# Notes to Consolidated Financial Statements

## Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Consolidated Financial Statements include the accounts of American Express Company and its subsidiaries (the company). All significant intercompany transactions are eliminated. Certain reclassifications of prior period amounts have been made to conform to the current presentation.

### Principles of Consolidation

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

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

### Amounts Based on Estimates and Assumptions

Accounting estimates are an integral part of the Consolidated Financial Statements. In part they are based upon assumptions concerning future events. Among the more significant are those that relate to reserves for cardmember credit losses, Membership Rewards, investment securities valuation and the amortization of deferred acquisition costs. These accounting estimates reflect the best judgment of management and actual results could differ.

### Revenues

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

#### *Discount revenue*

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

#### *Interest and dividends, net*

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