10-Q 1 axp_2nd10-q.txt UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM 10-Q [X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001 or [ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Transition Period from to ---------------- ---------------- Commission file number 1-7657 AMERICAN EXPRESS COMPANY ------------------------ (Exact name of registrant as specified in its charter) New York 13-4922250 --------------------------------------- ---------------------------- (State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.) World Financial Center, 200 Vesey Street, New York, NY 10285 -- (Address of principal executive offices) (Zip Code) Registrant's telephone number, including area code (212) 640-2000 --------------------------- None -- Former name, former address and former fiscal year, if changed since last report. Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ------ ----- Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Class Outstanding at July 31, 2001 ---------------------------------- --------------------------- Common Shares (par value $.20 per share) 1,323,588,635 shares AMERICAN EXPRESS COMPANY FORM 10-Q INDEX ~~Part I. Financial Information: Consolidated Statements of Income - Three months ended June 30, 2001 and 2000 1 Consolidated Statements of Income - Six months ended June 30, 2001 and 2000 2 Consolidated Balance Sheets - June 30, 2001 and December 31, 2000 3 Consolidated Statements of Cash Flows - Six months 4 ended June 30, 2001 and 2000 Notes to Consolidated Financial Statements 5-10 Review Report of Independent Accountants 11 Management's Discussion and Analysis of Financial Condition and Results of Operations 12-30 Part II. Other Information 31~~
~~PART I--FINANCIAL INFORMATION AMERICAN EXPRESS COMPANY CONSOLIDATED STATEMENTS OF INCOME (dollars in millions, except per share amounts) (Unaudited)~~

Three Months Ended June 30, ---------------------- 2001 2000 --------- ---------

~~Revenues: Discount revenue $ 2,007 $ 1,949 Interest and dividends, net 12 836 Management and distribution fees 623 701 Net card fees 404 411 Travel commissions and fees 427 507 Other commissions and fees 601 568 Cardmember lending net finance charge revenue 200 242 Life and other insurance premiums 161 141 Other 833 615 ---------- Total 5,268 5,970 --------- Expenses: Human resources 1,650 1,677 Provisions for losses and benefits:~~

~~Annuities and investment certificates 352 322 Life insurance, international banking and other 193 173 Charge card 319 302 Cardmember lending 346 170 Interest 412 345 Marketing and promotion 332 416 Occupancy and equipment 395 366 Professional services 412 387 Communications 133 129 Other 571 637 -------------- Total 5,115 4,924 ------- ------- Pretax income 153 1,046 Income tax (benefit) provision (25) 306 ------- ------- Net income $ 178 $ 740 ======= ======= Earnings Per Common Share: Basic $ 0.13 $ 0.56 ======= ======= Diluted $ 0.13 $ 0.54 ======= ======= Average common shares outstanding for earnings per common share (millions): Basic 1,321 1,328 ======= ======= Diluted 1,336 1,361 ======= ======= Cash dividends declared per~~

~~common share $ 0.08 $ 0.08~~
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~~See notes to Consolidated Financial Statements. 1 AMERICAN EXPRESS COMPANY CONSOLIDATED STATEMENTS OF INCOME (dollars in millions, except per share amounts) (Unaudited)~~

Six Months Ended June 30, ---------------------- 2001 2000 --------- - --------

~~Revenues: Discount revenue $ 3,931 $ 3,754 Interest and dividends, net 623 1,632 Management and distribution fees 1,261 1,390 Net card fees 826 816 Travel commissions and fees 845 945 Other commissions and fees 1,224 1,118 Cardmember lending net finance charge revenue 441 534 Life and other insurance premiums 318 279 Other 1,518 1,159 --- ---- ------- Total 10,987 11,627 -------- - ------ Expenses: Human resources 3,319 3,311 Provisions for losses and benefits: Annuities and investment certificates 672 670 Life insurance, international banking and other 390 351 Charge card 568 543 Cardmember lending 633 346~~

~~Interest 774 644 Marketing and promotion 670 786 Occupancy and equipment 766 728 Professional services 787 704 Communications 263 255 Other 1,251 1,323 ------- ------- Total 10,093 9,661 ------- ------- Pretax income 894 1,966 Income tax provision 178 570 ------- ------- Net income $ 716 $ 1,396 ======= ======= Earnings Per Common Share: Basic $ 0.54 $ 1.05 ======= ======= Diluted $ 0.53 $ 1.03 ======= ======= Average common shares outstanding for earnings per common share (millions): Basic 1,322 1,330 ======= ======= Diluted 1,340 1,361 ======= ======= Cash dividends declared per common share $ 0.16 $ 0.16 ======= =======~~

~~See notes to Consolidated Financial Statements. 2 AMERICAN EXPRESS COMPANY CONSOLIDATED BALANCE SHEETS (millions) (Unaudited)~~

June 30, December 31, Assets 2001 2000 ------ -- ------- ------- -- ~~Cash and~~

~~cash equivalents $ 8,481 $ 8,487 Accounts receivable and accrued interest: Cardmember receivables, less reserves: 2001, $1,034; 2000, $809 25,051 25,067 Other receivables, less reserves: 2001, $84; 2000, $123 4,561 5,476 Investments 45,100 43,747 Loans: Cardmember lending, less reserves: 2001, $748; 2000, $650 19,684 19,855 International banking, less reserves: 2001, $126; 2000, $137 5,384 5,207 Other, net 1,022 1,026 Separate account assets 28,871 32,349 Deferred acquisition costs 3,608 3,574 Land, buildings and equipment - at cost, less accumulated depreciation: 2001, $2,402; 2000, $2,219 2,635 2,506 Other assets 7,793 7,129 - -------- --------- Total assets $ 152,190 $ 154,423~~

~~Liabilities and Shareholders' Equity ---~~

~~Customers' deposits $ 14,554 $ 13,870 Travelers Cheques outstanding 6,862 6,127 Accounts payable 7,871 7,495 Insurance and annuity reserves: Fixed annuities 19,236 19,417 Life and disability policies 4,787 4,681 Investment certificate reserves 8,081 7,348 Short-term debt 30,564 36,030 Long-term debt 7,705 4,711 Separate account liabilities 28,871 32,349 Other liabilities 11,398 10,211 ---------- ---------~~

~~Total liabilities 139,929 142,239 --------- ---------~~

~~Guaranteed preferred beneficial interests in the company's junior subordinated deferrable interest debentures 500 500 Shareholders' equity:~~

~~Common shares, $.20 par value, authorized 3.6 billion shares; issued and outstanding 1,324 million shares in 2001 and 1,326 million shares in 2000 265 265 Capital surplus 5,464 5,439 Retained earnings 6,043 6,198 Other comprehensive income, net of tax: Net unrealized securities gains (losses) 313 (145) Net unrealized derivatives losses (263) - Foreign currency translation adjustments (61) (73) --------- --------- Accumulated other comprehensive loss (11) (218) --------- --------- Total shareholders' equity 11,761 11,684 --------- --------- Total liabilities and shareholders' equity $ 152,190 $ 154,423~~

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~~See notes to Consolidated Financial Statements. 3 AMERICAN EXPRESS COMPANY CONSOLIDATED STATEMENTS OF CASH FLOWS (millions) (Unaudited)~~

Six Months Ended June 30, --------------------- 2001 2000 ----------- --- ------- ~~CASH FLOWS FROM OPERATING ACTIVITIES Net income~~

~~$ 716 $ 1,396 Adjustments to reconcile net income to net cash provided by operating activities: Provisions for losses and benefits 2,586 1,284 Depreciation, amortization, deferred taxes and other (21) 307 Changes in operating assets and liabilities, net of effects of acquisitions and dispositions: Accounts receivable and accrued interest 495 (276) Other assets (275) 330 Accounts payable and other liabilities 338 1,412 Increase in Travelers Cheques outstanding 737 694 Increase in insurance reserves 103 90 ---------- - ---------- NET CASH PROVIDED BY OPERATING ACTIVITIES 4,679 5,237 ----------- ---------- CASH FLOWS FROM INVESTING ACTIVITIES Sale of investments 4,978 809 Maturity and redemption of investments 2,813 3,016 Purchase of investments (9,544) (3,986) Net increase in Cardmember loans/receivables (189) (4,511) Cardmember loans/receivables sold to trust, net 2,666 3,203 Proceeds from repayment of loans 13,916 11,437 Issuance of loans (13,611) (11,449) Purchase of land, buildings and equipment (360) (367) Sale of land, buildings and equipment 9 25 (Acquisitions)/Dispositions, net of cash acquired/sold (156) 214 ----------- ---- ------ NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES 522 (1,609) ----------- ---------- CASH FLOWS FROM FINANCING ACTIVITIES Net increase in customers' deposits 707~~

~~2,242 Sale of annuities and investment certificates 2,831 2,685 Redemption of annuities and investment certificates (2,526) (2,851) Net (decrease) increase in debt with maturities of three months or less (4,089) 1,200 Issuance of debt 5,390 5,352 Principal payments on debt (6,733) (12,139) Issuance of American Express common shares 60 111 Repurchase of American Express common shares (626) (683) Dividends paid (213) (206) ----------- ----------- NET CASH USED IN FINANCING ACTIVITIES (5,199) (4,289) ----------- ----------- Effect of exchange rate changes on cash (8) 31 ----------- ----------- NET DECREASE IN CASH AND CASH EQUIVALENTS (6) (630) Cash and cash equivalents at beginning of period 8,487 7,471 ----------- ----------- CASH AND CASH EQUIVALENTS AT END OF PERIOD $ 8,481 $ 6,841 =========== ===========~~

~~See notes to Consolidated Financial Statements. 4 AMERICAN EXPRESS COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 1. BASIS OF PRESENTATION The consolidated financial statements should be read in conjunction with the financial statements in the Annual Report on Form 10-K of American Express Company (the company or American Express) for the year ended December 31, 2000. Significant accounting policies disclosed therein have not changed, except as disclosed in Note 2. Certain reclassifications of prior period amounts have been made to conform to the current presentation. Cardmember lending net finance charge revenue is presented net of interest expense of $267 million and $258 million for the second quarter of 2001 and 2000, respectively, and $544 million and $490 million for the six months ended June 30, 2001 and 2000, respectively. Interest and dividends is presented net of interest expense of $121 million and $141 million for the second quarter of 2001 and 2000, respectively, and $260 million and $274 million for the six months ended June 30, 2001 and 2000, respectively, related primarily to the company's international banking operations. At June 30, 2001 and December 31, 2000, cash and cash equivalents included $0.8 billion and $1.2 billion, respectively, segregated in special bank accounts for the benefit of customers. The interim financial information in this report has not been audited. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial position and the consolidated results of operations for the interim periods have been made. All adjustments made were of a normal, recurring nature. Results of operations reported for interim periods are not necessarily indicative of results for the entire year. 2. ACCOUNTING DEVELOPMENTS Effective January 1, 2001, the company adopted Statement of Financial Accounting Standards (SFAS) No. 133, which establishes the accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Changes in the fair value of a derivative are recorded in earnings or directly to equity, depending on the instrument's designated use. Those derivative instruments that are designated and qualify as hedging instruments are further classified as either a cash flow hedge, a fair value hedge, or a hedge of a net investment in a foreign operation, based upon the exposure being hedged. From time to time, the company, through Travel Related Services (TRS), American Express Centurion Bank (Centurion Bank) and special purpose subsidiaries, has securitized U.S. Cardmember loans and Charge Card receivables by issuing securities through one or more trusts. The securities are non-recourse to the company. Net proceeds are used by the special purpose subsidiaries to purchase the receivables from TRS or its subsidiaries. The consolidated financial statements include the assets and liabilities of these special purpose subsidiaries. Effective April 1, 2001, the company adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of 5 Liabilities," a replacement of SFAS No. 125. This Statement~~

establishes accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities, as well as the recognition and reclassification of collateral. SFAS No. 140 did not materially impact the company's securitized U.S. Cardmember loans. The company's Charge Card receivables securitization structure did not meet certain sale criteria of SFAS 140. As a result, effective in the second quarter, this structure is accounted for as secured borrowings by the special purpose subsidiary that purchases Charge Card receivables, as well as by Centurion Bank. Approximately $2.9 billion of Charge Card receivables and a commensurate amount of long-term debt were reinstated to the applicable balance sheets. While the Charge Card receivables and associated long-term debt are reappearing on the consolidated financial statements, these securitized assets of the special purpose subsidiary and Centurion Bank are not available to creditors of the company and are not the assets of the company, and the company has no liability for securities issued by the securitization trusts. The impact of this adoption on results of operations, as well as on capital requirements, was immaterial. 3. INVESTMENT SECURITIES The following is a summary of investments at June 30, 2001 and December 31, 2000:

June 30, December 31, (in millions) 2001 2000 ------------- ---------- ----------------------- Held to Maturity, at amortized cost (fair value: 2001, $0; 2000, $8,486) $ - $8,404 Available for Sale, at fair value (cost: 2001, $40,397; 2000, $31,301) 40,906 31,052 Investment mortgage loans (fair value: 2001, $4,121; 2000, $4,178) 4,019 4,097 Trading 175 194 ---------------- ------- ---------------------- Total $45,100 $43,747

During the first and second quarters of 2001, the company recognized pre-tax losses of $182 million and $826 million, respectively, from the write-down and sale of certain high yield securities. These losses are included in "Interest and dividends" on the Consolidated Statements of Income. The second quarter pre-tax charge of $826 million is comprised of: $403 million to recognize the impact of higher default rate assumptions on certain structured investments; $344 million to write down lower-rated securities which the company plans to sell in connection with the company's decision to lower its risk profile by reducing the level of its high-yield portfolio, allocating holdings toward stronger credits, and reducing the concentration of exposure to individual companies and industry sectors; and $79 million to write down certain other investments to recognize losses incurred during the second quarter. 4. COMPREHENSIVE INCOME Comprehensive income is defined as the aggregate change in shareholders' equity, excluding changes in ownership interests. For the company, it is the sum of net income and changes in (i) unrealized gains or losses on available-for-sale securities, (ii) unrealized gains or losses on derivatives (pursuant to SFAS No. 133) and (iii) foreign currency translation adjustments. The components of comprehensive income, net of 6 related tax, for the three and six months ended June 30, 2001 and 2000 were as follows:

Three Months Ended Six Months Ended June 30, June 30, ------------------------------ ------------ ----------------------- (in millions) 2001 2000 2001 2000 ------------------------------ --------------- -------------------- Net income $ 178 $ 740 $ 716 $ 1,396 Change in: Net unrealized securities gains/losses 42 (138) 458 (208) Net unrealized derivative gains/losses * (103) - (263) - Foreign currency translation adjustments - 1 12 9 ------------ ------------------- ---------------------------------- -- Total $ 117 $ 603 $ 923 $ 1,197

* The change in net unrealized derivative gains/losses for the six months ended June 30, 2001 includes the January 1, 2001 SFAS No. 133 transition effect of $120 million in net unrealized losses. At June 30, 2001, $263 million of net after-tax losses were recorded in other comprehensive income on the consolidated balance sheet; this is compared with $160 million at March 31, 2001. The increase during the second quarter is primarily related to interest rate derivatives used as cash flow hedges. These losses will be recognized in earnings during the terms of the derivative contracts at the same time that the company realizes the benefits of lower market rates of interest on its funding activities. 5. TAXES AND INTEREST Net income taxes paid during the six months ended June 30, 2001 and 2000 were approximately $377 million and $346 million, respectively. Interest paid during the six months ended June 30, 2001 and 2000 was approximately $1.4 billion and $1.7 billion, respectively. The decrease in the company's effective tax rate for the three and six-month periods ended June 30, 2001, as compared to the three and six-month periods ended June 30, 2000, is due to the company's higher proportion of nontaxable earnings relative to pretax income. 6. EARNINGS PER SHARE The computations of basic and diluted earnings per common share (EPS) for the three and six months ended June 30, 2001 and 2000 are as follows: 7

(in millions, except per Three

Months Ended Six Months Ended share amounts) June 30, June 30, ---- ------------- ------------- --- --------- ------------- ------------- 2001 2000 2001 2000 - ------------- ------------- ------ ------ ------------- ------------- ---

Numerator: Net income $ 178 $ 740 $ 716 $ 1,396 Denominator: Denominator for basic EPS - weighted-average shares 1,321 1,328 1,322 1,330 Effect of dilutive securities: Stock Options, Restricted Stock Awards 15 33 18 31 --- ------------- ------------- ---- -------- ------------- ------------- - Denominator for diluted EPS 1,336 1,361 1,340 1,361 ------ ------------- ------------- - ------------- ------------- ---------- Basic EPS $ 0.13 $ 0.56 $ 0.54 $

~~1.05 --------~~
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~~------------~~
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~~---------~~
~~Diluted EPS~~
~~$ 0.13 $~~
~~0.54 $ 0.53~~
~~$ 1.03 ------~~
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~~7. SEGMENT INFORMATION The following tables present three and six-month results for the company's operating segments, based on management's internal reporting structure. Net revenues (managed basis) exclude the effect of securitizations at Travel Related Services, and include provisions for losses and benefits for annuities, insurance and investment certificate products of American Express Financial Advisors (AEFA). AEFA's revenues include the effect 8 of $826 million and $1.0 billion of losses from the write down and sale of certain high-yield securities for the three and six-month periods ended June 30, 2001, respectively.~~

NET REVENUES Three Months Ended Six Months Ended (MANAGED BASIS) June 30, June 30, -------- ----------------------------- ------------------------- ----------- (in millions) 2001 2000 2001 2000 --------- ---------------------------- -------------------------- ---------- ~~Travel Related Services $ 4,644 $ 4,372 $ 9,109 $ 8,498 American Express Financial Advisors 162 1,081 968 2,100 American Express Bank 159 151 317 301 Corporate and Other (55) (46) (102) (82) ---- -------------------------------- --------------------- --------------- Total * $ 4,910 $ 5,558 $ 10,292 $ 10,817~~

REVENUES (GAAP BASIS) Three Months Ended Six Months Ended June 30, June 30, ----------------------- -------------- ------------------------------------- (in millions) 2001 2000 2001 2000 ------------------------ -------------- -------------------------------------- ~~Travel Related Services $ 4,496 $ 4,324 $ 8,823 $ 8,361 American Express Financial Advisors 667 1,541 1,949 3,047 American Express Bank 159 151 317 301 Corporate and Other (55) (46) (102) (82) ------------ ------------------------ ----------------------------- ------ Total * $ 5,268 $ 5,970 $ 10,987 $ 11,627~~

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NET INCOME Three Months Ended Six Months Ended June 30, June 30, ------------------------------- ------- ------------------------------------ (in millions) 2001 2000 2001 2000 --------------------------------- ----- ------------------------------------ ~~Travel Related Services $ 519 $ 505 $ 1,041 $ 953 American Express Financial Advisors (307) 275 (256) 520 American Express Bank 12 7 21 15 Corporate and Other (46) (47) (90) (92) ----------------------------- -------- ------------------------------------ Total * $ 178 $ 740 $ 716 $ 1,396~~

~~* Individual items may not add to consolidated totals due to rounding. 10 INDEPENDENT ACCOUNTANTS' REVIEW REPORT The Shareholders and Board of Directors American Express Company We have reviewed the accompanying consolidated balance sheet of American Express Company (the "Company") as of June 30, 2001 and the related consolidated statements of income for the three and six-month periods ended June 30, 2001 and 2000 and consolidated statements of cash flows for the six-month periods ended June 30, 2001 and 2000. These financial statements are the responsibility of the Company's management. We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion. Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States. We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of the Company as of December 31, 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein), and in our report dated February 8, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2000 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived. /s/Ernst & Young LLP New York, New York August 13, 2001 11 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2001 The company's consolidated net income and diluted earnings per share (EPS) declined 76 percent and 49 percent in the three and six-month periods ended June 30, 2001, respectively. The company's return on equity was 18.2 percent. Consolidated net revenues on a managed basis declined 12 percent and 5 percent for the three and six-month periods ended June 30, 2001, reflecting the impact of a weaker economy and equity market declines, as well as pre-tax losses of $182 million in the first quarter of 2001 and $826 million in the second quarter of 2001 from the write-down and sale of certain high yield securities. The second quarter pre-tax charge of $826 million, which is included in "Interest and dividends" on the Consolidated Statements of Income, is comprised of: $403 million to recognize the impact of higher default rate assumptions on certain structured investments; $344 million to write down lower-rated securities which the company plans to sell in connection with the company's decision to lower its risk profile by reducing the level of its high-yield portfolio, allocating holdings toward stronger credits, and reducing the concentration of exposure to individual companies and industry sectors; and $79 million to write down certain other investments to recognize losses incurred during the second quarter. Excluding the high yield losses in both years, the company's net income would have been 6 percent below last year in the three-month period ended June 30, 2001 and down 3 percent for the six-month period ending June 30, 2001. EPS would have decreased 5 percent and 2 percent and net revenues would have increased 3 percent and 4 percent for the same periods. The increase in revenues, excluding high-yield losses, is due to an increase in cards in force, higher billed business volumes, larger loan balances and greater insurance premiums. These items were partially offset by lower management and distribution fees, lower spreads on AEFA's investment portfolio, and weaker travel revenues. Consolidated expenses increased for both periods due to larger provisions for losses, greater interest costs, and higher operating expenses which for the six-month period, include the effect of a $67 million expense increase due to an adjustment of Deferred Acquisition Costs (DACs) for variable insurance and annuity products made in the first quarter of 2001. These increases were partially offset by lower marketing costs, reengineering activities and expense control initiatives. The company believes it is on track to significantly exceed its reengineering goal of achieving at least $500 million of expense savings during 2001. However, in light of the charges discussed above and the charge the company expects to take in the quarter ending September 30, 2001, which is discussed below, the company no longer expects that EPS will grow in 2001 as compared with 2000. 12 In July 2001, the company announced that it intended to accelerate several major reengineering initiatives that were being planned for 2002. The costs associated with these additional initiatives are expected to be recognized in the third quarter as a restructuring charge of $310 million - $370 million. The charge would relate primarily to severance and related costs of eliminating 4,000 - 5,000 jobs. This financial review is presented on the basis used by management to evaluate operations. It differs in two respects from the accompanying financial statements, which are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). First, results are presented as if there had been no asset securitizations at TRS. This format is generally termed on a "managed basis." Second, revenues are shown net of AEFA's provisions for annuities, insurance and investment certificate products, which are essentially spread businesses. CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES In 1999 and 2000, the company entered into agreements under which a third party purchased 29 million company common shares at an average purchase price of $50.41. During the term of the agreements, the company will periodically issue shares to or receive shares from the third party so that the value of the shares held by the third party equals the original purchase price for the shares. At maturity in five years, the company is required to deliver to the third party an amount equal to such original purchase price. The 13 company may elect to settle this amount (i) physically, by paying cash against delivery of the shares held by the thirdparty or (ii) on a net cash or net share basis. The company may also prepay outstanding amounts at any time prior to the end of the five-year term. These agreements, which partially offset the company's exposure from its stock option program, are separate from the company's previously authorized share repurchase program. During the first six months of 2001, net settlements under the agreements resulted in the company issuing 9.7 million shares. In the first quarter of 2001, the company elected to prepay $350 million of the aggregate outstanding amount, which resulted in 7.8 million shares being delivered to the company. In the first six months of 2001, the company repurchased 6.4 million common shares at an average price of $43.56 per share under its share repurchase program. This is in addition to the 7.8 million shares delivered to the company during the first quarter as a result of the prepayment discussed above, resulting in a total of 14.2 million shares repurchased during the six-month period ended June 30, 2001. Due to the negative capital generation impact of the high-yield losses discussed in the Consolidated Results of Operations section of the financial review, share repurchases for the remainder of 2001 will be reduced substantially. The resulting capital retained is expected to offset the negative impact of the high-yield losses by year end. 14 TRAVEL RELATED SERVICES RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2001 AND 2000 STATEMENTS OF INCOME (Unaudited, Managed Basis) (Dollars in millions)~~

Three Months Ended Six Months Ended June 30, June 30, ----------------------------- Percentage ----------------------------- Percentage 2001 2000 Inc/(Dec) 2001 2000 Inc/(Dec) ------- --------------------------------- ----- ------------------------------------ ~~Net Revenues: Discount Revenue $ 2,007 $ 1,949 3.0 % $ 3,931 $ 3,754 4.7 % Net Card Fees 420 411 2.2 842 816 3.2 Lending: Finance Charge Revenue 1,159 948 22.3 2,279 1,835 24.2 Interest Expense 408 385 6.1 837 717 16.7 ------------------------------ --------------------------- Net Finance Charge Revenue 751 563 33.4 1,442 1,118 29.0 Travel Commissions and Fees 427 507 (15.8) 845 945 (10.5) Travelers Cheque Investment Income 100 98 2.2 197 189 4.4 Other Revenues 939 844 11.2 1,852 1,676 10.4 ------------------------------ --------------------------- Total Net Revenues 4,644 4,372 6.2 9,109 8,498 7.2 ------------------------------ --------------------------- Expenses: Marketing and Promotion 269 345 (22.1) 565 676 (16.4) Provision for Losses and Claims: Charge Card 320 344 (7.3) 604 622 (3.0) Lending 564 332 69.7 1,065 668 59.5 Other 25 28 (8.4) 49 57 (13.4) --------------------------- ------ --------------------------- Total 909 704 29.0 1,718 1,347 27.6 Charge Card Interest Expense 383 350 9.5 776 663 17.1 Human Resources 1,053 1,048 0.5 2,087 2,063 1.2 Other Operating Expenses 1,300 1,204 8.0 2,496 2,396 4.1 ---------------------------- ---- --------------------------- Total Expenses 3,914 3,651 7.2 7,642 7,145 6.9 ------------------------------ --------------------------- Pretax Income 730 721 1.2 1,467 1,353 8.5 Income Tax Provision 211 216 (2.4) 426 400 6.8 -- --------------------------- ------------------------------ Net Income $ 519 $ 505 2.8 $ 1,041 $ 953 9.2~~

~~15 TRAVEL RELATED SERVICES SELECTED STATISTICAL INFORMATION ------------------------------- (Unaudited) (Amounts in billions, except percentages and where indicated)~~

Three Months Ended Six Months Ended June 30, June 30, -------------------------- Percentage -------------------------- Percentage 2001 2000 Inc/(Dec) 2001 2000 Inc/(Dec) ------- -------------------------------- ------ ---------------------------------- ~~Total Cards in Force (millions): United States 34.6 32.5 6.6% 34.6 32.5 6.6%~~

~~Outside the United States 19.7 16.9 16.1 19.7 16.9 16.1 --------------------------- ---------------------------~~

~~Total 54.3 49.4 9.9 54.3 49.4 9.9~~

~~Basic Cards in Force (millions): United States 26.9 25.3 6.3 26.9 25.3 6.3 Outside the United States 15.0 12.9 16.1 15.0 12.9 16.1 --------------------------- ---------------------------~~

~~Total 41.9 38.2 9.6 41.9 38.2 9.6~~

~~Card Billed Business: United States $ 58.8 $ 55.8 5.3 $ 114.4 $ 106.4 7.4 Outside the United States 18.5 18.7 (0.7) 36.9 36.4 1.5 --------------------------- --------------------------- Total $ 77.3 $ 74.5 3.8 $ 151.3 $ 142.8 5.9~~

~~Average Discount Rate (A) 2.67% 2.69% - 2.68% 2.70% - Average Basic Cardmember Spending (dollars) (A) $ 1,986 $ 2,085 (4.7) $ 3,920 $ 4,069 (3.7) Average Fee per Card - Managed (dollars) (A) $ 34 $ 36 (5.6) $ 34 $ 36 (5.6) Non-Amex Brand (B): Cards in Force (millions) 0.7 0.6 9.6 0.7 0.6 9.6 Billed Business $ 0.8 $ 0.7 17.0 $ 1.6 $ 1.3 29.1 Travel Sales $ 4.9 $ 6.2 (20.4) $ 10.0 $ 11.7 (15.0) Travel Commissions and Fees/Sales (C) 8.7% 8.2% - 8.5% 8.1% - Travelers Cheque: Sales $ 6.5 $ 6.7 (3.5) $ 11.5 $ 11.8 (2.3) Average Outstanding $ 6.5 $ 6.5 (0.9) $ 6.3 $ 6.3 (0.5) Average Investments $ 6.5 $ 6.2 5.8 $ 6.4 $ 6.1 5.8 Tax Equivalent Yield 9.0% 8.9% - 9.0% 8.9% - Managed Charge Card Receivables: Total Receivables $ 26.1 $ 27.4 (4.7) $ 26.1 $ 27.4 (4.7) 90 Days Past Due as a % of Total 2.9% 2.4% - 2.9% 2.4% - Loss Reserves (millions) $ 1,034 $ 986 4.8 $ 1,034 $ 986 4.8 % of Receivables 4.0% 3.6% - 4.0% 3.6% - % of 90 Days Past Due 138% 153% - 138% 153% - Net Loss Ratio 0.42% 0.36% - 0.38% 0.35% - Managed U.S. Lending: Total Loans $ 31.2 $ 25.9 20.3 $ 31.2 $ 25.9 20.3 Past Due Loans as a % of Total: 30-89 Days 1.9% 1.6% - 1.9% 1.6% - 90+ Days 1.0% 0.8% - 1.0% 0.8% - Loss Reserves (millions): Beginning Balance $ 907 $ 689 31.5 $ 820 $ 672 22.0 Provision 495 268 84.4 921 553 66.5 Net Charge-Offs/Other (443) (271) 62.9 (782) (539) 45.1 --------------------------- ---------------------------~~

~~Ending Balance $ 959 $ 686 39.8 $ 959 $ 686 39.8~~

~~% of Loans 3.1% 2.6% - 3.1% 2.6% - % of Past Due 107% 109% - 107% 109% - Average Loans $ 30.3 $ 25.2 19.9 $ 29.6 $ 24.4 21.3 Net Write-Off Rate 5.7% 4.4% - 5.4% 4.5% - Net Interest Yield 8.6% 7.4% - 8.5% 7.6%~~

~~(A) Computed from proprietary card activities only. (B) This data relates to Visa and Eurocards issued in connection with joint venture activities. (C) Computed from information provided herein. 16 TRAVEL RELATED SERVICES Travel Related Services' (TRS) net income rose 3 percent and 9 percent for the three and six-month periods ended June 30, 2001, respectively, compared with a year ago. Net revenues increased 6 percent and 7 percent for the same periods, reflecting growth in loans, higher billed business, and additional cards in force, which was partially offset by lower travel revenues. The improvement in discount revenue for the three and six-month periods ended June 30, 2001, compared with a year ago, is the result of higher billed business, reflecting a 10 percent increase in cards in force, partly offset by lower spending per Cardmember and a decline in the average discount rate in both periods. The growth in billed business, which was substantially slower than in recent periods, reflects the continued slowdown in corporate spending on travel and entertainment, particularly in the second quarter when corporate Cardmember billings exhibited a mid-single digit decline from the prior year. In the U.S. the consumer card business exhibited high single digit growth and small business services rose in the mid single digits for the three-month period compared with a year ago. U.S. cards in force increased 7 percent as U.S. card acquisitions during the three-month period reflected somewhat more selective consumer card and small business services activities in light of current economic conditions. The company expects growth in cards in force to moderate during the second half of 2001 due in part to the slower economy. Outside the U.S., cards in force rose 16 percent, with continued strong proprietary card growth and network card results. For the three and six-month periods ended June 30, 2001, average spending per basic Cardmember decreased 5 percent and 4 percent, respectively, compared to a year ago, reflecting the dilutive effect of prior multiple quarters of strong card growth and weaker current economic conditions. The average discount rate declined for the three and six-month periods as compared to a year ago from the cumulative impact of stronger than average growth in the lower rate retail and other "everyday spend" merchant categories and relatively weaker travel and entertainment spending. The U.S. lending net interest yield increased from year ago levels for both the three and six-month periods, due to a smaller percentage of loan balances on introductory rates and a benefit from declining interest rates throughout the first half of the year. Other revenues increased for both periods, reflecting higher fee income. The provision for losses on the lending portfolio grew for the three and six-month periods ended June 30, 2001 as a result of an increase in U.S. lending write-off rates, higher volumes, and additions to reserves in the second quarter to reflect the company's expectation that the economy will remain weak into 2002. Charge Card interest expense rose for both periods as a result of a higher effective cost of funds and higher volumes. Marketing and promotion expenses were lower in both periods as certain marketing efforts were scaled back in light of the weaker business environment. Human resource and other operating expenses rose 5 percent and 3 percent for the three and six-month periods ended June 30, 2001, respectively, as progress on reengineering and other cost-control efforts helped restrain growth in these expenses. Excluding a gain in the second quarter of 2000 on the sale of the leisure travel activities of Havas Voyages in France, human resource and other operating expenses rose moderately versus last year. 17 TRAVEL RELATED SERVICES The preceding statements of income and related discussion present TRS results on a managed basis, as if there had been no securitization transactions. On a GAAP reporting basis, TRS recognized pretax gains of $84 million ($55 million after-tax) and $80 million ($52 million after-tax) in the second quarters of 2001 and 2000, respectively, and $126 million ($82 million after-tax) and $115 million ($75 million after-tax) for the six months ended June 30, 2001 and 2000, respectively, related to the securitization of U.S. receivables. These gains were invested in card acquisition activities and had no material impact on Net Income or Total Expenses in any period. The following tables reconcile TRS' income statements from a managed basis to a GAAP basis. These tables are not complete statements of income, as they include only those income statement items that are affected by securitizations. (Dollars in millions)~~

Three Months Ended Three Months Ended June 30, 2001 June 30, 2000 ------- ------------- ------------- ---- -------- ------------- ------------- --- Managed Securitization GAAP Managed

Securitization GAAP Basis Effect Basis Basis Effect Basis ------- ------------- ------------- ---- -------- ------------- ------------- --- ~~Net Revenues: Net Card Fees $ 420 $ (16) $ 404 $ 411 $ - $ 411 Lending Net Finance Charge Revenue 751 (551) 200 563 (321) 242 Other Revenues 939 419 1,358 844 273 1,117 Total Net Revenues 4,644 (148) 4,496 4,372 (48) 4,324 Expenses: Marketing and Promotion 269 51 320 345 48 393 Provision for Losses and Claims: Charge Card 320 (1) 319 344 (42) 302 Lending 564 (218) 346 332 (162) 170 Charge Card Interest Expense 383 4 387 350 (55) 295 Net Discount Expense - (17) (17) - 131 131 Other Operating Expenses 1,300 33~~

~~1,333 1,204 32 1,236 Total Expenses 3,914 (148) 3,766 3,651 (48) 3,603 Pretax Income \$ 730 \$ - \$ 730 \$ 721 \$ - \$ 721 ----- ------------ ------------ ----- ------ ------------ ------------ -----~~
Six Months Ended Six Months Ended June 30, 2001 June 30, 2000 ------- ------------- ------------- ---- -------- ------------- ------------- --- Managed Securitization GAAP Managed Securitization GAAP Basis Effect Basis Basis Effect Basis ------- ------------- ------------- ---- -------- ------------- ------------- --- ~~Net Revenues: Net Card Fees \$ 842 \$ (16) \$ 826 \$ 816 \$ - \$ 816 Lending Net Finance Charge Revenue 1,442 (1,001) 441 1,118 (584) 534 Other Revenues 1,852 731 2,583 1,676~~

~~447 2,123 Total Net Revenues 9,109 (286) 8,823 8,498 (137) 8,361 Expenses: Marketing and Promotion 565 76 641 676 69 745 Provision for Losses and Claims: Charge Card 604 (36) 568 622 (79) 543 Lending 1,065 (432) 633 668 (322) 346 Charge Card Interest Expense 776 (40) 736 663 (108) 555 Net Discount Expense - 96 96 - 257 257 Other Operating Expenses 2,496 50 2,546 2,396 46 2,442 Total Expenses 7,642 (286) 7,356 7,145 (137) 7,008 Pretax Income $ 1,467 $ - $ 1,467 $ 1,353 $ - $ 1,353 ------ ------------ ------------ ----- ------- ------------ ------------ ----~~

~~18 TRAVEL RELATED SERVICES LIQUIDITY AND CAPITAL RESOURCES SELECTED BALANCE SHEET INFORMATION ----------- ----------------------- (Unaudited, GAAP Basis) (Dollars in billions, except percentages)~~

June 30, December 31, Percentage

June 30,
Percentage
2001 2000
Inc/(Dec)
2000
Inc/(Dec) ---

--- ----------
------ -------
--------- ----

~~Accounts~~
~~Receivable,~~
~~net $ 28.8 $~~
~~29.6 (2.7) %~~
~~$ 26.2 9.8 %~~
~~Travelers~~
~~Cheque~~
~~Investments~~
~~$ 7.1 $ 6.5~~
~~9.9 $ 6.7 5.7~~
~~U.S. Loans $~~
~~16.9 $ 17.4~~
~~(3.2) $ 15.4~~
~~9.7 Total~~
~~Assets $~~
~~71.4 $ 71.4~~
~~(0.1) $ 62.8~~
~~13.7~~
~~Travelers~~
~~Cheques~~
~~Outstanding~~
~~$ 6.9 $ 6.1~~
~~12.0 $ 6.9~~
~~(0.5) Short-~~
~~term Debt $~~
~~31.3 $ 36.7~~
~~(14.8) $ 27.9~~
~~12.5 Long-~~
~~term Debt $~~
~~6.3 $ 3.3~~
~~91.4 $ 3.2~~
~~95.2 Total~~
~~Liabilities $~~
~~64.7 $ 64.8~~
~~(0.3) $ 56.8~~
~~13.8 Total~~
~~Shareholder's~~
~~Equity $ 6.7~~
~~$ 6.6 2.3 $~~
~~6.0 12.4~~
~~Return on~~
~~Average~~
~~Equity*~~
~~32.0%~~
~~33.0% -~~
~~32.2% -~~
~~Return on~~
~~Average~~
~~Assets**~~

~~3.0% 3.0% -~~
~~3.0% -~~

~~* Computed based on the past twelve months of net income and excludes the effect on Shareholder's Equity of SFAS No. 115 and SFAS No. 133. The company adopted SFAS No. 133 on January 1, 2001. ** Computed based on the past twelve months of net income and excludes the effect on Total Assets of SFAS No. 115 and SFAS No. 133 to the extent that they directly affect Shareholder's Equity. In the first and second quarters of 2001, the American Express Credit Account Master Trust (the Trust) securitized $1.0 billion and $2.7 billion of loans, respectively, through the public issuance of investor certificates. In the second quarter of 2001, $1.0 billion of investor certificates that were issued by the Trust in 1996 matured, resulting in $1.7 billion of net additional securitizations during the quarter. The securitized assets consist primarily of loans arising in a portfolio of designated consumer American Express credit card, Optima Line of Credit and Sign & Travel/Extended Payment Option revolving credit accounts or features and, in the future, may include other charge or credit accounts or features or products. It is expected that the Trust will securitize an additional $650 million of loans in August 2001. During the second quarter of 2001, in conjunction with the company's adoption of SFAS No. 140, TRS reinstated approximately $2.9 billion of Charge Card receivables and a commensurate amount of long-term debt to the balance sheet. See Note 2, "Accounting Developments," for further information. 19 AMERICAN EXPRESS FINANCIAL ADVISORS RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2001 AND 2000 STATEMENTS OF INCOME -------------------- (Unaudited) (Dollars in millions)~~

Three Months Ended Six Months Ended June 30, June 30, ---------------------- Percentage ---------------------- Percentage 2001 2000 Inc/(Dec) 2001 2000 Inc/(Dec) ---------------------------------- ---------------------------------- ~~Net Revenues: Investment Income $ (246) $ 592 - % $ 122 $ 1,164 (89.5) % Management and Distribution Fees 623 701 (11.3) 1,261 1,389 (9.3) Other Revenues 290 248 16.8 566 494 14.6 ------------------------- ---------------------- Total Revenues 667 1,541 (56.8) 1,949 3,047 (36.0) Provision for Losses and Benefits: Annuities 255 254 0.2 492 513 (4.1) Insurance 152 138 10.3 309 277 11.7 Investment Certificates 98 68 43.6 180 157 14.3 ------------------------- ---------------------- Total 505 460 9.6 981 947 3.6 ------------------------- ---------------------- Net Revenues 162 1,081 (85.0) 968 2,100 (53.9) ------------------------- ---------------------- Expenses: Human Resources 496 528 (6.0) 1,044 1,026 1.8 Other Operating Expenses 174 156 10.8 361 322 11.9 ------------------------- ---------------------- Total Expenses 670 684 (2.2) 1,405 1,348 4.2 ------------------------- ---------------------- Pretax (Loss) Income (508) 397 - (437) 752 - Income Tax (Benefit) Provision (201) 122 - (181) 232 - ------------------------- ---------------------- Net (Loss) Income $ (307) $ 275 - $ (256) $ 520 -~~

~~20 AMERICAN EXPRESS FINANCIAL ADVISORS (Unaudited) (Dollars in millions, except where indicated)~~

Three Months Ended Six Months Ended June 30, June 30, ----------------------- ---- Percentage ------------------------ Percentage 2001 2000 Inc/(Dec) 2001 2000 Inc/(Dec) ------------------------- ------------- ---------------------------- ------- ~~Life Insurance in Force (billions) $ 102.3 $ 93.8 9.1 % $ 102.3 $ 93.8 9.1 % Deferred Annuities in Force (billions) $ 43.5 $ 48.3 (10.0) $ 43.5 $ 48.3 (10.0) Assets Owned, Managed or Administered (billions): Assets Managed for Institutions $ 54.3 $ 56.1 (3.2) $ 54.3 $ 56.1 (3.2) Assets Owned, Managed or Administered for Individuals: Owned Assets: Separate Account Assets 28.9 36.5 (20.8) 28.9 36.5 (20.8) Other Owned Assets 41.6 39.9 4.1 41.6 39.9 4.1 ---------------------------- ------------------------ Total Owned Assets 70.5 76.4 (7.8) 70.5 76.4 (7.8) Managed Assets 104.0 119.6 (13.1) 104.0 119.6 (13.1) Administered Assets 33.0 34.1 (3.1) 33.0 34.1 (3.1) ---------------------------- ------------------------- Total $ 261.8 $ 286.2 (8.5) $ 261.8 $ 286.2 (8.5)~~

~~Market Appreciation (Depreciation) During the Period: Owned Assets: Separate Account Assets $ 1,248 $ (2,301) - $ (3,956) $ 31 - Other Owned Assets $ 229 $ (90) - $ 837 $ (210) - Total Managed Assets $ 4,552 $ (6,488) - $ (12,105) $ 532 - Cash Sales: Mutual Funds $ 8,394 $ 10,376 (19.1) $ 18,284 $ 22,503 (18.8) Annuities 1,588 1,566 1.4 2,969 2,928 1.4 Investment Certificates 1,017 871 16.7 1,970 1,706 15.5 Life and Other Insurance Products 233 219 6.3 477 455 4.8 Institutional 1,265 1,557 (18.8) 3,772 3,108 21.4 Other 1,058 661 60.2 3,012 1,235 # ---------------------------- ------------------------ Total Cash Sales $ 13,555 $ 15,250 (11.1) $ 30,484 $ 31,935 (4.5)~~

~~Number of Financial Advisors 11,646 11,486 1.4 11,646 11,486 1.4 Fees from Financial Plans and Advice Services $ 29.7 $ 23.9 24.5 $ 57.3 $ 50.1 14.2 Percentage of Total Sales from Financial Plans and Advice Services 72.3% 66.1% - 72.6% 66.5%~~

~~# Denotes variance of more than 100%. 21 AMERICAN EXPRESS FINANCIAL ADVISORS American Express Financial Advisors' (AEFA) reported net losses of $307 million and $256 million for the three and six-month periods ended June 30, 2001, respectively, compared with net income of $275 million and $520 million a year ago. Net revenues decreased 85 percent and 54 percent for the same periods. These declines reflect pre-tax losses of $182 million ($132 million after-tax) in the first quarter of 2001 and $826 million ($537 million after-tax) in the second quarter of 2001 related to the write-down and sale of certain high yield securities and the reduction of the risk profile within the investment portfolio. Excluding losses in the high~~

~~yield sector for both years, earnings were down 22 percent and 25 percent for the three and six-month periods and net revenues decreased 11 percent and 8 percent for the same periods. The declines also reflect continued weakness in equity markets and narrower spreads on the investment portfolio, reflecting the lagging benefit of lower interest rates. Although the company expects investment spreads to improve as a result of lower interest rates, it does not expect such improvement to occur until later in 2001 due to the loss of yield related to the investment portfolio rebalancing process. As a result of equity market weakness, management and distribution fees fell 11 percent and 9 percent in the three and six-month periods ending June 30, 2001. Other revenues rose in both periods as a result of higher insurance premiums and financial planning and advice service fees. Gross investment income declined 141 percent and 89 percent in the three and six-month periods due to the losses cited above, reflecting deterioration in the high yield bond sector, as well as generally lower average investment yield in both periods. Included in investment income for both periods is the effect of a decrease in the value of options hedging outstanding stock market certificates, which was offset in the certificate provision. Annuity product provisions were flat in the three month period ending June 30, 2001 and lower in the six-month period due to smaller inforce levels which offset a higher accrual rate. Insurance premiums rose in both periods due to higher inforce levels and accrual rates. Certificate provisions increased in both periods as higher inforce levels and the effect on the stock market certificate product of depreciation last year in the S&P 500, were partially offset by lower accrual rates. Total expenses fell 2 percent in the three-month period ended June 30, 2001, and increased 4 percent in the six-month period. Total expenses for the six-month period include a $67 million adjustment made in the first quarter of this year to the amortization of Deferred Acquisition Costs (DAC)* for variable insurance and annuity products as a result of the steep decline in equity markets ($39 million was recorded in human resources expenses, $28 million was included in other operating expenses). Excluding the DAC adjustment, total expenses for the six-month period were flat versus last year. Human resources expenses declined 6 percent and 2 percent (excluding the DAC adjustment) for the three and six-month periods reflecting lower field force compensation-related expenses due to relatively slow advisor growth and the impact of lower volumes on advisor compensation, as well as the benefits of reengineering and cost containment initiatives within the home office. The total advisor force of 11,646 increased by 160 from June 30, 2000 but was down 406 from March 31, 2001 and down 1,017 from year end. The sequential declines in advisors reflect reduced recruiting activities, as AEFA fine tunes the advisor platform dynamics, and higher termination rates due to the weaker environment and proactive efforts to weed out unproductive advisors. In light of current challenging market conditions, AEFA expects to continue to contain advisor growth in coming quarters to ensure overall field force costs are appropriately controlled and advisor production is maximized. Other operating expenses increased 11 percent and 3 percent (excluding the DAC adjustment) for the three and six-month periods. The 11 percent three-month period increase reflects a relatively low level of expenses last year. * DACs are the costs of acquiring new businesses, which are deferred and amortized according to a schedule that reflects a number of factors, the most significant of which are the anticipated profits and persistency of the product. The amortization schedule must be adjusted periodically to reflect changes in those factors. 22 AMERICAN EXPRESS FINANCIAL ADVISORS LIQUIDITY AND CAPITAL RESOURCES SELECTED BALANCE SHEET INFORMATION ---------------------------------- (Unaudited) (Dollars in billions)~~

	June 30, 2001	December 31, 2000	Percentage Inc/(Dec)	June 30, 2000	Percentage Inc/(Dec)
Investments	$ 32.0	$ 30.5	5.1 %	$ 30.0	6.7 %
Separate Account Assets	$ 28.9	$ 32.3	(10.8)	$ 36.5	(20.8)
Total Assets	$ 70.5	$ 73.6	(4.2)	$ 76.4	(7.8)
Client Contract Reserves	$ 32.1	$ 31.4	2.1	$ 31.0	3.3
Total Liabilities	$ 65.9	$ 69.2	(4.7)	$ 72.4	(9.1)
Total Shareholder's Equity	$ 4.6	$ 4.4	3.6	$ 4.0	13.7
Return on Average Equity*	5.4%	22.6%	-	23.1%	-

~~* Computed based on the past twelve months of net income and excludes the effect on Shareholder's Equity of SFAS No. 115 and SFAS No. 133. The company adopted SFAS No. 133 on January 1, 2001. Separate account assets and liabilities decreased mainly due to market depreciation. In July 2001, American Express Financial Advisors received a capital contribution of $490 million from American Express Company (Parent company).~~ ~~23~~

~~AMERICAN EXPRESS BANK RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2001 AND 2000 STATEMENTS OF INCOME -------------------- (Unaudited) (Dollars in millions)~~

Three Months Ended Six Months Ended June 30, June 30, ----------------------- Percentage ----------------------- Percentage 2001 2000 Inc/(Dec) 2001 2000 Inc/(Dec) --------------------------------- ------------------ --------------- ~~Net Revenues: Interest Income $ 182 $ 183 (0.2)% $ 370 $ 366 1.1 % Interest Expense 110 120 (7.7) 233 238 (1.9) ---------------------- ------------------ -- Net Interest Income 72 63 14.0 137 128 6.7 Commissions and Fees 51 56 (9.4) 103 108 (4.9) Foreign Exchange Income & Other Revenue 36 32 12.7 77 65 19.0 ---------------------- ---- ------------------ Total Net Revenues 159 151 5.0 317 301 5.2 ---------------------- - -------------------- Expenses: Human Resources 62 65 (4.0) 125 131 (4.8) Other Operating Expenses 65 69 (6.9) 130 138 (5.5) Provision for Losses 14 7 # 30 15 # -------------------- - ---------------------- Total Expenses 141 141 (0.3) 285 284 0.4 ---------------------- - -------------------- Pretax Income 18 10 83.7 32 17 83.8 Income Tax Provision 6 3 # 11 2 # ---------------------- ----- ----------------- Net Income $ 12 $ 7 59.1 $ 21 $ 15 39.0~~

~~# Denotes variance of more than 100%. SELECTED STATISTICAL INFORMATION -------------------------------- (Unaudited) (Dollars in billions)~~

Three
Months
Ended Six
Months
Ended June
30, June 30,

Percentage -

Percentage
2001 2000
Inc/(Dec)
2001 2000
Inc/(Dec) ---

---- --------

~~Assets~~
~~Managed */~~
~~Administered~~
~~$ 11.1 $ 9.8~~
~~14.0 % $~~
~~11.1 $ 9.8~~
~~14.0 %~~
~~Assets of~~
~~Non-~~
~~Consolidated~~
~~Joint~~
~~Ventures $~~
~~2.0 $ 2.3~~
~~(14.0) % $~~
~~2.0 $ 2.3~~
~~(14.0)%~~

~~* Includes assets managed by American Express Financial Advisors. 24 AMERICAN EXPRESS BANK American Express Bank (AEB) reported net income of $12 million and $21 million for the three and six months ended June 30, 2001, respectively, compared with net income of $7 million and $15 million in the same periods a year ago. Results for both periods reflect strong performance in Personal Financial Services, lower funding costs and lower operating expenses as a result of AEB's reengineering efforts. These were partially offset by higher provisions for losses due to higher Personal Financial Services loan balances, and, for the six-month period, a first quarter increase in non-performing corporate loans. Both periods were also affected by lower revenue from Corporate Banking as AEB continues to shift its focus to Personal Financial Services and Private Banking. 25 AMERICAN EXPRESS BANK LIQUIDITY AND CAPITAL RESOURCES SELECTED BALANCE SHEET INFORMATION ---------------------------------- (Unaudited) (Dollars in billions, except where indicated)~~

June 30,
December 31,
Percentage June
30, Percentage
2001 2000
Inc/(Dec) 2000
Inc/(Dec) ------
----- ----------
- ----------- ---
-------- -------
---- ~~Total~~
~~Assets $ 12.3 $~~
~~11.4 7.5 % $~~
~~11.0 11.1 %~~
~~Total Liabilities~~
~~$ 11.5 $ 10.7~~

~~7.9 $ 10.3 11.3 Total Shareholder's Equity (millions) $ 767 $ 754 1.7 $ 707 8.5 Return on Average Assets* 0.30% 0.26% - 0.21% - Return on Average Common Equity** 5.2% 4.4% - 3.7% - Total Loans $ 5.5 $ 5.3 3.1 $ 5.1 7.9 Total Non-performing Loans (millions) $ 159 $ 137 16.7 $ 174 (8.4) Other Non-performing Assets (millions) $ 4 $ 24 (81.7) $ 36 (88.1) Reserve for Credit Losses (millions)*** $ 130 $ 153 (15.0) $ 187 (30.3) Loan Loss Reserves as a Percentage of Total Loans 2.3% 2.6% - 3.3% - Deposits $ 8.5 $ 8.0 6.4 $ 8.2 3.5 Risk-Based Capital Ratios: Tier 1 10.4% 10.1% - 10.3% - Total 11.1% 11.4% - 11.9% - Leverage Ratio 5.8% 5.9% - 5.8% - * Computed based on the past twelve months of net income and excludes the effect on Total Assets of SFAS No. 115 and SFAS No. 133 to the extent that they affect~~

~~Shareholder's Equity. The Company adopted SFAS No. 133 on January 1, 2001. ** Computed based on the past twelve months of net income and excludes the effect on Shareholder's Equity of SFAS No. 115 and SFAS No. 133. *** Allocation (millions): Loans $ 126 $ 137 $ 166 Other Assets, primarily derivatives 3 14 16 Other Liabilities 1 2 5 ---------- ---------- ---------- Total Credit Loss Reserves $ 130 $ 153 $ 187~~

==========

==========

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~~AEB had loans outstanding of $5.5 billion at June 30, 2001, up from $5.3 billion at December 31, 2000, and $5.1 billion at June 30, 2000. The increase since June 30, 2000 resulted from an $800 million increase in consumer and private banking loans ($1.0 billion excluding the effect of asset sales and securitizations in the consumer loan portfolio), including the transfer of $200 million of collateralized loans from Corporate Banking. This was partially offset by a $600 million decrease in Corporate Banking loans. The increase since December 31, 2000 resulted primarily from a $500 million increase in consumer and private banking loans ($700 million excluding the effect of asset sales and securitizations in the consumer loan portfolio), including the $200 million transfer discussed above, partially offset by a $500 million decrease in Corporate Banking loans. As of June 30, 2001, consumer and private banking loans comprised 53% of total loans versus 41% at December 31, 2000 and 37% at June 30, 2000. Total non-performing loans of $159 million at June 30, 2001 were up from $137 million at December 31, 2000 and down from $174 million at June 30, 2000. The decline from June 30, 2000 is a result of decreases within the 26 Corporate Banking business, reflecting loan payments and write-offs, mainly in Indonesia, partially offset by net downgrades of the risk status of various loans. The increase since December 31, 2000 is consistent with AEB's strategy to wind down Corporate Banking activities while growing the consumer lending business. 27 As presented in the table below, there are banking activities other than loans, such as forward contracts, various contingencies and market placements, which added approximately $7.6 billion to AEB's credit exposures at June 30, 2001, compared with $7.4 billion at December 31, 2000 and $7.2 billion at June 30, 2000. Of the $7.6 billion of additional exposures at June 30, 2001, $5.3 billion were relatively less risky cash and securities related balances. AMERICAN EXPRESS BANK EXPOSURES BY COUNTRY AND REGION (UNAUDITED) (Dollars in billions)~~

Net Guarantees 6/30/01 12/31/00 FX and and Total Total Country Loans Derivatives Contingents Other* Exposure** Exposure** ------ -------------------

------------- ----- ------ ----------- ------------- ----- ------ ----------- ------------- ~~Hong Kong $ 1.0 - $ 0.1 $ 0.1 $ 1.1 $ 0.7 Indonesia 0.1 - - - 0.1 0.3 Singapore 0.5 - 0.1 0.1 0.6 0.7 Korea 0.2 - - 0.3 0.5 0.4 Taiwan 0.2 - - 0.1 0.2 0.3 Japan - - - 0.1 0.1 0.1 Other - - - 0.1 0.2 0.2 ----------- ------------- ----- ------ ----------- ------------- ----- ------ Total Asia/Pacific Region** 1.9 - 0.2 0.7 2.9 2.9 ------- ---- ------------- ----- ------ ----------- ------------- ----- ---------- Chile 0.2 - - 0.1 0.4 0.3 Brazil 0.3 - - 0.1 0.4 0.3 Mexico - - - - 0.1 0.1 Peru - - - - - 0.1 Argentina - - - - 0.1 0.1 Other 0.3 - 0.2 0.1 0.6 0.5 ----------- ------------- ----- ------ ----------- ------------- ----- ------ Total Latin America** 0.9 $ 0.1 0.3 0.3 1.5 1.4 ------------- ----- ----- ------------- ----------- ------- ----- ----------- India 0.3 - 0.1 0.3 0.7 0.7 Pakistan 0.1 - - 0.1 0.2 0.3 Other 0.1 - - 0.1 0.2 0.2 ----------- ------------- ----- ------ ----------- ------------- ----- ------ Total Subcontinent** 0.4 - 0.1 0.6 1.1 1.2 ------------- --- --------- --------- ---- ------------- --- --------- --------- -- Egypt 0.2 - -~~

~~0.2 0.4 0.5 Other 0.2 - - - 0.2 0.2 -- -------- --------- --- ------------- -- --------- --------- --- ----------~~

~~Total Middle East & Africa** 0.3 - 0.1 0.2 0.6 0.7 --- -------- --------- -- ------------- --- -------- --------- -- ----------- Total Europe 1.6 0.1 0.5 2.6 4.8 4.5 Total North America 0.3 - 0.3 1.5 2.1 2.1 - --------- -------- ---- ------------- - --------- -------- ---- ----------~~

~~Total Worldwide** $ 5.5 $ 0.2 $ 1.4 $ 5.9 $ 13.1 $ 12.7 ========== =========== ============ ========== =========== ==========~~

~~* Includes cash, placements and securities. ** Individual items may not add to totals due to rounding. Note: Includes cross-border and local exposure and does not net local funding or liabilities against any local exposure. 28 CORPORATE AND OTHER Corporate and Other reported net expenses of $46 million and $90 million for the three and six months ended June 30, 2001, respectively, compared with net expenses of $47 million and $92 million in the same periods a year ago. Results for the second quarter last year include an investment gain that was offset by expenses related to business building initiatives during the quarter. The six-month results for both years include a preferred stock dividend based on earnings from Lehman Brothers, which was offset by expenses related to business building initiatives in both years. ACCOUNTING DEVELOPMENTS In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. The company will adopt the new rule on accounting for goodwill and other intangible assets as of January 1, 2002. The company is currently evaluating the provisions of the new rules and has not yet determined what the effect of these tests will be on earnings and the financial position of the company. The impact on the company's net income in 2000 and the first six months of 2001 from goodwill amortization was $82 million ($106 million pretax) and $39 million ($50 million pretax). Forward-looking Statements This report contains forward-looking statements, which are subject to risks and uncertainties. The words "believe", "expect", "anticipate", "optimistic", "intend", "aim", "will", "should" and similar expressions are intended to identify such forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, the following: Fluctuation in the equity markets, which can affect the amount and types of investment products sold by AEFA, the market value of its managed assets, and management and distribution fees received based on those assets; potential deterioration in the high-yield sector and other investment areas, which could result in further losses in AEFA's investment portfolio; the ability of AEFA to sell certain high-yield investments at expected values and within anticipated timeframes and to maintain its high-yield portfolio at certain levels in the future; developments relating to AEFA's new platform structure for financial advisors, including the ability to increase advisor productivity, moderate the growth of new advisors and create efficiencies in the infrastructure; AEFA's ability to effectively manage the economics in selling a growing volume of non-proprietary products to clients; investment performance in AEFA's mutual fund business; 29 the success and financial impact, including costs, cost savings and other benefits, of reengineering initiatives being implemented at the company, including cost management, structural and strategic measures such as vendor, process, facilities and operations consolidation, outsourcing, relocating certain functions to lower cost overseas locations, moving internal and external functions to the internet to save costs and planned staff reductions relating to certain of such reengineering actions; the ability to control and manage operating, infrastructure, advertising and promotion and other expenses as business expands or changes, including balancing the need for longer term investment spending; consumer and business spending on the company's travel related services products, particularly credit and charge cards and growth in card lending balances, which depend in part on the ability to issue new and enhanced card products and increase revenues from such products, attract new cardholders, capture a greater share of existing cardholders' spending, sustain premium discount rates, increase merchant coverage, retain Cardmembers after low introductory lending rates have expired, and expand the global network services business; successfully expanding the company's on-line and off-line distribution channels and cross-selling financial, travel, card and other products and~~

services to its customer base, both in the U.S. and abroad; effectively leveraging the company's assets, such as its brand, customers and international presence, in the Internet environment; investing in and competing at the leading edge of technology across all businesses; increasing competition in all of the company's major businesses; fluctuations in interest rates, which impacts the company's borrowing costs, return on lending products and spreads in the investment and insurance businesses; credit trends and the rate of bankruptcies, which can affect spending on card products, debt payments by individual and corporate customers and returns on the company's investment portfolios; foreign currency exchange rates; political or economic instability in certain regions or countries, which could affect commercial lending activities, among other businesses; legal and regulatory developments, such as in the areas of consumer privacy and data protection; acquisitions; and outcomes in litigation. A further description of these and other risks and uncertainties can be found in the company's 10-K Annual Report for the fiscal year ending December 31, 2000 and its other reports filed with the Securities and Exchange Commission. 30 PART II. OTHER INFORMATION AMERICAN EXPRESS COMPANY Item 1. Legal Proceedings In August, 2000 an action entitled LESA BENACQUISTO, DANIEL BENACQUISTO, RICHARD THORESEN, ELIZABETH THORESEN, ARNOLD MORK, ISABELLA MORK, RONALD MELCHERT AND SUSAN MELCHERT V. AMERICAN EXPRESS FINANCIAL CORPORATION, AMERICAN EXPRESS FINANCIAL ADVISORS, AMERICAN CENTURION LIFE ASSURANCE COMPANY, AMERICAN ENTERPRISE LIFE INSURANCE COMPANY, AMERICAN PARTNERS LIFE INSURANCE COMPANY, IDS LIFE INSURANCE COMPANY AND IDS LIFE INSURANCE COMPANY OF NEW YORK was commenced in the United States District Court for the District of Minnesota. The complaint put at issue various alleged sales practices and misrepresentations and allegations of violations of federal laws. On September 18, 2000 the District Court, Fourth Judicial District for the State of Minnesota, County of Hennepin and the United States District Court for the District of Minnesota entered an order conditionally certifying a class for settlement purposes, preliminarily approving the class settlement, directing the issuance of a class notice to the class and scheduling a hearing to determine the fairness of settlement for March, 2001. On March 6, 2001 these courts heard oral arguments on plaintiffs' motions for final approval of the class action settlement. On May 15, 2001 the United States District Court for the State of Minnesota filed its Findings of Fact and Conclusions of Law concerning Class Action Settlement and entered into its Final Order and Judgment approving Class Action Settlement. On May 16, 2001 the District Court, Fourth Judicial District for the State of Minnesota, County of Hennepin filed its Findings of Fact and Conclusions of law concerning class action settlement and on May 24, 2001 such order and judgment was entered approving Class Action Settlement. Subsequent appeals were filed in the United States Court of Appeals for the 8th Circuit and the Minnesota Court of Appeals. All appeals have been dismissed. A motion to amend or alter judgment was denied by the Federal and State courts. The State court entered a second judgment on July 24, 2001, which is subject to appeal. The matter described above was previously reported in the Company's Form 10-Q for the quarter ended March 31, 2001. The matter described below was previously reported in the Company's Form 10-K for the year ended December 31, 2000. On March 29, 1999 an action entitled LAMBERT V. AMERICAN EXPRESS FINANCIAL CORPORATION, AMERICAN EXPRESS FINANCIAL ADVISORS INC., IDS LIFE INSURANCE AGENCIES, INC., IDS LIFE INSURANCE COMPANY, AMERICAN EXPRESS BENEFIT PLAN COMMITTEE, CAREER DISTRIBUTORS PLAN COMMITTEE AND JOHN/JANE DOES 1-20 was commenced in U.S. District Court, District of Minnesota, Fourth Division. The original named plaintiff purports to represent a class consisting of financial advisors who were independent contractors from January 1, 1993 through March 22, 2000. The Complaint alleges class members were misclassified as independent contractors and seeks retroactive coverage in all employee health, welfare, retirement and compensation plans, and payment of FICA and FUTA taxes. The complaint also alleges violation of ERISA, breach of contract, breach of duty of good faith and fair dealing and unjust enrichment. The Complaint was amended on July 26, 1999, adding three plaintiffs, adding new claims for conversion, rescission of the financial advisors agreement and declaratory judgment and adding the Company's Employee Benefits Administration Committee as a defendant. In August, 2001, the parties entered into a settlement agreement, which is subject to Court approval and certain other conditions. If approved, the Company would pay $15,000,000 into a settlement fund for full resolution of the case. If approved as proposed, the settlement would not have any impact on the Company's net income. 31 Item 4. Submission of Matters to a Vote of Security Holders For information relating to the matters voted upon at the Company's annual meeting for shareholders held on April 23, 2001, see Item 4 on page 28 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, which is incorporated herein by reference. Item 6. Exhibits and Reports on Form 8-K (a) Exhibits See Exhibit Index on page E-1 hereof. (b) Reports on Form 8-K: Form 8-K, dated April 2, 2001, Item 5, announcing the Company's expectation of a first quarter earnings decline from a year ago, reflecting the write-down and sale of high-yield securities. Form 8-K, dated April 12, 2001, Item 9, announcing the availability on the Company's website of a Financial Supplement dated April 2001 containing historical financial information about certain subsidiaries of the Company. Form 8-K, dated April 23, 2001, Items 5 and 7, reporting the Company's earnings for the quarter ended March 31, 2001 and including a First Quarter Earnings Supplement. Form 8-K, dated April 23, 2001, Item 5, announcing the election of Kenneth Chenault as the Company's Chairman and Chief Executive Officer. Form 8-K, dated April 24, 2001, Item 5, announcing the Company's (and three of its subsidiaries') renegotiation of their committed credit line facilities. Form 8-K, dated July 18, 2001, Item 5, announcing the Company's expectation relating to its second quarter earnings, reflecting the write-down of high yield securities and reduction in risk profile of investment portfolio, and the Company's intention to take a restructuring charge in its third quarter. Form 8-K, dated July 23, 2001, Items 5 and 7, reporting the Company's earnings for the quarter ended June 30, 2001 and including a Second Quarter Earnings Supplement. Form 8-K, dated July 23, 2001, Item 5, announcing the Company's election of Charlene Barshefsky and Peter R. Dolan to its Board of Directors. Form 8-K, dated August 1, 2001, Item 9, reporting certain information from presentations to the financial community on August 1, 2001 by Ken Chenault, Chairman and Chief Executive Officer of the Company, and Jim Cracchiolo, Group President, Global Financial Services and Chairman and Chief Executive Officer of American Express Financial Advisors. 32 SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. AMERICAN EXPRESS COMPANY ------------------------ (Registrant) Date: August 13, 2001 By /s/ Gary L. Crittenden ----------------------- ----------------------- Gary L. Crittenden Executive Vice President and Chief Financial Officer Date: August 13, 2001 /s/ Thomas A. Iseghohi ----------------------- ----------------------- Thomas A. Iseghohi Senior Vice President and Comptroller (Chief Accounting Officer) 33 EXHIBIT INDEX The following exhibits are filed as part of this Quarterly Report: Exhibit Description ------- ----------- 12 Computation in Support of Ratio of Earnings to Fixed Charges. 15 Letter re Unaudited Interim Financial Information. E-1