Accrued interest and other receivables	(66)	(10)	(18)
Accounts payable, other assets and liabilities, net	(148)	(89)	(119)
Net cash provided by (used in) operating activities	92	(164)	(95)
<b>Investing activities:</b>			
Net change in interest-earning deposits with banks	593	359	182
Net change in federal funds sold	30	283	(522)
Proceeds from sales of available-for-sale securities	294	587	791
Principal collected on available-for-sale securities	1,130	1,163	1,079
Purchases of available-for-sale securities	(1,028)	(1,766)	(1,736)
Loan operations and principal collections, net	(423)	(790)	(341)
Net change in loans to Amexco	478	(106)	(293)
Proceeds from sales of land, buildings and equipment	14	27	13
Purchases of land, buildings and equipment	(46)	(52)	(56)
Dispositions, net of cash	—	—	13
Other, net	28	57	(33)
Net cash provided by (used in) investing activities	1,070	(238)	(903)
<b>Financing activities:</b>			
Net change in customers' deposits	(605)	779	515
Net change in short-term borrowings	(196)	(334)	(204)
Net change in borrowings from Amexco	(249)	51	331
Cash capital contributions from Amexco	—	—	25
Cash dividends paid to Amexco	(105)	(49)	(5)
Net cash (used in) provided by financing activities	(1,155)	447	662
Effect of exchange rate changes on cash and noninterest-earning deposits with banks	58	82	154
Net change in cash and noninterest-earning deposits with banks	65	127	(182)
Cash and noninterest-earning deposits with banks at the beginning of the year	381	254	436
Cash and noninterest-earning deposits with banks at the end of the year	\$ 446	\$ 381	\$ 254

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Changes in Shareholder's Equity

(Millions)	Total	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings
Balance, December 31, 2001	\$ 766	\$ 46	\$ 75	\$ 553	\$ (78)	\$ 170
Comprehensive income:						
Net income	93					93
Change in net unrealized gains on available-for-sale securities	67				67	
Change in net unrealized derivatives gains	4				4	
Foreign currency translation adjustments	(7)				(7)	
Minimum pension liability adjustment	14				14	
Total comprehensive income	171					
Capital contributions from Amexco	42			42		
Ownership transfer of certain operations to Amexco	(27)					(27)
Cash dividends paid to Amexco	(5)					(5)
Balance, December 31, 2002	947	46	75	595	—	231
Comprehensive income:						
Net income	98					98
Change in net unrealized gains on available-for-sale securities	(28)				(28)	
Change in net unrealized derivatives gains	(4)				(4)	
Foreign currency translation adjustments	(7)				(7)	
Total comprehensive income	59					
Purchase and retirement of preferred stock for common stock	—	75	(75)			
Cash dividends paid to Amexco	(49)					(49)
Balance, December 31, 2003	957	121	—	595	(39)	280
Comprehensive income:						
Net income	68					68
Change in net unrealized gains on available-for-sale securities	2				2	
Minimum pension liability adjustment	(1)				(1)	
Foreign currency translation adjustments	2				2	
Total comprehensive income	71					
Cash dividends paid to Amexco	(105)					(105)
Balance, December 31, 2004	\$ 923	\$ 121	\$ —	\$ 595	\$ (36)	\$ 243

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

## Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of American Express Bank Ltd. and its subsidiaries conform to accounting principles generally accepted in the United States and to prevailing practices in the United States banking industry.

The following is a description of significant accounting policies and practices.

### Basis of Presentation

The accompanying consolidated financial statements include the accounts of American Express Bank Ltd. (a wholly-owned direct subsidiary of American Express Banking Corp. (AEB)) and its majority-owned subsidiaries (AEB). AEB is a New York investment company organized under Article XII of the New York Banking Law and is a wholly-owned direct subsidiary of American Express Company (Amexco). All material intercompany accounts and transactions have been eliminated in consolidation. These financial statements encompass both the activities of AEB's primary banking lines of business, the Financial Institutions Group, the Private Bank and the Consumer Financial Services Group, and those of AEB's non-banking units, which provide products of American Express Travel Related Services Company, Inc. (a wholly-owned direct subsidiary of Amexco) under AEB banking licenses (credit and charge cards, Travelers Cheques and other travel services). AEB does not directly or indirectly do business in the United States except as an incident to its activities outside the United States. American Express Bank segment information included in financial information issued by Amexco for use by its shareholders excludes activities of AEB's non-banking units and includes other Amexco affiliated businesses in AEB's financial information reported therein.

Banking affiliates that are 20% to 50% owned by AEB are accounted for under the equity method of accounting.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain reclassifications of prior period amounts have been made to conform to the current presentation.

### Securities

Available-for-sale investment securities are carried at fair value on the balance sheet with unrealized gains (losses) recorded in shareholder's equity, net of income tax provisions (benefits). Gains and losses are recognized in 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. AEB also considers the extent to which cost exceeds fair value, the duration and size of that gap, and management's judgment about the issuer's current and prospective financial condition. Fair value is generally based on quoted market prices. Trading securities, consisting primarily of foreign government obligations, are generally held for resale in the near term to benefit from short-term market movements. Gains and losses on trading assets are recognized in other revenue.

### Loans

Loans primarily represent amounts due from consumers, high net worth individuals, banks and other institutions, and corporations. Consumer and private banking loans include unsecured lines of credit, installment loans, mortgage loans and auto loans to retail customers as well as secured lending to high net worth individuals. Loans to banks and other institutions represent trade-related financing and other extensions of credit. Corporate loans represent commercial and industrial loans as well as mortgage and real estate loans to corporate customers. Loans are stated at the principal amount outstanding net of unearned income.

Interest income for loans is accrued on unpaid principal balances in accordance with the terms of the loan. Loan fees and deferred acquisition costs are amortized over the life of the loan using the effective interest method.

For smaller balance consumer loans, management establishes reserves it believes to be adequate to absorb losses inherent in the portfolio. Generally, these loans are written off in full when an impairment is determined or when the loan becomes 120 or 180 days past due, depending on loan type. Loans, other than smaller balance consumer loans (including loans impaired under Statement of Financial Accounting Standards (SFAS) No. 114, "Accounting by Creditors for Impairment of a Loan"), are placed on nonperforming status when payments of principal or interest are 90 days past due or if, in management's opinion, the borrower is unlikely to meet its contractual obligations. When loans are placed on nonperforming status, all previously accrued but unpaid interest is reversed

against current interest income. Cash receipts of interest on nonperforming loans are recognized either as interest income or as a reduction of principal, based on management's judgment as to the ultimate collectibility of principal. Generally, a nonperforming loan may be returned to performing status when all contractual amounts due are reasonably assured of repayment within a reasonable period and the borrower shows sustained repayment performance, in accordance with the contractual terms of the loan or when the loan has become well secured and is in the process of collection.

Credit and charge card receivables, interest-earning advances under lines of credit and other similar consumer loans are written off upon reaching specified contractual delinquency stages or earlier, in the event of the borrower's personal bankruptcy or if the loan is otherwise deemed uncollectible. Interest income on these loans generally accrues until the loan is written off.

#### **Provision for Credit Losses**

AEB separately maintains and provides for reserves relating to credit losses for loans, foreign exchange and derivative contracts, and other credit-related commitments. The reserve is established by charging a provision for credit losses against income. The amount charged to income is based on several factors, including historical credit loss experience in relation to outstanding credits, a continuous assessment of the collectibility of each credit, and management evaluation of exposures in each applicable country as related to current and anticipated economic and political conditions. Management's assessment of the adequacy of the reserve is inherently subjective, as significant estimates are required.

Amounts deemed to be uncollectible are charged against the reserve, and subsequent recoveries, if any, are credited to the reserve.

The reserve for credit losses related to loans is reported as a reduction of loans. The reserve related to foreign exchange and derivative contracts is reported as a reduction of trading assets, and the reserve related to other credit-related commitments is reported in other liabilities. In the opinion of management, the reserve for credit losses is adequate to absorb credit losses inherent in AEB's portfolio. Included in the reserve for credit losses is a valuation allowance for impaired loans. Impairment is measured as the excess of the loan's recorded investment over either the present value of expected principal and interest payments discounted at the loan's effective interest rate or, if more practical for collateral-dependent loans, the fair value

of collateral. For floating rate impaired loans, the effective interest rate is fixed at the rate in effect at the date the impairment criteria are met.

#### **Lending-Related Fees and Costs**

Fees on extensions of credit and credit-related commitments are offset by direct costs, and the resulting net fees or costs are deferred. Deferred net fees or costs are recognized as a yield adjustment over the life of the related credit. Net fees or costs deferred on unexercised commitments are recognized in income upon expiration. Deferred net fees or costs are not amortized during periods in which a credit is nonperforming. Deferred net fees were not material at December 31, 2004 and 2003.

#### **Land, Buildings and Equipment**

Buildings and equipment, including leasehold improvements, are carried at cost less accumulated depreciation. Costs incurred during construction, as well as related interest are capitalized and are depreciated once an asset is placed in service. Depreciation is generally computed using the straight-line method over the estimated useful lives of assets, which range from 3 to 8 years for equipment. Buildings are depreciated based upon their estimated useful life at the acquisition date which generally ranges from 39 to 50 years. Leasehold improvements are depreciated using the straight-line method over the lesser of the remaining term of the leased facility or the economic life of the improvement which ranges from 5 to 10 years.

#### **Foreign Currency Translation**

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars based upon exchange rates prevailing at the end of each year. The resulting translation adjustments, along with any related hedge and tax effects, are included in accumulated other comprehensive income (loss), a component of shareholder's equity. Revenues and expenses are translated at the average month-end exchange rates during the year. Gains and losses related to non-functional currency transactions, including non-U.S. operations where the functional currency is the U.S. dollar, are reported net in other revenue in AEB's Consolidated Statements of Operations.

#### **Derivative Financial Instruments and Hedging Activities**

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, establishes accounting and reporting requirements for derivative financial instruments, including hedging activities. SFAS No. 133 requires that all derivatives are recog-

nized on the balance sheet at fair value as either assets or liabilities. The fair value of AEB's derivative financial instruments are determined using either market quotes or valuation models that are based upon the net present value of estimated future cash flows and incorporate current market data inputs. AEB reports its derivative assets and liabilities in trading assets and trading liabilities, respectively, on a net by counterparty basis where management believes the legal right of offset exists under enforceable netting agreements. The accounting for the change in the fair value of a derivative instrument depends on its intended use and the resulting hedge designation, if any.

### Cash Flow Hedges

For derivative financial instruments that qualify as cash flow hedges, the effective portions of the gain or loss on the derivatives are recorded in accumulated other comprehensive income (loss) and reclassified into earnings when the hedged item or transactions impact earnings. The amount that is reclassified into earnings is presented in the income statement with the hedged instrument or transaction impact, generally, net of interest income. Any ineffective portion of the gain or loss is reported as a component of other revenue. If a hedge is de-designated or terminated prior to maturity, the amount previously recorded in accumulated other comprehensive income (loss) is recognized into earnings over the period that the hedged item impacts earnings. For any hedge relationships that are discontinued because the forecasted transaction is not expected to occur according to the original strategy, any related amounts previously recorded in accumulated other comprehensive income (loss) are recognized into earnings immediately.

### Fair Value Hedges

For derivative financial instruments that qualify as fair value hedges, changes in the fair value of the derivatives as well as of the corresponding hedged assets, liabilities or firm commitments are recorded in earnings as a component of other revenue. If a fair value hedge is de-designated or terminated prior to maturity, previous adjustments to the carrying value of the hedged item are recognized into earnings to match the earnings pattern of the hedged item.

### Net Investment Hedges in Foreign Operations

For derivative financial instruments that qualify as net investment hedges in foreign operations, the effective portions of the change in fair value of the derivatives are recorded in accumulated other comprehensive income (loss) as part of the cumulative translation adjustment. Any ineffective portions of net investment

hedges are recognized in other revenues during the period of change.

### Non-Designated Derivatives and Trading

For derivative financial instruments that do not qualify for hedge accounting, are not designated under SFAS No. 133 as hedges, or comprise of customer or proprietary trading activities, changes in fair value are reported in current period earnings generally as a component of other revenue.

Derivative financial instruments that are entered into for hedging purposes are designated as such at the time that AEB enters into the contract. As required by SFAS No. 133, for all derivative financial instruments that are designated for hedging activities, AEB formally documents all of the hedging relationships between the hedge instruments and the hedged items at the inception of the relationships. Management also formally documents its risk management objectives and strategies for entering into the hedge transactions. AEB formally assesses, at inception and on a quarterly basis, whether derivatives designated as hedges are highly effective in offsetting the fair value or cash flows of hedged items. If it is determined that a derivative is not highly effective as a hedge, AEB will discontinue the application of hedge accounting.

### Accounting Developments

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (the Act)" to allow additional time beyond the financial reporting period of enactment to evaluate the effect of the Act on AEB's plan for reinvestment or repatriation of foreign earnings for purposes of calculating the income tax provision. AEB has completed its evaluation and determined there was no impact related to this requirement.

On December 8, 2003, the Medicare Drug, Improvement and Modernization Act of 2003 was signed into U.S. law. This Act expands Medicare to include an outpatient drug benefit beginning in 2006. AEB has completed its evaluation of the impact of the Act on its postretirement health care plan and determined it to be immaterial.

In December 2003, the FASB issued SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." This Statement amends the disclosure requirements of SFAS No. 87, "Employers' Accounting for Pensions," No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and No. 106, "Employers' Accounting for Postre-

irement Benefits Other Than Pensions.” This Statement does not change the recognition and measurement requirements of amended Statements. See Note 13 for disclosures regarding AEB’s Retirement Plans.

In November 2003, the FASB ratified a consensus on the disclosure provisions of Emerging Issues Task Force Issue 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” The disclosure provisions of this rule, which are addressed in Note 5, require tabular presentation of certain information regarding investment securities with gross unrealized losses.

In April 2003, the FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” This Statement amends and clarifies accounting for derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. The adoption of this Statement did not have a material impact on AEB’s financial statements.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” This Statement addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS No. 144 was effective for fiscal periods beginning after December 15, 2001. AEB has complied with the Statement’s requirements. See Note 20.

In July 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” This Statement is effective for exit or disposal activities initiated after December 31, 2002. AEB has complied with the Statement’s requirements for applicable transactions. See Note 20.

## Note 2 CASH FLOWS

For purposes of reporting cash flows, cash and cash equivalents include noninterest-earning deposits with banks.

Cash paid for interest and income taxes was:

Year ended December 31, (Millions)	2004	2003	2002
Interest	\$ 248	\$ 237	\$ 252
Income taxes	26	32	25

Net cash paid for income taxes does not include amounts received or paid under a tax-sharing agreement with Amexco. Net (refunds)/payments under this agreement were (\$45) million, \$50 million and (\$32) million for the years ended December 31, 2004, 2003 and 2002, respectively.

AEB is required to maintain reserve balances with various foreign central banks. These balances are primarily based upon deposit liabilities. At December 31, 2004 and 2003, required reserves held with various foreign central banks were \$183 million and \$213 million, respectively.

## Note 3 TRANSACTIONS WITH RELATED PARTIES

AEB partakes in various transactions with Amexco and affiliated companies in which AEB holds equity interests. These transactions primarily relate to on-balance sheet loans, deposits and borrowed funds.

Related party balances, including amounts with Amexco, which are reflected in the Consolidated Balance Sheets, were:

December 31, (Millions)	2004	2003
<b>Assets:</b>		
Loans	\$ 71	\$ 554
Investments in affiliates	218	183
Other assets	106	86
<b>Total assets</b>	<b>\$ 395</b>	<b>\$ 823</b>
<b>Liabilities:</b>		
Deposits and borrowed funds	\$ 661	\$ 917
Other liabilities	117	46
<b>Total liabilities</b>	<b>\$ 778</b>	<b>\$ 963</b>

AEB has sold certain consumer loans to American Express Overseas Credit Corporation (a wholly-owned direct subsidiary of American Express Credit Corporation, which is a wholly-owned subsidiary of Amexco). Remaining balances on such loans were \$178 million and \$271 million at December 31, 2004 and 2003, respectively.

The components of net interest income (expense) from related party transactions were:

Year ended December 31, (Millions)	2004	2003	2002
Interest income <sup>(1)</sup>	\$ 16	\$ 13	\$ 2
Interest expense	14	14	9
<b>Net interest income (expense) from related party transactions</b>	<b>\$ 2</b>	<b>\$ (1)</b>	<b>\$ (7)</b>

*(1) Interest income on loans to Amexco is generally recorded net of interest expense on deposits and borrowed funds.*

Included in deposits and borrowed funds in the preceding table are \$100 million and \$30 million of intercompany Subordinated Notes due to Amexco which mature in December 2007 and December 2011, respectively, and qualify as Tier 2 Capital for U.S. bank regulatory purposes. The interest rate at December 31, 2004 for both the \$100 million and \$30 million of intercompany Subordinated Notes due to Amexco was 2.5%

and will vary quarterly based upon three-month U.S. dollar deposits of leading banks in the London inter-bank market plus 50 basis points.

AEB and American Express Financial Corporation (an affiliated company and a wholly-owned direct subsidiary of Amexco) each own 50 percent of American Express International Deposit Company (AEIDC). AEB's investment of \$164 million as of December 31, 2004 is accounted for using the equity method and is included in other assets on the Consolidated Balance Sheets. AEB's share of AEIDC's pretax income included as a component of other revenues was \$61 million, \$68 million and \$63 million for the years ended December 31, 2004, 2003 and 2002, respectively. AEIDC's total assets were \$5.9 billion and \$4.8 billion at December 31, 2004 and 2003, respectively, and were fully consolidated on American Express Financial Corporation's (AEFC's) Consolidated Balance Sheets.

AEIDC is organized under the laws of the Cayman Islands, British West Indies and is in the business of issuing deposit certificates denominated in U.S. Dollars, Euros, Pound Sterling, and Australian Dollars, which are not insured by the Federal Deposit Insurance Corporation. AEB distributes these certificates through relationship managers at The Private Bank.

AEB also owns a 40.8 percent interest in Egyptian American Bank (EAB). EAB was established as a Joint Stock Company between the Bank of Alexandria and AEB. Today EAB is one of Egypt's largest private sector banks listed on the Cairo Stock Exchange conducting a full range of commercial banking services

through its Head Office in Cairo and 30 branches.

AEB's investment in EAB of \$54 million as of December 31, 2004 is accounted for using the equity method and is included in other assets on the Consolidated Balance Sheets. AEB's share of EAB's pretax income included as a component of other revenues was \$14 million, \$8 million and \$0.3 million for the years ended December 31, 2004, 2003 and 2002, respectively. EAB's total assets were \$1.8 billion and \$1.7 billion at December 31, 2004 and 2003, respectively, and were not reflected in AEB's Consolidated Balance Sheets.

#### Note 4 TRADING ASSETS AND TRADING LIABILITIES

The components of trading assets and trading liabilities, which are carried at fair value, were:

December 31, (Millions)	2004	2003
Foreign government bonds and obligations	\$ 100	\$ 135
Commercial paper	4	9
Foreign exchange and derivative contracts <sup>(1)(2)</sup>	553	602
Other trading assets	137	60
<b>Total trading assets</b>	<b>\$ 794</b>	<b>\$ 806</b>
Foreign exchange and derivative contracts <sup>(2)</sup>	585	553
<b>Total trading liabilities</b>	<b>\$ 585</b>	<b>\$ 553</b>

(1) Net of reserves for credit losses related to foreign exchange and derivatives contracts of \$1 million and \$6 million at December 31, 2004 and 2003, respectively.

(2) Reduced by the effects of master netting agreements, in accordance with Financial Accounting Standards Board Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts." The effects of master netting agreements were \$112 million and \$183 million at December 31, 2004 and 2003, respectively.

#### Note 5 AVAILABLE-FOR-SALE SECURITIES

Investments classified as available-for-sale at December 31 are distributed by type as presented below:

(Millions)	2004				2003			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage- and other asset-backed securities	\$ 831	\$ 14	\$ (7)	\$ 838	\$ 1,020	\$ 23	\$ (8)	\$ 1,035
Foreign government bonds and obligations	699	14	(6)	707	751	20	(1)	770
Corporate debt securities and other	1,383	103	—	1,486	1,443	85	(3)	1,525
U.S. government and agencies obligations	—	—	—	—	10	—	—	10
Marketable equity securities	5	—	—	5	2	—	—	2
<b>Total</b>	<b>\$ 2,918</b>	<b>\$ 131</b>	<b>\$ (13)</b>	<b>\$ 3,036</b>	<b>\$ 3,226</b>	<b>\$ 128</b>	<b>\$ (12)</b>	<b>\$ 3,342</b>

The following provides information about available-for-sale securities with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2004:

(Millions)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage- and other asset-backed securities	\$ 206	\$ 1	\$ 216	\$ 6	\$ 422	\$ 7
Foreign government bonds and obligations	143	6	—	—	143	6
Other	1	—	—	—	1	—
<b>Total</b>	<b>\$ 350</b>	<b>\$ 7</b>	<b>\$ 216</b>	<b>\$ 6</b>	<b>\$ 566</b>	<b>\$ 13</b>

Approximately 206 investment positions were in an unrealized loss position as of December 31, 2004. The gross unrealized losses on these securities are attributable to a number of factors including changes in interest rates, credit spreads and specific credit events associated with individual issuers. As part of its ongoing monitoring process, management has concluded that none of these securities are other-than-temporarily impaired at December 31, 2004. AEB has the ability

and intent to hold these securities for a time sufficient to recover its amortized cost. See the Securities section of Note 1 for information regarding AEB's policy for determining when a security's decline in value is other-than-temporary.

The following table shows the remaining maturities for available-for-sale securities, distributed by type as of December 31, 2004:

(Millions)	Within One Year	After One Year but within Five	After Five Years but within 10	After 10 Years	Total
Foreign government bonds and obligations	\$ 313	\$ 212	\$ 133	\$ 49	\$ 707
Corporate debt securities and other	105	419	962	—	1,486
	\$ 418	\$ 631	\$ 1,095	\$ 49	\$ 2,193
Mortgage- and other asset-backed securities					\$ 838
Marketable equity securities					5
<b>Total available-for-sale securities</b>					<b>\$ 3,036</b>

Mortgage- and other asset-backed securities primarily include GNMA, FNMA, and FHLMC securities at December 31, 2004 and 2003.

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

(Millions)	2004	2003
Purchases	\$ 1,028	\$ 1,766
Sales	294	587
Maturities	1,130	1,163

Gross realized gains on sales of available-for-sale securities were \$3 million, \$10 million and \$11 million for the years ended December 31, 2004, 2003 and 2002, respectively. Gross realized losses on sales were negligible for the years ended December 31, 2004 and 2003, and \$2 million for the year ended December 31, 2002. The specific identification method was used to determine realized gains and losses. AEB also recognized losses of \$1 million in other-than-temporary

impairments on available-for-sale securities in the year ended December 31, 2004 and nil in the years ended December 31, 2003 and 2002.

There were \$13 million, \$8 million and \$5 million of net gains for the years ended December 31, 2004, 2003 and 2002, respectively, related to trading securities, which are included in trading assets, held at each balance sheet date.

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

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

December 31, (Millions)	2004	2003	2002
Holding gains (losses)	\$ 2	\$ (22)	\$ 73
Reclassification for realized gains	—	(6)	(6)
Increase in unrealized gains (losses) on available-for-sale securities recognized in other comprehensive income	\$ 2	\$ (28)	\$ 67

Included in available-for-sale securities at December 31, 2004 and 2003 were securities totaling \$657 million and \$711 million, respectively, which were pledged primarily to various domestic and foreign governmental agencies pursuant to their requirements.

#### Note 6 LOANS

The composition of loans by type of borrower, net of unearned income of \$2 million and \$18 million at December 31, 2004 and 2003, respectively, was:

(Millions)	2004	2003
Consumer loans <sup>(1)</sup> :		
Installment, revolving credit and other	\$ 4,501	\$ 3,946
Loans secured by real estate	283	340
	4,784	4,286
Commercial loans:		
Loans to banks and other financial institutions	1,984	1,863
Loans to businesses	57	108
Loans secured by real estate	19	65
	2,060	2,036
Total loans	\$ 6,844	\$ 6,322

(1) Excluding consumer loans sold with remaining balances of \$446 million and \$539 million at December 31, 2004 and 2003, respectively.

Included in Consumer Loans above are loans with private banking clients, most of which are fully collateralized. Total private banking loans were \$3,333 million and \$2,941 million at December 31, 2004 and 2003, respectively.

The following is a summary of loans considered to be impaired under SFAS No. 114 and the related interest income:

December 31, (Millions)	2004	2003
Recorded investment in impaired loans requiring an allowance	\$ 37	\$ 77
Recorded investment in impaired loans not requiring an allowance	—	1
Total recorded investment in impaired loans	\$ 37	\$ 78
Loan loss reserves for impaired loans	\$ 17	\$ 43

Year ended December 31, (Millions)	2004	2003	2002
Average recorded investment in impaired loans	\$ 52	\$ 98	\$ 121
Interest income recognized on a cash basis	1	1	1

AEB had other nonperforming assets, primarily matured foreign exchange and other derivative contracts and other credit-related commitments, totaling \$1 million at December 31, 2004 and \$15 million at December 31, 2003.

The following table presents changes in reserves for credit losses:

December 31, (Millions)	2004	2003
Balances – January 1,	\$ 92	\$ 119
Provision for credit losses	64	75
Write-offs	(92)	(115)
Recoveries	24	16
Translation and other	1	(3)
Balances – December 31, <sup>(1)</sup>	\$ 89	\$ 92
<sup>(1)</sup> Allocation:		
Loans	\$ 87	\$ 84
Other assets, primarily matured foreign exchange and other derivative contracts	1	6
Other credit-related commitments	1	2
Balances – December 31,	\$ 89	\$ 92

#### Note 7 GOODWILL AND OTHER INTANGIBLES

Effective January 1, 2002, AEB adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which established new accounting and reporting standards for goodwill and other intangible assets. Under SFAS No. 142, goodwill and other intangible assets deemed to have indefinite lives are not amortized but are instead subject to annual impairment tests. Management completed goodwill impairment tests as of the date of initial adoption and again during 2003 and 2004. Such tests did not indicate impairment.

As of December 31, 2004 and 2003, AEB had net identifiable intangible assets with definite lives of \$4 million. The aggregate amortization expense for these intangible assets was \$0.8 million at December 31, 2004, \$0.4 million at December 31, 2003, and negligible at December 31, 2002. These assets have a weighted average useful life of 10 years and mainly reflect the purchase of assets under management. Amortization expense associated with these intangible assets is estimated to be approximately \$0.4 million for each of the next five years.

Net goodwill was \$26 million at December 31, 2004, 2003 and 2002 and is included as a component of other assets.

## Note 8 LONG-TERM DEBT

December 31, (Millions)	2004	2003
Floating Rate Notes, Egyptian Pounds		
300 million, due 2006	\$ 49	\$ 49
Floating Rate Subordinated		
Notes due February 2004	—	150
Total	\$ 49	\$ 199

The 300 million Egyptian Pounds Floating Rate Notes due in 2006 are unsecured obligations of AEB. The notes are redeemable at par with repayment of one installment on October 9, 2006, with an early redemption option at the end of the fourth year from the Public Subscription date. The interest rate at December 31, 2004 was 10.5% and will vary quarterly based on the Central Bank of Egypt discount rate plus 1/2 of 1%.

The \$150 million Floating Rate Subordinated Notes matured and were fully repaid in February 2004.

## Note 9 SHAREHOLDER'S EQUITY

The composition of shareholder's equity was:

December 31, (Millions, except par value and share data)	2004	2003	Par Value	Authorized Shares	Issued and Outstanding Shares
Common stock	\$ 121	\$ 121	\$ 100	2,000,000	1,210,000
Additional paid-in capital	595	595	—	—	—
Retained earnings	243	280	—	—	—
Other comprehensive (loss) income, net of tax:					
Net unrealized gains on available-for-sale securities	77	75	—	—	—
Foreign currency translation adjustments	(110)	(112)	—	—	—
Minimum pension liability	(3)	(2)	—	—	—
Accumulated other comprehensive loss	(36)	(39)	—	—	—
Total	\$ 923	\$ 957	—	—	—

## Note 10 REGULATORY CAPITAL

AEB is subject to the same risk-based capital requirements applicable to state-chartered banks that are supervised by the Board of Governors of the Federal Reserve System. Under such capital adequacy guidelines, AEB must meet specific capital criteria that involve quantitative measures of AEB's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Failure to meet minimum capital requirements can initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on AEB's financial statements. AEB's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

AEB, American Express Travel Related Services Company, Inc. (a wholly-owned direct subsidiary of Amexco) (TRSCO); and American Express Credit Corporation (CREDCO) and American Express Centurion Bank (both wholly-owned direct subsidiaries of TRSCO); and American Express Overseas Credit Corporation Limited (a wholly-owned direct subsidiary of CREDCO), have established programs for the issuance, outside the United States, of debt instruments to be listed on the Luxembourg Stock Exchange. The maximum aggregate principal amount of debt instruments outstanding at any one time under this program will not exceed \$6.0 billion. At December 31, 2004 and 2003, AEB did not have any debt outstanding under this program.

Other financial institutions have committed to extend lines of credit to AEB of \$496 million and \$519 million at December 31, 2004 and 2003, respectively.

Quantitative measures established by regulation to ensure capital adequacy require AEB to maintain minimum ratios (as set forth in the following table) of Tier 1, Total and Leverage Capital. Management believes, as of December 31, 2004, that AEB meets all capital adequacy requirements to which it is subject.

As of December 31, 2004 and 2003, AEB is well capitalized under the regulatory framework. To be categorized as well capitalized, AEB must maintain a Tier 1 Capital ratio of at least 6%, a Total Capital ratio of at least 10% and a Leverage ratio of at least 5% and not be subject to a directive, an order or a written agreement to meet and maintain specific capital levels.

December 31, (\$ in Millions)	2004	2003	Minimum Regulatory Requirements
<b>Capital Ratios</b>			
Tier 1 capital <sup>(a)</sup>	11.0%	11.4%	4.0%
Total capital <sup>(a)</sup>	10.1%	11.3%	8.0%
Leverage <sup>(b)</sup>	5.8%	5.5%	4.0%
<b>Qualifying capital</b>			
Tier 1 capital	\$ 754	\$ 775	
Total capital	\$ 693	\$ 767	
<b>Adjusted risk-weighted assets</b>			
Adjusted risk-weighted assets	\$ 6,894	\$ 6,804	
<b>Adjusted average assets</b>			
Adjusted average assets	\$ 13,119	\$ 14,186	

(a) Tier 1 Capital or Total Capital divided by adjusted risk-weighted assets. Adjusted risk-weighted assets represent the total of all on- and off-balance sheet assets adjusted for risk-based factors as prescribed by the capital adequacy guidelines.

(b) Tier 1 Capital divided by adjusted average assets.

In April 2003, the Basel Committee on Banking Supervision (the "Basel Committee") issued a final consultative paper on the proposed new Basel Capital Accord ("new Accord"). The new Accord proposes risk-based capital guidelines that will replace the previous guide-

lines that have been in effect since 1988. The Basel Committee is comprised of representatives of central banks and bank supervisors from the major industrialized countries and develops broad supervisory standards and guidelines governing the prudential supervision of banking institutions. The new Accord sets capital requirements for operational risk and refines the existing capital requirements for credit and market risk exposures. On May 11, 2004 the Basel Committee announced it achieved consensus on the new Accord and published the text of the framework on June 26, 2004. Despite the release of the framework, it is not clear at this time whether and in what manner the new Accord will be adopted by bank regulators with respect to banking organizations that they supervise and regulate. AEB will continue to closely monitor regulatory action on this matter and assess the potential impact to AEB. AEB believes that implementation of the new Accord, to the extent applicable to AEB, could increase minimum risk-based capital requirements and result in changes to certain of AEB's information systems, processes and employee training.

#### Note 11 NONINTEREST INCOME

Noninterest income consisted of:

Year ended December 31, (Millions)	2004	2003	2002
<b>Commissions and fees:</b>			
Letters of credit, acceptances, guarantees and credit lines	\$ 36	\$ 31	\$ 27
Asset management, fiduciary and client service fees	82	96	84
Financial institution beneficiary related fees	65	39	33
Other commissions and fees	138	92	92
	<b>321</b>	<b>258</b>	<b>236</b>
<b>Foreign exchange income and other revenues:</b>			
Foreign exchange income	123	40	68
Equity earnings of and dividends from affiliates	76	76	64
Trading income	14	76	15
Net gain on sale of available-for-sale securities	3	10	9
Amexco-related revenues, net	44	36	5
Other revenues	15	13	18
	<b>275</b>	<b>251</b>	<b>179</b>
<b>Total</b>	<b>\$ 596</b>	<b>\$ 509</b>	<b>\$ 415</b>

## Note 12 FOREIGN CURRENCY

Income from foreign exchange transactions was \$135 million in 2004, \$58 million in 2003 and \$77 million in 2002. Losses from certain foreign currency transactions included in income were \$13 million in 2004, \$18 million in 2003 and \$9 million in 2002.

An analysis of the foreign currency translation adjustments included in shareholder's equity is as follows:

(Millions)	2004	2003	2002
Balances – January 1,	\$ (112)	\$ (105)	\$ (98)
Net restructuring charge	7	—	—
Net translation losses	(5)	(7)	(7)
Balances – December 31,	\$ (110)	\$ (112)	\$ (105)

The net income tax provision (benefits) allocated to the net change in foreign currency translation adjustments were \$5 million for 2004, \$(5) million for 2003 and \$(4) million for 2002.

## Note 13 RETIREMENT PLANS

### Pension Plans

AEB employees in the United States are eligible to participate in 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 currently is 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 compensation as defined by the Plan (which includes, but is not limited to base pay, certain incentive pay and commissions, shift differential, overtime 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, Amexco 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.

Employees outside the United States, who represent the majority of AEB's workforce, are primarily 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.

Assets within AEB's defined benefit plans consist principally of equities and fixed income securities.

AEB measures the obligations and related asset values for its pension and other postretirement benefit plans as of September 30th.

The components of the net pension cost for all defined benefit plans accounted for under SFAS No. 87 were:

(Millions)	2004	2003	2002
Service cost	\$ 6	\$ 6	\$ 5
Interest cost	12	11	10
Expected return on plan assets	(14)	(13)	(13)
Recognized net actuarial loss	2	2	—
Amortization of prior service cost	—	(1)	(1)
Net periodic pension benefit cost	\$ 6	\$ 5	\$ 1

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)	2004	2003
Benefit obligation, October 1 prior year	\$ 207	\$ 183
Service cost	6	6
Interest cost	12	11
Benefits paid	(10)	(8)
Actuarial loss	7	2
Plan amendment	—	2
Settlements/curtailments	(1)	(2)
Foreign currency exchange rate changes	11	13
Benefit obligation at September 30,	\$ 232	\$ 207

## Reconciliation of change in fair value of plan assets:

(Millions)	2004	2003
Fair value of plan assets, October 1 prior year	\$ 171	\$ 142
Actual gain on plan assets	15	23
Employer contributions	7	6
Benefits paid	(10)	(8)
Settlements	(1)	(2)
Foreign currency exchange rate changes	9	10
Fair value of plan assets at September 30,	\$ 191	\$ 171

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

(Millions)	2004	2003
Funded status at September 30,	\$ (41)	\$ (36)
Unrecognized net actuarial loss	40	33
Unrecognized prior service cost	3	2
Fourth quarter contributions	—	1
Net amount recognized at December 31,	\$ 2	\$ —

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

(Millions)	2004	2003
Accrued benefit liability	\$ (56)	\$ (55)
Prepaid benefit cost	57	52
Minimum pension liability adjustment	1	3
Net amount recognized at December 31,	\$ 2	\$ —

The accumulated benefit obligation for all retirement plans as of December 31, 2004 and 2003 was \$221 million and \$197 million, respectively. 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 \$60 million, \$56 million and \$2 million, respectively, as of December 31, 2004, and \$56 million, \$53 million and \$2 million, respectively, as of December 31, 2003.

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 to determine benefit obligations were:

	2004	2003
Discount rates	5.6%	5.7%
Rates of increase in compensation levels	4.1%	4.0%

The weighted average assumptions used to determine net periodic benefit cost were:

	2004	2003
Discount rates	5.7%	6.2%
Rates of increase in compensation levels	4.0%	4.0%
Expected long-term rates of return on assets <sup>(a)</sup>	7.9%	8.1%

(a) At the September 30, 2003 measurement date, AEB reduced the weighted average return on assets actuarial assumptions to be used in calculating the 2004 expense to 7.9%.

For 2004, AEB assumed a long-term rate of return on assets of 7.9%. In developing the 7.9% expected long-term rate assumption, management evaluated input from an external consulting firm, including their projection of asset class return expectations, and long-term inflation assumptions. AEB also considered the historical returns on the plan assets.

The asset allocation for AEB's pension plans at December 31, 2004 and 2003, and the target allocation for 2005 by asset category, is below. Actual allocations will generally be within 5% of these targets.

	Target Allocation	Percentage of Plan Assets at	
	2005	2004	2003
Equity securities	68%	68%	66%
Debt securities	26%	27%	26%
Real estate/Other	6%	5%	8%
Total	100%	100%	100%

AEB invests in a diversified portfolio to ensure that adverse or unexpected results from a security class will not have a detrimental impact on the entire portfolio. Diversification is interpreted to include diversification by asset type, performance and risk characteristics and number of investments. Asset classes and ranges considered appropriate for investment of the plans' assets are determined by each plan's investment committee. The asset classes include U.S. and non-U.S. equities, emerging market equities, U.S. and non-U.S. investment grade and high-yield bonds and real estate.

AEB's retirement plans expect to make benefit payments to retirees as follows (millions): 2005, \$10; 2006, \$11; 2007, \$12; 2008, \$12; 2009, \$13; and 2010-2014,

\$79. In addition, AEB expects to contribute \$7 million to its pension plans in 2005.

Amexco sponsors defined contribution retirement plans, the principal plan being a 401(k) savings plan with a profit sharing and stock bonus plan feature that covers most employees in the United States. AEB's defined contribution plan expense was \$5 million in 2004, 2003 and 2002.

#### Other Postretirement Benefits

Amexco sponsors postretirement benefit plans that provide health care, life insurance and other postretirement benefits to retired U.S. employees. AEB does not provide other postretirement benefits to retired non-U.S. employees. Net periodic postretirement benefit expenses were \$2 million in 2004, and \$1 million in 2003 and 2002. The liabilities recognized on the Consolidated Balance Sheets for AEB's defined postretirement benefit plans (other than pension plans) at December 31, 2004 and 2003 were \$14 million.

#### Note 14 LEASE COMMITMENTS AND OTHER CONTINGENT LIABILITIES

AEB leases certain office facilities and operating equipment under cancelable and noncancelable agreements. Total operating lease rental expense amounted to \$23 million, \$24 million and \$18 million in 2004, 2003 and 2002, respectively. At December 31, 2004, the minimum aggregate rental commitments under all noncancelable operating leases were (millions): 2005, \$11; 2006, \$11; 2007, \$8; 2008, \$5; 2009, \$4; and thereafter, \$12.

Certain of AEB's operating leases provide for additional rentals based upon increases in property taxes, the general cost of living index, or payment of property taxes or other operating expenses by the lessee. In addition, most leases contain standard renewal clauses.

Various legal actions and proceedings are pending against or involve AEB. After reviewing with counsel all actions and proceedings pending against or involving AEB, management considers that the aggregate liability or loss, if any, resulting from them would not be material.

#### Note 15 INCOME TAXES

AEB is included in the consolidated U.S. federal income tax return of Amexco. AEB receives income tax benefits for net operating losses, future tax deductions and foreign tax credits that are recognizable on a stand-alone basis or a share, derived by formula, of such losses, deductions and credits that are recognizable on Amexco's consolidated reporting basis.

The components of income tax provision were as follows:

Year ended December 31, (Millions)	2004	2003	2002
Current income tax provision			
U.S. federal	\$ 43	\$ (19)	\$ 19
U.S. state and local	(16)	1	1
Foreign	15	32	31
<b>Total current provision</b>	<b>\$ 42</b>	<b>\$ 14</b>	<b>\$ 51</b>
Deferred income tax (benefit) provision			
U.S. federal	\$ (5)	\$ 39	\$ (2)
U.S. state and local	—	—	—
Foreign	—	(4)	—
<b>Total deferred (benefit) provision</b>	<b>\$ (5)</b>	<b>\$ 35</b>	<b>\$ (2)</b>
<b>Total income tax provision</b>	<b>\$ 37</b>	<b>\$ 49</b>	<b>\$ 49</b>

A reconciliation of the U.S. Federal statutory income tax rate of 35% to the effective tax rate for 2004, 2003 and 2002 is as follows:

Year ended December 31,	2004	2003	2002
Combined tax at U.S. statutory rate	35.0%	35.0%	35.0%
Changes in taxes resulting from:			
State and local income taxes	(10.0)	0.3	0.3
All other	10.2	(2.0)	(0.8)
<b>Effective tax rates</b>	<b>35.2%</b>	<b>33.3%</b>	<b>34.5%</b>

Deferred income tax (benefit) provision results from differences between assets and liabilities measured for financial reporting and for income tax return purposes. The significant components of deferred tax assets and liabilities at December 31, 2004 and 2003 are reflected in the following table:

(Millions)	2004	2003
Deferred tax assets		
Reserves	\$ 89	\$ 95
Deferred compensation	29	31
Foreign currency translation adjustment	52	58
All other	4	2
<b>Gross deferred tax assets</b>	<b>\$ 174</b>	<b>\$ 186</b>
Deferred tax liabilities		
Depreciation & amortization	\$ 35	\$ 35
Net unrealized securities gains	42	41
All other	23	28
<b>Gross deferred tax liabilities</b>	<b>\$ 100</b>	<b>\$ 104</b>
<b>Net deferred tax assets</b>	<b>\$ 74</b>	<b>\$ 82</b>

The gross deferred tax assets are shown net of a valuation allowance of \$6 million and nil at December 31, 2004 and 2003, respectively.

AEB's income tax payable to Amexco at December 31, 2004 was \$41 million. AEB's income tax receivable from Amexco was \$18 million at December 31, 2003.

Comprehensive income in the Consolidated Statements of Shareholder's Equity is presented net of the following income tax provision (benefit) amounts:

Year ended December 31, (Millions)	2004	2003	2002
Net unrealized available-for-sale securities gains	\$ 1	\$ (15)	\$ 36
Net unrealized losses on derivatives	—	(2)	2
Foreign currency translation adjustments	5	(5)	(4)
Minimum pension liability adjustment	—	—	8
Net income tax provision (benefit)	\$ 6	\$ (22)	\$ 42

#### Note 16 DERIVATIVES AND HEDGING INSTRUMENTS

Derivative financial instruments enable the end users to manage exposure to various credit or market risks. The value of such instruments is derived from an underlying variable or multiple variables, including commodity, equity, foreign exchange, and interest rate indices or prices. AEB enters into various derivative financial instruments as part of its ongoing risk management activities as well as for customer and limited trading purposes. The following summarizes AEB's use of derivative financial instruments.

##### Cash Flow Hedges

AEB uses interest rate products, primarily interest rate swaps, to manage funding costs and interest rate risk. For 2004, 2003 and 2002, there were no gains or losses on derivative transactions or portions thereof that were ineffective as hedges or excluded from the assessment of hedge effectiveness. No hedge relationships were discontinued during the years ended December 31, 2004, 2003 and 2002 due to forecasted transactions no longer expected to occur according to the original hedge strategy. No hedge ineffectiveness was recognized for the years ended December 31, 2004 and 2003.

##### Fair Value Hedges

AEB is exposed to interest rate risk associated with some of its available-for-sale securities and deposit products. AEB also uses interest rate swaps to hedge firm commitments and change in interest rates. No hedge ineffectiveness was recognized for the years ended December 31, 2004, 2003 and 2002.

##### Hedges of Net Investment in Certain Foreign Operations

AEB designates certain foreign currency derivatives, primarily forward agreements, as hedges of net investments in certain foreign operations. For the year ended December 31, 2004, the amount of losses related to the hedges reported in other comprehensive income (loss), included in cumulative translation adjustment, was approximately \$24 million.

##### Derivatives Not Designated as Hedges Under SFAS No. 133

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.

There are a number of risks associated with derivatives. Market risk represents the potential loss due to the decrease in the value of a derivative financial instrument caused primarily by changes in interest rates or foreign exchange rates, or the prices of equities or commodities (or related indices). AEB is not exposed to market risk related to derivatives held for non-trading purposes beyond that inherent in cash market transactions. In addition, AEB is generally not subject to market risk when it enters into a contract with a client, as it usually enters into an offsetting contract or uses the position to offset an existing exposure. AEB takes proprietary positions within approved limits. These positions are monitored daily at the local and headquarters levels against Value at Risk limits. AEB does not enter into derivative contracts with features that would leverage or multiply its market risk.

Credit risk related to derivatives is the possibility that the counterparty will not fulfill the terms of the contract. This risk is monitored through established approval procedures, including setting concentration limits by counterparty and country, reviewing credit ratings and requiring collateral where appropriate. For its trading activities with clients, AEB requires collateral, generally cash, when it is not willing to assume credit exposure to counterparties for either contract mark-to-market or

settlement risk. AEB also uses master netting agreements, which allow AEB to settle multiple contracts with a single counterparty in one net receipt or payment in the event of counterparty default.

Credit risk approximates the fair market value of derivative contracts in a gain position (asset) and totaled (unadjusted for the effects of master netting agreements and applicable portions of the reserve for credit losses) \$681 million and \$811 million at December 31, 2004 and 2003, respectively. The fair value represents the replacement cost and is determined by market values, dealer quotes or pricing models. In addition, management evaluates these portfolios periodically to determine whether the reserve for credit losses is adequate to absorb losses in such portfolios.

### Foreign Exchange Products

AEB enters into foreign exchange spot and forward contracts and foreign currency options both to meet the needs of its clients and, to a limited extent, to enter into proprietary positions. In addition, AEB uses foreign exchange products, primarily foreign exchange spot and forward contracts, to hedge certain net investments in branches and subsidiaries with non-U.S. dollar functional currencies and to manage currency exposure created by transactions denominated in foreign currencies.

Foreign currency exposures are hedged, where practical and economical, through foreign exchange spot and forward contracts. Foreign exchange contracts involve the purchase and sale of a designated currency at an agreed-upon rate for settlement on a specified date. Foreign exchange forward contracts generally mature within one year, whereas foreign exchange spot contracts generally settle within two trading days.

AEB purchases and writes both call and put options on foreign currencies. Foreign currency options represent contracts that convey a right to the purchaser, and may impose an obligation on the writer, to buy or sell foreign currencies at a specified price within a specified period of time. At December 31, 2004, the majority of these contracts had remaining maturities within one year.

### Interest Rate Products

Interest rate swaps are generally entered into with clients, with offsetting positions taken with major financial service institutions. From time to time, AEB may take limited proprietary positions in interest rate swaps, forward rate agreements, futures and exchange traded interest rate options as well. In addition, AEB may use interest rate products, principally interest rate swaps, to hedge balance sheet positions, including long-term debt and loans. The termination dates of these swaps

are generally matched with the maturity dates of the underlying assets and liabilities. Interest rate swaps represent agreements between two parties to exchange periodic interest payments, most often fixed versus floating, based on a notional principal amount. Cross currency interest rate swaps involve an exchange of principal balances denominated in two different currencies at the inception of the contract, exchange of interest payments during the life of the contract and re-exchange of the principal at a specified future date.

All client positions are entered into under the approved credit limits under the same policies and procedures used for lending activities to ensure that exposure to all clients is actively monitored and controlled.

### Equity Market Products

A growing portion of AEB's deposit products are considered to be structured products and have returns tied to the performance of the equity markets. The embedded elements of structured products are considered derivatives under SFAS No. 133. AEB manages this equity market risk by entering into derivative contracts, primarily equity derivatives with offsetting characteristics.

### Embedded Derivatives

During the years ended December 31, 2004 and 2003, AEB identified certain significant derivatives embedded in other financial instruments that were required to be accounted for separately from the host financial instrument. Such items include deposits which have returns tied to the performance of equity markets. AEB manages this equity market risk by entering into options and futures with offsetting characteristics. The total fair value of these instruments was \$1 million and \$2 million at December 31, 2004 and 2003, respectively.

### Note 17 **GUARANTEES AND OFF-BALANCE SHEET ITEMS**

AEB provides various guarantees to its customers in the ordinary course of business that are within the scope of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which include 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 these guarantees, many of which help to facilitate customer cross-border transactions.

Standby letters of credit and guarantees are commitments issued by AEB to insure the financial or nonfinancial performance of its clients to third parties. The credit risk arising from these commitments results from the potential need to satisfy, in whole or in part, the obligations of another party when certain specified future events occur. AEB held or obtained collateral or other security of \$788 million at December 31, 2004 (financial related: \$730 million; performance related: \$58 million) and \$761 million at December 31, 2003 (financial related: \$692 million; performance related: \$69 million). The collateral or other security was predominantly represented by customers' deposits and counter-guarantees.

The following table provides information related to such standby financial letters of credit and guarantees:

December 31, 2004 (Millions)	Maximum amount of undiscounted future payments	Amount of related liability
Standby financial letters of credit	\$ 295	\$ 0.4
Performance guarantees	119	1.1
Financial guarantees	557	2.0
<b>Total</b>	<b>\$ 971</b>	<b>\$ 3.5</b>

AEB's off-balance sheet financial instruments principally relate to extending credit to satisfy the needs of its clients. The contractual amount of these instruments, including those with Amexco which were \$29 million at December 31, 2004, represents AEB's 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 AEB's financial position to result from these contracts.

Commitments to extend credit represent both conditional and unconditional agreements to lend. These commitments primarily carry floating interest rates. The contractual amounts of these commitments do not necessarily represent future cash requirements, as some credit facilities will expire unused. Lending commitments expose AEB to credit loss arising from the obligation to fund a loan in accordance with the terms of the commitment. AEB may require collateral or other security in support of these commitments, depending on the credit-worthiness of the client.

AEB issues commercial and other letters of credit to facilitate the short-term trade-related activities of its clients. These letters of credit normally expire within six months. Commercial and other letters of credit represent contingent assets and liabilities until drawn and possess essentially similar credit risk as that of commitments to extend credit. AEB often obtains collateral or other security based on an evaluation of each client. At December 31, 2004 and 2003, AEB was in possession of or had rights to \$147 million and \$114 million, respectively, of collateral or other security, consisting primarily of customers' deposits and guarantees.

Total guarantees and off-balance sheet items were as follows:

December 31, (Millions)	2004	2003
Commitments to extend credit	\$ 344	\$ 423
Standby letters of credit and guarantees:		
Financial	852	836
Performance	119	147
Commercial and other letters of credit	590	474
<b>Total off-balance sheet items</b>	<b>\$ 1,905</b>	<b>\$ 1,880</b>

#### Note 18 [FAIR VALUES OF FINANCIAL INSTRUMENTS](#)

Certain items, such as 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, 2004 and 2003 and require management judgment. These figures may not be indicative of their future fair values. Additionally, management believes the value of excluded assets and liabilities is significant. The fair value of AEB, therefore, cannot be estimated by aggregating the amounts presented.

For certain classes of financial instruments with short maturities, the carrying amounts of the instruments approximate their fair values. These financial instruments, for which fair values are not separately disclosed, are cash and deposits with banks, federal funds sold, customers' acceptance liabilities, noninterest-bearing customers' deposits, short-term borrowings, acceptances outstanding, trade receivables and payables, AEB's receivables and payables with other Amexco entities, and certain other assets and liabilities.

The fair value of the remaining financial instruments was:

December 31, (Millions)	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Available-for-sale securities	\$ 3,036	\$ 3,036	\$ 3,342	\$ 3,342
Trading assets	\$ 794	\$ 794	\$ 806	\$ 806
Loans, net of reserves	\$ 6,757	\$ 6,871	\$ 6,238	\$ 6,304
Non-trading derivative financial instruments	\$ 15	\$ 15	\$ 20	\$ 20
<b>Financial Liabilities</b>				
Interest-bearing customers' deposits	\$ 9,362	\$ 9,453	\$ 9,645	\$ 9,662
Long-term debt	\$ 49	\$ 49	\$ 199	\$ 199
Trading liabilities	\$ 585	\$ 585	\$ 553	\$ 553
Non-trading derivative financial instruments	\$ 17	\$ 17	\$ 52	\$ 52

The carrying and fair values of off-balance sheet financial instruments discussed in Note 17 were not material as of December 31, 2004 and 2003. The following methods were used to estimate the fair values of financial assets and financial liabilities:

#### Financial Assets

For variable loan rates that mature or reprice within six months, fair values are based on carrying values as long as there has been no significant change in borrower credit-worthiness.

The fair value of all other loans, except those with significant credit deterioration, is 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 the fair value of the collateral.

#### Financial Liabilities

For interest-bearing deposit liabilities that mature or reprice within six months, fair values are based on carrying values.

The maximum credit exposure, which excludes the effect of any collateral or security, associated with AEB's on- and off-balance sheet financial instruments distributed by industry was:

December 31, (Millions)	2004			2003		
	On-Balance Sheet	Off-Balance Sheet	Total	On-Balance Sheet	Off-Balance Sheet	Total
Banks and other financial institutions	\$ 5,672	\$ 1,047	\$ 6,719	\$ 5,526	\$ 839	\$ 6,365
Other businesses	697	189	886	1,680	300	1,980
Foreign governments	915	—	915	971	3	974
Individuals	4,893	669	5,562	4,402	738	5,140
Real estate	857	—	857	1,100	—	1,100
All other	9	—	9	42	—	42
<b>Total</b>	<b>\$ 13,043</b>	<b>\$ 1,905</b>	<b>\$ 14,948</b>	<b>\$ 13,721</b>	<b>\$ 1,880</b>	<b>\$ 15,601</b>

The fair value of all other interest-bearing liabilities is estimated by discounting the contractual future cash flows at the current interest rates AEB would pay for deposits with the same remaining maturities.

For variable rate long-term debt, fair values are based on carrying values. The fair value of the remaining long-term debt is determined using discounted cash flows, based on changes in the underlying interest rate indices since the debt was issued.

#### Note 19 CREDIT CONCENTRATIONS

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities or activities in the same geographic region or have similar economic characteristics that would cause their ability to meet contractual obligations to be affected similarly by changes in economic or other conditions. AEB's business activities generate significant investments in certain on- and off-balance sheet financial instruments. The counterparties to these financial instruments, which are primarily unrelated to AEB, operate mainly in Asia/Pacific and Europe.

The credit risk associated with on-balance sheet financial instruments is principally reflected by the book values of loans, securities and deposits with banks. Total credit risk related to the off-balance sheet financial instruments is represented by the contractual amounts of commitments to extend credit, standby

financial letters of credit and guarantees, commercial and other letters of credit.

The following table presents AEB's credit exposure by category, country and region as of December 31, 2004 and 2003:

Country (Billions)	Loans	Foreign Exchange and Derivatives	Net Guarantees and Contingents	Other Credit Exposures <sup>(a)</sup>	2004 Total Credit Exposure <sup>(b)</sup>	2003 Total Credit Exposure <sup>(b)</sup>
Hong Kong	\$ 0.7	\$ -	\$ -	\$ -	\$ 0.7	\$ 0.6
Indonesia	-	-	-	-	-	0.1
Singapore	0.8	-	0.2	0.1	1.1	1.1
Korea	0.2	-	-	-	0.3	0.4
Taiwan	0.3	-	-	0.1	0.4	0.4
Japan	-	-	-	0.1	0.1	0.1
Other	0.1	-	-	0.1	0.3	0.2
Total Asia/Pacific Region <sup>(b)</sup>	2.1	0.1	0.3	0.5	2.9	3.0
Chile	0.1	-	-	0.4	0.1	0.1
Brazil	0.3	-	-	-	0.3	0.4
Mexico	-	-	-	-	-	0.1
Cayman Islands	1.0	-	0.4	0.2	1.5	1.2
Other	0.1	-	0.1	-	0.3	0.1
Total Latin America <sup>(b)</sup>	1.5	-	0.5	0.3	2.3	2.0
India	0.2	-	0.1	0.3	0.6	0.7
Pakistan	-	-	0.1	0.1	0.2	0.1
Other	-	-	0.1	0.1	0.2	0.2
Total Subcontinent <sup>(b)</sup>	0.3	-	0.2	0.5	1.0	1.1
Egypt	-	-	-	0.2	0.2	0.3
Other	-	-	-	-	0.1	0.2
Total Middle East/Africa <sup>(b)</sup>	0.2	-	0.1	0.2	0.4	0.5
Total Europe <sup>(b)</sup>	2.0	0.1	0.4	2.3	4.8	4.6
Total North America	0.9	0.1	0.2	1.4	2.6	2.8
Total Worldwide <sup>(b)</sup>	\$ 6.8	\$ 0.4	\$ 1.6	\$ 5.2	\$ 14.0	\$ 13.9

Includes cross-border and local credit exposure and does not net local funding or liabilities against any local credit exposure.

(a) Includes cash, placements and securities.

(b) Individual items may not add to totals due to rounding.

## Note 20 RESTRUCTURING CHARGES

During the year ended December 31, 2002, AEB adjusted 2001's aggregate restructuring charge liability by taking back into income a net pre-tax amount of \$8 million (\$5 million after-tax). This was comprised primarily of the reversal of severance and related benefits of \$7 million and \$1 million of other charges. In the third and fourth quarters of 2002, AEB recorded new restructuring charges of \$5 million (\$3 million after-tax). The 2002 charges consist of \$3 million pre-tax of severance costs and \$2 million pre-tax of other costs.

During the year ended December 31, 2003, AEB adjusted 2002's aggregate restructuring charge liability by taking back into income a net pre-tax amount of \$2

million (\$1 million after-tax). As of December 31, 2003, AEB had a liability of \$2 million for the expected future cash outlays related to aggregate restructuring charges recorded. In addition to employee attrition or redeployment, approximately 400 employees have been terminated since the inception of the restructuring plans in 2001 and 2002.

During the year ended December 31, 2004, AEB recorded aggregate restructuring charges of \$44 million (\$29 million after-tax) in connection with the decision to sell certain AEB operations in Bangladesh, Egypt, Luxembourg and Pakistan. The aggregate charges include \$30 million of employee severance

related obligations for the elimination of approximately 400 jobs and \$14 million of other costs primarily related to currency translation losses, previously recorded in shareholder's equity.

The following table summarizes by category AEB's restructuring charges, cash payments, balance sheet charge-offs and the resulting liability balance as of December 31, 2004:

(Millions)	Severance	Other	Total
Restructuring charges	\$ 30	\$ 14	\$ 44
Balance Sheet charge-offs	—	(9)	(9)
Liability balance	\$ 30	\$ 5	\$ 35

#### Note 21 GEOGRAPHIC OPERATIONS

AEB operates in the financial services business on a global basis and is subject to significant competition in highly regulated markets.

It is not practical to precisely disaggregate operations by geographic region. Accordingly, total assets, net financial revenues and income (loss) before income

taxes have been allocated to geographic regions based upon internal allocations, which necessarily involve management's judgment.

AEB's operations by geographic regions at December 31, 2004, 2003 and 2002 and for the years then ended were:

(Millions)	North America	Europe	Middle East/ Africa	Asia/ Pacific(a)	Latin America and Other	Consolidated
2004						
Total assets	\$ 2,356	\$ 4,590	\$ 572	\$ 4,219	\$ 1,738	\$ 13,475
Net financial revenues <sup>(b)</sup>	100	270	46	380	101	897
(Loss) income before income taxes	(61)	31	24	99	12	105
2003						
Total assets	\$ 1,945	\$ 5,045	\$ 531	\$ 4,791	\$ 1,905	\$ 14,217
Net financial revenues <sup>(b)</sup>	77	240	39	358	106	820
(Loss) income before income taxes	(22)	30	21	83	35	147
2002						
Total assets	\$ 1,738	\$ 4,590	\$ 512	\$ 4,223	\$ 1,993	\$ 13,056
Net financial revenues <sup>(b)</sup>	73	190	31	316	98	708
Income before income taxes	4	17	—	81	40	142

(a) Includes the Subcontinent.

(b) Excludes provision for credit losses.

#### Note 22 SUBSEQUENT EVENTS

On and effective January 21, 2005, AEB completed the sale of the local Private Banking client assets in Luxembourg. In connection with this transaction, AEB received gross proceeds of approximately \$6 million, which were offset by cumulative pre-tax costs of approximately \$6 million consisting of: (i) \$4 million recorded in 2004 as part of AEB's restructuring charges; and (ii) \$2 million recorded in January 2005 consisting primarily of incentive payments and other costs.

On February 1, 2005, Amexco announced plans to pursue a tax-free spin-off of all of the common stock of AEFC through a special dividend to American Express common shareholders. The final transaction, which is subject to certain conditions including receipt of a

favorable tax ruling and/or opinion, necessary regulatory approvals and approval by Amexco's Board of Directors, is expected to close in the third quarter of 2005.

As further described in Note 3 herein, AEB and AEFC each own 50 percent of AEIDC. If there are changes to the ownership structure of AEIDC or other impacts to AEB's businesses as a result of the spin-off, Amexco capital contributions to AEB and/or some combination of subordinated debt issued to Amexco would potentially be necessary in order for AEB to remain well-capitalized as described in Note 10 herein.

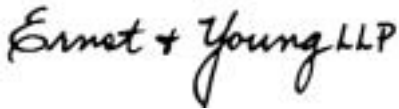
# Report of Ernst & Young LLP Independent Auditors

## THE BOARD OF DIRECTORS OF AMERICAN EXPRESS BANK LTD.

We have audited the accompanying consolidated balance sheets of American Express Bank Ltd. as of December 31, 2004 and 2003 and the related consolidated statements of operations, changes in shareholder's equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the management of American Express Bank Ltd. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Express Bank Ltd. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.



New York, New York

March 8, 2005