

## FINANCIAL HIGHLIGHTS

American Express Bank Ltd.

(Millions, except percentage amounts)

	2005	2004
<b>For The Year</b>		
Net income	\$ 136	\$ 68
Return on average total assets *	.99%	.50%
Return on average total shareholder's equity *	14.95%	7.09%
<b>At Year-End</b>		
Available-for-sale securities	\$ 2,610	\$ 3,036
Loans	7,166	6,844
Total assets	13,895	13,475
Customers' deposits	11,037	10,448
Long-term debt	—	49
Shareholder's equity	757	923
Risk-based capital ratios:		
Tier 1	10.3%	11.0%
Total	11.3%	10.1%
Leverage ratio	5.1%	5.8%

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

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## CONSOLIDATED STATEMENTS OF OPERATIONS

### American Express Bank Ltd.

Year Ended December 31, (Millions)	2005	2004	2003
<b>Interest income:</b>			
Loans	\$402	\$311	\$298
Securities	151	161	183
Deposits with banks	70	44	45
Total	623	516	526
<b>Interest expense:</b>			
Deposits	311	210	203
Short-term borrowings	2	3	4
Long-term debt	3	4	7
Total	316	217	214
Net interest (expense) income from related party transactions (Note 3)	(21)	2	(1)
Net interest income	286	301	311
Provision for credit losses	45	64	75
Net interest income after provision for credit losses	241	237	236
Noninterest income (Note 11):			
Commissions and fees	329	321	258
Foreign exchange income and other revenues	285	275	251
Total	614	596	509
Net financial revenues	855	833	745
<b>Noninterest expenses:</b>			
Salaries and employee benefits	334	328	293
Net occupancy and equipment	83	90	85
Professional fees	66	66	56
Marketing and promotion	28	26	19
Travel and entertainment	23	21	21
Communications	12	12	13
Intercompany operating expenses and other	150	141	113
Restructuring charges (Note 20)	5	44	(2)
Total	701	728	598
Income before income taxes	154	105	147
Income tax provision (Note 15)	18	37	49
Net income	\$136	\$ 68	\$ 98

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED BALANCE SHEETS

### American Express Bank Ltd.

December 31, (Millions)	2005	2004
<b>Assets</b>		
Cash and noninterest-earning deposits with banks	\$ 644	\$ 446
Interest-earning deposits with banks	772	537
Federal funds sold and securities purchased under resale agreements	876	462
Trading assets (Note 4)	564	794
Available-for-sale securities (Note 5)	2,610	3,036
Loans, less reserves: 2005, \$74; 2004, \$87 (Note 6)	7,092	6,757
Customers' acceptance liability	56	71
Accrued interest and other receivables	311	421
Land, buildings and equipment, net of accumulated depreciation and amortization: 2005, \$183; 2004, \$202	126	158
Due from Amexco (Note 1 and Note 3)	242	177
Other assets	602	616
<b>Total assets</b>	<b>\$13,895</b>	<b>\$13,475</b>
<b>Liabilities and Shareholder's Equity</b>		
Customers' deposits:		
Noninterest-bearing	\$ 1,354	\$ 1,086
Interest-bearing	9,683	9,362
Total	11,037	10,448
Short-term borrowings	121	27
Trading liabilities (Note 4)	289	585
Acceptances outstanding	56	71
Accounts payable	178	229
Long-term debt (Note 8)	—	49
Due to Amexco (Note 1 and Note 3)	917	752
Other liabilities	540	391
<b>Total liabilities</b>	<b>13,138</b>	<b>12,552</b>
<b>Shareholder's Equity (Note 9):</b>		
Common stock	121	121
Additional paid-in capital	596	595
Retained earnings	149	243
Accumulated other comprehensive loss:		
Net unrealized gains on available-for-sale securities, net of tax: 2005, (\$4); 2004, (\$42)	6	77
Foreign currency translation adjustments, net of tax: 2005, \$33; 2004, \$52 (Note 12)	(111)	(110)
Minimum pension liability, net of tax: 2005, \$1; 2004, \$1	(4)	(3)
Accumulated other comprehensive loss	(109)	(36)
<b>Total shareholder's equity</b>	<b>757</b>	<b>923</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$13,895</b>	<b>\$13,475</b>

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### American Express Bank Ltd.

Years Ended December 31, (Millions)	2005	2004	2003
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 136	\$ 68	\$ 98
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for credit losses	45	64	75
Depreciation and amortization	45	56	58
Accretion of unearned income and other	(24)	(3)	(55)
Non-cash portion of restructuring charge	5	44	(2)
Undistributed earnings of equity method affiliates	(26)	(25)	(11)
Net realized gains on sales and other dispositions of assets	(9)	(2)	(19)
Deferred income taxes, net	77	(5)	35
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Trading assets	284	26	(321)
Trading liabilities	(296)	32	192
Receivables and payables with Amexco	(79)	51	(115)
Accrued interest and other receivables	96	(66)	(10)
Accounts payable, other assets and liabilities, net	(28)	(148)	(89)
Net cash provided by (used in) operating activities	226	92	(164)
<b>Cash Flows from Investing Activities</b>			
Net change in interest-earning deposits with banks	(232)	593	359
Net change in federal funds sold	(414)	70	295
Proceeds from sales of available-for-sale securities	353	294	587
Principal collected on available-for-sale securities	1,025	1,130	1,163
Purchase of available-for-sale securities	(1,286)	(1,028)	(1,766)
Loan operations and principal collections, net	(526)	(423)	(790)
Net change in loans to Amexco	(3)	478	(106)
Proceeds from sales of land, buildings and equipment	6	14	27
Purchases of land, buildings and equipment	(24)	(46)	(52)
Dispositions, net of cash sold	(381)	—	—
Other, net	(16)	(12)	45
Net cash (used in) provided by investing activities	(1,498)	1,070	(238)
<b>Cash Flows from Financing Activities</b>			
Net change in customers' deposits	1,380	(605)	779
Net change in short-term borrowings	142	(196)	(334)
Net change in borrowings from Amexco	206	(249)	51
Cash capital contributions from Amexco	1	—	—
Cash dividends paid to Amexco	(226)	(105)	(49)
Net cash provided by (used in) financing activities	1,503	(1,155)	447
Effect of exchange rate changes on cash and noninterest-earning deposits with banks	(33)	58	82
Net change in cash and noninterest-earning deposits with banks	198	65	127
Cash and noninterest-earning deposits with banks at the beginning of the year	446	381	254
Cash and noninterest-earning deposits with banks at the end of the year	\$ 644	\$ 446	\$ 381

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

### American Express Bank Ltd.

(Millions)	Total	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings
<b>Balance, December 31, 2002</b>	\$ 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)
<b>Balance, December 31, 2003</b>	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)
<b>Balance, December 31, 2004</b>	923	121	—	595	(36)	243
Comprehensive income:						
Net income	136					136
Change in net unrealized gains on available-for-sale securities	(71)				(71)	
Minimum pension liability adjustment	(1)				(1)	
Foreign currency translation adjustments	(1)				(1)	
Total comprehensive income	63					
Cash dividends paid to Amexco	(226)					(226)
Non-cash dividends paid to Amexco	(4)					(4)
Capital Infusion from Amexco	1			1		
<b>Balance, December 31, 2005</b>	\$ 757	\$121	\$ —	\$596	\$(109)	\$ 149

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). These financial statements encompass the activities of AEB's primary lines of business, including the Financial Institutions Group, Global Wealth Management (GWM), which incorporates The Private Bank and Financial Advisory Services, and Personal and Small Business Lending. These financial statements also include those services 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 is incidental to its activities outside the United States.

#### Principles of Consolidation

AEB consolidates entities in which it holds a greater than 50 percent voting interest. Entities in which AEB holds a greater than 20 percent, but less than 50 percent voting interest are accounted for under the equity method. All other investments are accounted for under the cost method unless AEB determines that it exercises significant influence over the entity by means other than voting rights, in which case these entities are accounted for under the equity method. All significant intercompany transactions are eliminated. Certain reclassifications of prior period amounts have been made to conform to the current presentation.

#### Amounts Based on Estimates and Assumptions

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In part, they are based upon assumptions concerning future events. Among the more significant assumptions are those that relate to investment securities valuation (Note 5), reserves for credit losses (Note 6) and financial instruments (Note 18). These accounting estimates reflect the best judgment of management and actual results could differ.

#### Revenues

AEB generates revenues from lending and charge card activities, interest on investment securities, commissions and fees and foreign exchange.

#### Interest income

Interest income for loans is accrued on unpaid principal balances in accordance with the terms of the loans, unless collection of interest is in doubt and the loan is placed on nonperforming status. 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. Deferred net fees or costs are amortized over the life of the loan using the effective interest method.

Interest income for performing fixed income investment securities 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 security recognizes a constant rate of return on the outstanding balance throughout its term.

### **Noninterest income**

Commissions and fees include fees from asset management and related services, custody and trust services, fiduciary and financial institution beneficiary related fees, as well as fees from letter of credit, acceptances, guarantees and credit line commitments. These fees are recognized over the period in which the related service is provided.

Foreign exchange income and other revenues primarily consist of trading income, Amexco-related revenues (net), foreign exchange income and equity earnings of and dividends from affiliates, accounted for under the equity method of accounting.

### **Expenses**

#### **Provision for credit losses**

AEB separately maintains a provision for credit losses for loans, certain trading assets (primarily foreign exchange and derivative contracts), and other credit-related commitments. The provision for credit losses represent management's estimate of the probable incurred losses inherent in AEB's outstanding portfolio of loans and other credit related exposures. Management's evaluation process requires certain estimates and judgments.

Reserves for loans, other than smaller balance consumer loans, are 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 economic and political conditions.

For smaller balance consumer loans, management establishes reserves for incurred 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 non-performing status when payments of principal or interest are 90 days past due or if, in management's opinion, it is probable the borrower is unable to meet its contractual obligations.

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, which is generally determined by the number of days past due. For cardmember loans, in general, bankruptcy and deceased accounts are written-off upon notification, while other accounts are written-off when 180 days past due. Interest income on these loans generally accrues until the loan is written off.

Included in the reserve for credit losses is a valuation allowance for impaired loans. The allowance for impaired loans 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 the 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.

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 on the balance sheet. The reserve related to other credit-related commitments is reported in other liabilities on the balance sheet.

### **Balance Sheet**

#### **Available-For-Sale Securities**

Available-for-sale securities (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 investment securities. Gains and losses on investment securities (other than trading securities) are recognized using the specific identification method on a trade date basis. In addition, realized 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 related investments 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 assets and liabilities are carried at fair value on the balance sheet with changes in fair value recorded in the Statements of Operations within other revenue. Trading securities consisting primarily of foreign government obligations and

commercial paper, are generally held for resale in the near term to benefit from short-term market movements.

### **Loans**

Loans primarily represent amounts due from high net worth individuals, banks and other financial institutions and consumers. Private banking loans are mostly secured loans to high net worth individuals. Loans to banks and other institutions represent trade-related financing and other extensions of credit. Loans to consumers include secured and unsecured lines of credit, installment loans and some mortgage and auto loans. Loans are stated at the principal amount outstanding net of unearned income and are presented on the balance sheet net of provision for loan losses.

### **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 contractual 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, 2005 and 2004.

### **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 three to eight 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.

### **Goodwill and Other Intangible Assets**

#### **Goodwill**

Goodwill represents the excess of acquisition cost of an acquired company over the fair value of assets acquired and liabilities assumed. Goodwill is included in other assets on the Consolidated Balance Sheets. AEB evaluates goodwill for impairment annually and whenever events and circumstances make it likely that impairment may have occurred, such as a significant adverse change

in the business climate or a decision to sell or dispose of a banking unit. In determining whether impairment has occurred, AEB uses a comparative market multiples approach for calculating fair value.

#### **Intangible Assets**

Intangible assets, including customer relationships, banking licenses and other intangible assets are amortized over their estimated useful lives unless they are deemed to have indefinite useful lives. Intangible assets are included in other assets on the Consolidated Balance Sheets. AEB evaluates intangible assets for impairment annually and whenever events and circumstances make it likely that impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose of a banking unit. For intangible assets subject to amortization, impairment is recognized if the carrying amount is not recoverable and the carrying amount exceeds fair value of the intangible asset.

### **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 (loss) income, 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 recognized on the balance sheet at fair value as either assets or liabilities in AEB's Consolidated Balance Sheets. 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 has the legal right of offset 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 (loss) income 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 (loss) income is recognized into earnings over the period that the hedged item impacts earnings. For any hedge relationships that are discontinued because it is probable the forecasted transaction will not occur according to the original strategy, any related amounts previously recorded in accumulated other comprehensive (loss) income 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 (loss) income 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 Activities**

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

or interest expense, depending on the type of derivative instrument and the nature of the transaction.

#### **Derivative Financial Instruments That Qualify for Hedge Accounting**

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. Such assessments are usually made through the application of statistical measures. AEB only applies the “short cut” method of hedge accounting in very limited cases when such requirements are strictly met. In accordance with its risk management policies, AEB generally structures its hedges with very similar terms to the hedged items; therefore, when applying the accounting requirements, AEB generally recognizes insignificant amounts of ineffectiveness through earnings. If it is determined that a derivative is not highly effective as a hedge, AEB will discontinue the application of hedge accounting.

#### **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.

#### **Recently Issued Accounting Standards**

On November 3, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 115-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” AEB believes its current procedures are consistent with the requirements of FSP FAS 115-1.

In December 2004, the FASB issued FSP FAS 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (the Act)”, which would 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 did not repatriate any foreign earnings as a result of the Act.

## Note 2 Cash Flows

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

Cash paid for interest and income taxes was:

Year Ended December 31, (Millions)	2005	2004	2003
Interest	\$338	\$248	\$237
Income taxes	16	26	32

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 nil, (\$45) million and \$50 million for the years ended December 31, 2005, 2004 and 2003, respectively.

## Foreign Reserves

AEB is required to maintain cash reserve balances with various foreign central banks. These balances are primarily based upon deposit liabilities. At December 31, 2005 and 2004, required reserves held with various foreign central banks were \$92 million and \$183 million, respectively.

## Branch Divestitures

During 2005, AEB sold its operations in Bangladesh and Egypt and certain assets and liabilities in Luxembourg. Total assets and liabilities sold were \$582 million and \$525 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)	2005	2004
Assets:		
Loans	\$ 83	\$ 71
Trading assets	61	147
Investments in affiliates	194	218
Other assets	168	106
Total assets	\$506	\$542
Liabilities:		
Deposits and borrowed funds	\$872	\$661
Trading liabilities	38	40
Other liabilities	74	117
Total liabilities	\$984	\$818

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 \$124 million and \$178 million at December 31, 2005 and 2004, respectively.

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

Year Ended December 31, (Millions)	2005	2004	2003
Interest income <sup>(1)</sup>	\$ 16	\$16	\$13
Interest expense	37	14	14
Net interest (expense) income from related party transactions	\$(21)	\$ 2	\$(1)

(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 were:

December 31, (Millions)	2005	2004
Floating rate, subordinated notes payable to Amexco, due 2015	\$200	\$100
Floating rate, subordinated notes payable to Amexco, due 2011	30	30
<b>Total</b>	<b>\$230</b>	<b>\$130</b>

This intercompany subordinated debt qualifies as Tier 2 Capital for U.S. bank regulatory purposes. The interest rate at December 31, 2005 will vary quarterly based upon the three-month U.S. dollar deposits of leading banks in the London interbank market plus 50 basis points for \$100 million and \$30 million due 2015 and 2011, respectively, and 38 basis points for \$100 million due 2015.

AEB and Amexco each own 50 percent of American Express International Deposit Company (AEIDC) at December 31, 2005. AEB's investment of \$123 million as of December 31, 2005 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 \$29 million, \$61 million and \$68 million for the years ended December 31, 2005, 2004 and 2003, respectively. AEIDC's total assets were \$7.1 billion and \$5.9 billion at December 31, 2005 and 2004, respectively, and were fully consolidated on Amexco'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 owned (refer to Note 22) 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. AEB's investment in EAB of \$71 million as of December 31, 2005 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 \$20 million, \$14 million and \$8 million for the years ended December 31, 2005, 2004 and 2003, respectively. EAB's total assets were \$1.8 billion at December 31, 2005 and 2004, 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)	2005	2004
Foreign government bonds and obligations	\$ 82	\$100
Commercial paper	79	4
Foreign exchange and derivative contracts	243	553
Other trading assets	160	137
<b>Total trading assets</b>	<b>\$564</b>	<b>\$794</b>
Foreign exchange and derivative contracts	289	585
<b>Total trading liabilities</b>	<b>\$289</b>	<b>\$585</b>

There were \$16 million, \$13 million and \$8 million of net gains for 2005, 2004 and 2003, respectively, relating to trading securities held at each balance sheet date.

## Note 5 Available-for-Sale Securities

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

(Millions)	2005				2004			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage- and other asset-backed securities	\$ 768	\$ 5	\$(19)	\$ 754	\$ 831	\$ 14	\$( 7)	\$ 838
Foreign government bonds and obligations	653	6	(8)	651	699	14	(6)	707
Corporate debt securities and other	1,125	73	—	1,198	1,383	103	—	1,486
U.S. government and agencies obligations	2	—	—	2	—	—	—	—
Marketable equity securities	5	—	—	5	5	—	—	5
<b>Total</b>	<b>\$2,553</b>	<b>\$84</b>	<b>\$(27)</b>	<b>\$2,610</b>	<b>\$2,918</b>	<b>\$131</b>	<b>\$(13)</b>	<b>\$3,036</b>

The following table provides information about investment securities with gross unrealized losses and the length of time that individual investment securities have been in a continuous unrealized loss position as of December 31, 2005:

(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	\$264	\$(6)	\$304	\$(13)	\$568	\$(19)
Foreign government bonds and obligations	283	(2)	58	(6)	341	(8)
Other	27	—	1	—	28	—
<b>Total</b>	<b>\$574</b>	<b>\$(8)</b>	<b>\$363</b>	<b>\$(19)</b>	<b>\$937</b>	<b>\$(27)</b>

In evaluating potential other-than-temporary impairments, AEB considers the extent to which amortized cost exceeds fair value and the duration and size of that difference. A key metric in performing this evaluation is the ratio of fair value to amortized cost. The following table summarizes the unrealized losses of temporary impairments by ratio of fair value to cost as of December 31, 2005:

(Millions, except number of securities)	Less than 12 months			12 months or more			Total		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
Ratio of Fair Value to Amortized Cost									
95%–100%	303	\$565	\$(7)	38	\$227	\$(8)	341	\$792	\$(15)
90%–95%	2	6	(1)	7	92	(5)	9	98	(6)
Less than 90%	1	3	—	32	44	(6)	33	47	(6)
<b>Total</b>	<b>306</b>	<b>\$574</b>	<b>\$(8)</b>	<b>77</b>	<b>\$363</b>	<b>\$(19)</b>	<b>383</b>	<b>\$937</b>	<b>\$(27)</b>

Substantially all of the gross unrealized losses on the investment securities are attributable to changes in interest rates. Credit spreads and specific credit events associated with individual issuers can also cause unrealized losses although these impacts are not significant as of December 31, 2005.

The investment securities which have fair value to cost ratio of less than 90 percent are comprised of foreign government bonds and obligations. AEB expects that all

contractual principal and interest will be received on these investment securities.

The unrealized losses in the other categories are not concentrated in any individual industries or with any individual investment securities. AEB monitors the investment securities and metrics discussed above on a quarterly basis to identify and evaluate investment securities that have indications of possible other-than-temporary impairment. AEB has the ability and intent

to hold these investment securities for a time sufficient to recover a significant amount of their amortized cost.

The change in net unrealized investment securities gains (losses) in accumulated other comprehensive (loss) income includes the following components: (i) unrealized gains (losses) that arose from changes in market value of investment securities that were held during the period (holding gains (losses)) and (ii) gains (losses) that were previously unrealized, but have been recognized in the current period net income due to sales and other-than-temporary impairments of investment securities (reclassification for realized gains (losses)).

The following table presents these components of accumulated other comprehensive (loss) income, net of tax, for the years ended December 31:

(Millions, net of tax)	2005	2004	2003
Holding (losses) gains	\$(36)	\$ 2	\$(22)
Reclassification for realized gains	(4)	—	(6)
Increase in unrealized (losses) gains on investment securities in accumulated other comprehensive (loss) income	\$(40)	\$ 2	\$(28)

The following table shows the remaining maturities for investment securities, distributed by type as of December 31, 2005:

(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	\$349	\$145	\$109	\$48	\$ 651
Corporate debt securities and other	104	630	464	—	1,198
	\$453	\$775	\$573	\$48	\$1,849
Mortgage- and other asset-backed securities					754
Marketable equity and other securities					7
Total investment securities					\$2,610

The expected payments on mortgage and other asset-backed investment securities may not coincide with their contractual maturities. As such, these investment securities, as well as equity investment securities, are not included in the maturities distribution.

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

(Millions)	2005	2004
Purchases	\$1,286	\$1,028
Sales	\$ 353	\$ 294
Maturities	\$1,025	\$1,130

Included in interest income are gross realized gains and losses on sales of investment securities, as well as other-than-temporary losses on investment securities classified as available-for-sale, as noted in the following table for the years ended December 31:

(Millions)	2005	2004	2003
Gross realized gains from sales and prepayments	\$ 6	\$ 3	\$10
Gross realized losses from sales and prepayments	\$—	\$—	\$—
Other-than-temporary impairments	\$—	\$ 1	\$—

Included in available-for-sale securities at December 31, 2005 and 2004 were investment securities totaling \$733 million and \$657 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 at December 31, 2005 and 2004, respectively, was:

(Millions)	2005	2004
Consumer loans <sup>(1)</sup> :		
Installment, revolving credit and other	\$4,641	\$4,501
Loans secured by real estate	234	283
	<b>4,875</b>	<b>4,784</b>
Commercial loans:		
Loans to banks and other financial institutions	2,268	1,984
Loans to businesses	16	57
Loans secured by real estate	7	19
	<b>2,291</b>	<b>2,060</b>
<b>Total loans</b>	<b>\$7,166</b>	<b>\$6,844</b>

(1) Excluding consumer loans sold with remaining balances of \$242 million and \$354 million at December 31, 2005 and 2004, respectively.

Included in Consumer Loans above are loans with private banking clients, most of which are fully collateralized. Total private banking loans were \$3,376 million and \$3,333 million at December 31, 2005 and 2004, respectively.

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

December 31, (Millions)	2005	2004
Recorded investment in impaired loans requiring an allowance	\$19	\$37
Recorded investment in impaired loans not requiring an allowance	—	—
<b>Total recorded investment in impaired loans</b>	<b>\$19</b>	<b>\$37</b>
<b>Loan loss reserves for impaired loans</b>	<b>\$15</b>	<b>\$17</b>

  

Year Ended December 31, (Millions)	2005	2004	2003
Average recorded investment in impaired loans	\$24	\$52	\$98
Interest income recognized on a cash basis	\$—	\$ 1	\$ 1

The following table presents changes in reserves for credit losses:

December 31, (Millions)	2005	2004	2003
Balances — January 1,	\$ 89	\$ 92	\$ 119
Provision for credit losses	45	64	75
Write-offs	(76)	(92)	(115)
Recoveries	26	24	16
Translation and other	(3)	1	(3)
<b>Balances — December 31,<sup>(1)</sup></b>	<b>\$ 81</b>	<b>\$ 89</b>	<b>\$ 92</b>
<sup>(1)</sup> Allocation:			
Loans	\$ 74	\$ 87	\$ 84
Trading assets	1	1	6
Other liabilities for credit-related commitments	6	1	2
<b>Balances — December 31,</b>	<b>\$ 81</b>	<b>\$ 89</b>	<b>\$ 92</b>

## Note 7 Goodwill and Other Intangibles

As of December 31, 2005 and 2004, AEB had net identifiable intangible assets with definite lives of \$4 million. The aggregate amortization expense for these intangible assets was \$1 million, \$0.8 million and \$0.4 million as of December 31, 2005, 2004 and 2003, respectively. These assets have a weighted average useful life of 12 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, 2005, 2004 and 2003, respectively, and is included in other assets in the Consolidated Balance Sheets.

## Note 8 Long-Term Debt

December 31, (Millions)	2005	2004
Floating Rate Notes, Egyptian Pounds 300 million, due 2006	\$—	\$49

The 300 million Egyptian Pounds Floating Rate Notes due in 2006 were unsecured obligations of AEB. During 2005, the AEB Egypt Branch was sold and these notes were assumed by the acquirer.

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 maxi-

imum aggregate principal amount of debt instruments outstanding at any one time under this program will not exceed \$6 billion. At December 31, 2005 and 2004, AEB did not have any debt outstanding under this program.

Other financial institutions have committed to extend secured credit to AEB of \$400 million and \$496 million at December 31, 2005 and 2004, respectively, primarily for overnight funding arrangements.

## Note 9 Shareholder's Equity

The composition of shareholder's equity was as follows:

December 31, (Millions, except par value and share data)	2005	2004	Par Value	Authorized Shares	Issued and Outstanding Shares
Common stock	\$ 121	\$ 121	\$100	2,000,000	1,210,000
Additional paid-in capital	596	595	—	—	—
Retained earnings	149	243	—	—	—
Other comprehensive (loss) income, net of tax:					
Net unrealized gains on available-for-sale securities	6	77	—	—	—
Foreign currency translation adjustments	(111)	(110)	—	—	—
Minimum pension liability	(4)	(3)	—	—	—
Accumulated other comprehensive loss	(109)	(36)	—	—	—
Total	\$ 757	\$ 923	—	—	—

## Note 10 Regulatory Capital

AEB's global network of offices and subsidiaries are subject to continuous supervision and examination by the New York State Banking Department ("NYSBD").

The NYSBD requires AEB to monitor its financial condition and maintain risk-based and leverage capital in accordance with minimum thresholds established by the NYSBD. AEB had Tier I, Total and Leverage capital (as those terms are defined under the Federal Reserve Board's risk-based capital guidelines) that exceeded the minimum standards established by the NYSBD as follows at December 31:

Additionally, AEB is not anticipated to be required to comply on a consolidated basis with the Advanced Internal Ratings Based Approach incorporated in the Basel II Capital Accord Framework published in June 2004. AEB monitors developments with respect to the implementation of the Basel II Capital Accord in jurisdictions where its branch and subsidiary offices are located, and will implement changes to maintain compliance with applicable requirements.

December 31, (Millions, except percentages)	2005	2004	Minimum Regulatory Requirements
Capital Ratios			
Tier I capital	10.3%	11.0%	6.0%
Total capital	11.3%	10.1%	10.0%
Leverage	5.1%	5.8%	4.0%
Qualifying capital			
Tier I capital	\$ 706	\$ 754	
Total capital	\$ 777	\$ 693	
Adjusted risk-weighted assets	\$ 6,870	\$ 6,894	
Adjusted average assets	\$13,778	\$13,119	

## Note 11 Noninterest Income

Noninterest income consisted of:

Year Ended December 31, (Millions)	2005	2004	2003
Commissions and fees:			
Letters of credit, acceptances, guarantees and credit lines	\$ 33	\$ 36	\$ 31
Asset management, fiduciary and client services fees	88	82	96
Financial institution beneficiary related fees	78	65	39
Other commissions and fees	130	138	92
	329	321	258
Foreign exchange income and other revenues:			
Foreign exchange income	51	123	40
Equity earnings of and dividends from affiliates	51	76	76
Other trading income	74	14	76
Net gain on sale of available-for-sale securities	6	3	10
Amexco-related revenues, net	56	44	36
Other revenues	47	15	13
	285	275	251
Total	\$614	\$596	\$509

## Note 12 Foreign Currency

Income from foreign exchange and non-functional currency transactions was \$56 million in 2005, \$135 million in 2004 and \$58 million in 2003. Losses from foreign exchange and non-functional currency transactions included in income were \$5 million in 2005, \$13 million in 2004 and \$18 million in 2003.

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

(Millions)	2005	2004	2003
Balances — January 1,	\$(110)	\$(112)	\$(105)
Net restructuring charge	—	7	—
Net translation losses	(1)	(5)	(7)
Balances — December 31,	\$(111)	\$(110)	\$(112)

## Note 13 Retirement Plans

### Defined Benefit 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. The Plan is a cash balance plan and employees' accrued benefits are based on notional 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 and overtime). 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, with a minimum crediting rate of 5 percent and a maximum crediting rate equal to the lesser of (i) 10% or (ii) the annual maximum interest rate set by the U.S. Government for determining lump-sum values. Employees and their beneficiaries have the option to receive annuity payments upon retirement or select a lump sum payout at vested termination, death, disability 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 due to Internal Revenue Service limits. The SRP is an excess benefit plan and its terms generally parallel those of the Plan but the SRP's definition of compensation and payment options differ.

Most employees outside the United States, who represent the majority of AEB's workforce, are covered by local retirement plans, some of which are funded, while other employees receive payments at the time of retirement or termination under applicable labor laws or agreements.

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, "Employers' Accounting for Pensions," are as follows:

(Millions)	2005	2004	2003
Service cost	\$ 6	\$ 6	\$ 6
Interest cost	12	12	11
Expected return on plan assets	(14)	(14)	(13)
Recognized net actuarial loss	3	2	2
Amortization of prior service cost	—	—	(1)
Net periodic pension benefit cost	\$ 7	\$ 6	\$ 5

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 projected benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The following tables provide a reconciliation of the changes in the plans' projected benefit obligation and fair value of assets for all plans accounted for under SFAS No. 87.

#### Reconciliation of Change in Projected Benefit Obligation

(Millions)	2005	2004
Projected benefit obligation, October 1 prior year	\$232	\$207
Service cost	6	6
Interest cost	12	12
Benefits paid	(10)	(10)
Actuarial loss	24	7
Settlements/curtailments	(1)	(1)
Foreign currency exchange rate changes	(15)	11
Projected benefit obligation at September 30,	\$248	\$232

#### Reconciliation of Change in Fair Value of Plan Assets:

(Millions)	2005	2004
Fair value of plan assets, October 1, prior year	\$191	\$171
Actual gain on plan assets	29	15
Employer contributions	5	7
Benefits paid	(10)	(10)
Settlements	(1)	(1)
Foreign currency exchange rate changes	(11)	9
Fair value of plan assets at September 30,	\$203	\$191

AEB complies with the minimum funding requirements in all countries. The following table reconciles the plans' funded status (benefit obligation less fair value of plan assets) to the amounts recognized on the Consolidated Balance Sheets:

#### Funded Status

(Millions)	2005	2004
Funded status at September 30,	\$(45)	\$(41)
Unrecognized net actuarial loss	37	40
Unrecognized prior service cost	2	3
Fourth quarter contributions	1	—
Net amount recognized at December 31,	\$(5)	\$ 2
Accumulated benefit obligation at September 30,	\$230	\$221

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

(Millions)	2005	2004
Accrued benefit liability	\$(58)	\$(56)
Prepaid benefit cost	48	57
Minimum pension liability adjustment	5	1
Net amount recognized at December 31,	\$(5)	\$ 2

The projected benefit obligation for all pension plans as of September 30, 2005 and 2004 was \$248 million and \$232 million, respectively. AEB must also disclose the projected benefit obligation and related fair value of plan assets for specific pension plans with projected benefit obligations that exceed the fair value of plan assets. The projected benefit obligation and related fair value of plan assets for these specific pension plans was \$184 million and \$116 million, respectively, as of September 30, 2005, and \$68 million and \$13 million, respectively, as of September 30, 2004.

The accumulated benefit obligation for pension plans, primarily unfunded plans, with accumulated benefit obligations that exceeded the fair value of plan assets was \$59 million and \$56 million as of September 30, 2005 and 2004, respectively. The fair value of the related plan assets was \$2 million at these dates.

The weighted average assumptions used to determine benefit obligations were:

	2005	2004
Discount rates	4.9%	5.4%
Rates of increase in compensation levels	3.9%	3.8%

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

	2005	2004
Discount rates	5.4%	5.6%
Rates of increase in compensation levels	3.8%	3.7%
Expected long-term rates of return on assets	7.6%	7.7%

For 2005, AEB assumed a long-term rate of return on assets of 7.6%. In developing the 7.6% 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 discount rate assumption for AEB's material plans (U.S. and U.K.) was determined by using a model consisting of bond portfolios that match the cash flows of the plan's projected benefit payments. The use of the rate produced by this model will result in a projected obligation that would equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of expected future benefit payments.

The asset allocation for AEB's pension plans at September 30, 2005 and 2004, and the target allocation for 2006 by asset category are (actual allocations will generally be within 5% of these targets):

	Target Allocation	Percentage of Plan Assets at	
	2006	2005	2004
Equity securities	67%	68%	68%
Debt securities	27%	26%	27%
Other	6%	6%	5%
Total	100%	100%	100%

AEB invests in an aggregate diversified portfolio to ensure that adverse or unexpected results from a secu-

rity class will not have a detrimental impact on the entire portfolio. The portfolio is diversified by asset type, performance and risk characteristics and number of investments. Asset classes and ranges considered appropriate for investment of the plan's assets are determined by each plan's investment committee. The asset classes typically include domestic and foreign equities, emerging market equities, domestic and foreign investment grade and high-yield bonds and real estate.

AEB's retirement plans expect to make benefit payments to retirees as follows (millions): 2006, \$12; 2007, \$12; 2008, \$13; 2009, \$13; 2010, \$14 and 2011–2015, \$81. In addition, AEB expects to contribute \$5 million to its pension plans in 2006.

#### Defined Contribution Retirement Plans

Amexco sponsors defined contribution retirement plans, the principal plan being the Incentive Savings Plan ("ISP"), a 401(k) savings plan with a profit sharing and stock bonus plan feature which is a qualified plan under ERISA and which covers most employees in the United States. Under the terms of the ISP, employees have the option of investing in the American Express Company Stock Fund through accumulated payroll deductions. In addition, at least quarterly Amexco makes automatic cash contributions equal to 1 percent per annum of a qualifying employee's base salary. Such contributions are invested automatically in the American Express Company Stock Fund, which invests primarily in Amexco's common stock and, effective August 2, 2004, can be directed at any time into other ISP investment options.

AEB's defined contribution plan expense was \$7 million in 2005 and \$5 million in 2004 and 2003, respectively.

#### Other Postretirement Benefits

Amexco sponsors postretirement benefit plans that provide health care and life insurance to certain 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 2005 and 2004, and \$1 million in 2003. Effective January 1, 2004, Amexco decided to only provide a subsidy for these benefits for employees who were at least age 40 with at least 5 years of service as of December 31, 2003. The liabilities recognized on the Consolidated Balance Sheets for AEB's defined postretirement benefit plans (other than pension plans) at December 31, 2005 and December 31, 2004 were \$15 million and \$14 million, respectively.

#### Note 14 Lease Commitments and Other Contingent Liabilities

AEB leases certain office facilities and operating equipment under noncancelable and cancelable agreements. Total rent expense amounted to \$22 million, \$23 million and \$24 million in 2005, 2004 and 2003, respectively. At December 31, 2005, the minimum aggregate rental commitments under all noncancelable operating leases, was as follows: 2006, \$11 million; 2007, \$9 million; 2008, \$6 million; 2009, \$3 million; 2010, \$3 million; and thereafter, \$14 million.

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

The components of income tax provision included in the Consolidated Statements of Operations were as follows:

Year Ended December 31, (Millions)	2005	2004	2003
Current income tax (benefit) provision			
U.S. federal	<b>\$(94)</b>	\$ 43	\$(19)
U.S. state and local	<b>1</b>	(16)	1
Foreign	<b>34</b>	15	32
Total current (benefit) provision	<b>\$(59)</b>	\$ 42	\$ 14
Deferred income tax provision (benefit)			
U.S. federal	<b>\$ 76</b>	\$ (5)	\$ 39
U.S. state and local	<b>—</b>	—	—
Foreign	<b>1</b>	—	(4)
Total deferred provision (benefit)	<b>\$ 77</b>	\$ (5)	\$ 35
Total income tax provision	<b>\$ 18</b>	\$ 37	\$ 49

A reconciliation of the U.S. Federal statutory rate of 35 percent to AEB's effective income tax rate for 2005, 2004 and 2003 was as follows:

Year Ended December 31, (Millions)	2005	2004	2003
Combined tax at U.S. statutory rate	<b>35.0%</b>	35.0%	35.0%
Changes in taxes resulting from:			
State and local income taxes	<b>0.3</b>	(10.0)	0.3
IRS tax settlement	<b>(21.1)</b>	—	—
All other	<b>(2.0)</b>	10.2	(2.0)
Effective tax rates	<b>12.2%</b>	35.2%	33.3%

Deferred income tax provision (benefit) 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, 2005 and 2004 are reflected in the following table:

(Millions)	2005	2004
Deferred tax assets:		
Reserves	<b>\$ 75</b>	\$ 89
Deferred compensation	<b>29</b>	29
Foreign currency translation adjustment	<b>33</b>	52
All other	<b>17</b>	28
Gross deferred tax assets	<b>\$154</b>	\$198
Deferred tax liabilities:		
Depreciation & amortization	<b>\$ 33</b>	\$ 35
Net unrealized securities gains	<b>4</b>	42
Unremitted earnings	<b>102</b>	47
Gross deferred tax liabilities	<b>\$139</b>	\$124
Net deferred tax assets	<b>\$ 15</b>	\$ 74

The gross deferred tax assets are shown net of a valuation allowance of \$11 million and \$6 million at December 31, 2005 and 2004, respectively.

AEB's income tax receivable from Amexco was \$79 million at December 31, 2005. AEB's income tax payable to Amexco was \$41 million at December 31, 2004.

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)	2005	2004	2003
Net unrealized available-for-sale securities (losses) gains	\$(38)	\$ 1	\$(15)
Net unrealized losses on derivatives	—	—	(2)
Foreign currency translation adjustments	19	5	(5)
Minimum pension liability adjustment	—	—	—
Net income tax provision (benefit)	\$(19)	\$ 6	\$(22)

### Note 16 Derivatives and Hedging Instruments

Derivative financial instruments enable the end users to manage exposure to credit and various 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. Credit risk associated with AEB's derivative is limited to the risk that a derivative counterparty will not perform in accordance with the terms of the contract. To mitigate such risk, counterparties are required to be pre-approved. Additionally, AEB may, from time to time, enter into master netting agreements where practical. As of December 31, 2005 and 2004, the total fair value, excluding accruals, of derivative product assets was \$273 million and \$549 million, respectively, and derivative product liabilities was \$319 million and \$600 million, respectively. The total notional amount of derivatives as of December 31, 2005 was \$40 billion. The following summarizes AEB's use of derivative financial instruments.

#### Cash Flow Hedges

From time to time AEB uses interest rate products, primarily interest rate swaps, to manage funding costs and interest rate risk related to its floating rate assets and liabilities or anticipated transactions. For 2005, 2004 and 2003, AEB did not enter into any cash flow hedge transactions.

#### Fair Value Hedges

AEB is exposed to interest rate risk related to some of its fixed rate corporate debt securities and deposit products. AEB hedges fair value changes related to a portion of its callable customer deposits. Such transactions are

hedged using callable rate swaps. AEB enters into interest rate swaps to hedge this exposure. For 2005, 2004, and 2003, there were no gains or losses on derivative transactions or portions thereof that were excluded from the assessment of hedge effectiveness. Hedge ineffectiveness for 2005, 2004 and 2003 was immaterial. The total fair value, excluding accruals, of derivative product assets and liabilities designated as fair value hedges was \$0.3 million and \$88 million, respectively, as of December 31, 2005 and nil and \$83 million, respectively, as of December 31, 2004.

#### 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 2005, the net amount of total losses related to the hedges included in foreign currency translation adjustments, was approximately \$14 million, net of tax. The total fair value of these derivative product assets and liabilities designated was \$6 million and \$5 million, respectively, as of December 31, 2005 and \$0.3 million and \$19 million, respectively, as of December 31, 2004.

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

AEB enters into derivative contracts to meet the needs of its clients and, to a limited extent, for trading purposes, including taking proprietary positions. AEB derivative activities also include economic hedging of various foreign currency and interest rate exposures related to its banking activities. The total fair value, excluding accruals, of these derivative product assets and liabilities was \$267 million and \$226 million, respectively, as of December 31, 2005 and \$549 million and \$498 million, respectively, as of December 31, 2004. These amounts include the identified embedded derivatives discussed below.

#### Embedded Derivatives

AEB has identified certain significant derivatives embedded in other financial instruments that were required to be accounted for separately from the host financial instrument. Such items included certain structured customer deposit products issued by AEB which have returns tied to the performance of equity markets or other indexes and financial instruments. AEB manages this equity market risk by entering into options and futures with offsetting characteristics. As of December 31, 2005 and 2004, the total fair value of such derivative product liabilities was \$25 million and \$1 million, respectively.

### ***Derivative Financial Instrument Risks***

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 may require 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 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) \$328 million and \$571 million at December 31, 2005 and 2004, respectively. The positive fair value is the cost of replacing the contracts in the market in the event of counterparty default 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, 2005, the majority of these contracts had remaining maturities within one year.

At December 31, 2005 and 2004, foreign currency products with total notional amounts of approximately \$22 billion and \$28 billion, respectively, were outstanding.

### ***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. Interest rate

derivative financial instruments with notional amounts of approximately \$17 billion and \$11 billion were outstanding at December 31, 2005 and 2004, respectively.

### Equity Market Products

As previously noted a portion of AEB's deposit products are considered to be structured products and have returns tied to the performance of the equity markets. AEB manages this equity market risk by entering into derivative contracts, primarily equity derivatives with offsetting characteristics. These equity derivatives with notional amounts of approximately \$1 billion were outstanding at both December 31, 2005 and 2004.

### Note 17 Guarantees and Certain 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 Requirements for Guarantees, Including

Indirect Guarantees of Indebtedness of Others" (FIN 45), 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 ensure 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.

The following table provides information related to such standby financial letters of credit and guarantees that are within the scope of FIN 45 as of December 31:

(Millions)	2005		2004	
	Maximum amount of undiscounted future payments	Amount of related liability at December 31, 2005	Maximum amount of undiscounted future payments	Amount of related liability at December 31, 2004
Financial guarantees <sup>(a)</sup>	\$ 641	\$1.7	\$557	\$2.0
Standby financial letters of credit <sup>(a)</sup>	339	1.0	295	0.4
Performance guarantees <sup>(b)</sup>	104	0.6	119	1.1
Total	\$1,084	\$3.3	\$971	\$3.5

(a)AEB held collateral of \$891 million and \$730 million related to such guarantees at December 31, 2005 and 2004, respectively, which were predominantly represented by customers' deposits and counter-guarantees.

(b)AEB held collateral of \$45 million and \$58 million related to such guarantees at December 31, 2005 and 2004, respectively, which were predominantly represented by customers' deposits and counter-guarantees.

AEB's off-balance sheet financial instruments principally relate to extending credit to satisfy the needs of its banking clients. The contractual amount of these instruments, including those with Amexco which were \$23 million at December 31, 2005, 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 obli-

gation 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 needs of its banking clients, which typically mature 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, 2005 and 2004, AEB held \$181 million and \$147 million, respectively, of collateral, consisting primarily of customers' deposits and guarantees, supporting commercial and other letters and lines of credit.

Total guarantees and off-balance sheet items were as follows as of December 31:

(Millions)	2005	2004
Commitments to extend credit	\$ 330	\$ 344
Standby letters of credit and guarantees:		
Financial	980	852
Performance	104	119
Commercial and other letters of credit	508	590
<b>Total off-balance sheet items</b>	<b>\$1,922</b>	<b>\$1,905</b>

## Note 18 Fair Values of Financial Instruments

The following table discloses fair value information for financial instruments. The fair values of financial instruments are estimates based upon market conditions at December 31, 2005 and 2004 and require management judgment. These figures may not be indicative of their future fair values. The fair value of AEB, therefore, cannot be estimated by aggregating the amounts presented.

The following table discloses fair value information for financial instruments:

December 31, (Millions)	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Available-for-sale securities	\$2,610	\$2,610	\$3,036	\$3,036
Trading assets	\$ 564	\$ 564	\$ 794	\$ 794
Loans, net of reserves	\$7,092	\$7,211	\$6,757	\$6,871
Non-trading derivative financial instruments	\$ 21	\$ 21	\$ 15	\$ 15
<b>Financial Liabilities</b>				
Interest-bearing customers' deposits	\$9,683	\$9,687	\$9,362	\$9,453
Long-term debt	\$ —	\$ —	\$ 49	\$ 49
Trading liabilities	\$ 289	\$ 289	\$ 585	\$ 585
Non-trading derivative financial instruments	\$ 17	\$ 17	\$ 17	\$ 17

See Note 5 for carrying and fair value information regarding investment securities, Note 4 for fair value information regarding trading assets, Note 16 for fair value information regarding derivative financial instruments and Note 17 for carrying and fair value information regarding guarantees and certain off-balance sheet financial items. The following methods were used to estimate the fair values of financial assets and financial liabilities:

### Financial Assets

Generally, investments are carried at fair value on the Consolidated Balance Sheets and gains and losses are recognized in the Consolidated Statements of Operations upon disposition of the investment securities or when management determines that a decline is other-than-temporary.

For variable loan rates that reprice within one year and for which there has been no significant change in the borrowers' creditworthiness, fair values approximate carrying values.

The fair value 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

For interest-bearing deposit liabilities that mature or reprice within six months, fair values are based on carrying values. For all other interest-bearing liabilities, fair values are estimated using discounted cash flow analysis, based on current interest rates AEB would pay for deposits with similar remaining maturities.

For variable rate long-term debt that reprices within one year, fair value approximates carrying value. For other long-term debt, fair value is estimated using either quoted

market prices or discounted cash flows based on AEB's current borrowing rates for similar types of borrowing.

#### Note 19 Credit Concentrations

A credit concentration may exist if customers are involved in similar industries, economic sectors and geographic regions. AEB's customers operate in diverse economic sectors and geographic regions. Therefore, management does not expect any material adverse consequences to AEB's financial position, results of

operations or cash flows to result from these types of credit concentrations.

Certain distinctions between categories require management judgment. The following table represents AEB's 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, at December 31:

(Millions)	2005			2004		
	On-Balance Sheet	Off-Balance Sheet	Total	On-Balance Sheet	Off-Balance Sheet	Total
Banks and other financial institutions	\$ 6,230	\$1,106	\$ 7,336	\$ 5,672	\$1,047	\$ 6,719
Other businesses	581	181	762	697	183	880
Foreign governments	758	16	774	915	6	921
Individuals	4,970	619	5,589	4,893	669	5,562
Real estate	761	—	761	857	—	857
All other	11	—	11	9	—	9
<b>Total</b>	<b>\$13,311</b>	<b>\$1,922</b>	<b>\$15,233</b>	<b>\$13,043</b>	<b>\$1,905</b>	<b>\$14,948</b>

The credit risk associated with on-balance sheet financial instruments is principally reflected by the book values of loans, investment 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:

Country (Billions)	Loans	Foreign Exchange and Derivatives	Net Guarantees and Contingents	Other Credit Exposures <sup>(a)</sup>	2005 Total Credit Exposure <sup>(b)</sup>	2004 Total Credit Exposure <sup>(b)</sup>
Hong Kong	\$0.6	\$ —	\$ —	\$ —	\$ 0.6	\$ 0.7
Singapore	0.9	0.1	0.2	0.2	1.4	1.1
Korea	0.3	—	—	—	0.3	0.3
Taiwan	0.3	—	—	0.1	0.4	0.4
Japan	—	—	—	0.1	0.1	0.1
Other	0.2	—	0.1	0.2	0.5	0.3
Total Asia/Pacific Region <sup>(b)</sup>	2.3	0.1	0.3	0.6	3.3	2.9
Chile	0.1	—	—	—	0.1	0.1
Brazil	0.3	—	—	0.1	0.4	0.3
Cayman Islands	1.0	—	0.5	0.2	1.7	1.5
Other	0.2	—	0.1	—	0.3	0.3
Total Latin America <sup>(b)</sup>	1.6	—	0.6	0.3	2.5	2.3
India	0.3	—	0.1	0.2	0.6	0.6
Pakistan	—	—	0.1	0.1	0.2	0.2
Other	—	—	—	—	—	0.2
Total Subcontinent <sup>(b)</sup>	0.3	—	0.2	0.3	0.8	1.0
Egypt	—	—	—	0.1	0.1	0.2
Other	0.1	—	0.1	—	0.2	0.1
Total Middle East/Africa <sup>(b)</sup>	0.1	—	0.1	0.1	0.3	0.4
Total Europe <sup>(b)</sup>	2.0	0.1	0.3	2.7	5.1	4.8
Total North America	0.8	—	0.1	1.5	2.4	2.6
Total Worldwide <sup>(b)</sup>	\$7.1	\$0.2	\$1.6	\$5.5	\$14.4	\$14.0

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 2005 and 2004, AEB recorded restructuring charges consisting of severance obligations and other exit costs (primarily related to currency translation losses, previously recorded in shareholder's equity) in connection with the decision to sell certain AEB operations in Bangladesh, Egypt, Luxembourg and Pakistan.

The following table summarizes AEB's restructuring charges, cash payments and the resulting liability balances as of December 31 (in millions):

2004 Restructuring Charges			Cash paid during 2004			Other <sup>(a)</sup>	Liability balance at December 31, 2004				
Severance	Other	Total	Severance	Other	Total		Severance	Other	Total		
\$30	\$14	\$44	\$—	\$—	\$—	\$ (9)	\$30	\$5	\$35		
Liability balance at December 31, 2004			2005 Restructuring Charges			Cash paid during 2005			Liability balance at December 31, 2005		
Total	Severance	Other	Total	Severance	Other	Total	Severance	Other	Total		
\$35	\$5	\$—	\$5	\$24	\$4	\$28	\$11	\$1	\$12		

(a) Represents currency translation losses previously recorded in shareholder's equity that were included in other restructuring charges of \$14 million in 2004.

## Note 21 Geographic Operations

The following table presents AEB's total assets, net financial revenues and (loss) income before taxes in different geographic regions:

(Millions)	North America	Europe	Middle East/ Africa	Asia/ Pacific <sup>(a)</sup>	Latin America and Other	Consolidated
<b>2005</b>						
Total assets	\$2,414	\$4,833	\$471	\$4,264	\$1,913	\$13,895
Net financial revenues <sup>(b)</sup>	94	288	45	379	94	900
(Loss) income before income taxes	(45)	64	21	113	1	154
<b>2004</b>						
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
<b>2003</b>						
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

(a)Includes the Subcontinent.

(b)Excludes provision for credit losses.

AEB operates in the financial services business on an integrated worldwide basis. Therefore, it is not practical to separate precisely 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 22 Subsequent Events

In January 2006, AEB and Bank of Alexandria signed an agreement to tender their stakes in Egyptian American Bank (EAB) to Credit Agricole S.A. and El Mansour & El Maghraby Investment and Development Company. A final closing took place in February 2006, following regulatory approval.

As announced in January 2006, American Express Bank GmbH, a wholly-owned subsidiary of American Express

Bank sold its Asset Gathering Customer Portfolio with deposit liabilities of approximately 425 million Euros and customer-owned mutual fund investments of approximately 145 million Euros to Comdirect Bank, an indirect wholly-owned subsidiary of Commerzbank AG.

In 2005, AEB signed an agreement with Jahangir Sidigui Investment Bank Ltd. that is expected to result in the transfer of AEB Pakistan's local commercial banking operations to a new company.

As announced in March 2006, AEB entered into an agreement to sell its local banking operations in Brazil to Banco Bradesco S.A. The transaction is expected to close by the end of the second quarter of 2006, subject to regulatory approval.

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholder of  
American Express Bank Ltd.:

In our opinion, the accompanying consolidated balance sheet and the related statements of income, shareholder's equity and cash flows present fairly, in all material respects, the financial position of American Express Bank Ltd. and its subsidiaries (the "Company") at December 31, 2005, and the results of their operations and their cash flows for the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2004 and 2003 and for the years then ended were audited by other auditors whose report dated March 8, 2005 expressed an unqualified opinion on those statements.



New York, New York  
March 20, 2006