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American Express Bank Ltd.

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CONSOLIDATED STATEMENTS OF OPERATIONS

American Express Bank Ltd.

Year Ended December 31, (Millions)	2006	2005
Interest income:		
Loans	\$485	\$368
Securities	130	138
Deposits with banks	120	68
Total	735	574
Interest expense:		
Deposits	403	296
Short-term borrowings	3	1
Total	406	297
Net interest expense from related party transactions (Note 3)	22	20
Net interest income	307	257
Provision for credit losses	79	50
Net interest income after provision for credit losses	228	207
Noninterest income (Note 10):		
Commissions and fees	433	382
Foreign exchange income and other revenues	134	219
Total	567	601
Net financial revenues	795	808
Noninterest expenses:		
Salaries and employee benefits	342	317
Net occupancy and equipment	86	79
Professional fees	88	65
Marketing and promotion	23	28
Travel and entertainment	24	23
Communications	11	10
Intercompany operating expenses and other	196	144
Restructuring charges (Note 19)	3	4
Total	773	670
Gain on sale of equity method investment (Note 3)	88	—
Pretax income from continuing operations	110	138
Income tax provision (Note 14)	44	16
Income from continuing operations	66	122
(Loss) Income from discontinued operations, net of tax (Note 2)	(29)	14
Net income	\$ 37	\$136

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

American Express Bank Ltd.

December 31, (Millions, except share data)	2006	2005
Assets		
Cash and due from banks	\$ 189	\$ 643
Interest-earning deposits with banks	2,905	772
Federal funds sold and securities purchased under resale agreements	541	822
Trading assets (Note 4)	604	564
Available-for-Sale securities (Note 5)	2,260	2,606
Loans, less reserves: 2006, \$70; 2005, \$71 (Note 6)	7,223	7,032
Customers' acceptance liability	75	56
Accrued interest and other receivables	350	301
Land, buildings and equipment – at cost, less accumulated depreciation: 2006, \$210; 2005, \$175	109	121
Due from Amexco (Note 1 and Note 3)	481	239
Other assets	611	550
Assets of discontinued operations (Note 2)	—	189
Total assets	\$15,348	\$13,895
Liabilities and Shareholder's Equity		
Customers' deposits:		
Noninterest-bearing	\$ 1,291	\$ 1,316
Interest-bearing	11,588	9,654
Total	12,879	10,970
Short-term borrowings	113	121
Trading liabilities (Note 4)	303	289
Customers' acceptances outstanding	75	56
Accounts payable	142	174
Due to Amexco (Note 1 and Note 3)	452	892
Other liabilities	651	531
Liabilities of discontinued operations (Note 2)	—	105
Total liabilities	14,615	13,138
Shareholder's Equity		
Common stock, \$100 par value, authorized 2 million shares; issued and outstanding 1.21 million shares in both 2006 and 2005	121	121
Additional paid-in capital	590	596
Retained earnings	122	149
Accumulated other comprehensive (loss) income:		
Net unrealized (losses) gains on Available-for-Sale securities, net of tax: 2006, \$21; 2005, \$(4)	(39)	6
Foreign currency translation adjustments, net of tax: 2006, \$16; 2005, \$33 (Note 11)	(39)	(111)
Net unrealized pension and other postretirement benefit costs, net of tax: 2006, \$11	(22)	—
Minimum pension liability, net of tax: 2005, \$1	—	(4)
Accumulated other comprehensive loss	(100)	(109)
Total shareholder's equity	733	757
Total liabilities and shareholder's equity	\$15,348	\$13,895

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

American Express Bank Ltd.

Year Ended December 31, (Millions)

	2006	2005
Cash Flows from Operating Activities		
Net income	\$ 37	\$ 136
Loss (Income) from discontinued operations, net of tax	29	(14)
Income from continuing operations	66	122
Adjustments to reconcile income from continuing operations to net cash (used in) provided by operating activities:		
Provision for credit losses	79	50
Depreciation and amortization	41	44
Accretion of unearned income and other	(33)	(15)
Non-cash portion of restructuring charge	3	4
Undistributed earnings of equity method affiliates	8	(26)
Net realized gains on sales and other dispositions of assets	(126)	(4)
Deferred income taxes, net	(87)	78
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Trading assets	(9)	277
Trading liabilities	14	(296)
Receivables and payables with Amexco	(44)	(79)
Accrued interest and other receivables	(29)	95
Accounts payable, other assets and liabilities, net	43	(30)
Net cash provided by operating activities attributable to discontinued operations	1	6
Net cash (used in) provided by operating activities	(73)	226
Cash Flows from Investing Activities		
Net change in interest-earning deposits with banks	(1,894)	(252)
Net change in federal funds sold	314	(397)
Proceeds from sales of Available-for-Sale securities	550	353
Principal collected on Available-for-Sale securities	1,782	996
Purchase of Available-for-Sale securities	(1,933)	(1,231)
Loan operations and principal collections, net	(137)	(550)
Net change in loans to Amexco	(192)	(35)
Proceeds from sales of land, buildings and equipment	17	6
Purchases of land, buildings and equipment	(31)	(23)
Dispositions, net of cash sold	170	(381)
Other, net	(2)	(23)
Net cash provided by investing activities attributable to discontinued operations	36	39
Net cash used in investing activities	(1,320)	(1,498)
Cash Flows from Financing Activities		
Net increase in customers' deposits	1,475	1,424
Net (decrease) increase in short-term borrowings	(16)	145
Net (decrease) increase in borrowings from Amexco	(464)	208
Cash capital contributions from Amexco	—	1
Cash dividends paid to Amexco	(64)	(226)
Net cash used in financing activities attributable to discontinued operations	(35)	(49)
Net cash provided by financing activities	896	1,503
Effect of exchange rate changes on cash	42	(33)
Net change in cash and due from banks	(455)	198
Cash and due from banks at the beginning of the year (includes cash of discontinued operations): 2005, \$1	644	446
Cash and due from banks at the end of the year (includes cash of discontinued operations): 2005, \$1	\$ 189	\$ 644
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 447	\$ 338
Income taxes paid, net of refunds	\$ 15	\$ 16

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

American Express Bank Ltd.

(Millions)	Total	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings
Balance, December 31, 2004	\$923	\$121	\$595	\$ (36)	\$243
Comprehensive income:					
Net income	136				136
Change in net unrealized (losses) gains on Available-for-Sale securities	(71)			(71)	
Foreign currency translation adjustments	(1)			(1)	
Minimum pension liability adjustment	<u>(1)</u>			(1)	
Total comprehensive income	63				
Cash dividends paid to Amexco	(226)				(226)
Capital infusion from Amexco	1		1		
Non-cash dividends paid to Amexco	(4)				(4)
Balance, December 31, 2005	757	121	596	(109)	149
Comprehensive income:					
Net income	37				37
Change in net unrealized (losses) gains on Available-for-Sale securities	(45)			(45)	
Foreign currency translation adjustments	72			72	
Minimum pension liability adjustment	<u>1</u>			1	
Total comprehensive income	65				
Adjustment to initially apply SFAS No. 158, net of tax	(19)			(19)	
Cash dividends paid to Amexco	(64)				(64)
Other	(6)		(6)		
Balance, December 31, 2006	\$733	\$121	\$590	\$(100)	\$122

See 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. (AEB) and its subsidiaries conform to accounting principles generally accepted in the United States and prevailing banking industry practices.

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

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of AEB (a wholly-owned direct subsidiary of American Express Banking Corp. (AEB)) and its majority-owned subsidiaries. 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.

DISCONTINUED OPERATIONS

In June 2005, AEB sold its Egyptian banking operations. In addition, in June 2006, AEB sold its local banking operations in Brazil. The operating results and assets and liabilities related to these dispositions prior to disposal have been reflected as discontinued operations in AEB's Consolidated Financial Statements (see Note 2). In addition, the cash flows associated with discontinued operations are presented separately in the accompanying Consolidated Statements of Cash Flows, which is a revision from the cash flow presentation as of December 31, 2005. Unless otherwise noted, amounts in these Notes to the Consolidated Financial Statements exclude amounts attributable to discontinued operations.

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements of AEB are prepared in conformity with U.S. generally accepted accounting principles (GAAP). All significant intercompany transactions are eliminated.

AEB consolidates entities in which it holds a greater than 50 percent voting interest. Entities in which AEB's voting interest exceeds 20 percent but is less than or equal to 50 percent 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. Certain reclassifications of prior period amounts have been made to conform to the current presentation.

FOREIGN CURRENCY

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 foreign exchange rates prevailing 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.

AMOUNTS BASED ON ESTIMATES AND ASSUMPTIONS

Accounting estimates are an integral part of the Consolidated Financial Statements. These estimates are based, in part, on management's 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 17). These accounting estimates reflect the best judgment of management, but actual results could differ.

REVENUES

AEB generates revenues from a variety of sources including lending, interest on investment securities, deposits with banks, commissions and fees and foreign exchange.

Interest Income

Interest income for loans is accrued on unpaid principal balances using the effective interest rates, 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 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 letters of credit, acceptances, guarantees and credit line commitments and Amexco-related revenues (net). 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, foreign exchange income, equity earnings of and dividends from affiliates accounted for under the equity method of accounting, and gains on sale of Available-for-Sale investment securities.

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 losses inherent in the portfolio. Generally, these loans are written off in full when an impairment is determined based upon bankruptcy or other customer specific circumstances, or when the loan becomes 120 or 180 days past due, depending on loan type. Loans, other than smaller-balance consumer loans, are placed on nonperforming status and considered impaired when payments of principal or interest are 90 days past due or if, in management's opinion, it is probable that AEB will be unable to collect all amounts due according to the contractual terms of the loan agreement. Any interest accrued on impaired loans is reversed and charged against current earnings, and interest is thereafter included in earnings only to the extent actually received in cash. When there is doubt regarding the ultimate collectibility of principal, all cash receipts are thereafter applied to reduce the recorded investment in the impaired loan. In such cases, amounts received after the recorded investment in the impaired loan has been completely drawn down are recognized as interest income. 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 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. Impaired loans are returned to accrual status when all remaining contractual principal and interest amounts are reasonably assured of repayment.

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.

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 Consolidated Balance Sheets. The reserve for foreign exchange and derivative contracts is reported in trading assets on the Consolidated Balance Sheets.

BALANCE SHEET

Cash and Due from Banks

AEB has defined cash and due from banks to include cash on hand, cash items in the process of collection, and amounts due from correspondent banks and the Federal Reserve Bank.

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, 2006 and 2005, required reserves held with various foreign central banks were \$94 million and \$92 million, respectively.

Available-for-Sale Securities

Debt and equity securities classified as Available-for-Sale investment securities are carried at fair value on the Consolidated Balance Sheets with unrealized gains (losses) recorded in accumulated other comprehensive (loss) income, net of income tax provisions (benefits). Gains and losses are recognized in results of operations upon disposition of the securities. Gains and losses on investments (other than trading securities) are recognized using the specific identification method on a trade date basis. In addition, realized losses are 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 amortized cost exceeds fair value, the duration and size of that gap, and management's judgment about the issuer's current and prospective financial condition.

Trading Assets and Liabilities

Debt and equity securities classified as trading securities are carried at fair value on the Consolidated Balance Sheets, and changes in their fair value are recorded in results of operations.

AEB uses quoted market prices to determine fair value. If quoted market prices are not available, AEB estimates fair value using prices of similar assets or the present value of estimated expected future cash flows when similar assets do not exist.

Refer to "Derivative Financial Instruments and Hedging Activities" for the accounting policies related to derivative financial instruments held for trading purposes.

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 Consolidated Balance Sheets 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 under the effective yield method. 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, 2006 and 2005.

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 40 to 60 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 five to ten 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, primarily including customer relationships, banking licenses and other intangible assets, are amortized over their estimated useful lives on a straight-line basis, unless they are deemed to have indefinite useful lives. Intangible assets are included in other assets on the Consolidated Balance Sheets. AEB fully evaluates intangible assets 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 the asset's fair value.

Derivative Financial Instruments and Hedging Activities

Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS No. 133), as amended, requires that all derivatives be recognized on 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 it 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.

Fair value hedges

A fair value hedge is a derivative designated to hedge the exposure of future changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk. 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

A net investment hedge in a foreign operation is a derivative used to hedge future changes in currency exposure of a net investment in a foreign operation. 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 other revenues, other operating expenses 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 when AEB enters into the contract. 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 of hedged items. These assessments usually are made through the application of statistical measures. AEB only applies the "short cut" method of hedge accounting in very limited cases when this method's requirements are strictly met. Beginning in 2006, AEB discontinued using the "short cut" method on any new transactions.

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

SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of the FASB Statements No. 87, 88, 106 and 132(R)" (SFAS No. 158), requires the funded status of pension and other postretirement plans to be recorded on the balance sheet as of December 31, 2006 with a corresponding offset, net of tax effects, recorded in accumulated other comprehensive (loss) income within shareholder's equity. Under SFAS No. 158, all previously unrecognized gains and losses, prior service costs and credits, and remaining transition amounts under SFAS Nos. 87 and 106 will be recognized in accumulated other comprehensive (loss) income, net of tax effects, which is a component of shareholder's equity and therefore does not result in an immediate charge to earnings. Those previously unrecognized amounts will be amortized as a component of net periodic pension expense in future periods. Upon implementation of SFAS No. 158, AEB recorded additional liabilities of \$8 million in other liabilities, a reduction of assets of \$21 million in other assets and a \$19 million charge to shareholder's equity, net of a deferred income tax benefit of \$10 million, related to its defined benefit and other postretirement benefit plans. AEB currently uses a September 30 measurement date. Effective for years ending after December 15, 2008, the measurement date for the benefit obligation and plan assets is required to be AEB's fiscal year end.

FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140" (SFAS No. 155), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities, as amended" (SFAS 133). AEB will adopt SFAS No. 155 in the first quarter of 2007. The adoption of SFAS No. 155 is not expected to have a material impact on AEB's consolidated financial condition and results of operations.

The FASB has recently issued the following accounting standards, which are effective after December 31, 2006. AEB is currently evaluating the impact of these recently issued accounting standards on AEB's Consolidated Financial Statements:

- FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" (FIN 48), is an interpretation that clarifies the accounting for tax positions accounted for under FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition and measurement of benefits associated with tax positions taken or expected to be taken in a tax return. For any amount of those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities based on the technical merits of the position. The amount of benefits recognized is based on AEB's assertion of the most likely outcome resulting from an examination. FIN 48 is applicable to all tax positions as of January 1, 2007. The initial effect of adoption will be reflected in first quarter 2007 as a cumulative effect adjustment to income taxes payable (in other liabilities) and retained earnings. Subsequent to the adoption of FIN 48, all increases and decreases in AEB's estimated recognizable tax benefits will be recorded as a benefit / provision for income taxes. In addition, AEB expects to record a higher level of interest associated with unrecognized tax benefits which will increase the provision for income taxes.
- SFAS No. 157, "Fair Value Measurements" (SFAS No. 157) establishes a framework for measuring fair value and applies broadly to financial and non-financial assets and liabilities measured at fair value under existing authoritative accounting pronouncements. SFAS No. 157 establishes a fair value hierarchy that prioritizes inputs to valuation techniques used for financial instruments without active markets and for non-financial assets and liabilities. SFAS No. 157 also expands disclosure requirements regarding methods used to measure fair value and the effects on earnings. SFAS No. 157 is effective as of the first quarter of 2008.

NOTE 2 DISCONTINUED OPERATIONS AND OTHER DIVESTITURES

DISCONTINUED OPERATIONS

In June 2006, AEB sold its local banking operations in Brazil for cash proceeds of approximately \$33 million. This transaction resulted in a pretax loss of approximately \$48 million. Total assets and liabilities of the Brazil discontinued operations were approximately \$113 million and \$77 million, respectively, at the time of sale.

In June 2005, AEB sold its Egyptian banking operations (AEB Egypt) to Egyptian American Bank (EAB) for cash proceeds of \$34 million. This sale resulted in a pretax gain of \$5 million. AEB had a 40.8 percent ownership interest in EAB at the time of the sale and, therefore, the disposition of AEB Egypt did not qualify for discontinued operations treatment because AEB was deemed to have a continuing interest in AEB Egypt through its ownership interest in EAB. Pursuant to the criteria set forth in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", AEB's sale of its interest in EAB (see Note 3) in February 2006 retroactively qualified the disposition of AEB Egypt for treatment as discontinued operations. Total assets and liabilities of AEB Egypt discontinued operations were approximately \$301 million and \$272 million, respectively, at the time of sale.

The operating results and cash flows of discontinued operations are presented separately in AEB's Consolidated Financial Statements and the Notes to Consolidated Financial Statements have been adjusted to exclude discontinued operations unless otherwise noted. Summary operating results of the discontinued operations were:

Year ended December 31, (Millions)	2006	2005
Net financial revenues	\$ 12	\$ 47
Pretax (loss) income from discontinued operations	(56)	16
Income tax (benefit) provision	(27)	2
(Loss) Income from discontinued operations, net of tax	\$ (29)	\$ 14

OTHER DIVESTITURES

Other divestitures not qualifying for discontinued operations include the following:

During 2006, AEB sold its Pakistan banking operations. Total assets and liabilities sold were approximately \$107 million and \$96 million, respectively. Additionally, AEB Germany operations sold its asset gathering customer portfolio with deposit liabilities of approximately \$510 million and customer-owned mutual fund investments of approximately \$176

million. Total AEB Germany operations on-balance sheet assets and liabilities sold were approximately \$510 million each.

During 2005, AEB sold its operations in Bangladesh and certain assets and liabilities in Luxembourg. Total assets and liabilities sold were \$281 million and \$257 million, respectively.

NOTE 3 TRANSACTIONS WITH RELATED PARTIES

AEB has 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. The transactions were based on the terms agreed between AEB and its related parties at amounts deemed to approximate market terms by management. These terms may or may not be equivalent to those that may prevail had the terms been negotiated between unrelated parties.

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

December 31, (Millions)	2006	2005
Assets:		
Investments in affiliates	\$ 116	\$ 196
Loans	46	83
Trading assets	12	61
Other assets	435	165
Total assets	\$ 609	\$ 505
Liabilities:		
Deposits and borrowed funds	\$ 353	\$ 847
Trading liabilities	29	38
Other liabilities	99	74
Total liabilities	\$ 481	\$ 959

Included in deposits and borrowed funds in the preceding table were:

December 31, (Millions)	2006	2005
Floating rate, subordinated notes payable to Amexco, due 2015	\$ 200	\$ 200
Floating rate, subordinated notes payable to Amexco, due 2011	—	30
Total	\$ 200	\$ 230

This intercompany subordinated debt qualifies as Tier 2 Capital for U.S. bank regulatory purposes. The interest rate at December 31, 2006 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 the first \$100 million and 38 basis points (88 basis points effective November 2010) for the second \$100 million both due 2015.

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 \$2 million and \$124 million at December 31, 2006 and 2005, respectively.

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

Year ended December 31, (Millions)	2006	2005
Interest income ⁽¹⁾	\$ 19	\$ 12
Interest expense	41	32
Net interest expense from related party transactions	\$ 22	\$ 20

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

AEB and Amexco each own 50 percent of American Express International Deposit Company (AEIDC) at December 31, 2006. AEB's investment of \$114 million as of December 31, 2006, 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 (loss) income included as a component of other revenues was (\$11) million and \$29 million for the years ended December 31, 2006 and 2005, respectively. AEIDC's total assets were \$6.3 billion and \$7.1 billion at December 31, 2006 and 2005, 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.

In February 2006, AEB sold its 40.8 percent interest in EAB, resulting in a pretax gain of approximately \$88 million. AEB's investment in EAB of \$71 million as of December 31, 2005 was accounted for using the equity method and was included in other assets on the December 31, 2005 Consolidated Balance Sheets. AEB's share of EAB's pretax income included as a component of other revenues was \$2 million and \$20 million for the years ended December 31, 2006 and 2005, respectively.

NOTE 4 TRADING ASSETS AND TRADING LIABILITIES

Trading assets and liabilities include debt and equity securities and derivative product assets and liabilities of derivative financial instruments held for trading purposes. In addition, included in trading assets and trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. These amounts include the derivative assets and liabilities net of cash received and paid, respectively, under legally enforceable master netting agreements.

There were \$15 million and \$14 million of net gains for 2006 and 2005, respectively, relating to trading securities held at each balance sheet date.

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

December 31, (Millions)	2006	2005
Foreign exchange and derivative contracts	\$ 309	\$ 243
Foreign government bonds and obligations	146	82
Commercial paper	25	79
Other trading assets	124	160
Total trading assets	\$ 604	\$ 564
Foreign exchange and derivative contracts	\$ 303	\$ 289
Total trading liabilities	\$ 303	\$ 289

NOTE 5 AVAILABLE-FOR-SALE SECURITIES

The following is a summary of investment securities classified as Available-for-Sale:

December 31, (Millions)	2006				2005			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities and other	\$ 843	\$ 15	\$ (5)	\$ 853	\$ 1,125	\$ 73	\$ —	\$ 1,198
Mortgage- and other asset-backed securities	756	3	(20)	739	768	5	(19)	754
Foreign government bonds and obligations	672	3	(11)	664	649	6	(8)	647
Marketable equity securities	3	—	—	3	5	—	—	5
U.S. government and agencies obligations	1	—	—	1	2	—	—	2
Total	\$2,275	\$ 21	\$ (36)	\$2,260	\$2,549	\$ 84	\$ (27)	\$2,606

The following table provides information about Available-for-Sale investment securities with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position:

December 31, 2006 (Millions)	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Foreign government bonds and obligations	\$ 265	\$ (1)	\$ 174	\$ (10)	\$ 439	\$ (11)
Mortgage- and other asset-backed securities	117	—	462	(20)	579	(20)
Other	405	(5)	10	—	415	(5)
Total	\$ 787	\$ (6)	\$ 646	\$ (30)	\$1,433	\$ (36)

December 31, 2005 (Millions)	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Foreign government bonds and obligations	\$ 279	\$ (2)	\$ 58	\$ (6)	\$ 337	\$ (8)
Mortgage- and other asset-backed securities	264	(6)	304	(13)	568	(19)
Other	27	—	1	—	28	—
Total	\$ 570	\$ (8)	\$ 363	\$ (19)	\$ 933	\$ (27)

AEB reviews and evaluates investment securities on a quarterly basis to identify investment securities that have indications of possible other-than-temporary impairments. Accordingly, 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 amortized cost:

December 31, 2006
(Millions, except
number of securities)

Ratio of Fair Value to Amortized Cost	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
90% – 100%	471	\$ 787	\$ (6)	84	\$ 603	\$ (23)	555	\$1,390	\$ (29)
Less than 90%	122	—	—	33	43	(7)	155	43	(7)
Total	593	\$ 787	\$ (6)	117	\$ 646	\$ (30)	710	\$1,433	\$ (36)

Unrealized losses may be caused by changes to interest rates, credit spreads, and specific credit events associated with individual issuers. Substantially all of the gross unrealized losses on the 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, 2006.

The securities with a fair value to amortized cost ratio of less than 90 percent are comprised primarily of foreign government bonds and obligations. The securities with a fair value to amortized cost ratio of 90 percent to 100 percent do not contain a concentration of any one security or type of security. AEB has the ability and the intent to hold these securities for a time sufficient to recover the unrealized losses and expects that contractual principal and interest will be received on these securities.

The change in net unrealized securities (losses) gains in other comprehensive (loss) income includes three components: (i) holding gains (losses), which are unrealized gains (losses) that arose from changes in market value of securities that were held during the period, (ii) reclassification for realized (gains) losses, which are gains (losses) that were previously unrealized, but have been recognized in current period net income due to sales of Available-for-Sale securities and (iii) other (losses) gains and those pertaining to joint ventures.

Change in net unrealized securities (losses) gains:

December 31, (Millions, net of tax)	2006	2005
Holding losses	\$ (28)	\$ (36)
Reclassification for realized gains	(18)	(4)
Equity share of AEIDC unrealized Available-for-Sale gains (losses)	1	(31)
Net unrealized securities losses in accumulated other comprehensive loss	\$ (45)	\$ (71)

The following is a distribution of investment securities classified as Available-for-Sale by maturity:

December 31, 2006 (Millions)	Cost	Fair Value
Due within 1 year	\$ 515	\$ 510
Due after 1 year through 5 years	688	700
Due after 5 years through 10 years	258	255
Due after 10 years	55	53
	1,516	1,518
Mortgage- and other asset-backed securities	756	739
Equity securities	3	3
Total	\$2,275	\$2,260

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

Other revenues include gross realized gains and losses on sales of securities classified as Available-for-Sale, as noted in the following table for the years ended:

December 31, (Millions)	2006	2005
Gross realized gains from sales and prepayments	\$ 27	\$ 6
Total	\$ 27	\$ 6

The table below includes purchases, sales and maturities of investment securities classified as Available-for-Sale:

December 31, (Millions)	2006	2005
Purchases	\$ 1,933	\$ 1,231
Sales	\$ 550	\$ 353
Maturities	\$ 1,782	\$ 996

Included in Available-for-Sale securities at December 31, 2006 and 2005, were investment securities totaling \$760 million and \$733 million, respectively, which were pledged primarily to various domestic and foreign governmental agencies pursuant to their requirements.

NOTE 6 LOANS

Loans are reported at the principal amount outstanding, net of the allowance for loan losses, unearned income of \$2 million as of December 31, 2006 and 2005, and any net deferred loan fees. The composition of loans by type of borrower was:

December 31, (Millions)	2006	2005
Consumer Loans:		
Installment, revolving credit and other	\$ 4,625	\$ 4,585
Loans secured by real estate	178	234
	4,803	4,819
Commercial Loans:		
Loans to banks and other financial institutions	2,470	2,268
Loans to businesses	14	9
Loans secured by real estate	6	7
	2,490	2,284
Total loans, gross	\$ 7,293	\$ 7,103

Included in Consumer Loans are loans with private banking clients, most of which are fully collateralized. Total private banking loans were \$3,434 million and \$3,369 million at December 31, 2006 and 2005, respectively.

The following is a summary of loans considered to be impaired under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", and the related interest income:

December 31, (Millions)	2006	2005
Recorded investment in impaired loans requiring an allowance	\$ 69	\$ 19
Total recorded investment in impaired loans	\$ 69	\$ 19
Loan loss reserves for impaired loans	\$ 40	\$ 15

Year Ended December 31, (Millions)	2006	2005
Average recorded investment in impaired loans	\$ 49	\$ 24

The following table presents changes in reserves for credit losses:

December 31, (Millions)	2006	2005
Balances — January 1,	\$ 78	\$ 79
Provision for credit losses	79	50
Write-offs	(103)	(68)
Recoveries	15	24
Translation and other	4	(7)
Balances — December 31,	\$ 73	\$ 78
Allocation:		
Loans	\$ 70	\$ 71
Trading assets	—	1
Other credit-related commitments	3	6
Balances — December 31,	\$ 73	\$ 78

NOTE 7 GOODWILL AND OTHER INTANGIBLES

As of December 31, 2006 and 2005, AEB had net identifiable intangible assets with definite lives of \$2 million and \$4 million, respectively. The aggregate amortization expense for these intangible assets was \$0.4 million and \$1 million as of December 31, 2006 and 2005, respectively. Amortization expense associated with these intangible assets is estimated to be approximately \$0.3 million for each of the next five years.

Net goodwill was \$27 million and \$26 million at December 31, 2006 and 2005, respectively, and is included in other assets in the Consolidated Balance Sheets.

NOTE 8 LONG-TERM DEBT

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 a program 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 cannot exceed \$10 billion. At December 31, 2006 and 2005, \$4.5 billion and \$3.1 billion, respectively, was outstanding, none of which was issued by AEB.

Other financial institutions have committed to extend secured credit to AEB of \$511 million and \$400 million at December 31, 2006 and 2005, respectively, primarily for overnight funding arrangements.

NOTE 9 REGULATORY CAPITAL

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

AEB is subject to consolidated risk-based capital and leverage requirements mandated by the NYSBD, which are used to evaluate capital adequacy and include the required minimums shown in the following table. Failure to meet minimum capital requirements can initiate certain actions by the regulators that, if undertaken, could have a direct material impact on AEB's Consolidated Financial Statements.

As of December 31, 2006 and 2005, AEB is in compliance with the consolidated risk-based capital and leverage requirements mandated by the NYSBD.

December 31, (Millions, except percentages)	2006	2005	NYSBD Minimum Requirement
Capital Ratios			
Tier 1 capital ^(a)	9.6%	10.3%	6.0%
Total capital ^(a)	11.3%	11.3%	10.0%
Leverage ^(b)	4.5%	5.1%	4.0%
Qualifying capital			
Tier 1 capital	\$ 684	\$ 706	
Total capital	\$ 799	\$ 777	
Adjusted risk-weighted assets	\$ 7,102	\$ 6,870	
Quarterly adjusted average assets	\$15,364	\$13,778	

^(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 quarterly adjusted average assets.

Additionally, it is not anticipated that AEB will be required to comply on a consolidated basis with the Advanced Internal Ratings Based Approach incorporated in the Basel II Capital Accord Framework published on 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.

NOTE 10 NONINTEREST INCOME

Noninterest income consisted of:

Year Ended December 31, (Millions)	2006	2005
Commissions and fees:		
Letters of credit, acceptances, guarantees and credit lines	\$ 32	\$ 33
Asset management, fiduciary and client services fees	61	87
Financial institution beneficiary related fees	92	78
Other commissions and fees	218	129
Amexco-related revenues, net	30	55
	433	382
Foreign exchange income and other revenues:		
Foreign exchange income, net	74	56
Equity earnings of and dividends from affiliates	(8)	51
Other trading income	(15)	63
Net gain on sale of Available-for-Sale securities	27	6
Other revenues	56	43
	134	219
Total	\$ 567	\$ 601

NOTE 11 FOREIGN CURRENCY

Gross income from foreign exchange transactions was \$76 million in 2006 and \$61 million in 2005. Gross losses from certain foreign currency transactions included in income were \$2 million in 2006 and \$5 million in 2005.

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

(Millions)	2006	2005
Balance at January 1,	\$ (111)	\$ (110)
Reclassification of loss from cumulative translation adjustment as a result of sales of foreign entities	73	—
Net translation gain	19	13
Net investment hedges	(20)	(14)
Balance at December 31,	\$ (39)	\$ (111)

NOTE 12 RETIREMENT PLANS

DEFINED BENEFIT PENSION PLANS

Amexco sponsors the American Express Retirement Plan (the Plan) for eligible employees in the United States. The Plan is a noncontributory defined benefit plan which is a qualified plan under the Employee Retirement Income Security Act of 1974, as amended (ERISA). Under the Plan, the cost of retirement benefits is measured by length of service, compensation and other factors. These benefits are funded through a trust and Amexco's funding of retirement costs complies with the applicable minimum funding requirements specified by ERISA. The funded status of the Plan on an ERISA basis for the years ended 2006 and 2005 was 113 percent and 114 percent, respectively. 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 determined by an employee's age, years of service, and compensation as defined by the Plan (primarily base pay, certain incentive pay and commissions, shift differential, and overtime). Employees' balances are also credited daily with interest at a fixed-rate 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. The interest rate varies from a minimum of five percent to a maximum equal to the lesser of (i) ten percent 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 a lump-sum payout at vested termination, death, disability or retirement.

Amexco also sponsors an unfunded non-qualified Supplemental Retirement Plan (the SRP) for all employees who are compensated over a certain level to supplement their pension benefits that are limited by the Internal Revenue Service. The SRP is a supplemental 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 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 complies with the minimum funding requirements in all countries.

Effective July 2006, Amexco amended its U.K. pension plans. Employees who were participating in the existing defined benefit plans were given a choice between remaining in the plans and making contributions toward their benefits or moving to the new defined contribution plan. Participants who chose to move no longer accrue benefits under these plans as of July 1, 2006. There was no gain or loss as a result of this change and the overall impact to the projected benefit obligation was minimal.

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

Adoption of SFAS No. 158

On September 29, 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158), which amends FASB Statements No. 87, 88, 106, and 132(R). This standard requires that companies record an asset or liability on the Consolidated Balance Sheets equal to the over or under funded status of their defined benefit and other postretirement benefit plans effective for fiscal years ending after December 15, 2006. For each plan, the funded status is defined by SFAS No. 158 as the difference between the fair value of plan assets (for funded plans) and the respective plan's projected benefit obligation. The projected benefit obligation represents a liability based on the plan participant's service to date and their expected future compensation at their projected retirement date. Upon adoption of SFAS No. 158 and recognition of the funded status on AEB's Consolidated Balance Sheets, all previously unrecognized amounts (e.g. unrecognized gains or losses and prior service cost) are reflected in accumulated other comprehensive (loss) income, net of tax, in a one-time cumulative effect adjustment. Any future changes in unrecognized gains or losses and prior service cost will be recognized in other comprehensive income,

net of tax, in the periods in which they occur. Under SFAS No. 158, accounting for plan expense and payments will remain unchanged.

The following table provides the cumulative effect of the change in accounting principle with respect to recognizing the net funded status of defined benefit pension plans (the Plan, the SRP and other international plans) in the Consolidated Balance Sheets as of December 31, 2006.

(Millions)	Pre-SFAS No. 158	SFAS No. 158 impact	Post-SFAS No. 158
Accrued benefit liability ^(a)	\$ (62)	\$ (8)	\$ (70)
Prepaid benefit cost ^(b)	\$ 50	\$ (21)	\$ 29
Net funded status			\$ (41)
Accumulated other comprehensive loss, net of tax ^(c)	\$ 3	\$ 19	\$ 22

^(a) The post- SFAS No. 158 accrued benefit liability represents the excess of the projected benefit obligation over the fair value of the plan assets for all plans in an underfunded position. The projected benefit obligation and related fair value of plan assets for these plans was \$217 million and \$147 million, respectively, at December 31, 2006 and \$184 million and \$116 million, respectively, at December 31, 2005.

^(b) The post- SFAS No. 158 prepaid benefit asset represents the excess of the fair value of the plan assets over the projected benefit obligation for all plans in an overfunded position.

^(c) The post- SFAS No. 158 accumulated other comprehensive loss, net of tax, includes the unrecognized gains and losses and unamortized prior service cost related to the plans. See the table below for further information.

Accumulated Other Comprehensive Loss

The following table provides the items comprising the amount in accumulated other comprehensive loss as of December 31:

(Millions)	2006
Net actuarial loss	\$ 31
Net prior service cost	2
Total, pretax effect	33
Tax impact	(11)
Total, net of taxes	\$ 22

The estimated portion of the net actuarial loss above that is expected to be recognized as a component of net periodic benefit cost in 2007 is \$4 million.

Plan Assets and Obligations

The following tables provide a reconciliation of the changes in the plans' projected benefit obligation, the fair value of assets and the net funded status for all plans:

Reconciliation of Change in Projected Benefit Obligation

(Millions)	2006	2005
Projected benefit obligation, October 1 prior year	\$ 248	\$ 232
Service cost	7	6
Interest cost	13	12
Benefits paid	(10)	(10)
Actuarial loss	6	24
Settlements / curtailments	(5)	(1)
Foreign currency exchange rate changes	19	(15)
Projected benefit obligation at September 30,	\$ 278	\$ 248

Reconciliation of Change in Fair Value of Plan Assets

(Millions)	2006	2005
Fair value of plan assets, October 1 prior year	\$ 203	\$ 191
Actual return on plan assets	28	29
Employer contributions	5	5
Benefits paid	(10)	(10)
Settlements	(5)	(1)
Foreign currency exchange rate changes	15	(11)
Fair value of plan assets at September 30,	\$ 236	\$ 203

Net Funded Status

(Millions)	2006	2005
Funded status at September 30,	\$ (42)	\$ (45)
Unrecognized net actuarial loss	—	37
Unrecognized prior service cost	—	2
Fourth quarter contributions	1	1
Net amount recognized at December 31,	\$ (41)	\$ (5)

As noted previously, due to the adoption of SFAS No. 158 as of December 31, 2006, the funded status of \$42 million, less fourth quarter contributions of \$1 million, is reflected in the December 31, 2006 Consolidated Balance Sheet.

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

(Millions)	2006	2005
Other liabilities	\$ (70)	\$ (58)
Other assets	29	48
Minimum pension liability adjustment	—	5
Net amount recognized at December 31,	\$ (41)	\$ (5)

Accumulated Benefit Obligation

The accumulated benefit obligation is the present value of benefits earned to date by plan participants computed based on current compensation levels as contrasted to the projected benefit obligation which is the present value of benefits earned to date by plan participants based on their expected future compensation at their projected retirement date. The unvested portion of the accumulated benefit obligation is minimal.

The accumulated benefit obligation for all pension plans was \$261 million at September 30, 2006 and \$230 million at September 30, 2005.

The accumulated benefit obligation for pension plans where the accumulated benefit obligation exceeds the fair value of plan assets (primarily unfunded international plans and the SRP) was \$62 million and \$59 million as of September 30, 2006 and 2005, respectively. The fair value of related plan assets was \$2 million at these dates.

Net Periodic Pension Benefit Cost

SFAS No. 87, "Employers' Accounting for Pensions" (SFAS No. 87), provides for the delayed recognition of the net actuarial loss and the net prior service cost remaining in accumulated other comprehensive (loss) income.

Service cost is the component of net periodic benefit cost which represents the current value of benefits earned by an employee during the period. Net periodic benefit cost also includes the estimated interest incurred on the outstanding projected benefit obligation during the period.

A plan amendment that retroactively increases benefits is recognized as an increase to the projected benefit obligation and a corresponding charge to other comprehensive income, net of tax, at the date of the amendment. These prior service costs are amortized as a component of net periodic pension benefit cost on a straight-line basis over the average remaining service period of active participants. Actuarial gains and losses that are not recognized immediately as a component of net periodic pension cost are recognized as increases or decreases in other comprehensive income, net of tax, as they arise. Cumulative net actuarial loss included in accumulated other comprehensive (loss) income which exceeds ten percent of the greater of the projected benefit obligation and the estimated market value of plan assets are amortized over the average remaining service period of active participants.

The components of the net periodic pension cost for all defined benefit plans are as follows:

(Millions)	2006	2005
Service cost	\$ 7	\$ 6
Interest cost	13	12
Expected return on plan assets	(15)	(14)
Recognized net actuarial loss	4	3
Net periodic pension benefit cost	\$ 9	\$ 7

Assumptions

The weighted average assumptions used to determine benefit obligations were:

	2006	2005
Discount rates	5.0%	4.9%
Rates of increase in compensation levels	3.8%	3.9%

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

	2006	2005
Discount rates	4.9%	5.4%
Rates of increase in compensation levels	3.9%	3.8%
Expected long-term rates of return on assets	7.6%	7.6%

AEB assumes a long-term rate of return on assets on a weighted average basis. In developing this assumption, management evaluates historical returns on plan assets as well as benchmark information including projections of asset class returns and long-term inflation.

The discount rate assumptions for AEB's material plans (U.S. and U.K.) are determined by using a model consisting of bond portfolios that match the cash flows of the plan's projected benefit payments. Use of the rate produced by this model generates a projected obligation that equals the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts match the timing and amount of expected future benefit payments.

Asset Allocation

The asset allocation for AEB's pension plans at September 30, 2006 and 2005, and the target allocation for 2007, by asset category, are below. Actual allocations generally will be within five percent of these targets.

	Target Allocation	Percentage of Plan assets at	
	2007	2006	2005
Equity securities	66%	66%	68%
Debt securities	29%	29%	26%
Other	5%	5%	6%
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. The portfolio is diversified by asset type, risk characteristics and concentration of investments. Asset classes and ranges considered appropriate for investment of each plan's assets are determined by the 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 domestic real estate.

Benefit Payments

AEB's retirement plans expect to make benefit payments to retirees as follows:

(Millions)	2007	2008	2009	2010	2011	2012-2016
Expected payments	\$15	\$12	\$11	\$11	\$12	\$75

In addition, AEB expects to contribute \$5 million to its pension plans in 2007.

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 feature. The ISP is a qualified plan under ERISA and 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, which invests primarily in Amexco's common stock, through accumulated payroll deductions. In addition, at least quarterly AEB makes automatic cash contributions equal to one percent per annum of each qualifying employee's base salary. These contributions are invested automatically in the American Express Company Stock Fund and can be directed at any time into other ISP investment options.

In 2006, as part of the amendment to the U.K. pension plan, AEB established a defined contribution plan in the U.K. As a result, expense and contributions related to defined contribution plans have increased in the current year as compared to previous periods.

The total expense for all defined contribution plans globally was \$7 million for both 2006 and 2005.

OTHER POSTRETIREMENT BENEFITS PLANS

Amexco sponsors unfunded defined postretirement benefit plans that provide health care and life insurance to certain retired U.S. employees.

Adoption of SFAS No. 158

The following table provides the cumulative effect of the change in accounting principle with respect to recognizing the funded status of the other postretirement benefit plans in the Consolidated Balance Sheets as of December 31, 2006:

(Millions)	Pre-SFAS No. 158	SFAS No. 158 impact ^(b)	Post-SFAS No. 158
Accrued benefit liability ^(a)	\$(16)	\$—	\$(16)

^(a) The accrued benefit liability represents the projected benefit obligation for all plans as these plans are unfunded.

^(b) There was no impact of the adoption of SFAS No. 158 as there were no remaining unrecognized items at the time of adoption.

Plan Obligations

The following table provides a reconciliation of the changes in the plans' projected benefit obligation for all plans accounted for under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106):

Reconciliation of Change in Projected Benefit Obligation

(Millions)	2006	2005
Projected benefit obligation, October 1 prior year	\$16	\$15
Interest cost	1	1
Benefits paid	(1)	(1)
Actuarial loss	—	1
Projected benefit obligation at September 30,	\$16	\$16

The liabilities for AEB's defined postretirement benefit plans recognized in the Consolidated Balance Sheets as of December 31 are included in the following table. As noted previously, due to the adoption of SFAS No. 158 as of December 31, 2006, the funded status of \$16 million is reflected in the December 31, 2006 Consolidated Balance Sheet.

Reconciliation of Accrued Benefit Cost and Total Amount Recognized

(Millions)	2006	2005
Funded status of the plan	\$ (16)	\$ (16)
Unrecognized net actuarial loss	—	1
Net amount recognized at December 31,	\$ (16)	\$ (15)

Net Periodic Benefit Cost

SFAS No. 106 provides for the delayed recognition of the net actuarial loss and the net prior service credit remaining in accumulated other comprehensive income (loss).

The components of the net periodic benefit cost for all defined postretirement benefit plans accounted for under SFAS No. 106, are as follows:

(Millions)	2006	2005
Interest cost	\$ 1	\$ 1
Recognized net actuarial loss	1	1
Net periodic benefit cost	\$ 2	\$ 2

Assumptions

The weighted average assumptions used to determine benefit obligations were:

	2006	2005
Discount rates	5.8%	5.4%
Health care cost increase rate:		
Following year	9.5%	10.0%
Decreasing to the year 2016	5%	5%

A one percentage-point change in assumed health care cost trend rates would have the following effects:

(Millions)	One percentage-point increase		One percentage-point decrease	
	2006	2005	2006	2005
Increase (decrease) on postretirement benefit obligation for U.S. plans	\$1	\$ 1	\$(1)	\$(1)

Benefit Payments

AEB's other postretirement benefit plans expect to make benefit payments as follows:

(Millions)	2007	2008	2009	2010	2011	2012-
Expected payments	\$1	\$1	\$1	\$1	\$1	\$6

In addition, AEB expects to contribute \$1 million to its other postretirement benefit plans in 2007.

NOTE 13 LEASE COMMITMENTS AND OTHER CONTINGENT LIABILITIES

AEB leases certain office facilities and operating equipment under noncancelable and cancelable agreements. Total rent expense amounted to \$21 million in both 2006 and 2005. At December 31, 2006, the minimum aggregate rental commitments under all noncancelable operating leases, was as follows: 2007, \$13 million; 2008, \$9 million; 2009, \$8 million; 2010, \$6 million; 2011, \$5 million; and thereafter, \$4 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.

AEB and its subsidiaries are involved in a number of legal proceedings concerning matters arising in connection with the conduct of their business activities. AEB believes it has meritorious defenses to each of these actions and intends to defend them vigorously.

In addition, in recent years, U.S. and foreign regulatory authorities, together with international organizations, have raised increasing concerns over the ability of criminal organizations and corrupt persons to use global financial intermediaries to facilitate money laundering. In the United States, the Secretary of the Treasury has issued regulations pursuant to the U.S. Patriot Act that specifically impact certain money laundering prevention activities of entities involved, as AEB is, in correspondent and private banking activities. Compliance efforts to combat money laundering remain a high priority for AEB and it has increased these efforts to address evolving regulatory and supervisory standards and requirements in jurisdictions in which AEB does business. The regulatory authorities are exercising heightened scrutiny of the anti-money laundering programs of financial institutions and have taken action against financial institutions for deficiencies in such programs. In early 2004, American Express Bank International (AEBI), a subsidiary of AEBL headquartered in Miami, received subpoenas from the Department of Justice (DOJ) relating to certain customer accounts and anti-money laundering (AML) compliance programs. In September 2006, the DOJ informed AEBI of concerns relating to AML compliance programs that could result in an action. AEBI has been cooperating with the DOJ.

AEB believes that it is not a party to, nor are any of its properties the subject of, any pending legal, arbitration, regulatory or tax proceedings that would have a material adverse effect on AEB's liquidity. However, it is possible that the outcome of any such proceedings could have a material impact on consolidated results

of operations or financial condition in any particular reporting period as the proceedings are resolved.

NOTE 14 INCOME TAXES

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

Year Ended December 31, (Millions)	2006	2005
Current income tax provision (benefit)		
U.S. federal	\$ 76	\$ (100)
U.S. state and local	3	1
Non-U.S.	52	37
Total current provision (benefit)	\$ 131	\$ (62)
Deferred income tax (benefit) provision		
U.S. federal	\$ (84)	\$ 77
Non-U.S.	(3)	1
Total deferred (benefit) provision	\$ (87)	\$ 78
Total income tax provision	\$ 44	\$ 16

A reconciliation of the U.S. Federal statutory rate of 35 percent to AEB's effective income tax rate for 2006 and 2005 on continuing operations was as follows:

	2006	2005
Combined tax at U.S. statutory rate	35.0%	35.0%
Changes in taxes resulting from:		
State and local income taxes	2.0	0.3
Foreign earnings	5.7	4.0
IRS tax settlement	—	(23.6)
Sale of equity method investment	12.9	—
Reduction of tax reserves	(12.8)	—
All other	(2.8)	(4.1)
Effective tax rates	40.0%	11.6%

The reduction of tax reserves primarily relates to the reduction of uncertainty due to the mutual agreement entered into by the United States and the United Kingdom in October 2006.

AEB records a deferred income tax (benefit) provision when there are differences between assets and liabilities measured for financial reporting and for income tax return purposes. The significant components of deferred tax assets and liabilities are reflected in the following table:

December 31, (Millions)	2006	2005
Deferred tax assets:		
Reserves not yet deducted for tax purposes	\$ 87	\$ 75
Employee compensation and benefits	66	46

December 31, (Millions)	2006	2005
Net unrealized securities losses	21	—
Foreign currency translation adjustment	16	33
Other	28	—
Gross deferred tax assets	218	154

December 31, (Millions)	2006	2005
Deferred tax liabilities:		
Unremitted earnings	69	102
Depreciation and amortization	30	33
Net unrealized securities gains	—	4
Gross deferred tax liabilities	99	139
Net deferred tax assets	\$ 119	\$ 15

AEB's income tax receivable from Amexco was \$80 million and \$79 million at December 31, 2006 and 2005, respectively.

Net cash paid for income taxes (see Consolidated Statements of Cash Flows) do not include amounts received or paid under a tax-sharing agreement with Amexco. Net (refunds) / payments under this agreement were \$88 million and nil for the years ended December 31, 2006 and 2005, respectively.

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

Year Ended December 31, (Millions)	2006	2005
Net unrealized securities losses	\$ (25)	\$ (38)
Net unrealized pension and other postretirement benefit costs	(11)	—
Minimum pension liability	1	—
Foreign currency translation gains	17	19
Net income tax benefit	\$ (18)	\$ (19)

NOTE 15 DERIVATIVES AND HEDGING INSTRUMENTS

AEB uses derivative financial instruments to manage exposure to various market risks and for customer accommodation and for limited proprietary trading purposes. 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.

The following table summarizes the total fair value, excluding accruals, of derivative product assets and liabilities as of December 31, 2006 and 2005:

(Millions)	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges	\$ —	\$ 61	\$ —	\$ 88
Net investment hedges	3	6	6	5
Derivatives not designated as hedges	330	290	267	201
Embedded derivatives accounted for separately from the host contract	—	30	—	25
Total fair value, excluding accruals	\$ 333	\$ 387	\$ 273	\$ 319

The total notional amount of derivatives was \$67 billion and \$40 billion at December 31, 2006 and 2005, respectively.

The following table summarizes the income effects of derivatives during 2006 and 2005:

(Millions)	2006	2005
Fair value hedges ^(a) :		
Ineffective net gains	\$ 3	\$ —
Net investment hedges:		
Reclassification of loss from cumulative translation adjustment as a result of sales of foreign entities	\$ (73)	\$ —

^(a) There were no (losses) gains due to exclusion from the assessment of hedge effectiveness for 2006 and 2005.

The following table summarizes the impacts in other comprehensive (loss) income of derivatives during 2006 and 2005:

(Millions)	2006	2005
Net investment hedges:		
Net losses related to hedges in cumulative translation adjustment	\$ (20)	\$ (14)
Reclassification of loss from cumulative translation adjustment as a result of sales of foreign entities	73	—
Net change in other comprehensive income (loss)	\$ 53	\$ (14)

Fair Value Hedges

A fair value hedge is a derivative designated to hedge the exposure of future changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk. From time to time, AEB enters into interest rate swaps to hedge its exposure related to fixed rate corporate debt securities. Prior to 2006, AEB hedged the fair value changes related to a portion of its callable term customer deposits using callable interest rate swaps. AEB no longer hedges the fair value changes related to callable term customer deposits because the

term certificate of deposit was modified and hedge accounting is no longer deemed applicable to prospective transactions.

Net Investment Hedges

A net investment hedge in a foreign operation is a derivative used to hedge future changes in currency exposure of a net investment in a foreign operation. AEB designates foreign currency derivatives, primarily forward agreements, as hedges of net investments in certain foreign operations. These derivatives reduce exposure to changes in currency exchange rates on AEB's investments in non-U.S. subsidiaries.

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 products assets and liabilities was \$330 million and \$320 million, respectively, as of December 31, 2006 and \$267 million and \$226 million, respectively, as of December 31, 2005. 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 indices and financial instruments. AEB manages this market risk by entering into options, futures and swaps with offsetting characteristics. As of December 31, 2006 and 2005, the total fair value of such derivative product liabilities was \$30 million and \$25 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) \$427 million and \$328 million at December 31, 2006 and 2005, 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 to hedge foreign currency exposures (where practical and economical), 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 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, 2006, the majority of these contracts had remaining maturities within one year.

At December 31, 2006 and 2005, foreign currency products with total notional amounts of approximately \$37 billion and \$22 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 \$29 billion and \$17 billion were outstanding at December 31, 2006 and 2005, 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 December 31, 2006 and 2005.

NOTE 16 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:

December 31, (Millions)	2006		2005	
	Maximum amount of undiscounted future payments ^(a)	Amount of related liability ^(b)	Maximum amount of undiscounted future payments ^(a)	Amount of related liability ^(b)
Standby financial letters of credit ^(c)	\$ 538	\$ 0.7	\$ 339	\$ 1.0
Financial guarantees ^(c)	518	0.3	641	1.7
Performance guarantees ^(d)	112	0.2	104	0.6
Total	\$ 1,168	\$ 1.2	\$ 1,084	\$ 3.3

^(a) Calculated based on the hypothetical scenario that all claims occur within the next 12 months.

^(b) Included as part of Other Liabilities on AEB's Consolidated Balance Sheets.

^(c) AEB held collateral of \$899 million and \$891 million related to such guarantees at December 31, 2006 and 2005, respectively, which were predominantly represented by customers' deposits, securities and counter-guarantees.

^(d) AEB held collateral of \$44 million and \$45 million related to such guarantees at December 31, 2006 and 2005, respectively, which were predominantly represented by customers' deposits, securities 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 \$22 million at December 31, 2006, 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 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, 2006 and 2005, AEB held \$246 million and \$181 million, respectively, of collateral, consisting primarily of customers' deposits and guarantees.

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

December 31, (Millions)	2006	2005
Commitments to extend credit	\$ 447	\$ 330
Standby letters of credit and guarantees:		
Financial	1,056	980
Performance	112	104
Commercial and other letters of credit	698	508
Total off-balance sheet items	\$ 2,313	\$ 1,922

NOTE 17 FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table discloses fair value information of AEB's financial assets and liabilities:

December 31, (Millions)	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Assets for which carrying values equal or approximate fair value	\$ 7,665	\$ 7,652	\$ 6,319	\$ 6,319
Loans	\$ 7,223	\$ 7,223	\$ 7,032	\$ 7,149
Financial Liabilities				
Liabilities for which carrying values equal or approximate fair value	\$14,287	\$14,281	\$12,783	\$12,787

The fair values of these financial instruments are estimates based upon market conditions and perceived risks as of December 31, 2006 and 2005 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 methods were used to determine fair values.

Financial assets and liabilities for which carrying values equal or approximate fair values include cash and due from banks, interest-earning deposits with banks, federal funds sold and securities purchased under resale agreements, trading assets, Available-for-Sale investment securities, accrued interest and other receivable, due from Amexco, customer deposits, short-term borrowings, trading liabilities, due to Amexco and certain other assets and liabilities. For these assets and liabilities, the carrying value approximates fair value because these are short-term in duration, variable rate in nature or recorded at fair value on the Consolidated Balance Sheets.

Available-for-Sale Securities

Generally, Available-for-Sale investment securities 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 securities or when management determines that a decline in value is other-than-temporary. See Note 5 for carrying and fair value information regarding Available-for-Sale investment securities.

Derivative Financial Instruments

Derivative financial instruments are also carried at fair value on the Consolidated Balance Sheets, with gains and losses recognized in the Consolidated Statements of Operations or Consolidated Balance Sheets based upon the nature of the derivative. See Note 15 for fair value information regarding derivative financial instruments.

Loans

For variable-rate loans that reprice within one year and for which there has been no significant change in counterparties' creditworthiness, fair values approximate carrying values. The fair values of all other loans, except those with significant credit deterioration, are estimated using discounted cash flow analysis, based on current interest rates for loans with similar terms to borrowers of similar credit quality. For loans with significant credit deterioration, fair values are based on estimates of future cash flows discounted at rates commensurate with the inherent risk in the revised cash projections. For collateral-dependent loans with significant credit deterioration, fair values are based on estimates of collateral values.

See Note 16 for discussion of carrying and fair value information regarding guarantees and certain off-balance sheet items.

NOTE 18 CREDIT CONCENTRATIONS

Credit concentrations arise when customers operate in similar industries, economic sectors or geographic regions. AEB's customers operate in diverse industries, economic sectors and geographic regions.

The following table represents AEB's maximum credit exposure by industry, including the credit exposure associated with derivative financial instruments:

December 31, (Millions)	2006			2005		
	On-Balance Sheet	Off-Balance Sheet	Total	On-Balance Sheet	Off-Balance Sheet	Total
Banks and other financial institutions	\$ 7,516	\$ 1,399	\$ 8,915	\$ 6,221	\$ 1,106	\$ 7,327
Individuals	4,895	763	5,658	4,905	619	5,524
Other businesses	842	138	980	508	181	689
Foreign governments	767	13	780	708	16	724
Real estate	744	—	744	761	—	761
All other	9	—	9	11	—	11
Total	\$14,773	\$ 2,313	\$17,086	\$13,114	\$ 1,922	\$15,036

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:

December 31, (Billions)	Loans	Foreign Exchange and Derivatives	Net Guarantees and Contingents	Other Credit Exposures ^(a)	2006 Total Credit Exposure ^(b)	2005 Total Credit Exposure ^(b)
Singapore	\$ 1.1	\$ —	\$ 0.3	\$ 0.3	\$ 1.8	\$ 1.4
Hong Kong	0.6	—	—	—	0.7	0.6
Korea	0.3	—	—	—	0.4	0.3
Taiwan	0.2	—	—	0.1	0.3	0.4
Japan	—	—	—	0.1	0.1	0.1
Other	—	—	0.1	0.3	0.6	0.5
Total Asia / Pacific Region^(b)	2.3	0.1	0.5	0.9	3.8	3.3
Cayman Islands	0.2	—	0.2	0.3	0.6	1.7
Brazil	0.2	—	0.1	—	0.2	0.3
Chile	0.1	—	—	—	0.1	0.1
Other	0.3	—	0.2	0.1	0.6	0.3
Total Latin America^(b)	0.8	—	0.4	0.4	1.5	2.4
India	0.3	—	0.1	0.4	0.9	0.6
Pakistan	—	—	—	—	—	0.2
Total Subcontinent^(b)	0.4	—	0.2	0.4	1.0	0.8
Egypt	—	—	—	—	—	0.1
Other	0.1	—	0.1	—	0.2	0.2
Total Middle East / Africa^(b)	0.1	—	0.1	—	0.2	0.3
Total Europe^(b)	2.9	0.1	0.5	3.4	7.0	5.1
Total North America	0.7	—	0.3	1.3	2.4	2.4
Total Worldwide^(b)	\$ 7.2	\$ 0.3	\$ 1.9	\$ 6.5	\$ 16.0	\$ 14.3

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 investment securities.

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

NOTE 19 RESTRUCTURING CHARGES

During 2006 and 2005, AEB recorded restructuring charges consisting of severance obligations and other exit costs, primarily related to currency translation losses, in connection with the decision to sell or exit certain AEB operations including Bangladesh, Luxembourg, Pakistan and the UK.

The following table summarizes AEB's restructuring charges, cash payments and the resulting liability balances:

December 31, 2004 (Millions)	2005 Restructuring Charges			Cash paid during 2005			December 31, 2005 (Millions)		
	Severance	Other	Total	Severance	Other	Total	Severance liability	Other	Total liability
Total liability									
\$18	\$4	\$—	\$4	\$8	\$2	\$10	\$11	\$1	\$12
December 31, 2005 (Millions)	2006 Restructuring Charges (Reversals)			Cash paid during 2006			December 31, 2006 (Millions)		
	Severance	Other	Total	Severance	Other	Total	Severance liability	Other	Total liability
Total liability									
\$12	\$4	\$(1)	\$3	\$13	\$—	\$13	\$2	\$—	\$2

NOTE 20 GEOGRAPHIC OPERATIONS

The following table presents AEB's total assets, net financial revenues and pretax income (loss) from continuing operations in different geographic regions. AEB defines international activities as business transactions that involve customers residing outside of the United States, and the information presented below is based primarily upon the domicile of the customer. As AEB's financial services businesses are highly integrated on a worldwide basis, estimates and subjective assumptions have been made to apportion data between United States and international businesses.

Year ended December 31, (Millions)	Europe	Asia / Pacific ^(a)	North America	All Other ^(b)	Consolidated
2006					
Total assets ^(c)	\$ 4,690	\$ 4,640	\$ 2,662	\$ 3,356	\$ 15,348
Net financial revenues ^(d)	365	350	62	97	874
Pretax income (loss)	62	50	(96)	94	110
2005					
Total assets ^(c)	\$ 4,833	\$ 4,264	\$ 2,414	\$ 2,384	\$ 13,895
Net financial revenues ^(d)	288	379	89	102	858
Pretax income (loss)	64	113	(45)	6	138

^(a) Includes the Subcontinent.

^(b) Includes Africa / Middle East, Latin America and Other.

^(c) Total assets for 2006 and 2005 include nil and \$189 million of assets of discontinued operations, respectively.

^(d) Excludes provision for credit losses.