

Annual Report

2002



AMERICAN EXPRESS BANK GMBH

Management Report

In 2002, American Express Bank GmbH was able to report a result significantly higher than that for the previous year. This is even more noteworthy as many other financial institutions have been suffering from the weak economic environment and reported high losses in their operating results. In light of this, the performance of the Bank demonstrates the sound structure of its businesses, whose diversification forms a solid base for constant growth.

Financial Institutions Group

The continuous upward trend in our payments volumes confirms the trust of our clients in our service quality which is the result of efficient processing and competent and personalized customer service. Subsequent to the implementation of a new internal payments system during 2002, we made further investments to optimize our systems infrastructure. We joined STEP 1 of EBA and implemented IntelliTracs and eAccess, which systems allow us and our clients to access vital transaction information in a fast and cost-efficient manner. This has set the course for further robust growth in this strategic line of business.

All European foreign trade business of American Express Bank has been centralized in Frankfurt. Part of the processing is now being handled at American Express Bank in Chennai, India, which provides for greater flexibility and cost benefits, as well as an efficient back-up facility in case of disaster. This, combined with the hard work and dedication of our employees, enabled us to cope with the increased work load and achieve outstanding results.

Our **Investment Product Distribution (IPD)** group continued to expand the number of institutional sales partners for our American Express Asset Management products. Despite the extremely difficult markets, the team exceeded its goals and will now concentrate on activating its cooperation agreements while focusing on new, innovative products.

Personal Financial Services (PFS).

In 2002, PFS maintained its market position while the uncertain course of the economy clearly affected the composition of earnings from its deposits, investment funds and lending businesses. Weak equity markets resulted in higher revenues

from deposits in Daily Cash and Foreign Currencies, which allow depositors to calculate their risk and revenue opportunities. The lending business continued its positive growth.

Foreign currency deposits increased significantly in terms of both volumes and number of clients due to the addition of Hungarian Forint accounts in our product range. At the end of 2002, we took over the foreign currency deposit business of Santander Direkt Bank which has withdrawn from this business, resulting in American Express Bank taking a leadership position among direct banks in Germany in this particular market segment.

In the area of investment funds, PFS has further expanded its product range. Additional interactive on-line tools improved our service capabilities which enable clients to buy all funds registered in Germany. The BestSelect fund option indicates quantitative and qualitative criteria to clients before they make their investment decision. Since the fourth quarter of 2002, clients have also invested in the new American Express BestSelect Chance fund of funds based on its risk minimizing strategy. Despite the weak securities markets, we achieved a significant increase in investments from our clients.

As a result of our new online capabilities, clients are now in a position to structure and optimize their funds account in line with their personal goals and strategy. Clients have confirmed their satisfaction with this service offering in our annual client satisfaction survey.

The lending business overall of PFS developed well, in particular, the option of requesting the various credit products online affected volumes and number of clients positively. Furthermore, PFS will continue its strategic focus on three main business segments: deposits in Euro and foreign currencies, lending and investments funds. We are thereby looking forward to another challenging year as a consequence of the overall market situation.

Financial Summary

Total assets decreased in 2002 by EUR 85 million to EUR 1.2 billion, primarily on account of client deposits which went down by EUR 100 million as a result of continuously declining interest rates. Amounts due from Financial Institutions increased by EUR 49 million.

The operating result increased by 6.2% to EUR 31.3 million, mainly generated by a 24.1% higher net commission income from our international payments and foreign trade activities. Despite declining interest rates, net interest income was 4.9% higher than in the previous year. General administration expenses increased by 9.1% to EUR 28.7 million. Overall, net income grew by 26% to EUR 22.2 million.

Risks to future performance

Primary risks that need to be addressed and managed are, in particular, market risks, counter party risks, liquidity risks and operational risks. Market risks and liquidity risks are reviewed on a monthly basis and are managed by the ALCO committee whose members are taken from the general management, heads of lines of business, Treasury and Finance. A weekly Risk-Point-Analysis and an "Earnings at Risk" model, with volatilities updated on a monthly basis, are used to facilitate the monitoring of interest rate risks and currency risks.

To ensure professional liquidity planning, Treasury prepares asset maturity schedules and cash flow forecasts, the assumptions of which are reviewed by the ALCO committee during its meetings.

Our Asset Approval Committee reviews our credit policy and related risks. Basically, with respect to the Financial Institutions Group business, our credit policy is very closely aligned to that of our parent institution, accepting risks on prime borrowers only, albeit in markets with potential country risks. Besides the individual credit risk, the assessment of country exposure risks plays a predominant role in our strategically important business with foreign correspondent banks. As a rule, we determine our provisions for country risks based

on the Institutional Investor Credit Rating as a minimum standard but apply more conservative criteria depending on the portfolio or market conditions.

For the lending business of PFS, very strict scoring models have already been in use for a number of years now, and are continually subject to review. Our write-off rate below market norms confirms the validity of our principles of prudence.

Operational risks are reviewed by means of a Bottom-Up application via regular self-assessments and include systematic examination of all vital controls in our business processes in terms of efficiency and effectiveness. To mitigate operational risks, we have emergency plans in place and established Warm and Hot Sites all of which are tested and revised regularly. Various projects under the "Six Sigma" quality improvement concept have been set up to monitor and improve certain standards in strictly defined operational processes.

Events after 31 December 2001

For the second consecutive year, we intend to retain the net income in order to improve our flexibility in terms of single obligor limits. No other events occurred which could have a significant impact on the revenues or financial condition of American Express Bank GmbH.

We would like to thank each individual member of the staff for their personal commitment shown during the year which again enabled us to close the year with a very good result.

We would like to thank each individual member of staff for their excellent performance in the concluded business year, which again permitted us to register such good results.

Frankfurt am Main, 24 May 2003

Gertrud Wolfrum

Achim Straßburger

Arthur Fuchs

Werner Decker

Profit and Loss Account of American Express Bank GmbH, Frankfurt am Main, for the period from 1 January 2002 until
31 December 2002

Expenses

	EUR	EUR	EUR	Previous Year TEUR
1. Interest expenses			22,761,143.30	37,503
2. Commission expenses			1,190,348.66	479
3. Net expenses from financial transactions			–	–
4. General administrative expenses				
a) Personnel expenditure				
aa) Salaries and Wages	12,297,424.48			11,132
ab) Social security contributions and pension plan and assistance expenses	2,708,701.33	15,006,125.81		2,600
thereof: pension plan expenses	EUR 1,087,339.49			
b) Other administrative expenses		13,721,624.17	28,727,749.98	12,594
5. Depreciation and value adjustments on intangible assets and tangible fixed assets			448,757.71	602
6. Other operating expenses			1,195,053.08	618
7. Depreciation and value adjustments on receivables and certain securities, additions to loan loss provisions			3,272,131.54	
8. Depreciation and value adjustments on investments, shares in affiliated companies and securities treated like fixed assets				5,281
9. Losses incurred under profit and loss transfer agreements			–	–
10. Transfers to special reserve items			–	–
11. Extraordinary expenses			–	–
12. Taxes on income			9,157,950.13	11,982
13. Other taxes not already shown under item 6			–	–
14. Profits transferred under pooling agreements, profit transfer agreements or partial profit transfer agreements			–	–
15. Net income for the year			22,162,809.66	17,523
Total expenses			88,915,944.06	100,314

**A. General Data on the Itemization of the Annual
Financial Statement and on the Accounting and
Valuation Methods**

The financial statement of American Express Bank GmbH as of December 31, 2002 was prepared in accordance with the provisions of the German Commercial Code (HGB), the Accounting Standards for Financial Institutions (RechKredV) and the GmbHG.

The valuation method used in the Balance Sheet as of December 31, 2000 was applied, converted in Euro (1 Euro = 1,95583 DM).

Details and explanations on the Balance Sheet and the Income Statement were generally provided in the Notes to the Accounts, to the extent that this was an option.

Cash reserves were quoted at their nominal value. Receivables were quoted at their nominal value less any specific or general reserves. Prepaid expenses and deferred income were amortized over the period to which they apply.

Acute risks were accounted for by specific reserves, potential risks by general reserves. The calculation of general reserves was performed in accordance with the requirements of the Federal Ministry of Finance.

Bonds and fixed interest securities were classified as financial assets and accounted for at the lowest value at year end.

Investments and shares in affiliated companies were accounted for according to their acquisition cost less any extraordinary depreciation in line with regulations applicable to financial assets.

Fixed and intangible assets were quoted at their acquisition cost less any regular depreciation. Calculation of depreciation was based on the permissible levels under tax regulations. Low value assets are fully depreciated in the year of purchase in accordance with § 6 Section 2 Income Tax Law. With respect to movable assets, the simplification ruling according to RL 44 (2) EStR was applied.

The existing provision for pensions of the Bank were based on a mathematical insurance model. Underlying this are the insurance tables of the year 1998 with an interest rate of 6%.

Currency conversion was based on the foreign exchange mid-rates taking into account § 340 h of the German Commercial Code (HGB).

B. Notes on the Balance Sheet**31-Dec-2002****31-Dec-2001**

EUR

EUR

Maturity Breakdown of Receivables According to Remaining Tenor**Receivables from financial institutions****b) Other receivables**

- less than three months	255,443,133.16	378,973,085.33
- three months to less than one year	172,251,856.63	97,089,465.30
- one year to less than five years	47,862,402.41	1,628,376.13

Receivables from customers

- unspecified maturities	79,752,956.74	60,611,099.73
- less than three months	191,842.13	150,961,041.13
- three months to less than one year	7,349,799.62	5,581,316.83
- one year to less than five years	45,780,011.13	40,473,498.57
- five years or more	17,381,798.34	20,202,440.50

Receivables from affiliates

- Banks	232,101,881.04	282,027,683.02
- Non-banks	1,093,179.57	520,034.45

Bonds and notes

listed	520,119,455.66	516,581,474.11
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Bonds and notes issued by

government or government agencies	69,209,640.72	72,301,136.38
other issuers	450,909,814.94	444,280,337.73

have an original term of more than four years.

All bond and note holdings are classified as fixed assets.

Probable impairment of value has been taken into account, and no further mark to market value adjustment is required.

The following securities mature in 2003:

Securities/Security identification number	Nominal value	Book value	Due date
DEPFA Deutsche Pfandbriefbank 247626	5,113	4,975	February 7, 2003
Spanien DM-Anleihe von 1993 409690	5,113	5,123	March 4, 2003
Landesbank Hessen-Thüringen 267209	5,113	5,114	July 1, 2003
Anleihe der Treuhandanstalt von 1993 109005	17,895	17,928	July 9, 2003
Dt. Girozentrale – Dt. Kommunalbank 233669	5,113	5,100	July 10, 2003
Dt. Girozentrale – Dt. Kommunalbank 233661	7,669	7,674	July 10, 2003
Baden-Württ. L-Finance N.V. 411335	5,113	5,122	August 20, 2003

Securities/Security identification number	Nominal value	Book value	Due date
Westdeutsche Landesbank 310907	5,113	5,017	August 29, 2003
Landeskreditbank Baden-Württemberg 282416	10,226	10,227	October 1, 2003
KFW International Finance Inc. 411790	5,113	5,116	October 15, 2003
Landesbank Rheinland-Pfalz 292832	5,113	5,130	October 16, 2003
Kreditanstalt für Wiederaufbau 276074	2,556	2,562	October 17, 2003
PBI Finance N.V. 133010	5,113	5,075	October 24, 2003

	31-Dec-2002 EUR	31-Dec-2001 EUR
<u>Shares and other</u>		
<u>non-fixed securities:</u>	16,871.46	4,233.44
listed	595.99	0.00
negotiable	595.99	0.00

In 2001 shares and securities were classified as other assets.

<u>Investments</u>		
not listed	115,500.15	115,506.93
not negotiable	115,500.15	115,506.93

<u>Shares in affiliated companies</u>		
not listed	127,822.97	127,822.97
not negotiable	127,822.97	127,822.97

The bank holds a 100% investment in AEB-International Portfolio Management Company in Luxembourg with a net equity capital of Euro 127,822.97. Net profit for the business year 2002 amounted to Euro 157,513.58.

<u>Fiduciary assets</u>		
<u>Receivables from financial institutions</u>	2,624,495.19	3,941,144.92
Other receivables	1,886,780.23	2,140,360.59

Gross fixed assets
refer to appendix

<u>Tangible assets</u>		
Office furniture and equipment	1,142,448.87	1,141,348.19

<u>Lease transactions</u>		
Other operating income (rent)	4,634,824.97	4,601,397.45
Other assets	1,721,048.84	2,503,517.35
Deferred charges	3,090,861.78	8,164,780.26

	31-Dec-2002	31-Dez-2001
	EUR	EUR
Other assets		
Cheques for collection	8,356,471.56	7,549,958.55
Airbus (refer item lease transaction)	1,721,048.84	2,503,517.35
Interest Rate Swaps	1,491,330.33	1,635,680.46
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Breakdown of maturities of liabilities		
Liabilities to financial institutions		
b) with fixed maturities or notice periods		
- less than three months	158,771,115.95	60,950,481.19
- three months to less than one year	34,782,403.74	29,289,620.77
- one year to less than five years	6,015,625.59	143,895.47
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Liabilities to customers		
a) Savings deposits		
ab) with an agreed notice period of more than three months		
- three months to less than one year	117,739.60	185,703.56
- one year to less than five years	90,498.68	218,838.62
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b) Other liabilities		
bb) with fixed maturities or notice periods		
- less than three months	21,064,873.91	23,440,972.90
- three months to less than one year	10,626,880.86	6,488,810.75
- one year to less than five years	16,790.36	71,917.83
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Liabilities to affiliates		
- Banks	166,900,328.94	92,693,118.43
- Non-banks	10,968,893.69	26,836,613.38
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Securitized obligations		
b) Other securitized obligations		
- less than three months	760,628.92	598,180.82
- three months to less than one year	1,126,602.00	527,355.65
- one year to less than five years		
All obligations are due in 2003.		
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Fiduciary liabilities		
- Fiduciary credits	2,624,495.19	3,941,144.92
	1,886,780.23	2,140,360.59
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Other liabilities		
- Interest Rate Swaps	1,580,882.04	1,442,480.72
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Accrued and deferred items		
- Airbus Disagio	3,090,861.78	8,164,780.25
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	31-Dec-2002 EUR	31-Dez-2001 EUR
<u>Total foreign currency assets in Euro</u>	282,312,067.40	184,950,689.77
<u>Total foreign currency liabilities in Euro</u>	281,870,289.98	184,148,355.35
<u>Contingent liabilities</u>		
from guarantees and indemnity agreements	114,742,364.39	63,639,026.68
The nominal value of contingent liabilities is determined as follows:		
Letters of credit - gross	115,242,997.95	57,384,255.32
Guarantees - gross	<u>32,995,291.50</u>	<u>20,640,684.97</u>
	148,238,289.45	78,024,940.29
less cash collateral		
- foreign banks	33,495,925.06	12,912,265.41
- other foreign creditors	<u>—</u>	<u>1,473,648.20</u>
	114,742,364.39	63,639,026.68

C. Notes on the Profit and Loss Statement

Breakdown according to geographic markets

Interest income:	Turkey	2,808 TEUR
	India	689 TEUR
	Kasachstan	532 TEUR
	Romania	465 TEUR

A geographic breakdown for all other countries is not appropriate because the bank's structure does not differentiate in this regard.

Other operational income

- Airbus rent	4,635 TEUR
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D. Additional Information

Forward transactions not yet settled per Balance Sheet date

- 3 foreign exchange forward contracts with a total amount of TEUR 1,256
serve as hedge for currency risks.
- 3 Interest Rate Swaps with a total amount of EUR 181,087
serve as hedge for interest risks

Other financial commitments

	Annual	Cumulative
Office rent Th.-Heuss-Allee 112 until 30.04.2008	857,448.12 EUR	4,573,056.64 EUR
Proportional reserve liability towards Liquiditäts-Konsortialbank GmbH, Frankfurt		500,000.00 EUR

Material income from services rendered to third parties

Insurance brokerage	1,342 TEUR
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General Management comprised the following members in 2002:

Gertrud Wolfrum	Chairperson	General Manager	Dipl. Betriebswirtin
Achim Straßburger		General Manager	Dipl. Volkswirt
Arthur Fuchs		General Manager	Großhandelskaufmann
Werner Decker	since April 04, 2002	General Manager	Dipl. Kaufmann

Mandates in supervisory boards

Werner Decker is chairman of the board of the Yeald AG, Nürnberg.

Provisions on behalf of former management members for pensions totalling 769 TEUR were established and loans in the amount of 221 TEUR were granted.

Provisions for pension funds on behalf of former management members totaling 651 TEUR were established. No further provisions are required. Pensions totalling 19 TEUR were paid.

The average number of employees in 2002

– divided into groups – was as follows:

Non-exempt	Exempt
wage group 1–3: –	51
wage group 4–9: 140	

Group Consolidation

The consolidated statement for the largest group of affiliated companies is prepared by American Express Company, New York, USA, and the consolidated statements for the smallest group of affiliated companies is prepared by American Express Bank Ltd., New York, USA. **Both statements are published in New York.**

Proposal for the appropriation of profits

General Management proposes to retain this year's net profit of **EUR 22,507,462.42** and add it to revenue reserves.

Frankfurt am Main, 20 May 2003

Gertrud Wolfrum

Achim Straßburger

Arthur Fuchs

Werner Decker

Changes in Fixed Assets and Participations from Jan. 1, 2001 to Dec. 31, 2002

	Purchase Price / Production Cost	Increases Current Year	Decreases Current Year	Additions Fixed Assets Current Year	Tax Depreciation Depreciation and Value Adjustments		Net Book Value 31.12.2002	Net Book Value 31.12.2001
					Total	Current Year		
	1	2	3	4	5	6	7	8
Investments	237,206.29	0.00	6.78	0.00	121,699.36	0.00	115,500.15	115,506.93
Share in Affiliated Companies	127,822.97	0.00	0.00	0.00	0.00	0.00	127,822.97	127,822.97
Investment Securities *)	520,768,436.83	21,262,500.00	18,954,736.22	0.00	2,956,744.95	1,075,099.56	520,119,455.66	516,581,474.11
Intangible Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tangible Fixed Assets	5,119,675.70	454,957.25	138,199.38	0.00	4,293,984.70	448,757.71	1,142,448.87	1,141,345.19
Other Fixed Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

*) Including interest.

The net book value as of December 31, 2001 includes accrued interest of EUR 14,492,038.50.

The net book value as of December 31, 2002 includes accrued interest of EUR 15,434,301.92.

Auditors' Opinion

We have audited the accounting and the annual financial statements of American Express Bank GmbH, Frankfurt am Main, together with the notes and the management report for the business year from 1 January to 31 December 2002. The accounting and the preparation of the annual financial statements and the management report in accordance with the stipulations of the German commercial law are the responsibility of the General Management. Having conducted an audit, our responsibility is to express an opinion on the annual financial statements, including the accounting, and on the management report.

We have conducted our audit pursuant to § 317 of the German Commercial Code (HGB) in accordance with sound auditing standards as set by the German Institute of Accountants (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance that the annual financial statements prepared in compliance with the required accounting principles and the view of the net worth, financial position and results as shown in the management report are free from material defects.

When determining the auditing procedures, the business activities and the economic and legal environment of the American Express Bank GmbH, as well as expectations about possible errors were taken into account. Performing an audit includes an examination, on the basis of random samples,

the efficiency of accounting related internal control systems as well as evidence supporting the data in accounting, in the annual financial statements and in the management report. The audit includes assessing the accounting principles applied and an assessment of significant estimates made by the General Management as well as evaluating the overall presentation of the annual financial statements and of the management report. We are of the opinion that our audit provides a sufficiently sound basis for our assessment.

Our audit has led to no objections.

In our opinion, the annual financial statements present, in compliance with standard accounting principles, a true and fair view of the net worth, the financial position and the results of American Express Bank GmbH. The management report gives an overall pertinent reflection of the position of American Express Bank GmbH and shows correctly the risks of future development.

Frankfurt am Main, 20 May 2003

Ernst & Young
Deutsche Allgemeine Treuhand AG
Auditing Company

Sterz	Hallenberger
Certified Public Accountant	Certified Public Accountant