American Express Company

# ANNUAL REPORT

# 1998

## *AMERICAN EXPRESS COMPANY*

American Express Company is a global travel, financial and network services provider. Founded in 1850, the Company serves individuals with charge and credit cards, Travelers Cheques and other stored value products. It also offers financial planning, brokerage services, mutual funds, insurance and other investment products.

Through its family of Corporate Card services, American Express helps companies and institutions manage their travel, entertainment and purchasing expenses. It provides investment management services and administers pension and other employee benefit plans. The Company also offers accounting and tax preparation services to small businesses, and financial education services to employees at their places of work.

As the world's largest travel agency, American Express offers travel and related consulting services to individuals and corporations around the globe. The Company also provides banking services to wealthy individuals, retail customers, corporations and financial institutions outside the United States.

Various forward-looking statements are made in this Annual Report, which generally include the words "believe," "expect," "anticipate," "optimistic," "intend," "aim," "will" and similar expressions. Certain factors that may affect these forward-looking statements, including American Express Company's ability to achieve its goals referred to herein, are discussed on page 58.

*TABLE OF CONTENTS*


2 CONSOLIDATED HIGHLIGHTS
Key financial and statistical information for the past two years.

3 LETTER TO SHAREHOLDERS
Chairman and Chief Executive Officer Harvey Golub's and President and Chief Operating Officer Kenneth I. Chenault's discussion of significant events of the past year and plans for the future.

22 FINANCIAL REVIEW
Three years of financial results for American Express and for each of the major business segments, as well as a discussion of key revenue and expense components, statistical information, risk management and financial condition.

32 CONSOLIDATED STATEMENTS OF INCOME

33 CONSOLIDATED BALANCE SHEETS

34 CONSOLIDATED STATEMENTS OF CASH FLOWS

35 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

36 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
The Company's significant accounting policies as well as significant income statement, balance sheet and off-balance sheet categories.

56 REPORT OF MANAGEMENT
A discussion of management's responsibility in preparing and presenting financial statements and in ensuring accuracy of other financial information included in the annual report.

56 REPORT OF ERNST & YOUNG LLP INDEPENDENT AUDITORS
Opinion of independent auditors about the fairness of the Company's financial condition and results of operations as presented in the consolidated financial statements and accompanying notes.

57 CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA
Five-year summary of key operating results, assets and liabilities, common share statistics and number of employees.

59 THE PLANNING AND POLICY COMMITTEE

60 BOARD OF DIRECTORS

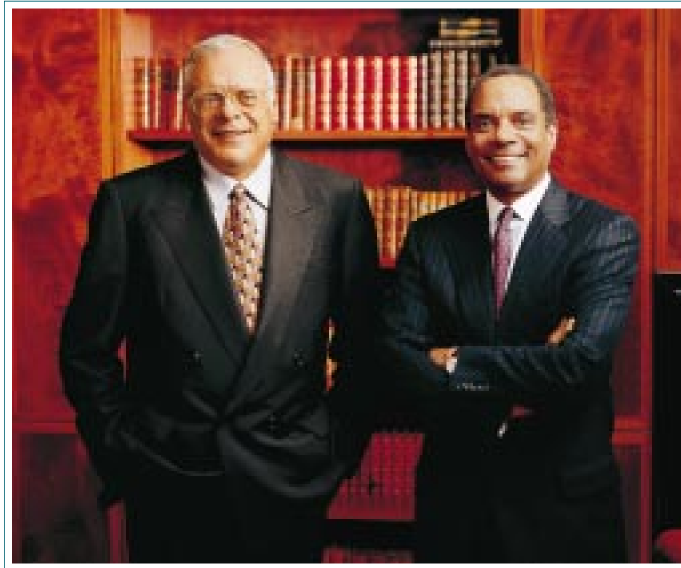
# CONSOLIDATED HIGHLIGHTS

*AMERICAN EXPRESS COMPANY*

| (Dollars in millions, except per share amounts) | 1998 | 1997 | Percent Increase (Decrease) |
|---|---|---|---|
| Revenues | $ 19,132 | $ 17,760 | 7.7% |
| Net income: | | | |
| As reported | $ 2,141 | $ 1,991 | 7.5 |
| Adjusted [(a)] | $ 2,201 | $ 1,991 | 10.5 |
| Diluted earnings per common share: | | | |
| As reported | $ 4.63 | $ 4.15 | 11.6 |
| Adjusted [(a)] | $ 4.76 | $ 4.15 | 14.7 |
| Cash dividends declared per share | $ .90 | $ .90 | — |
| Book value per share [(b)] | $ 20.24 | $ 19.29 | 4.9 |
| Average common shares outstanding for diluted earnings per common share (millions) | 463 | 479 | (3.4) |
| Total assets | $ 126,933 | $ 120,003 | 5.8 |
| Shareholders' equity | $ 9,698 | $ 9,574 | 1.3 |
| Common share cash dividends declared | $ 410 | $ 421 | (2.7) |
| Common share repurchases | $ 1,890 | $ 1,259 | — |
| Return on average shareholders' equity [(b)] | 24.0% | 23.5% | — |
| Number of employees | 84,732 | 73,620 | 15.1 |

(a) Adjusted to exclude the following 1998 first quarter items: a $138 million (after-tax) credit loss provision at American Express Bank relating to its Asia/Pacific portfolio, as well as income of $78 million (after-tax) representing gains on the sale of First Data Corporation shares and a preferred dividend based on Lehman Brothers' earnings.

(b) Excludes the effect of SFAS No. 115.



Harvey Golub (left), Chairman and Chief Executive Officer,
and Kenneth I. Chenault, President and Chief Operating Officer.

## *TO OUR FELLOW SHAREHOLDERS*

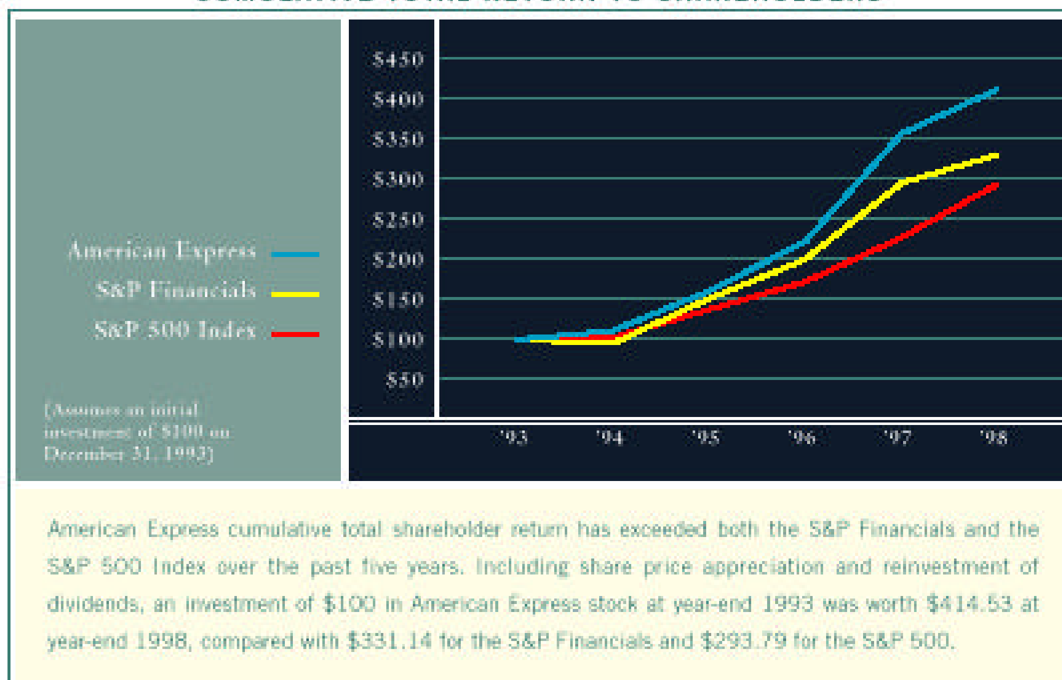
Nineteen ninety-eight was a tough year. With economic turmoil and market volatility around the world, it seemed at times as if we were facing one problem after another. We certainly did not handle every issue perfectly. But, overall, we did fine. As a result, we are pleased to report another year of strong financial performance and continued progress on our strategies. The underlying strength of our businesses and talented leadership throughout the organization enabled us to achieve good results, both on an absolute basis and relative to many of our competitors.

Highlights of the past year include:

• *Continued United States market share gains in charge and credit card volume and in lending balances.* This reflects a number of initiatives, including continued growth in our corporate and small business card activities, increased spending per card and ongoing improvement in our merchant coverage. Although market share figures for industry volume are not yet available for the second half of the year, we are encouraged by our progress. And, in spite of huge mergers and portfolio acquisitions by many banks, we maintained our position as the number one card issuer in the world based on volume.

• *Prudent deployment of capital through strategic acquisitions that helped strengthen our competitive position in a number of businesses.* Acquisitions announced during the year include: Securities America, a full service broker/dealer that will provide our financial advisors with increased choice in how they

## CUMULATIVE TOTAL RETURN TO SHAREHOLDERS




American Express cumulative total shareholder return has exceeded both the S&P Financials and the S&P 500 Index over the past five years. Including share price appreciation and reinvestment of dividends, an investment of $100 in American Express stock at year-end 1993 was worth $414.53 at year-end 1998, compared with $331.14 for the S&P Financials and $293.79 for the S&P 500.

work with us; 14 accounting firms, expanding our Tax & Business Services unit; two equipment financing companies, adding to the services we provide small businesses; three Automated Teller Machine (ATM) networks, adding nearly 3,000 installed machines to our presence in this important service area; and three travel firms, adding to our extensive worldwide network that serves corporations and consumers. We also enhanced our electronic commerce capabilities by investing in four online companies and a leading developer and licenser of smart card electronic purse technology.

• *Continued success in launching card products outside the United States and in partnering with other institutions to issue cards on our network.* We introduced more than 30 new proprietary products and added 16 partners, bringing the total number of institutions that issue cards on our network to 43. Importantly, we began to deepen relationships with our partners by helping them issue innovative products and service enhancements across different business lines.

• *The United States Department of Justice decision to sue Visa and MasterCard for antitrust violations.* We think this lawsuit marks the beginning of the end of the bankcard associations' unfair control of the industry. We believe the litigation will shed light on the illegal, anticompetitive business practices of the Visa and MasterCard cartel that controls about 75 percent of the United States card market. This stranglehold on the market deprives consumers of a wider range of choice in value and product innovation.

For more information on the Department of Justice lawsuit, visit our website at: www.americanexpress.com/corp/doj/index.shtml.

**During the year, we continued to make investments in online firms to expand our electronic commerce capabilities. Our aim is to use the Internet to distribute products and services, to increase the value of these offerings and to create new business opportunities.**

In spite of our strong overall performance and numerous accomplishments, we encountered disappointments during the year as well. The difficult economic environment in many countries tops this list. Faltering economies, particularly in Asia, negatively affected American Express Bank's results as well as growth in international travel sales and spending on our cards. These economies also affected our customers, who responded in part by curtailing travel and entertainment related spending.

While the United States economy remained relatively healthy throughout the year, volatile financial markets, particularly in the third and fourth quarters, presented challenges for American Express Financial Advisors. Even so, Financial Advisors turned in another year of record results.

We dealt with these and other challenges by continuing our focus on three basic operating principles: offering superior value to customers, continually driving toward best-in-class economics, and building the American Express brand. The Company's performance in 1998 once again validated the wisdom of that focus and of our business strategies.

### FINANCIAL RESULTS

For the sixth year in a row, we met or exceeded two of our long-term financial targets — to increase earnings per share (EPS) 12 to 15 percent and to earn a return on equity (ROE) of 18 to 20 percent, on average and over time. We also met our target of at least eight percent revenue growth for the second year in a row. In all fairness though, we met the EPS and revenue targets through rounding the numbers to the nearest percentage point.

However, if we exclude significant items in the first quarter (American Express Bank reserving actions in Asia, and two partially offsetting corporate gains) as well as the negative effect of currency translation, we comfortably exceeded all our targets. Feel free to judge our performance on either basis.

Net income for 1998 was $2.14 billion, up 8 percent from $1.99 billion in 1997. On a diluted per share basis, earnings were $4.63, up 12 percent from $4.15. Revenues for the year reached $19.1 billion, up 8 percent from $17.8 billion. Excluding the first quarter items mentioned above, income rose 11 percent to $2.2 billion and diluted earnings per share increased 15 percent to $4.76.

Overall operating margins remained stable despite the effect of acquisitions and substantial investment in the business, as well as the first quarter provision at American Express Bank.

Our solid capital position and ongoing ability to add to it from earnings gives us the flexibility to make attractive investments and continue our aggressive share repurchase program. In all, we have repurchased 97 million shares in the open market since we began the program in September 1994. More than 19 million of these shares were repurchased in 1998.

**Partnering with banks and other financial institutions is a key growth area. In 1998, we added 16 new bank partners, helping them develop innovative products and services that operate on our card network. In total, the business billed on network cards increased by 30 percent over the prior year.**

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## THREE AVENUES FOR GROWTH

In our letter last year, we spoke to you about our three themes for growth: opening the American Express Card network to banks and other institutions, expanding our financial services businesses, and building our presence in markets outside the United States. We remain committed to these themes and, in 1998, we made progress on all three.

### *OPENING THE NETWORK*

As noted earlier, we added 16 new bank partners to our network. New arrangements announced during the year include joint ventures with Credit Suisse in Switzerland and Generale Bank in Belgium and our first network card in Australia with AMP Banking.

Although the United States market remains effectively closed because of illegal restraints by the bankcard associations, we hope that we will be able to partner with United States banks in the future to offer consumers a broader range of more competitive products. We are seeing signs of discontent with the card associations from some of the larger issuers, perhaps foreshadowing a fundamental change in the relationship between Visa/MasterCard and their members.

In the meantime, the value we offer to banks outside the United States continues to generate significant growth and consumer benefits. Business billed on network cards increased 30 percent in 1998. We anticipate continued strong progress in this area as we forge new partnerships and deepen relationships with our existing partners.

### *EXTENDING FINANCIAL SERVICES PRESENCE*

Our goal is to become as widely known for financial services as we are for the card and travel businesses.

We are positioning Financial Advisors, the centerpiece of this effort, to become the company of choice for delivery of financial advice, products and services anytime and anywhere.

We are establishing a broad-based presence in the marketplace through a strong network of more than 10,000 trained advisors, Internet-based services, institutional distribution — including 401(k) products — and third-party distribution through banks and credit unions. During 1998, the cross-selling of financial services to our Cardmembers gained additional momentum. About one-third of new Financial Advisors clients were Cardmembers. Nonetheless, we have not made as much progress as we would have liked.

### *EXPANDING INTERNATIONALLY*

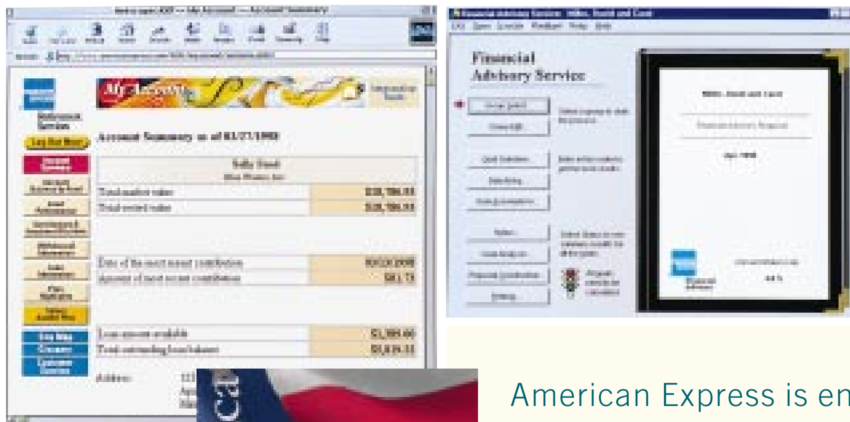
The third component of our growth strategy is to expand our business internationally. Despite difficulties in many markets outside the United States, we continued these efforts in 1998 because our view of the long-term potential in this arena is unchanged.

During the year we introduced in excess of 30 new proprietary card products outside the United

States. These new products helped to increase our customer base and the business billed on our cards. This, in turn, fueled momentum in other parts of the business, bolstering efforts to add new merchants who accept our cards. The percentage of Cardmembers' general purpose plastic spending that can be accommodated on our merchant network outside the United States reached 83 percent, up from 80 percent a year ago. That number continues to climb.

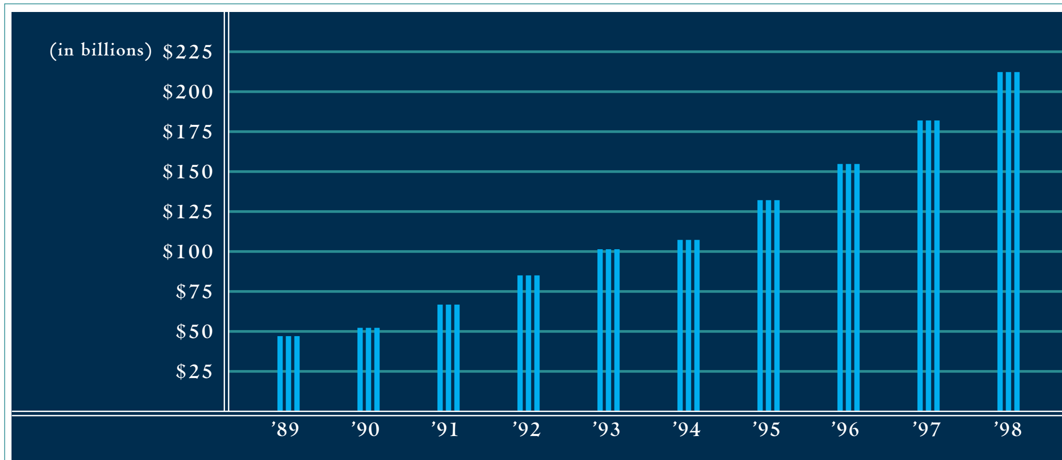
Separately, we are refocusing American Express Bank on businesses geared toward individual clients: Personal Financial Services and Private Banking.

As we have stated, our goal over the next several years is to expand our overseas operations to the point where they contribute half of our earnings (excluding Financial Advisors). That would represent an increase from about one-third today. Our aim is to achieve that level against a backdrop of continued strong growth in the United States, thus implying international expansion of 25 to 30 percent annually, on average. We fell well short of that rate in 1998. The ongoing economic difficulties in some countries mean this goal will take longer to achieve than we originally thought.



**American Express is enhancing the way it works with financial advisors and clients.** We acquired Securities America, a broker/dealer that will help form the basis of a new platform that provides operating support and investment products to independent financial advisors. We launched a new computer-based service that allows advisors to generate more sophisticated financial plans for their clients. Our 401(k) website now allows participating employees at registered client companies to view their retirement accounts online.

## AMERICAN EXPRESS FINANCIAL ADVISORS
## ASSETS OWNED, MANAGED OR ADMINISTERED




Assets owned, managed or administered by American Express Financial Advisors increased 17 percent in 1998, reaching $212 billion. Continued growth despite market volatility demonstrates the value of working with clients as part of a long-term financial planning relationship.

We hope that gives you a sense of the overall progress at American Express. The next several pages will provide additional details on the results, accomplishments and challenges in each of our major business areas.

### BUSINESS RESULTS

#### *U.S. FINANCIAL SERVICES*

American Express Financial Advisors continued its impressive growth and, once again, delivered record financial results. Income increased 16 percent from 1997 and revenues climbed 11 percent. Financial Advisors' goal of helping clients meet their financial objectives is closely linked with expanding the base of assets we manage for them. At the end of 1998, we had $212 billion in owned, managed or administered assets, up from $182 billion at year-end 1997.

We continued to enhance our three primary distribution channels for financial services. These include: a retail channel, consisting of our financial advisor field force, as well as direct (online, telephone and mail) services; an institutional channel with expanded 401(k) and defined benefit capabilities; and a third-party distribution channel, consisting of banks and thrift institutions we partner with to offer our products to their customers.

*Retail Channel* — We have one of the best advisor retention rates of any firm in retail financial services. Nonetheless, we think there is a large opportunity to do even better. To help continue to attract and retain a top-quality field force, we are putting in place three alternatives that will allow advisors to choose the level of structure, services and compensation they receive. They are: (1) an American Express-branded employee

**During the year, we made progress in selling additional American Express products and services to our existing customers. For example, American Express Bank increased client holdings in investment certificates manufactured by American Express Financial Advisors by more than $1 billion; Cardmembers accounted for one-third of all new clients of Financial Advisors; and the number of Cardmembers purchasing fee-based services from American Express Relationship Services increased by 7 percent.**

platform with high levels of structure and corporate support; (2) an American Express-branded platform of independent contractors with moderate levels of support; and (3) a non-branded platform of independent contractors with a minimal level of support. Our goal is for all advisors to select a platform within the next two years.

In 1998, we took a significant step in this direction with the purchase of Securities America, an independent broker/dealer that serves financial planners and distributes mutual funds, annuities and insurance. This acquisition added approximately 1,100 financial advisors to our field force and will form the basis of our non-branded platform.

We strengthened our American Express-branded financial advisor field force during the year as well. Together with Securities America, we had 10,350 financial advisors at year end.

We are also working to strengthen advisor retention by providing a new generation of technology support and tools. All American Express-branded advisors now have access to AdvisorLink, an integrated desktop financial planning, client management and communications software package that helps them generate more sophisticated, easy-to-read financial plans more quickly.

*Institutional Channel* — During the year, we expanded our institutional business, which includes 401(k) services and separate account asset management services for corporate, public and union retirement funds. We added several large clients and now serve nearly 600 institutions.

*Third-party Channel* — We distribute annuities to consumers through alliances with other financial institutions. Our focus here is on expanding the number of partners we work with and the range of products they offer to their customers.

Superior service continues to be a competitive advantage for Financial Advisors. Once again we improved our already high client satisfaction survey ratings. These surveys include direct feedback on advisors and are intended to ensure that we maintain our high service levels.

Despite a strong overall performance, there were areas of disappointment as well in 1998. Some mutual funds posted stellar results, but our overall fund performance was below expectations. In addition, sales of annuities declined for the second year in a row.

### *INTERNATIONAL FINANCIAL SERVICES*

We are capitalizing on the large and growing opportunity to meet the financial services needs of customers outside the United States by leveraging Financial Advisors' strength in asset management, the marketing expertise of our card business, and American Express Bank's global presence.

Economic conditions had a negative impact on our international efforts, particularly in Asia. Nevertheless, we made progress in establishing a broader foundation for the future.

In January 1999, we announced the formation of American Express Financial Advisors in Japan, the world's second largest economy.

Elsewhere, American Express Bank launched a family of euro-denominated mutual funds in France and Germany at the beginning of 1999, coinciding with the introduction of the euro. The same funds will be available in Italy and will be offered in pounds sterling in the United Kingdom later this year. We also introduced personal mortgages in Greece and auto loans in India.

Overall, though, American Express Bank delivered very disappointing results in 1998, primarily due to losses in its Corporate Banking business. We set aside a $138 million (after-tax) credit loss provision related to the Bank's Asia/Pacific business, primarily in Indonesia. We also took steps to ensure that the Bank remains well capitalized.

At year-end, total loans outstanding worldwide were approximately $5.6 billion, down from $6.2 billion at the end of 1997. The decline resulted from a decision to deemphasize corporate and correspondent banking loans.

As in the United States, we expanded programs to cross-sell investment and savings products to Cardmembers. And, within the Private Banking group, we increased cross-selling of products manufactured by Financial Advisors, particularly Premium Deposits Investment Certificates. Private Banking client holdings increased 22 percent and

We are capitalizing on the introduction of a new pan-European currency, the euro.

American Express was among the first to launch euro-denominated products, including Travelers Cheques and a family of mutual funds. Both were introduced in early 1999 to coincide with the introduction of the new currency. Our correspondent banking center in Frankfurt has established a dedicated group to process euro-denominated transactions for other banks.

client volumes in Personal Financial Services, which include loans, deposits and mutual funds, increased 23 percent.

The Bank's Global Trading unit benefited from volatility in financial and foreign exchange markets, and turned in excellent results.

Our long-term focus for the Bank will be on individual clients. The private banking and personal financial services we provide to these clients offer the most financial potential and tie in most directly with the rest of the Company.

In 1998, we began reporting Travelers Cheque results with those of the Bank. Worldwide sales of Travelers Cheques were $24 billion, down from $25 billion a year ago. However, we continued to gain sales from competitors, resulting in a slight increase in our total share of the industry. We also enjoyed significantly higher sales in a number of emerging markets. In early 1999, we began selling the new euro-denominated Travelers Cheque, one of the first payment instruments denominated in the new pan-European currency. Gift Cheque sales increased 26 percent during the year.

Although we continued to gain share, Travelers Cheques do not represent a high-growth business. We continue to focus on controlling expenses and have realized benefits from combining facilities and leveraging marketing and sales initiatives with American Express Bank.

### *INTERNATIONAL CARD AND TRAVEL*

We strengthened our international card business during the year. New products helped to increase the total number of cards in force and the charge volume billed on those cards. We launched more than 30 new proprietary card products outside

One of the ways in which American Express is expanding its card and travel business outside the U.S. is by providing a broader range of product choice to our customers. We introduced a number of new proprietary card products in international markets in 1998, including an American Express Gold Card in India, a co-branded card with Cheung Kong real estate holdings in Hong Kong, a Platinum Card in Brazil and a Blue Card, offering a cash rebate on purchases, in Canada.

the United States during the year, including a Small Business Corporate Card in the United Kingdom and Blue Cards in the United Kingdom, Germany, Canada and Singapore. The Blue Cards, a revolving credit product targeted to young consumers, have proven very popular. We also launched Platinum Cards in Argentina, Taiwan, Malaysia, Brazil and Singapore and co-branded cards with Aeromexico in Mexico, Thai Airways and the Dusit Group in Thailand, and Air France, Accor and Credit Lyonnais in France.

We continued to expand our merchant network during the year. As noted earlier, spending coverage reached 83 percent. Key merchant signings included Woolworth's in Australia, C&A department stores in Germany, Lojas Americanas in Brazil and the Liquor Control Board of Ontario.

Suppression — when merchants that accept American Express encourage a customer to use another card or cash — remains an issue for us and for bankcards in some parts of the world. We have launched an aggressive campaign in key international markets to curtail this behavior, similar to the successful program we have used in the United States.

We strengthened our corporate travel business during the year with the acquisition of Havas Voyages, the largest travel agency in France, and a joint venture with BBL Travel in Belgium and Luxembourg. In addition to bolstering our position as the world's leader in travel, these alliances provide a good platform for Corporate Card sales and further increase the importance of our customer base to key travel suppliers. This leverage is important in the current travel agency business environment, with ongoing pressure to reduce commissions by major airlines and other suppliers.

Difficult economic conditions top the list of disappointments for our international card and travel businesses. Corporate and personal travel declined if you net out the benefit of various

In keeping with its commitment to increase its businesses outside the U.S., American Express continues to introduce cards with customized benefits designed for specific markets. During 1998, we launched new cards with AirMiles in Canada, Aeromexico in Mexico, Thai Airways and the Dusit Group in Thailand and with Telepiu in Italy.

acquisitions. Spending billed on our cards softened in some markets during the year although billed business increased overall. This is not an excuse for our performance, but clearly we were affected by generally more negative conditions.

### *U.S. CONSUMER CARD SERVICES*

In its fortieth year in the United States, the American Express Card continues to be the standard bearer for our brand. Financial results were strong and business billed on the card increased for the year. We attribute a portion of this growth to innovative marketing initiatives that helped fuel Cardmember spending. In addition to spurring card usage, these programs help enhance the brand and reinforce the notion of using the card for everyday purchases at grocery stores, gas stations and major retailers.

Deepening relationships with core Cardmembers was a goal for the year, and we focused efforts on gaining a greater share of the plastic spending of our customers. We made progress in part by introducing existing Cardmembers to some of our other card products, including upgrades from the Personal Card to the American Express Gold Card or the Rewards Plus Gold Card, and to the Platinum Card.

We added Return Protection to the American Express Gold and Platinum Cards. This service allows Cardmembers to return purchases to us for up to 90 days, even when a store will not accept them.

We increased usage of lending products such as Sign & Travel and the Special Purchase Account. These programs allow Cardmembers to extend payment on selected purchases. We selectively expanded the size of credit lines and encouraged Cardmembers to transfer outstanding balances from other card issuers to our products. As a result, we increased lending balances at double-digit rates and continued to capture a greater share of the credit card lending market.

We are forming new partnerships with banks and other financial institutions to issue cards on our network. We established 16 new network arrangements in 1998, launching cards with Generale Bank in Belgium, Banco Popular in Puerto Rico, AMP Banking in Australia and Komercni Banka in the Czech Republic, among others.

During 1998 we launched a card that offers special services and discounts to National Restaurant Association members. We also began issuing a cash rebate card, which gives Cardmembers up to two percent cash back on their purchases.

Of course, not all of the growth came from new products. The Platinum Card remains an outstanding performer, and we saw strong growth in 1998. An increasing number of customers want the significant value that this premium product delivers.

We continue to refine our infrastructure and improve our ability to customize products and services to meet Cardmember needs. CustomExtras, for example, offers unique merchant discounts directly to Cardmembers on their monthly billing statements based on past card usage.

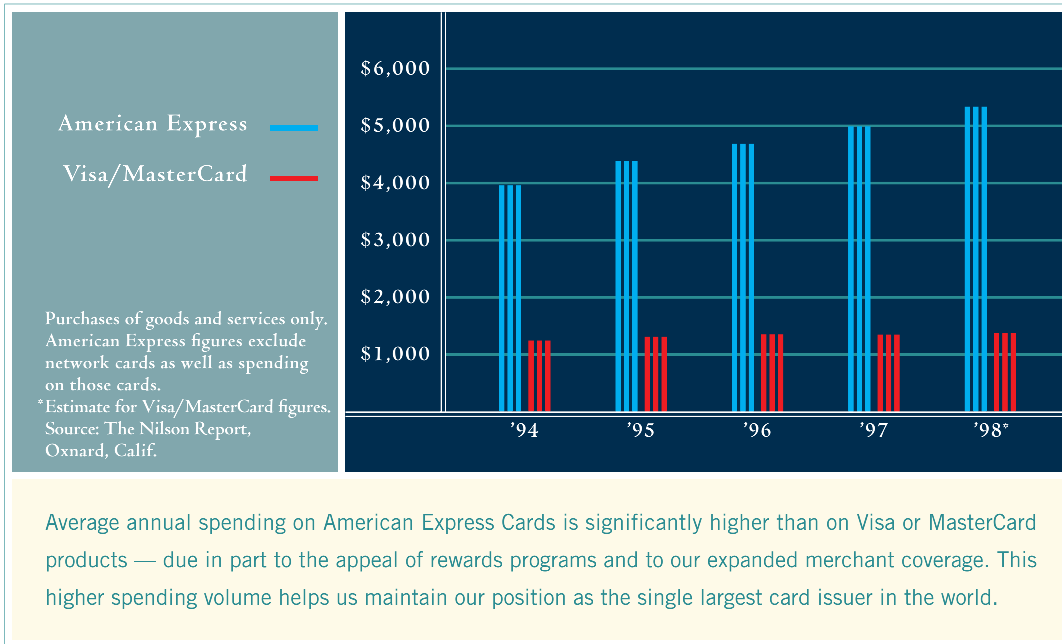
Our Membership Rewards program remains very popular and is a distinct competitive advantage for us. It is the largest program of its kind with more than seven-and-one-half million enrollees around the world. For the second year in a row, it was voted "Best Affinity Card" by readers of *Business Traveler International.* We continued to expand the range of reward options in the program, adding Gap, as well as Foot Locker and The Sharper Image in early 1999. Membership Rewards is a very successful program, but it is expensive to maintain. We are exploring ways of holding down expenses associated with the program while maintaining its market advantages.

We also made good progress in providing additional products and services to Cardmembers. The number of Cardmembers using American

## Rewards programs help drive spending and encourage Cardmember loyalty.

We expanded our Membership Rewards program and launched several new products in the U.S., including a cash rebate card that offers up to two percent cash back on purchases; a card that offers special services and discounts to members of the National Restaurant Association; and a gift card, which works like an electronic gift certificate, with merchants such as Chanel.

## WORLDWIDE ANNUAL SPENDING PER CARD
## AMERICAN EXPRESS VS. VISA/MASTERCARD CARDS




Average annual spending on American Express Cards is significantly higher than on Visa or MasterCard products — due in part to the appeal of rewards programs and to our expanded merchant coverage. This higher spending volume helps us maintain our position as the single largest card issuer in the world.

Express Relationship Services' fee-based services, such as airflight and baggage insurance, grew 7 percent during 1998.

We added to these traditional products by launching three new fee-based services: Credit Protection for the Charge Card, which provides coverage for outstanding balances in the event of disability or involuntary unemployment; Home Services, providing discounts on home repair and improvement; and Home Protection, which extends warranties for major home systems and appliances.

During the year, we launched electronic gift cards with Tower Records and Chanel. These products, which work like an electronic gift certificate, are designed to help merchants increase business and customer loyalty.

American Express Relationship Services also manages our interactive and smart card initiatives. We have made a number of minority investments in Internet firms over the past few years, and we invested in four additional companies in 1998: Ticketmaster Online-CitySearch, which supplies online information guides and event ticketing for consumers and merchants; Concur Technologies, which provides employee desktop solutions including travel and expense management; SaveSmart, which offers personalized electronic promotions from participating merchants; and @Back-up, which offers computer back-up services over the Internet.

We also invested in Proton World, a leading developer and licenser of smart card electronic purse and related technology, and became a licensee of the MULTOS smart card operating system. Each of these investments is modest in size.

However, we believe focusing on the fast-changing electronic commerce arena will help us craft solid, interactive strategies for the Company.

### *CORPORATE CARD AND TRAVEL SERVICES*

The American Express Corporate Card is the recognized leader for business travel and entertainment throughout the world.

While it was a good year overall, our Corporate Card business did not meet the aggressive targets we had set. As we said, economic slowdowns outside the United States dampened corporate spending and travel. The ongoing trend of commission rate reductions from airlines resulted in decreases in revenue from our Business Travel operations and price increases for travelers and corporations.

Moreover, after reevaluating the earnings potential of the United States Government Card business, we concluded that this would not be a viable business for us going forward and therefore did not pursue the bidding process. The account represented approximately 1.6 million cards and approximately $3.5 billion in annual billed business. Largely as a result of our decision not to pursue bidding for the government account, the total number of cards-in-force in the United States declined for the year. We believe our energy and resources will be better spent expanding our core corporate business, where returns and growth opportunities are more attractive.

We did, however, sign or expand several large accounts during the year, including United Technologies, PricewaterhouseCoopers and Compuware Corporation.

During the year we acquired Travel One, one of the nation's fastest-growing travel agencies. Just as it does in the international arena, bolstering

American Express helps companies manage their travel, entertainment and purchasing expenses through a growing family of products. During 1998, we introduced a new Corporate Card in France in conjunction with Air France, Accor and Credit Lyonnais. We expanded our Internet-based travel reservation system, AXI, which helps corporate travelers reduce cost and save time. We also began piloting Corporate Purchasing Cards in France, Germany and Sweden.

our travel industry presence increases our leverage with key suppliers, helping us reduce profit margin pressure while we provide superior value to clients.

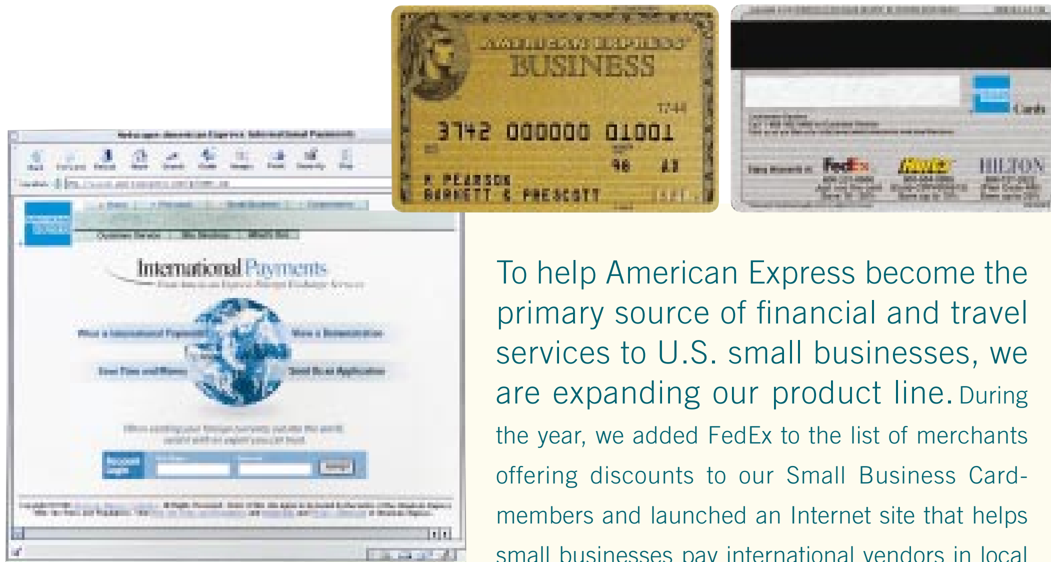
We further strengthened our roster of Business Travel clients in 1998 and focused efforts on deepening our partnerships with major airlines and hotel companies. We are also expanding this business through new electronic commerce services. We strengthened our leadership in on-line travel systems, enhancing AXI TRAVEL (American Express Interactive), which now has nearly 250,000 registered users. Although this list is growing, we plan to expand the percentage of business travel our clients book online. Several initiatives are underway to make Internet transactions easier for our clients.

We also launched a service that allows customers to file an expense report online by combining Corporate Card charges with travel information. Co-branded with Concur Technologies, this service helps business travelers get reimbursed more quickly.

In addition to traditional travel and entertainment expense management programs, we also expanded the Corporate Purchasing Card, which helps companies manage the acquisition of supplies, equipment and services. Business billed on the Purchasing Card grew significantly in 1998. This area is profitable and we aim to continue expanding our presence in this market.

### *SMALL BUSINESS SERVICES*

As we reported last year, we aspire to be the primary source of financial and travel services for small businesses in the United States. We made tremendous strides in 1998. Our Small Business Corporate Card business continues to grow, with




To help American Express become the primary source of financial and travel services to U.S. small businesses, we are expanding our product line. During the year, we added FedEx to the list of merchants offering discounts to our Small Business Cardmembers and launched an Internet site that helps small businesses pay international vendors in local currency. Outside the U.S., we introduced a new Gold Card for small businesses in the United Kingdom.

## MERCHANT COVERAGE

We continue to increase the number and range of merchants that accept American Express Cards. In the United States, our merchant network now accommodates more than 94 percent of Cardmembers' general purpose plastic spending. In 1998, we made strong gains in signing supermarkets and retail outlets. Outside the United States, our merchant network now accommodates 83 percent of Cardmembers' spending.

all indicators — billed business, cards-in-force and spending per card — up for the year.

Equipment financing is a key lending category for small business owners. We expanded this business in 1998 with the acquisition of equipment financing company CapitaFinance, in which we previously had a 50 percent investment. In addition, we announced an agreement to purchase Rockford Industries, a firm that provides point-of-purchase equipment financing. This transaction closed in early 1999. We also made a minority investment in Administaff, which provides professional employer services to our small business customer base.

We introduced an International Payments site on the Internet to provide a convenient and cost effective way for small businesses in the United States to pay international vendors in more than 40 foreign currencies, 24 hours a day, seven days a week.

Providing financial and tax advice to small businesses is also part of our drive to be a leader in meeting the needs of this growing sector. We acquired an additional 14 accounting firms during the year.

Consumer Travel, which is managed with our Small Business Services unit, achieved strong sales growth. This was due in part to the acquisition of Travel Impressions, a major travel packager. In addition to expanding our position in leisure travel, this acquisition will enable us to take advantage of the increasing popularity of vacation packages.

### *MERCHANT SERVICES*

We have been strengthening our relationships with merchants that accept our cards through an expanded roster of services, including software and Internet-based programs that help them manage and reconcile transactions.

During the year, we increased our merchant coverage among supermarkets, retailers, furniture stores, government agencies and charitable organizations. The number of new merchants signed in the United States in 1998 increased 16 percent over 1997. Given those numbers, it is not surprising that *Credit Card Management* magazine named American Express "Acquirer of the Year." The percentage of total Cardmember plastic spending that can be accommodated by our United States merchant network now exceeds 94 percent.

Key signings in the United States during the year included: AT&T residential service, Ameritech, Meijers supermarkets, the largest furniture chains, Heilig-Meyers and Levitz Furniture, and NEW JERSEY TRANSIT.

We conducted a number of highly successful marketing programs during the year, like the "Double Membership Rewards" program that helped increase Cardmembers' spending at gas stations and supermarkets. A similar program during the fourth quarter with the world's largest retailer, Wal-Mart, produced equally strong results.

We expanded our ATM business in 1998 with the acquisition of three networks totaling nearly 3,000 terminals. We are now the ninth largest operator of ATMs in the United States and plan to use this network to deliver a range of services to Cardmembers and to help build retail sales for merchants.

Merchant satisfaction with American Express improved, even amid pricing pressures and competitive threats throughout the industry. A key priority is communicating the added value in accepting the American Express Card, including the benefits of Cardmember loyalty and higher average spending per card. This added value directly affects our ability to maintain a premium pricing structure. Our average discount rate, the fee merchants pay for accepting our cards, remained flat versus last year, after several years of slight reductions.

Visa continues their "We Prefer Visa" campaigns targeting specific merchants, industries and individual markets. In effect, these programs pay off one merchant or locale while ignoring others. We thwarted most of their campaigns during the year, but we expect Visa to continue these efforts.

### FUTURE SUCCESS

Overall, 1998 was a positive year for American Express Company. Although economic and market gyrations affected results in certain areas, we have repeatedly stated that we will not be distracted by short-term market movements. We aim to build long-term value for our shareholders.

We will continue to focus on our growth strategies. Our targets for 1999 and beyond are very aggressive, but given our talent, superior products and tenacity, we remain optimistic about the future of our business.

Our dedicated employees and outstanding management teams represent significant assets. We are committed to helping employees develop throughout their careers with the Company and we continue to gauge how well we meet their needs through an annual Employee Survey. In 1998, a record 80 percent of our entire workforce participated in the survey. Employees rated the Company higher than in previous years in

the majority of categories we measure, and we are nearing world-class targets for certain key dimensions. Scores among different racial groups in the United States, an area of focus for us, improved from the previous year, but we can still do better. We will continue to address these issues in our ongoing efforts to foster a highly effective organization.

Leadership is also key to our future success, and we were pleased to welcome Richard McGinn, Chairman and Chief Executive Officer of Lucent Technologies, as a new member of our Board of Directors. We will benefit from his insight and guidance as we continue to reach for ambitious growth targets in an era of increasing competition.

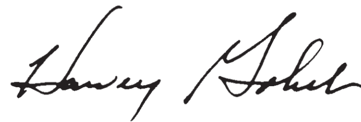
Charles Duncan, a member of our Board since 1981, has reached the mandatory retirement age for Directors and will not stand for reelection. Charles is an extraordinary individual who combines intelligence, integrity and wisdom. We were fortunate and proud to have him serve as a member of our Board. We are sorry to lose him.

During the year, Vice Chairman Chuck Farr left the Company to pursue other opportunities. We benefited from Chuck's counsel and contributions and wish him well in his future endeavors.

Tom Ryder left TRS International to become CEO of Reader's Digest and Phillip Riese left Consumer Card Services to become CEO of OptiMark Technologies. We were sorry to see them go. However, we named Jim Cracchiolo to lead TRS International and Al Kelly to head Consumer Card Services. Both had senior level responsibilities in their groups and our ability to replace departing executives with such outstanding staff is a testament to our management depth.

We move into 1999 with great confidence in our strategy and our people. We will work hard to strengthen and leverage our worldwide reputation across all our businesses to achieve our vision for American Express: to become the world's most respected service brand. We look forward to continuing to deliver the superior value our shareholders expect.

Sincerely,



**Harvey Golub**
Chairman and Chief Executive Officer

**Kenneth I. Chenault**
President and Chief Operating Officer

February 22, 1999

# *FINANCIAL INDEX*

22 FINANCIAL REVIEW

32 CONSOLIDATED STATEMENTS OF INCOME

33 CONSOLIDATED BALANCE SHEETS

34 CONSOLIDATED STATEMENTS OF CASH FLOWS

35 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

36 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

56 REPORT OF MANAGEMENT

56 REPORT OF ERNST & YOUNG LLP INDEPENDENT AUDITORS

57 CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

1998 was another solid year for American Express Company (the Company). We posted strong financial results and made further progress on our strategies, notwithstanding the difficult economic environments in many areas and volatile financial markets. We prudently deployed capital through strategic acquisitions that helped strengthen our competitive position in a number of businesses, successfully launched card products outside the United States and partnered with other institutions to issue cards on our network. At the core of our performance is a determined focus on three basic operating principles: offering superior value to customers, continually driving toward best-in-class economics and building the American Express brand.

The Company reported record 1998 net income of $2.14 billion, 8 percent higher than net income of $1.99 billion in 1997. The 1998 results include several first quarter items: a $138 million (after-tax) credit loss provision at American Express Bank (AEB) relating to its Asia/Pacific portfolio, as well as income in the Corporate segment of $78 million (after-tax) representing gains on the sale of First Data Corporation (FDC) shares and a preferred dividend based on Lehman Brothers' earnings. Excluding these items, 1998 income was $2.2 billion, an increase of 11%. In 1996, operating income was $1.74 billion, excluding two fourth quarter items: a $300 million (after-tax) gain on the exchange of Debt Exchangeable for Common Stock (DECS) for shares of common stock of FDC and a $138 million (after-tax) restructuring charge. The Company's 1998 results were in line with its long-term targets of achieving, on average and over time: 12-15 percent earnings per share growth and at least 8 percent growth in revenues, but were at the low end of the range. Return on equity exceeded the Company's long-term target of 18-20 percent.

Diluted earnings per share were $4.63, $4.15 and $3.89 in 1998, 1997 and 1996, respectively. After adjusting 1998 for the above-mentioned AEB credit loss provision and the Corporate gains and after adjusting 1996 for the restructuring charge and the DECS gain, diluted earnings per share were $4.76, $4.15 and $3.56 in 1998, 1997 and 1996, respectively. On this basis, 1998 earnings per share rose 15%. The rise in adjusted earnings per share for 1998 and 1997 reflects revenue growth, margin improvement and a reduction in average shares outstanding.

Consolidated revenues rose 7.7 percent in 1998 to $19.1 billion, compared with $17.8 billion and $16.4 billion in 1997 and 1996, respectively. Revenues, net of American Express Financial Advisors' provisions for losses and benefits, rose 8.3 percent and 9.2 percent in 1998 and 1997, respectively. Contributing to both years' results were increases in worldwide billed business, higher management and distribution fees and greater loans outstanding and interest margins in Cardmember lending. Growth in 1998 was also enhanced by travel acquisitions.

### *YEAR 2000*

The Year 2000 (Y2K) issue is the result of computer programs having been written using two digits rather than four to define a year. Some programs may recognize a date using "00" as the year 1900 rather than 2000. This misinterpretation could result in the failure of major systems or miscalculations, which could have a material impact on the Company and its businesses or subsidiaries through business interruption or shutdown, financial loss, reputational damage and legal liability to third parties. The Company began addressing the Y2K issue in 1995 and has established a plan for resolution, which involves the remediation, decommissioning and replacement of relevant systems, including mainframe, mid-range and desktop computers, application software, operating systems, systems software, date back-up archival and retrieval services, telephone and other communications systems, and hardware peripherals and facilities dependent on embedded technology. As a part of our plan, we have generally followed and utilized the specific policies and guidelines established by the Federal Financial Institutions Examination Council, as well as other U.S. and international regulatory agencies. Additionally, we continue to participate in Y2K related industry consortia sponsored by various partners and suppliers. Progress is reviewed regularly with the Company's senior management and Board of Directors.

Our Y2K compliance effort related to information technology (IT) systems is divided into two initiatives. The first, which is the much larger initiative, is known internally as "Millenniax," and relates to mainframe and other technological systems maintained by the American Express Technologies organization (AET). The second, known as "Business T," relates to the technological assets that are owned, managed or maintained by the Company's individual business units. Business T also encompasses the remediation of non-IT systems. These initiatives involve a substantial number of employees and external consultants. This multiple sourcing approach is intended to mitigate the risk of becoming dependent on any one vendor or resource. While the vast majority of our systems that require modification are being remediated, in some cases we have chosen to migrate to new applications that are already Y2K compliant.

The Company's plans for remediation with respect to Millenniax and Business T include the following program phases: (i) employee awareness and mobilization, (ii) inventory collection and assessment, (iii) impact analysis, (iv) remediation/decommission, (v) testing and (vi) implementation. As part of the first three phases, we have identified the Company's mission-critical systems for purposes of prioritization. The Company's goals are to complete testing of critical systems by early 1999, and to continue compliance efforts, including but not limited to, the testing of systems on an integrated basis and independent validation of such testing,

through 1999.* We are currently on schedule to meet these goals. With respect to systems maintained by the Company, the first three phases referred to above have been substantially completed for both Millenniax and Business T. In addition, remediation of critical systems is substantially complete. As of December 31, 1998, for Millenniax, the remediation/decommission, testing and implementation phases for critical and non-critical systems in total are 82%, 75% and 60% complete, respectively. For Business T, such phases are 85%, 70% and 69% complete, respectively. Certain critical systems have already been made Y2K compliant, such as the Worldwide Credit Authorization System, and we have completed testing of the global point of sale infrastructure. As a result, we have begun issuing Year 2000 dated charge and credit cards.

Our most commonly used methodology for remediation is the sliding window. Once an application/system has been remediated, we apply specific types of tests, such as stress, regression, unit, future date and baseline to ensure that the remediation process has achieved Y2K compliance while maintaining the fundamental data processing integrity of the particular system. To assist with remediation and testing, we are using various standardized tools obtained from a variety of vendors.

The Company's cumulative costs since inception of the Y2K initiatives were $383 million through December 31, 1998 and are estimated to be in the range of $135-$160 million for the remainder through 2000.* These include both remediation costs and costs related to replacements that were or will be required as a result of Y2K. These costs, which are expensed as incurred, relate to both Millenniax and Business T, and have not had, nor are they expected to have, a material adverse impact on the Company's results of operations or financial condition.* Costs related to Millenniax, which represent most of the total Y2K costs of the Company, are managed by and included in the Corporate and Other segment; costs related to Business T are included in the business segments. Y2K costs related to Millenniax represent 14%, 6% and 1% of the AET budget for the years 1998, 1999 and 2000, respectively. The Company has not deferred other critical technology projects or investment spending as a result of Y2K. However, because the Company must continually prioritize the allocation of finite financial and human resources, certain non-critical spending initiatives have been deferred.

The Company's major businesses are heavily dependent upon internal computer systems, and all have significant interaction with systems of third parties, both domestically and internationally. The Company is working with key external parties, including merchants, clients, counterparties, vendors, exchanges, utilities, suppliers, agents and regulatory agencies to mitigate the potential risks to us of Y2K. The failure of external parties to resolve their own Y2K issues in a timely manner could result in a material financial risk to the Company. As part of our overall compliance program, the Company is actively communicating with third parties through face-to-face meetings and correspondence, on an ongoing basis, to ascertain their state of readiness. Although numerous third parties have indicated to us in writing that they are addressing their Y2K issues on a timely basis, the readiness of third parties overall varies across the spectrum. Because the Company's Y2K compliance is dependent on key third parties being compliant on a timely basis, there can be no assurances that the Company's efforts alone will resolve all Y2K issues.

At this point, the Company is in the process of performing an assessment of reasonably likely Y2K systems failures and related consequences. The Company is also preparing specific Y2K contingency plans for all key American Express business units to mitigate the potential impact of such failures. This effort is a full-scale initiative that includes both internal and external experts under the guidance of a Company-wide steering committee. Our contingency plans, which will be based in part on an assessment of the magnitude and probability of potential risks, will primarily focus on proactive steps to prevent Y2K failures from occurring, or if they should occur, to detect them quickly, minimize their impact and expedite their repair. The Y2K contingency plans will supplement disaster recovery and business continuity plans already in place, and are expected to include measures such as selecting alternative suppliers and channels of distribution, and developing our own technology infrastructure in lieu of those provided by third parties. Development of the Y2K contingency plans is expected to be substantially complete by the end of the first quarter of 1999, and will continue to be refined throughout 1999 as additional information related to our exposures is gathered.*

*Statements in this Y2K discussion marked with an asterisk are forward-looking statements which are subject to risks and uncertainties. Important factors that could cause results to differ materially from these forward-looking statements include, among other things, the ability of the Company to successfully identify systems containing two-digit codes, the nature and amount of programming required to fix the affected systems, the costs of labor and consultants related to such efforts, the continued availability of such resources, and the ability of third parties that interface with the Company to successfully address their Y2K issues.

### ACCOUNTING DEVELOPMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information," which was effective for fiscal years beginning after December 15, 1997 and redefines how operating segments are determined. The Company adopted the provisions of SFAS No. 131 in the first quarter of 1998. As a result, the Travelers Cheque Group, which had been included in the Travel Related Services segment, is now

reported in the same segment as American Express Bank, consistent with our management structure.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP, which the Company will adopt on January 1, 1999, requires the capitalization of certain costs incurred to develop or obtain software for internal use. The Company's policy has been to expense such costs as incurred. As a result of adopting the new SOP, the Company expects to capitalize approximately $250 million in 1999 that otherwise would have been expensed as incurred. The Company plans to increase investment spending by the amount capitalized, net of depreciation, and therefore, expects no significant effect on net income.

In December 1997, the AICPA issued SOP 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments." The SOP, which the Company will adopt on January 1, 1999, provides guidance on accounting by insurance and other enterprises for assessments related to insurance activities. Adoption of this statement will not have a material effect on the Company's financial position or results of operations.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective January 1, 2000. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, 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. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The ultimate financial effect of the new rule will be measured based on the derivatives in place at adoption and cannot be estimated at this time. Based on the Company's current derivatives position, the effect on the Company's earnings and financial position upon adoption would not be significant.

## TRAVEL RELATED SERVICES

### *RESULTS OF OPERATIONS*

STATEMENTS OF INCOME

(Amounts in millions)

| Years Ended December 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| Net Revenues: | | | |
| Discount Revenue | $ 6,115 | $ 5,666 | $ 5,024 |
| Net Card Fees | 1,587 | 1,604 | 1,668 |
| Travel Commissions and Fees | 1,647 | 1,489 | 1,422 |
| Other Revenues | 2,534 | 2,211 | 2,175 |
| Lending: | | | |
| Finance Charge Revenue | 2,007 | 1,848 | 1,575 |
| Interest Expense | 653 | 604 | 507 |
| Net Finance Charge Revenue | 1,354 | 1,244 | 1,068 |
| Total Net Revenues | 13,237 | 12,214 | 11,357 |
| Expenses: | | | |
| Marketing and Promotion | 1,130 | 1,027 | 957 |
| Provision for Losses and Claims: | | | |
| Charge Card | 701 | 858 | 743 |
| Lending | 922 | 817 | 635 |
| Other | 56 | 57 | 73 |
| Total | 1,679 | 1,732 | 1,451 |
| Charge Card Interest Expense | 809 | 743 | 688 |
| Net Discount Expense | 665 | 597 | 554 |
| Human Resources | 3,544 | 3,076 | 2,907 |
| Other Operating Expenses | 3,346 | 3,254 | 3,190 |
| Total Expenses | 11,173 | 10,429 | 9,747 |
| Pretax Income | 2,064 | 1,785 | 1,610 |
| Income Tax Provision | 700 | 621 | 559 |
| Operating Income | 1,364 | 1,164 | 1,051 |
| Restructuring Charge (net of tax) | – | – | 125 |
| Net Income | $ 1,364 | $ 1,164 | $ 926 |

Travel Related Services (TRS) reported earnings of $1.36 billion in 1998, a 17 percent increase from $1.16 billion in 1997. 1996 earnings were $1.05 billion, excluding a $125 million ($196 million pretax) restructuring charge.

TRS' net revenues rose 8 percent in both 1998 and 1997 compared with the previous year. In both years, TRS' net revenues benefited from growth in worldwide billed business and Cardmember loans outstanding, as well as wider interest margins. 1998 results also reflect higher travel commissions and fees, primarily from acquisitions during the year. In both 1998 and 1997, growth in billed business resulted from higher spending per Basic Cardmember and growth in average cards outstanding. Greater spending per Basic Cardmember resulted from several factors, including the benefits of rewards programs and expanded merchant coverage. In 1998, substantial growth in cards in force outside the United States was offset by the cancellation of 1.6 million U.S. Government cards late in the fourth quarter, as a result of the Company's decision to withdraw from the U.S. Government Card business. The international increase includes growth in proprietary products, as well as the addition of a substantial number of new network cards over the past year. The growth in worldwide cards in force in 1997 was primarily attributable to new credit card product launches and a broader product portfolio.

Discount revenue rose 8 percent in 1998 and 13 percent in 1997 as a result of higher billed business in the United States and internationally. The 1998 increase was particularly noteworthy because of the economic turmoil in many international markets, slower growth in the U.S. card industry and general tightening by corporations of travel and entertainment expenses in the latter half of the year. Net card fees decreased in both years due to declines in consumer charge cards and the effect of TRS' strategy of building its lending portfolio through the issuance of low- and no-fee credit cards. Travel commissions and fees improved in 1998 as a result of travel acquisitions during the year, which increased revenues and expenses but did not have a material effect on net income. Both 1998 and 1997 reflect increased sales volumes, offset in part by the continued efforts by airlines to reduce distribution costs and by corporate travel and entertainment expense containment efforts. The increase in other revenues in 1998 and 1997 reflects higher card assessments and fees; 1998 also includes the effect of acquisitions. Lending net finance charge revenue was reduced by $1 billion loan securitizations in the second quarter of 1998, the third quarter of 1997 and the second quarter of 1996. See TRS' Liquidity and Capital Resources discussion. Excluding the effect of securitizations, lending net finance charge revenue rose 18 percent and 24 percent in 1998 and 1997, respectively. The increase in both 1998 and 1997 is due to higher worldwide lending balances and a widening of interest margins in the U.S. portfolio resulting from a smaller portion of the portfolio being subject to lower introductory interest rates.

## SELECTED STATISTICAL INFORMATION

(Amounts in billions, except percentages and where indicated)

| Years Ended December 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| Total Cards in Force (millions): | | | |
| United States | 27.8 | 29.6 | 29.2 |
| Outside the United States | 14.9 | 13.1 | 12.3 |
| Total | 42.7 | 42.7 | 41.5 |
| Basic Cards in Force (millions): | | | |
| United States | 21.7 | 23.3 | 22.5 |
| Outside the United States | 11.5 | 10.0 | 9.6 |
| Total | 33.2 | 33.3 | 32.1 |
| Card Billed Business: | | | |
| United States | $ 165.6 | $ 150.5 | $ 131.0 |
| Outside the United States | 61.9 | 58.7 | 53.3 |
| Total | $ 227.5 | $ 209.2 | $ 184.3 |
| Average Discount Rate* | 2.73% | 2.73% | 2.75% |
| Average Basic Cardmember Spending (dollars)* | $ 6,885 | $ 6,473 | $ 6,074 |
| Average Fee per Card (dollars)* | $ 38 | $ 39 | $ 42 |
| Travel Sales | $ 19.9 | $ 17.4 | $ 15.8 |
| Travel Commissions and Fees/Sales | 8.3% | 8.6% | 9.0% |
| Owned and Managed Charge Card Receivables:** | | | |
| Total Receivables | $ 24.0 | $ 23.5 | $ 22.5 |
| 90 Days Past Due as a % of Total | 2.7% | 3.1% | 3.2% |
| Loss Reserves (millions) | $ 897 | $ 951 | $ 923 |
| % of Receivables | 3.7% | 4.0% | 4.1% |
| % of 90 Days Past Due | 138% | 132% | 128% |
| Net Loss Ratio | 0.46% | 0.50% | 0.51% |
| Owned and Managed U.S. Cardmember Lending:** | | | |
| Total Loans | $ 16.7 | $ 14.6 | $ 12.7 |
| Past Due Loans as a % of Total: | | | |
| 30-89 Days | 2.2% | 2.4% | 2.4% |
| 90+ Days | 0.9% | 1.1% | 0.9% |
| Loss Reserves (millions): | | | |
| Beginning Balance | $ 589 | $ 488 | $ 443 |
| Provision | 961 | 867 | 607 |
| Net Charge-Offs/Other | (931) | (766) | (562) |
| Ending Balance | $ 619 | $ 589 | $ 488 |
| % of Loans | 3.7% | 4.0% | 3.8% |
| % of Past Due | 120% | 116% | 117% |
| Average Loans | $ 15.0 | $ 13.3 | $ 10.8 |
| Net Write-Off Rate | 6.4% | 6.0% | 5.2% |
| Net Interest Yield | 9.5% | 9.1% | 8.8% |

* Computed excluding cards issued by strategic alliance partners and independent operators as well as business billed on those cards.

** Owned and managed Cardmember receivables and loans include securitized assets not reflected in the Consolidated Balance Sheets.

The growth in marketing and promotion expense in both 1998 and 1997 reflected higher media and merchant-related advertising costs. In 1998, the worldwide Charge Card provision declined due to improved loss rates; this provision rose in 1997, primarily as a result of volume growth. The worldwide lending provision increased in both years as a result of portfolio growth; the increase also included greater bankruptcy losses in 1998 and higher delinquencies in 1997. The growth in the lending provision was partly offset by the securitizations of U.S. Cardmember loans in both years. Charge Card interest expense rose in 1998 and 1997 as a result of higher volumes, partly offset by lower borrowing rates. The growth in human resources expense primarily reflected increased business volumes and higher systems programmers' costs for technology projects and merit increases in both years; additionally, the growth in 1998 reflects higher employee levels, in part due to acquisitions during the year. Other operating expenses rose in 1998 and 1997 due to Cardmember loyalty programs, business growth and investment spending.

TRS' asset securitization programs increased fee revenue by $293 million, $195 million and $157 million in 1998, 1997 and 1996, respectively. The Charge Card securitization program resulted in net discount expense of $665 million, $597 million and $554 million in 1998, 1997 and 1996, respectively. The program also reduced the Charge Card provision by $293 million, $247 million and $246 million in 1998, 1997 and 1996, respectively, and Charge Card interest expense by $231 million, $230 million and $183 million in 1998, 1997 and 1996, respectively. The revolving credit securitization program also reduced lending net finance charge revenue by $306 million, $167 million and $75 million and the lending provision by $171 million, $120 million and $43 million, in 1998, 1997 and 1996, respectively. These securitizations had no material effect on net income for any year presented.

## *LIQUIDITY AND CAPITAL RESOURCES*

### SELECTED BALANCE SHEET INFORMATION

(Amounts in billions, except percentages)

| December 31, | 1998 | 1997 |
|---|---|---|
| Accounts Receivable, net | $ 21.3 | $ 20.5 |
| U.S. Cardmember Loans | $ 13.7 | $ 12.6 |
| Total Assets | $ 44.7 | $ 40.7 |
| Short-term Debt | $ 22.9 | $ 20.9 |
| Long-term Debt | $ 5.1 | $ 6.0 |
| Total Liabilities | $ 39.8 | $ 36.1 |
| Total Shareholder's Equity | $ 4.9 | $ 4.6 |
| Return on Average Equity* | 27.8% | 25.1% |
| Return on Average Assets* | 3.3% | 3.0% |

* Excluding the effect of SFAS No. 115.

The American Express Credit Account Master Trust (the Trust) securitized $1 billion of loans in June 1998 and $1 billion in August 1997, through the public issuance of two classes of investor certificates and a privately placed collateral interest in the assets of the Trust. The securitized assets consist of loans arising in a portfolio of designated Optima Card, Optima Line of Credit and Sign & Travel revolving credit accounts owned by American Express Centurion Bank (Centurion Bank), a wholly-owned subsidiary of TRS. At December 31, 1998 and 1997, TRS had securitized a total of $3 billion and $2 billion of loans, respectively, which are not on the Consolidated Balance Sheets.

In addition, the American Express Master Trust (the Master Trust) securitizes charge card receivables generated under designated American Express Card, Gold Card and Platinum Card consumer accounts through the issuance of trust certificates. In May 1998, the Master Trust issued an additional $1 billion of Class A Fixed Rate Accounts Receivable Trust Certificates. In September 1998, $300 million Class A Fixed Rate Accounts Receivable Trust Certificates matured from the Charge Card securitization portfolio. At December 31, 1998 and 1997, TRS had securitized $3.95 billion and $3.25 billion, respectively, of receivables, which are not on the Consolidated Balance Sheets.

In February 1998, American Express Credit Corporation (Credco), a wholly-owned subsidiary of TRS, issued $150 million 1.125% Cash Exchangeable Notes due February 2003. These notes are exchangeable for an amount in cash which is linked to the price of the common stock of the Company. Credco has entered into hedging agreements designed to fully hedge its obligations under these Notes.

In 1997, Credco issued and sold, exclusively outside the United States and to non-U.S. persons, $400 million Floating Rate Notes and an additional $400 million of 6.5% Fixed Rate Notes. These notes are listed on the Luxembourg Stock Exchange, and will mature in 2002. At December 31, 1998, Credco had approximately $2.4 billion of medium and long-term debt and warrants available for issuance under shelf registrations filed with the Securities and Exchange Commission.

TRS, primarily through Credco, maintained commercial paper outstanding of approximately $16.1 billion at an average interest rate of 5.3% and approximately $14.5 billion at an average interest rate of 6.0% at December 31, 1998 and 1997, respectively. Unused lines of credit of approximately $8.2 billion, which expire in increments from 1999 through 2002, were available at December 31, 1998 to support a portion of TRS' commercial paper borrowings.

Borrowings under bank lines of credit totaled $1.6 billion and $1.7 billion at December 31, 1998 and 1997, respectively.

In January 1999, TRS issued and sold, exclusively outside the United States and to non-U.S. persons, $500 million 5.625% Fixed Rate Notes. These notes are listed on the Luxembourg Stock Exchange, and will mature in 2004.

## *RESULTS OF OPERATIONS*

### STATEMENTS OF INCOME

(Amounts in millions)

| Years Ended December 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| Revenues: | | | |
| Investment Income | $ 2,437 | $ 2,339 | $ 2,267 |
| Management and Distribution Fees | 1,851 | 1,486 | 1,205 |
| Other Revenues | 807 | 774 | 638 |
| Total Revenues | 5,095 | 4,599 | 4,110 |
| Expenses: | | | |
| Provision for Losses and Benefits: | | | |
| Annuities | 1,150 | 1,214 | 1,208 |
| Insurance | 489 | 452 | 420 |
| Investment Certificates | 275 | 200 | 197 |
| Total | 1,914 | 1,866 | 1,825 |
| Human Resources | 1,441 | 1,229 | 1,034 |
| Other Operating Expenses | 548 | 482 | 366 |
| Total Expenses | 3,903 | 3,577 | 3,225 |
| Pretax Income | 1,192 | 1,022 | 885 |
| Income Tax Provision | 374 | 315 | 291 |
| Net Income | $ 818 | $ 707 | $ 594 |

American Express Financial Advisors (AEFA) reported increases in revenues of 11 percent and 12 percent, and earnings of 16 percent and 19 percent for 1998 and 1997, respectively. Revenues and earnings in both years benefited primarily from higher fees due to growth in managed assets and record mutual fund sales. Revenues net of related provisions for fixed annuities, insurance and investment certificate products, which are essentially spread businesses, rose 16 percent and 20 percent for 1998 and 1997, respectively.

The improvement in investment income reflected higher average investments of 3 percent and 4 percent in 1998 and 1997, respectively. Management and distribution fees rose 25 percent and 23 percent in 1998 and 1997, respectively; the growth in both years was due to greater management fee revenue from higher managed and separate account assets. These assets increased due to strong market appreciation and positive net sales in both years. Distribution fees also improved in both years reflecting strong mutual fund sales. Other revenues rose in both years from increased life insurance contract charges and premiums and higher financial planning fees.

In 1998, the provision for losses and benefits for fixed annuities declined due to lower business in force and accrual rates and the provision for insurance increased from higher accrual rates and in force levels. Provisions for annuities and insurance grew in 1997 due to greater business in force, partially offset by lower accrual rates. In 1998, the provision for investment certificates rose reflecting higher in force levels. This increase also reflects growth in the provision for the stock market certificate product, which is hedged by index options and resulted in a corresponding increase in investment income, with minimal impact on net income. Human resources expense rose in both years, reflecting rising financial advisors' compensation from growth in sales and asset levels and a greater number of employees to support business expansion. The increase in other operating expenses in both years primarily resulted from higher data processing, technology and advertising expenditures. 1997 also included increased occupancy and equipment costs. The effective tax rate in 1998 and 1997 includes tax credits from affordable housing investments.

### SELECTED STATISTICAL INFORMATION

(Amounts in millions, except percentages and where indicated)

| Years Ended December 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| Revenues, Net of Provisions | $ 3,181 | $ 2,732 | $ 2,285 |
| Life Insurance in Force (billions) | $ 81.1 | $ 74.5 | $ 67.3 |
| Deferred Annuities in Force (billions) | $ 42.8 | $ 41.7 | $ 37.5 |
| Assets Owned, Managed or Administered (billions): | | | |
| Assets managed for institutions | $ 45.9 | $ 40.8 | $ 37.3 |
| Assets owned, managed or administered for individuals: | | | |
| Owned Assets: | | | |
| Separate Account Assets | 27.3 | 23.2 | 18.5 |
| Other Owned Assets | 37.3 | 36.6 | 34.2 |
| Total Owned Assets | 64.6 | 59.8 | 52.7 |
| Managed Assets | 87.9 | 72.8 | 59.4 |
| Administered Assets | 14.0 | 8.4 | 4.2 |
| Total | $ 212.4 | $ 181.8 | $ 153.6 |
| Market Appreciation (Depreciation) During the Period: | | | |
| Owned Assets: | | | |
| Separate Account Assets | $ 3,547 | $ 3,170 | $ 1,937 |
| Other Owned Assets | $ (110) | $ 262 | $ (232) |
| Managed Assets | $ 13,787 | $11,735 | $ 9,063 |
| Sales of Selected Products: | | | |
| Mutual Funds | $ 20,766 | $17,179 | $14,331 |
| Annuities | $ 2,559 | $ 3,473 | $ 4,311 |
| Investment Certificates | $ 1,976 | $ 1,194 | $ 736 |
| Life and Other Insurance Products | $ 389 | $ 421 | $ 449 |
| Number of Financial Advisors | 10,350* | 8,776 | 8,340 |
| Fees from Financial Plans (thousands) | $ 72,366 | $60,809 | $48,072 |
| Product Sales Generated from Financial Plans as a Percentage of Total Sales | 65.4% | 65.7% | 64.0% |

* Includes advisors from the acquisition of Securities America in the first quarter of 1998.

## *LIQUIDITY AND CAPITAL RESOURCES*

SELECTED BALANCE SHEET INFORMATION

| (Amounts in billions, except percentages) December 31, | 1998 | 1997 |
|---|---|---|
| Investments | $ 30.9 | $ 30.7 |
| Separate Account Assets | $ 27.3 | $ 23.2 |
| Total Assets | $ 64.6 | $ 59.8 |
| Client Contract Reserves | $ 30.3 | $ 30.2 |
| Total Liabilities | $ 60.6 | $ 56.1 |
| Total Shareholder's Equity | $ 4.1 | $ 3.7 |
| Return on Average Equity* | 22.5% | 21.8% |

* Excluding the effect of SFAS No. 115.

AEFA's total assets and liabilities rose primarily due to growth in separate account assets as a result of market appreciation and positive net sales for both years. Investments comprised primarily corporate bonds and mortgage-backed securities, including $3.4 billion and $3.0 billion in below investment grade debt securities, in addition to $3.8 billion in mortgage loans at December 31, 1998 and 1997. Investments are principally funded by sales of insurance and annuities and by reinvested income. Maturities of these investments are matched, for the most part, with the expected future payments of insurance and annuity obligations. Separate account assets, primarily investments carried at market value, are for the exclusive benefit of variable annuity and variable life insurance contract holders. AEFA earns investment management and administration fees from the related accounts.

# AMERICAN EXPRESS BANK/TRAVELERS CHEQUE

## *RESULTS OF OPERATIONS*

STATEMENTS OF INCOME

| (Amounts in millions) Years Ended December 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| Net Revenues: | | | |
| Interest Income | $ 854 | $ 897 | $ 845 |
| Interest Expense | 564 | 579 | 537 |
| Net Interest Income | 290 | 318 | 308 |
| Travelers Cheque Investment Income | 330 | 331 | 349 |
| Foreign Exchange Income | 145 | 101 | 72 |
| Commissions, Fees and Other Revenues | 237 | 374 | 337 |
| Total Net Revenues | 1,002 | 1,124 | 1,066 |
| Expenses: | | | |
| Human Resources | 322 | 306 | 289 |
| Other Operating Expenses | 537 | 517 | 511 |
| Provision for Losses | 272 | 52 | 52 |
| Total Expenses | 1,131 | 875 | 852 |
| Pretax (Loss)/Income | (129) | 249 | 214 |
| Income Tax Benefit | (172) | (23) | (33) |
| Net Income | $ 43 | $ 272 | $ 247 |

American Express Bank/Travelers Cheque (AEB/TC) 1998 net income was lower than the prior year primarily reflecting a $138 million ($213 million pretax) first quarter credit loss provision related to AEB's business in the Asia/Pacific region, particularly Indonesia. The results for 1997 included approximately $62 million ($96 million pretax) of increased recognition of recoveries on abandoned property related to the Travelers Cheque business. These recoveries are included in Commissions, Fees and Other Revenues.

The economic downturn in Asia contributed to reduced net interest income and lower commissions, fees and other revenues in 1998. In particular, net interest income was down in 1998 due to lower corporate banking revenues, primarily reflecting a lower overall loan portfolio and an increase in nonperforming loans in Indonesia. These declines were partially negated by growth in AEB's two businesses oriented to individuals, Private Banking and Personal Financial Services, which resulted from greater deposits and loans. In 1997, net interest income grew compared with the prior year due to higher average balances in loans and trading securities. Foreign exchange income rose significantly in 1998 and 1997, reflecting strong trading results, primarily in the Asia/Pacific region.

SELECTED STATISTICAL INFORMATION

| (Amounts in billions, except percentages) Years Ended December 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| American Express Bank: | | | |
| Assets Managed/Administered* | $ 6.2 | $ 5.0 | $ 4.8 |
| Assets of Non-Consolidated Joint Ventures | $ 2.6 | $ 2.4 | $ 1.3 |
| Travelers Cheque: | | | |
| Sales | $ 24.0 | $ 25.0 | $ 26.0 |
| Average Outstandings | $ 6.0 | $ 5.9 | $ 6.0 |
| Average Investments | $ 5.8 | $ 5.6 | $ 5.6 |
| Tax Equivalent Yield | 9.0% | 9.2% | 9.4% |

* Includes assets managed by American Express Financial Advisors.

## *LIQUIDITY AND CAPITAL RESOURCES*

SELECTED BALANCE SHEET INFORMATION

(Amounts in billions, except percentages and where indicated)

| December 31, | 1998 | 1997 |
|---|---|---|
| Travelers Cheque Investments | $ 6.3 | $ 5.9 |
| Total Loans | $ 5.6 | $ 6.2 |
| Total Nonperforming Loans (millions) | $ 180 | $ 47 |
| Other Nonperforming Assets (millions) | $ 63 | $ 11 |
| Reserve for Credit Losses (millions)* | $ 259 | $ 137 |
| Loan Loss Reserve as a Percentage of | | |
| Total Loans | 3.8% | 2.1% |
| Total Assets | $ 18.5 | $ 19.6 |
| Deposits | $ 8.3 | $ 8.5 |
| Travelers Cheques Outstanding | $ 5.8 | $ 5.6 |
| Total Liabilities | $ 17.3 | $ 18.4 |
| Total Shareholder's Equity (millions) | $ 1,197 | $ 1,248 |
| Return on Average Assets** | 0.23% | 1.40% |
| Return on Average Common Equity** | 4.9% | 28.7% |
| Risk-Based Capital Ratios: | | |
| Tier I | 9.8% | 8.8% |
| Total | 12.6% | 12.3% |
| Leverage Ratio | 5.5% | 5.3% |

| * Allocation (millions) | | |
|---|---|---|
| Loans | $ 214 | $ 131 |
| Other Assets, primarily derivatives | 43 | 6 |
| Other Liabilities | 2 | — |
| Total Credit Loss Reserves | $ 259 | $ 137 |

** Excluding the effect of SFAS No. 115.

AEB had approximately $5.6 billion outstanding in worldwide loans at December 31, 1998, down from $6.2 billion at December 31, 1997. The decline from the prior year was largely in the Asia/Pacific region; corporate and correspondent banking loans fell by $0.8 billion, however consumer and private banking loans rose by $0.3 billion. Other banking activities, such as securities, unrealized gains on foreign exchange and derivatives contracts, various contingencies and market placements, added approximately $7.6 billion to AEB's credit exposures at December 31, 1998 (compared with $8.1 billion at December 31, 1997). The decline in these other exposures from December 31, 1997 mainly reflects lower exposures in the Asia/Pacific region. The 1998 reserve for credit losses reflects an increase due to a $213 million provision, which was partially offset by write-offs related to the Asia/Pacific region, particularly Indonesia. Besides the decrease in total loans, AEB/TC total assets declined mainly due to lower unrealized gains on foreign exchange and derivative contracts, primarily in Asia.

The Company has taken steps to ensure that AEB remains well capitalized, as defined by regulatory guidelines. In April 1998, the Company purchased $225 million of deferred tax assets from AEB, thereby reducing nonqualifying assets and increasing regulatory capital. The Company expects to be able to utilize these deferred tax assets over time within its consolidated tax return and, therefore, realize full value.

## CORPORATE AND OTHER

Corporate and Other reported net expenses of $84 million and $152 million in 1998 and 1997, respectively, and income of $134 million in 1996. 1998 results include income of $78 million after-tax ($106 million pretax) comprising a $39 million after-tax ($60 million pretax) gain from sales of common stock of First Data Corporation and a $39 million after-tax ($46 million pretax) preferred stock dividend based on earnings from Lehman Brothers. The 1996 amount includes a $300 million after-tax ($480 million pretax) gain on the exchange of the Company's DECS and a $13 million after-tax ($20 million pretax) charge primarily related to the early retirement of debt. Excluding the above items, Corporate and Other had net expenses of $162 million in 1998 and $153 million in 1996.

Results for all three years include a benefit due to an earnings payout from Travelers Inc. (Travelers), related to the 1993 sale of the Shearson Lehman Brothers Division (the 1993 sale). 1998 also reflects a benefit from the sale of securities and adjustment of valuation allowances related to certain corporate assets. 1996 results include the Company's share of a participation in Travelers' revenue, in accordance with the 1993 sale. The above items were offset by business building initiatives and Y2K costs related to Millenniax in all three years.

## CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

The Company believes allocating capital to businesses with a return on risk-adjusted equity in excess of its cost of equity and sustained earnings growth in its core business will continue to build shareholder value.

The Company's philosophy is to retain enough earnings to help achieve its goals of earnings per share growth in the 12 to 15 percent range. As further described in Note 6 to the Consolidated Financial Statements, the Company has undertaken a systematic share repurchase program to offset new share issuances. To the extent retained earnings exceed investment opportunities, the Company has returned excess capital to shareholders.

### *FINANCING ACTIVITIES*

The Company has procedures to transfer immediately short-term funds within the Company to meet liquidity needs. These internal transfer mechanisms are subject to and comply with various contractual and regulatory constraints.

The parent company generally meets its short-term funding needs through an intercompany dividend policy and by the issuance of commercial paper. The Board of Directors has authorized a parent company commercial paper program that is supported by a $1.3 billion multi-purpose credit facility that expires in increments from 1999 through 2002. No borrowings have been made under this credit facility. There

was no parent company commercial paper outstanding during 1998 or 1997.

Total parent company long-term debt outstanding was $1.1 billion at December 31, 1998 and 1997. At December 31, 1998 and 1997, the parent company had $2,050 million and $550 million, respectively, of debt or equity securities available for issuance under shelf registrations filed with the Securities and Exchange Commission. In addition, TRS, Centurion Bank, Credco, American Express Overseas Credit Corporation Limited and AEB have established programs for the issuance, outside the United States, of debt instruments to be listed on the Luxembourg Stock Exchange. The maximum aggregate principal amount of debt instruments outstanding at any one time under the program will not exceed $3 billion. At December 31, 1998 and 1997, $1.1 billion of debt has been issued under this program. In January 1999, an additional $500 million of debt was issued under this program.

In July 1998, American Express Company Capital Trust I, a wholly-owned subsidiary of the Company, established as a Delaware statutory business trust (the Trust), completed a public offering of 20 million shares (carrying value of $500 million) of 7.0% Cumulative Quarterly Income Preferred Shares Series I (liquidation preference of $25 per share). Proceeds of the issue, which represent the sole assets of the Trust, were invested in Junior Subordinated Debentures (the Debentures) issued by the Company, due 2028. The Company used the proceeds from the Debentures for general corporate purposes. See Note 5 to the Consolidated Financial Statements for further information.

### *RISK MANAGEMENT*

Management establishes and oversees implementation of Board-approved policies covering the Company's funding, investments and use of derivative financial instruments and monitors aggregate risk exposures on an ongoing basis. The Company's objective is to realize returns commensurate with the level of risk assumed while achieving consistent earnings growth. Individual business segments are responsible for managing their respective exposures within the context of Board-approved policies. See Note 7 to the Consolidated Financial Statements for a discussion of the Company's use of derivatives.

The following sections include sensitivity analyses of three different tests of market risk and estimate the effects of hypothetical sudden and sustained changes in the applicable market conditions on the ensuing year's earnings, based on year-end positions. The market changes, assumed to occur as of year end, are a 100 basis point increase in market interest rates, a 10% strengthening of the U.S. dollar versus all other currencies, and a 10% decline in the value of equity securities under management at AEFA. Computations of the prospective effects of hypothetical interest rate, foreign exchange rate and equity market changes are based on numerous assumptions, including relative levels of market interest rates, foreign exchange rates and equity prices, as well as the levels of assets and liabilities. The hypothetical changes and assumptions will be different from what actually occurs in the future. Furthermore, the computations do not anticipate actions that may be taken by management if the hypothetical market changes actually occur over time. As a result, actual earnings effects in the future will differ from those quantified below.

TRS' hedging policies are established, maintained and monitored by a central treasury function. TRS generally manages its exposures along product lines. A variety of interest rate and foreign exchange hedging strategies are employed to manage interest rate and foreign currency risks.

For Charge Card products, TRS funds its Cardmember receivables using both on-balance sheet sources, such as long-term debt, medium-term notes, commercial paper and other debt, and an asset securitization program. Such funding is predominantly obtained by Credco and its subsidiaries. Interest rate exposure is managed through the issuance of long- and short-term debt and the use of interest rate swaps to achieve a targeted mix of fixed and floating rate funding. During 1998 and 1997, TRS targeted this mix to be approximately 100 percent floating rate. In early 1998, TRS purchased interest rate caps to limit the adverse effect of an interest rate increase on substantially all Charge Card funding costs. The majority of these caps matured during 1998. In 1999, TRS is entering into a series of interest rate swaps to convert a majority of its funding from floating rate to fixed rate. It is anticipated that this process will be completed by the end of the first quarter of 1999.

For its lending products, TRS funds its Cardmember loans using a mixture of long- and short-term debt, and an asset securitization program, primarily through Centurion Bank. The interest rates on TRS' lending products are generally linked to a floating rate base and typically reprice each month. Centurion Bank generally swaps its fixed-term debt, paying rates that reprice similarly with changes in the base rate of the underlying loans.

The detrimental effect on TRS pretax earnings of a hypothetical 100 basis point increase in interest rates would be approximately $170 million and $169 million, based on 1998 and 1997 year-end positions, respectively. This effect is primarily due to the variable rate funding of the Charge Card products. Had the series of swaps purchased in early 1999 been in effect at December 31, 1998, the 1998 effect would have been substantially lower. Similarly, had the interest rate caps purchased in early 1998 been in effect at December 31, 1997, the 1997 effect would be reduced by nearly half.

TRS' foreign exchange risk arising from cross-currency charges and balance sheet exposures is managed primarily by entering into agreements to buy and sell currencies on a spot or forward basis. In the latter part of 1998 and 1997, foreign currency forward contracts were both sold ($569 million and $562 million, respectively) and purchased ($34 million and $92 million, respectively) to manage a majority of anticipated cash flows in major overseas markets for the subsequent year.

Based on the year-end 1998 and 1997 foreign exchange positions, but excluding the forward contracts managing the anticipated overseas cash flows for the subsequent year, the effect on TRS' earnings of the hypothetical 10% strengthening of the U.S. dollar would be immaterial. With respect to the forward contracts related to anticipated cash flows for the subsequent year, the 10% strengthening would create a hypothetical pretax gain of $54 million and $41 million related to the 1998 and 1997 year-end positions, respectively. Such gains, if any, would mitigate the negative impact that a strengthening U.S. dollar would have on overseas earnings for the subsequent year.

AEFA's owned investment securities are, for the most part, held by its life insurance and investment certificate subsidiaries, which primarily invest in long-term and intermediate-term fixed income securities to provide their clients with a competitive rate of return on their investments while minimizing risk. Investment in fixed income securities provides AEFA with a dependable and targeted margin between the interest rate earned on investments and the interest rate credited to clients' accounts. AEFA does not invest in securities to generate trading profits for its own account.

AEFA's life insurance and investment certificate subsidiaries' investment committees meet regularly to review models projecting different interest rate scenarios and their impact on the profitability of each subsidiary. The committees' objective is to structure their investment security portfolios based upon the type and behavior of the products in the liability portfolios, to achieve targeted levels of profitability and meet contractual obligations.

Rates credited to customers' accounts are generally reset at shorter intervals than the maturity of underlying investments. Therefore, AEFA's margins may be impacted by changes in the general level of interest rates. Part of the committees' strategies include the purchase of derivatives, such as interest rate caps, swaps and floors, for hedging purposes.

AEFA's fees earned on the management of fixed income securities in variable annuities and mutual funds are generally based on the value of the portfolios. To manage the level of 1999 fee income, AEFA has entered into a series of swaps designed to mitigate the negative effect on fees that would result from an increase in interest rates.

The negative effect on AEFA's pretax earnings of a 100 basis point increase in interest rates, which assumes repricings and customer behavior based on the application of proprietary models to the book of business at December 31, 1998 and 1997, would be approximately $55 million and $40 million for 1998 and 1997, respectively.

AEFA's fees earned on the management of equity securities in variable annuities and mutual funds are generally based on the value of the portfolios. To manage the level of fee income in the subsequent year, AEFA has entered into a series of stock index option transactions designed to mitigate, for a substantial portion of the portfolios, the negative effect on fees that would result from a decline in the equity markets. The negative effect on AEFA's pretax earnings of the 10% decline in equity markets discussed above would be approximately $72 million and $20 million based on assets under management and the index options as of December 31, 1998 and 1997, respectively.

AEB/TC employs a variety of on- and off-balance sheet financial instruments in managing its exposure to fluctuations in interest and currency rates. Derivative instruments consist principally of foreign exchange spot and forward contracts, interest rate swaps, foreign currency options and forward rate agreements. Generally, they are used to manage specific on-balance sheet interest rate and foreign exchange exposures related to deposits and long-term debt, equity, loans and securities holdings.

The negative effect of the 100 basis point increase in interest rates on AEB/TC's pretax earnings would be negligible as of December 31, 1998 and 1997. The impact on earnings of the 10% strengthening of the U.S. dollar described above would be negligible and, with respect to translation exposure of foreign operations, would result in a $14 million pretax charge against equity as of December 31, 1998 and 1997.

AEB utilizes foreign exchange and interest rate products to meet the needs of its customers. Customer positions are usually, but not always, offset. They are evaluated in terms of AEB's overall interest rate or foreign exchange exposure. AEB also takes limited proprietary positions. Potential daily exposure from trading activities is calculated using a Value at Risk methodology. This model employs a parametric technique using a correlation matrix based on historical data. The Value at Risk measure uses a 99% confidence interval to estimate potential trading losses over a one day period. During 1998 and at December 31, 1997, the Value at Risk for AEB was less than $3 million.

Asset/liability and market risk management at AEB are supervised by the Asset and Liability Committee. This committee comprises senior business managers and the Chairman of AEB. The committee meets monthly and monitors (a) liquidity, (b) capital levels, (c) market risk and (d) investment portfolios. The committee evaluates current market conditions and determines AEB's tactics within risk limits approved by AEB's Board of Directors. AEB's treasury, risk management and global trading management issue policies and control procedures and delegate risk limits throughout AEB's regional trading centers.

AEB's overall credit policies are approved by the Finance and Credit Policy Committee of AEB's Board of Directors. Credit lines are based on a tiered approval ladder, with levels of authority delegated to each country, geographic area, AEB's senior management, and AEB's Board of Directors. Approval authorities are based on factors such as type of borrower, nature of transaction, collateral, and overall risk rating. AEB controls the credit risk arising from derivative transactions through the same procedures. The Credit Audit department reviews all significant exposures periodically. Risk of all foreign exchange and derivative transactions is reviewed by AEB on a regular basis.

# *CONSOLIDATED STATEMENTS OF INCOME*

*AMERICAN EXPRESS COMPANY*

| Years Ended December 31, (millions, except per share amounts) | 1998 | 1997 | 1996 |
|---|---|---|---|
| **Revenues** | | | |
| Discount revenue | $ 6,115 | $ 5,666 | $ 5,024 |
| Interest and dividends, net | 3,277 | 3,175 | 3,289 |
| Management and distribution fees | 1,851 | 1,486 | 1,205 |
| Net card fees | 1,587 | 1,604 | 1,668 |
| Travel commissions and fees | 1,647 | 1,489 | 1,422 |
| Other commissions and fees | 1,657 | 1,475 | 1,261 |
| Cardmember lending net finance charge revenue | 1,354 | 1,244 | 1,068 |
| Life and other insurance premiums | 469 | 424 | 395 |
| Other | 1,175 | 1,197 | 1,048 |
| Total | 19,132 | 17,760 | 16,380 |
| **Expenses** | | | |
| Human resources | 5,380 | 4,700 | 4,325 |
| Provisions for losses and benefits: | | | |
| Annuities and investment certificates | 1,425 | 1,414 | 1,405 |
| Life insurance, international banking and other | 822 | 567 | 544 |
| Charge card | 701 | 858 | 743 |
| Cardmember lending | 922 | 817 | 635 |
| Interest | 999 | 924 | 1,116 |
| Occupancy and equipment | 1,250 | 1,139 | 1,126 |
| Marketing and promotion | 1,228 | 1,118 | 1,071 |
| Professional services | 1,191 | 1,028 | 951 |
| Communications | 474 | 450 | 445 |
| Other | 1,815 | 1,995 | 1,355 |
| Total | 16,207 | 15,010 | 13,716 |
| Pretax income | 2,925 | 2,750 | 2,664 |
| Income tax provision | 784 | 759 | 763 |
| Net income | $ 2,141 | $ 1,991 | $ 1,901 |
| **Earnings per Common Share** | | | |
| Basic | $ 4.71 | $ 4.29 | $ 4.02 |
| Diluted | $ 4.63 | $ 4.15 | $ 3.89 |
| Average common shares outstanding for earnings per common share: | | | |
| Basic | 454 | 464 | 472 |
| Diluted | 463 | 479 | 488 |

See notes to consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

*AMERICAN EXPRESS COMPANY*

| December 31, (millions, except share data) | 1998 | 1997 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 4,092 | $ 4,179 |
| Accounts receivable and accrued interest: | | |
| Cardmember receivables, less reserves: 1998, $524; 1997, $640 | 19,176 | 19,275 |
| Other receivables, less reserves: 1998, $75; 1997, $72 | 3,048 | 2,499 |
| Investments | 41,299 | 39,648 |
| Loans: | | |
| Cardmember lending, less reserves: 1998, $593; 1997, $576 | 14,721 | 13,183 |
| International banking, less reserves: 1998, $214; 1997, $131 | 5,404 | 6,062 |
| Other, net | 929 | 864 |
| Separate account assets | 27,349 | 23,215 |
| Deferred acquisition costs | 2,990 | 2,894 |
| Land, buildings and equipment — at cost, less accumulated depreciation: 1998, $2,067; 1997, $1,838 | 1,637 | 1,533 |
| Other assets | 6,288 | 6,651 |
| Total assets | $ 126,933 | $ 120,003 |
| **Liabilities and Shareholders' Equity** | | |
| Customers' deposits | $ 10,398 | $ 9,444 |
| Travelers Cheques outstanding | 5,823 | 5,634 |
| Accounts payable | 5,373 | 4,876 |
| Insurance and annuity reserves: | | |
| Fixed annuities | 21,172 | 22,112 |
| Life and disability policies | 4,261 | 4,053 |
| Investment certificate reserves | 4,854 | 4,149 |
| Short-term debt | 22,605 | 20,570 |
| Long-term debt | 7,019 | 7,873 |
| Separate account liabilities | 27,349 | 23,215 |
| Other liabilities | 7,881 | 8,503 |
| Total liabilities | 116,735 | 110,429 |
| **Guaranteed preferred beneficial interests in the Company's junior subordinated deferrable interest debentures** | 500 | — |
| **Shareholders' Equity** | | |
| Common shares, $.60 par value, authorized 1.2 billion shares; issued and outstanding 450.5 million shares in 1998 and 466.4 million shares in 1997 | 270 | 280 |
| Capital surplus | 4,809 | 4,624 |
| Retained earnings | 4,148 | 4,188 |
| Other comprehensive income, net of tax: | | |
| Net unrealized securities gains | 583 | 579 |
| Foreign currency translation adjustments | (112) | (97) |
| Accumulated other comprehensive income | 471 | 482 |
| Total shareholders' equity | 9,698 | 9,574 |
| Total liabilities and shareholders' equity | $ 126,933 | $ 120,003 |

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

*AMERICAN EXPRESS COMPANY*

| Years Ended December 31, (millions) | 1998 | 1997 | 1996 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Net income | $ 2,141 | $ 1,991 | $ 1,901 |
| Adjustments to reconcile net income | | | |
| to net cash provided by operating activities: | | | |
| Provisions for losses and benefits | 2,491 | 2,307 | 2,009 |
| Depreciation, amortization, deferred taxes and other | (212) | 187 | 266 |
| Changes in operating assets and liabilities, net of effects of | | | |
| acquisitions and dispositions: | | | |
| Accounts receivable and accrued interest | (665) | (227) | 290 |
| Other assets | 92 | 334 | 567 |
| Accounts payable and other liabilities | 131 | 517 | (297) |
| Increase (decrease) in Travelers Cheques outstanding | 253 | (111) | 141 |
| Increase in insurance reserves | 182 | 172 | 224 |
| FDC gain | — | — | (162) |
| Net cash provided by operating activities | 4,413 | 5,170 | 4,939 |
| **Cash Flows from Investing Activities** | | | |
| Sale of investments | 1,656 | 1,778 | 4,634 |
| Maturity and redemption of investments | 7,331 | 4,827 | 6,573 |
| Purchase of investments | (10,176) | (7,898) | (10,896) |
| Net increase in Cardmember receivables | (1,510) | (2,575) | (2,770) |
| Cardmember loans/receivables sold to Trust, net | 1,683 | 516 | 2,242 |
| Proceeds from repayment of loans | 24,791 | 25,591 | 22,696 |
| Issuance of loans | (27,587) | (29,304) | (27,277) |
| Purchase of land, buildings and equipment | (391) | (343) | (438) |
| Sale of land, buildings and equipment | 26 | 164 | 238 |
| (Acquisitions) dispositions, net of cash acquired/sold | (471) | 23 | (4) |
| Net cash used by investing activities | (4,648) | (7,221) | (5,002) |
| **Cash Flows from Financing Activities** | | | |
| Net increase (decrease) in customers' deposits | 1,039 | 733 | (133) |
| Sale of annuities and investment certificates | 5,337 | 5,888 | 5,411 |
| Redemption of annuities and investment certificates | (5,690) | (4,965) | (5,508) |
| Net increase in debt with maturities of 3 months or less | 1,239 | 3,823 | 4,885 |
| Issuance of debt | 7,373 | 11,439 | 13,578 |
| Principal payments on debt | (7,426) | (11,604) | (17,384) |
| Issuance of Trust preferred securities | 500 | — | — |
| Issuance of American Express common shares | 137 | 168 | 176 |
| Repurchase of American Express common shares | (1,890) | (1,259) | (1,041) |
| Dividends paid | (414) | (423) | (436) |
| Net cash provided (used) by financing activities | 205 | 3,800 | (452) |
| Effect of exchange rate changes on cash | (57) | (247) | (8) |
| Net (decrease) increase in cash and cash equivalents | (87) | 1,502 | (523) |
| Cash and cash equivalents at beginning of year | 4,179 | 2,677 | 3,200 |
| Cash and cash equivalents at end of year | $ 4,092 | $ 4,179 | $ 2,677 |

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

*AMERICAN EXPRESS COMPANY*

| Three Years Ended December 31, 1998 (millions) | Total | Preferred Shares | Common Shares | Capital Surplus | Accumulated Other Comprehensive Income | Retained Earnings |
|---|---|---|---|---|---|---|
| **Balances at December 31, 1995** | $ 8,220 | $ 200 | $ 290 | $ 3,781 | $ 790 | $ 3,159 |
| Comprehensive income: | | | | | | |
| Net income | 1,901 | | | | | 1,901 |
| Change in net unrealized securities gains | (489) | | | | (489) | |
| Foreign currency translation adjustments | (4) | | | | (4) | |
| Total comprehensive income | 1,408 | | | | | |
| Repurchase of common shares | (1,041) | | (13) | (177) | | (851) |
| Net put options activity | 124 | | | 124 | | |
| Conversion of preferred shares into common | — | (200) | 3 | 197 | | |
| Other changes, primarily employee plans | 252 | | 4 | 266 | | (18) |
| Cash dividends declared: | | | | | | |
| Preferred | (6) | | | | | (6) |
| Common, $.90 per share | (429) | | | | | (429) |
| **Balances at December 31, 1996** | 8,528 | — | 284 | 4,191 | 297 | 3,756 |
| Comprehensive income: | | | | | | |
| Net income | 1,991 | | | | | 1,991 |
| Change in net unrealized securities gains | 193 | | | | 193 | |
| Foreign currency translation adjustments | (8) | | | | (8) | |
| Total comprehensive income | 2,176 | | | | | |
| Repurchase of common shares | (1,259) | | (10) | (153) | | (1,096) |
| Exchange of Lehman Brothers Holdings, Inc. preferred shares for American Express common shares | 337 | | 3 | 334 | | |
| Other changes, primarily employee plans | 213 | | 3 | 252 | | (42) |
| Cash dividends declared: | | | | | | |
| Common, $.90 per share | (421) | | | | | (421) |
| **Balances at December 31, 1997** | 9,574 | — | 280 | 4,624 | 482 | 4,188 |
| Comprehensive income: | | | | | | |
| Net income | 2,141 | | | | | 2,141 |
| Change in net unrealized securities gains | 4 | | | | 4 | |
| Foreign currency translation adjustments | (15) | | | | (15) | |
| Total comprehensive income | 2,130 | | | | | |
| Repurchase of common shares | (1,890) | | (12) | (196) | | (1,682) |
| Other changes, primarily employee plans | 294 | | 2 | 381 | | (89) |
| Cash dividends declared: | | | | | | |
| Common, $.90 per share | (410) | | | | | (410) |
| **Balances at December 31, 1998** | $ 9,698 | $ — | $ 270 | $ 4,809 | $ 471 | $ 4,148 |

See notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Consolidated Financial Statements include the accounts of American Express Company and its subsidiaries (the Company). All significant intercompany transactions are eliminated. Some amounts are based on estimates and assumptions, e.g., reserves for Cardmember Receivables and Loans; Deferred Acquisition Costs; and Insurance and Annuity Reserves. These reflect the best judgment of management and actual results could differ.

Certain amounts from prior years have been reclassified to conform to the current presentation.

### REVENUES

Cardmember Lending Net Finance Charge Revenue is presented net of interest expense of $653 million, $604 million and $507 million for the years ended December 31, 1998, 1997 and 1996, respectively. Interest and Dividends is presented net of interest expense related primarily to the Company's international banking activities of $572 million, $588 million and $536 million for the years ended December 31, 1998, 1997 and 1996, respectively.

### MARKETING AND PROMOTION

The Company expenses advertising costs in the year in which the advertising first takes place.

### CASH AND CASH EQUIVALENTS

The Company has defined cash equivalents to include time deposits with original maturities of 90 days or less, excluding those that are restricted by law or regulation.

### SEPARATE ACCOUNT ASSETS AND LIABILITIES

Separate account assets and liabilities are funds held for the exclusive benefit of variable annuity and variable life insurance contract holders. The Company receives investment management fees, mortality and expense assurance fees, minimum death benefit guarantee fees and cost of insurance charges from the related accounts.

### ACCOUNTING CHANGES

In 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." Comprehensive income consists of net income and other comprehensive income; the latter includes unrealized gains and losses on available-for-sale securities and foreign exchange translation adjustments and is presented in the Consolidated Statements of Shareholders' Equity. The adoption of SFAS No. 130 had no effect on shareholders' equity. Prior year financial statements have been reclassified to conform to the SFAS No. 130 requirements.

## NOTE 2 INVESTMENTS

The following is a summary of investments included in the Consolidated Balance Sheets at December 31:

| (millions) | 1998 | 1997 |
|---|---|---|
| Held to Maturity, at amortized cost | $ 10,526 | $ 11,871 |
| Available-for-Sale, at fair value | 26,764 | 23,727 |
| Investment mortgage loans (fair value: 1998, $4,089; 1997, $4,026) | 3,840 | 3,831 |
| Trading | 169 | 219 |
| Total | $ 41,299 | $ 39,648 |

Investments classified as Held to Maturity and Available-for-Sale at December 31 are distributed by type and maturity as presented below:

| | Held to Maturity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1998 | | | | 1997 | | | |
| (millions) | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Government and agencies obligations | $ 60 | $ 5 | — | $ 65 | $ 53 | $ 3 | — | $ 56 |
| State and municipal obligations | 1,087 | 81 | — | 1,168 | 1,224 | 75 | — | 1,299 |
| Corporate debt securities | 7,099 | 500 | $ 28 | 7,571 | 8,226 | 452 | $ 8 | 8,670 |
| Foreign government bonds and obligations | 107 | 20 | — | 127 | 118 | 11 | — | 129 |
| Mortgage-backed securities | 1,614 | 31 | — | 1,645 | 1,992 | 27 | 8 | 2,011 |
| Other | 559 | 9 | — | 568 | 258 | 7 | 1 | 264 |
| Total | $ 10,526 | $ 646 | $ 28 | $ 11,144 | $ 11,871 | $ 575 | $ 17 | $ 12,429 |

| | Available-for-Sale | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1998 | | | | 1997 | | | |
| (millions) | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Government and agencies obligations | $ 45 | $ 3 | — | $ 48 | $ 46 | $ 1 | — | $ 47 |
| State and municipal obligations | 4,282 | 343 | — | 4,625 | 4,273 | 311 | — | 4,584 |
| Corporate debt securities | 10,854 | 362 | $ 223 | 10,993 | 7,667 | 266 | $ 37 | 7,896 |
| Foreign government bonds and obligations | 972 | 41 | 4 | 1,009 | 956 | 27 | 6 | 977 |
| Mortgage-backed securities | 7,914 | 188 | 5 | 8,097 | 9,027 | 200 | 7 | 9,220 |
| Equity securities | 481 | 168 | 4 | 645 | 467 | 159 | 3 | 623 |
| Other | 1,347 | 1 | 1 | 1,347 | 380 | — | — | 380 |
| Total | $ 25,895 | $ 1,106 | $ 237 | $ 26,764 | $ 22,816 | $ 964 | $ 53 | $ 23,727 |

| | Held to Maturity | | Available-for-Sale | |
|---|---|---|---|---|
| December 31, 1998 (millions) | Cost | Fair Value | Cost | Fair Value |
| Due within 1 year | $ 870 | $ 877 | $ 1,878 | $ 1,893 |
| Due after 1 year through 5 years | 4,179 | 4,424 | 3,952 | 4,090 |
| Due after 5 years through 10 years | 2,646 | 2,850 | 6,459 | 6,649 |
| Due after 10 years | 1,217 | 1,348 | 5,211 | 5,390 |
| | 8,912 | 9,499 | 17,500 | 18,022 |
| Mortgage-backed securities | 1,614 | 1,645 | 7,914 | 8,097 |
| Equity securities | — | — | 481 | 645 |
| Total | $ 10,526 | $ 11,144 | $ 25,895 | $ 26,764 |

Mortgage-backed securities primarily include GNMA, FNMA and FHLMC securities at December 31, 1998 and 1997. The table below includes purchases, sales and maturities of investments classified as Held to Maturity and Available-for-Sale for the years ended December 31:

| (millions) | 1998 Held to Maturity | 1998 Available-for-Sale | 1997 Held to Maturity | 1997 Available-for-Sale |
|---|---|---|---|---|
| Purchases | $ 692 | $ 9,927 | $ 64 | $ 7,323 |
| Sales | $ 243 | $ 1,413 | $ 274 | $ 1,504 |
| Maturities | $ 2,191 | $ 5,524 | $ 1,513 | $ 2,965 |

Investments classified as Held to Maturity were sold during 1998 and 1997 due to credit deterioration. Gross realized gains and losses on sales were negligible.

The change in the Net Unrealized Securities Gains component of Shareholders' Equity was an increase of $4 million, an increase of $193 million and a decrease of $489 million for the years ended December 31, 1998, 1997 and 1996, respectively. The increase in 1997 was due to a decrease in the general level of interest rates. The decrease in 1996 primarily reflected the exchange of the Company's Debt Exchangeable for Common Stock (DECS) for shares of First Data Corporation (FDC) held by the Company, which resulted in the realization of a $300 million after-tax gain. An increase in the general level of interest rates also contributed to the decline in 1996.

Gross realized gains and (losses) on sales of securities classified as Available-for-Sale, using the specific identification method, were $130 million and ($42 million), $67 million and ($10 million) and $65 million and ($25 million) for the years ended December 31, 1998, 1997 and 1996, respectively.

The increase in net unrealized gains on Trading securities, which is included in income, was $3 million, $24 million and $28 million for the years ended December 31, 1998, 1997 and 1996, respectively.

In connection with the spin-off of Lehman Brothers Holdings Inc. (Lehman) in 1994, the Company acquired 928 shares and Nippon Life Insurance Company (Nippon Life) acquired 72 shares of Lehman's redeemable voting preferred stock for a nominal dollar amount. This security entitles its holders to receive an aggregate annual dividend of 50 percent of Lehman's net income in excess of $400 million for each of eight years ending in May 2002, with a maximum of $50 million in any one year. Prior to 1997, the Company received no dividends in connection with the earnout. In 1998 and 1997, the Company received a dividend of $46 million and $7 million on these shares, respectively. In addition, the Company and Nippon Life are entitled to receive 92.8 percent and 7.2 percent, respectively, of certain contingent revenue and earnings-related payouts from Travelers Inc. (Travelers), which were assigned by Lehman to the Company and Nippon Life in connection with the spin-off transaction. The Travelers revenue-related payout was for three years and ended in 1996. The Company received $46 million in 1996. The earnings-related payout, which is 10 percent of after-tax profits of Smith Barney, a subsidiary of Travelers, in excess of $250 million per year, was for five years and ended in 1998. The amounts recognized in relation to this payout were approximately the same in each of the three years ended December 31, 1998, 1997 and 1996.

The change in net unrealized securities gains recognized in Other Comprehensive Income includes two components: (1) unrealized gains (losses) that arose during the period from changes in market value of securities that were held during the period (Holding gains (losses)), and (2) gains or losses that were previously unrealized, but have been recognized in current period Net Income due to sales of Available-for-Sale securities (Reclassification for realized gains). This reclassification has no effect on total Comprehensive Income or Shareholders' Equity.

The following table presents these components of other comprehensive income:

| (millions, net of tax) | 1998 | 1997 | 1996 |
|---|---|---|---|
| Holding gains (losses) | $ 61 | $ 230 | $ (463) |
| Reclassification for realized gains | (57) | (37) | (26) |
| Increase (decrease) in net unrealized securities gains recognized in other comprehensive income | $ 4 | $ 193 | $ (489) |

## *NOTE 3* LOANS

Loans at December 31 consisted of:

| (millions) | 1998 | 1997 |
|---|---|---|
| Cardmember and Consumer Loans | $ 16,765 | $ 14,981 |
| Commercial Loans: | | |
| Commercial and industrial | 2,265 | 2,793 |
| Mortgage and real estate | 516 | 490 |
| Loans to banks and other institutions | 1,649 | 1,966 |
| Other, principally policyholders' loans | 671 | 586 |
| | 21,866 | 20,816 |
| Less: Reserves for credit losses | 812 | 707 |
| Total | $ 21,054 | $ 20,109 |

Note: American Express Financial Advisors (AEFA) mortgage loans of $3.8 billion in 1998 and 1997 are included in Investment Mortgage Loans and are shown in Note 2.

The following table presents changes in Reserves for Credit Losses related to loans:

| (millions) | 1998 | 1997 |
|---|---|---|
| Balance, January 1 | $ 707 | $ 601 |
| Provision for credit losses | 1,165 | 837 |
| Write-offs | (1,134) | (890) |
| Recoveries of amounts previously written-off | 74 | 159 |
| Balance, December 31 | $ 812 | $ 707 |

## *NOTE 4* SHORT- AND LONG-TERM DEBT AND BORROWING AGREEMENTS

### *SHORT-TERM DEBT*

At December 31, 1998 and 1997, the Company's total short-term debt outstanding was $22.6 billion and $20.6 billion, respectively, with weighted average interest rates of 5.68% and 6.12%, respectively. At December 31, 1998 and 1997, $0.5 billion and $1.6 billion, respectively, of short-term debt outstanding was covered by interest rate swaps. The year-end weighted average effective interest rates were 5.68% and 6.17% for 1998 and 1997, respectively. The Company generally paid floating rates of interest under the terms of interest rate swaps. Unused lines of credit to support commercial paper borrowing were approximately $8.2 billion at December 31, 1998.

## *LONG-TERM DEBT*

| December 31, (dollars in millions) | 1998 | | | | | 1997 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding Balance | Notional Amount of Swaps | Year-End Stated Rate on Debt (a,b) | Year-End Effective Interest Rate with Swaps (a,b) | Maturity of Swaps | Outstanding Balance | Notional Amount of Swaps | Year-End Stated Rate on Debt (a,b) | Year-End Effective Interest Rate with Swaps (a,b) | Maturity of Swaps |
| Notes due June 23, 2004 | $ 499 | — | 6.75% | — | — | $ 499 | — | 6.75% | — | — |
| Notes due August 12, 2002 | 400 | $ 400 | 6.50% | 5.40% | 2002 | 400 | $ 400 | 6.50% | 5.78% | 2002 |
| Notes due June 15, 2000 | 300 | 300 | 6.125% | 5.34% | 2000 | 300 | 300 | 6.125% | 5.70% | 2000 |
| Notes due November 15, 2001 | 299 | 299 | 6.125% | 5.54% | 2001 | 299 | 299 | 6.125% | 5.98% | 2001 |
| Notes due August 15, 2001 | 299 | — | 8.50% | — | — | 299 | — | 8.50% | — | — |
| Floating Rate Notes due May 1, 2002 | 399 | 399 | 5.27% | 5.31% | 2002 | 399 | 399 | 5.80% | 6.00% | 2002 |
| Floating Rate Notes due December 18, 2001 | 300 | — | 5.35% | — | — | 300 | — | 6.03% | — | — |
| Other Fixed Senior Notes due 1998-2022 | 1,631 | 1,315 | 7.10% | 6.39% | 1999-2012 | 1,509 | 1,200 | 7.59% | 6.71% | 1998-2005 |
| Other Floating Senior Notes due 1998-2002 | 2,170 | 150 | 5.52% | 5.55% | 1999-2000 | 3,106 | 320 | 5.94% | 5.98% | 1998-1999 |
| Other Floating Rate Notes due 1999-2004 | 486 | 150 | 6.34% | 6.53% | 2004 | 506 | 150 | 6.52% | 6.70% | 2004 |
| Other Fixed Rate Notes due 1998-2006 | 236 | 34 | 4.95% | 4.98% | 2006 | 256 | 31 | 4.38% | 4.40% | 2006 |
| Total | $ 7,019 | $ 3,047 | | | | $ 7,873 | $ 3,099 | | | |

(a) For floating rate debt issuances, the stated and effective interest rates were based on the respective rates at December 31, 1998 and 1997; these rates are not an indication of future interest rates.

(b) Weighted average rates were determined where appropriate.

The above interest rate swaps generally require the Company to pay a floating rate, with a predominant index of LIBOR (London Interbank Offered Rate).

The Company paid interest (net of amounts capitalized) of $2.6 billion, $2.5 billion and $2.4 billion in 1998, 1997 and 1996, respectively.

Aggregate annual maturities of long-term debt for the five years ending December 31, 2003 are as follows (millions): 1999, $2,126; 2000, $1,316; 2001, $1,464; 2002, $915; and 2003, $145.

## *NOTE 5* CUMULATIVE QUARTERLY INCOME PREFERRED SHARES

On July 16, 1998, American Express Company Capital Trust I, a wholly-owned subsidiary of the Company, established as a Delaware statutory business trust (the Trust), completed a public offering of 20 million shares (carrying value of $500 million) of 7.0% Cumulative Quarterly Income Preferred Shares Series I (QUIPS) (liquidation preference of $25 per share). Proceeds of the issue were invested in Junior Subordinated Debentures (the Debentures) issued by the Company due 2028 which represent the sole assets of the Trust. The QUIPS are subject to mandatory redemption upon repayment of the Debentures at maturity or their earlier redemption. The Company has the option to redeem the Debentures, in whole or in part, at any time on or after July 16, 2003, which will result in the redemption of a corresponding amount of QUIPS.

The Company has unconditionally guaranteed all distributions required to be made by the Trust, but only to the extent the Trust has funds legally available for such distributions. The only source of funds for the Trust is the Company's interest payments on the Debentures. The Company has the right to defer such interest payments up to 20 consecutive quarters; as a consequence, quarterly dividend payments on the QUIPS can be deferred by the Trust during any such interest payment period. If the Company defers any interest payments, the Company may not, among other things, pay any dividends on its capital stock until all interest in arrears is paid to the Trust. Distributions on the QUIPS are reported as Interest Expense in the Consolidated Statements of Income.

## *NOTE 6* COMMON AND PREFERRED SHARES

### *COMMON SHARES*

In September 1998, the Company's Board of Directors authorized the Company to repurchase up to 40 million common shares over the next two to three years, subject to market conditions. In 1998, all repurchases were made under previous authorizations. The Company has repurchased approximately 97 million shares since 1994. These plans are designed to allow the Company to purchase shares systematically, both to offset the issuance of new shares as part of employee compensation plans and to reduce shares outstanding.

Of the common shares authorized but unissued at December 31, 1998, 67 million shares were reserved for issuance for employee stock, employee benefit and dividend reinvestment plans, as well as debentures.

In 1987, Nippon Life purchased 13 million shares of Lehman 5% Series A Preferred Stock for $508 million. In 1990, the Company gave Nippon Life the right to exchange these shares (subsequently exchanged by Lehman for Series B shares) into 6.24 million common shares of the Company at any time through December 1999 at an exchange price of $81.46. In 1996, Nippon Life informed the Company that it had reduced its holding of such preferred shares by approximately 30 percent but maintained the exchange rights related to the shares sold. In 1997, Nippon Life exchanged all of its remaining holdings of these preferred shares for approximately 4.4 million common shares of the Company. In January 1998, the Company purchased all of Nippon Life's remaining exchange rights.

Common shares activity for each of the last three years ended December 31 was:

| (thousands) | 1998 | 1997 | 1996 |
|---|---|---|---|
| Shares outstanding at beginning of year | **466,417** | 472,859 | 483,108 |
| Repurchases of common shares | **(19,400)** | (17,010) | (22,200) |
| Conversion of Convertible Exchangeable Preferred shares | **—** | — | 4,706 |
| Exchange of Lehman preferred shares for American Express common shares | **—** | 4,399 | — |
| Other, primarily employee plans | **3,451** | 6,169 | 7,245 |
| Shares outstanding at end of year | **450,468** | 466,417 | 472,859 |

### *PREFERRED SHARES*

In January 1990, the Company sold four million of the Company's $3.875 Convertible Exchangeable Preferred shares (Convertible Preferred shares) to Nippon Life for $200 million. In May 1996, after receiving a redemption notice from the Company, Nippon Life converted all of the Convertible Preferred shares into 4,705,882 of the Company's common shares.

The Board of Directors is authorized to permit the Company to issue up to 20 million preferred shares without further shareholder approval.

## *NOTE 7* DERIVATIVE AND OTHER OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments for nontrading purposes to manage its exposure to interest and foreign exchange rates, financial indices and its funding costs. In addition, American Express Bank (AEB) enters into derivative contracts both to meet the needs of its clients and, to a limited extent, for proprietary trading purposes.

There are a number of risks associated with derivatives. Market risk is the possibility that the value of the derivative financial instrument will change. The Company is not exposed to market risk related to derivatives held for nontrading purposes beyond that inherent in cash market transactions. AEB is generally not subject to market risk when it enters into a contract with a client, as it usually enters into an offsetting contract or uses the position to offset an existing exposure. AEB takes proprietary positions within approved limits. These positions are monitored daily at the local and headquarters levels against Value at Risk (VAR) limits. The Company does not enter into derivative contracts with features that would leverage or multiply its market risk.

Credit risk related to derivatives and other off-balance sheet financial instruments is the possibility that the counterparty will not fulfill the terms of the contract. It is monitored through established approval procedures, including setting concentration limits by counterparty and country, reviewing credit ratings and requiring collateral where appropriate. For its trading activities with clients, AEB requires collateral when it is not willing to assume credit exposure to counterparties for either contract mark-to-market or delivery risk. A significant portion of the Company's transactions are with counterparties rated A or better by nationally recognized credit rating agencies. The Company also uses master netting agreements which allow the Company to settle multiple contracts with a single counterparty in one net receipt or payment in the event of counterparty default. Credit risk approximates the fair value of contracts in a gain position (asset) and totaled $0.8 billion and $1.4 billion at December 31, 1998 and 1997, respectively. The fair value represents the replacement cost and is determined by market values, dealer quotes or pricing models.

The following tables detail information regarding the Company's derivatives at December 31:

NONTRADING

| | 1998 | | | | |
|---|---|---|---|---|---|
| | Notional | Carrying Value | | Fair Value | |
| (millions) | Amount | Asset | Liability | Asset | Liability |
| Interest Rate Products: | | | | | |
| Interest rate swaps | $ 13,548 | $ 81 | $ 72 | $ 234 | $ 174 |
| Interest rate caps and floors purchased | 7,025 | 17 | — | 21 | 1 |
| Forward rate agreements | 384 | — | — | — | — |
| Total Interest Rate Products | 20,957 | 98 | 72 | 255 | 175 |
| Foreign currency forward and spot contracts | 5,965 | 49 | 52 | 59 | 54 |
| Other Products | 2,339 | 147 | 65 | 137 | 92 |
| Total | $ 29,261 | $ 294 | $ 189 | $ 451 | $ 321 |

| (millions) | 1997<br>Notional Amount | Carrying Value<br>Asset | Liability | Fair Value<br>Asset | Liability |
|---|---|---|---|---|---|
| Interest Rate Products: | | | | | |
| Interest rate swaps | $ 12,573 | $ 95 | $ 49 | $ 154 | $ 102 |
| Interest rate caps and floors purchased | 6,100 | 27 | — | 20 | — |
| Forward rate agreements | 763 | — | — | — | — |
| Total Interest Rate Products | 19,436 | 122 | 49 | 174 | 102 |
| Foreign currency forward and spot contracts | 11,289 | 80 | 39 | 220 | 203 |
| Other Products | 1,876 | 86 | 44 | 87 | 52 |
| Total | $ 32,601 | $ 288 | $132 | $ 481 | $ 357 |

TRADING

| (millions) | 1998<br>Notional Amount | Carrying/Fair Value<br>Asset | Liability | Average Fair Value<br>Asset | Liability |
|---|---|---|---|---|---|
| Interest Rate Products: | | | | | |
| Interest rate swaps | $ 1,266 | $ 59 | $ 51 | $ 80 | $ 63 |
| Financial futures sold | 949 | — | 1 | — | — |
| Other | 186 | 1 | 6 | 4 | 9 |
| Total Interest Rate Products | 2,401 | 60 | 58 | 84 | 72 |
| Foreign Currency Products:* | | | | | |
| Forward and spot contracts | 16,308 | 274 | 232 | 407 | 340 |
| Foreign currency options written | 1,630 | — | 53 | — | 56 |
| Foreign currency options purchased | 1,642 | 51 | — | 55 | — |
| Total Foreign Currency Products | 19,580 | 325 | 285 | 462 | 396 |
| Total | $ 21,981 | $ 385 | $ 343 | $ 546 | $ 468 |

| (millions) | 1997<br>Notional Amount | Carrying/Fair Value<br>Asset | Liability | Average Fair Value<br>Asset | Liability |
|---|---|---|---|---|---|
| Interest Rate Products: | | | | | |
| Interest rate swaps | $ 2,165 | $ 72 | $ 63 | $ 37 | $ 33 |
| Other | 588 | 4 | 10 | 1 | 2 |
| Total Interest Rate Products | 2,753 | 76 | 73 | 38 | 35 |
| Foreign Currency Products:* | | | | | |
| Forward and spot contracts | 13,120 | 827 | 714 | 333 | 247 |
| Foreign currency options written | 2,755 | — | 50 | — | 36 |
| Foreign currency options purchased | 2,586 | 51 | — | 36 | — |
| Total Foreign Currency Products | 18,461 | 878 | 764 | 369 | 283 |
| Total | $ 21,214 | $ 954 | $ 837 | $ 407 | $ 318 |

* These are predominantly contracts with clients and the related hedges of those client contracts. The Company's net trading foreign currency exposure was approximately $63 million and $38 million at December 31, 1998 and 1997, respectively.

The average aggregate fair values of derivative financial instruments held for trading purposes were computed based on monthly information. Net derivative trading gains of $137 million and $103 million for 1998 and 1997, respectively, were primarily due to trading in foreign currency forward and spot contracts and are included in Other Commissions and Fees.

### *INTEREST RATE PRODUCTS*

The Company uses interest rate products, principally swaps, primarily to manage funding costs related to Travel Related Services' (TRS) Charge Card and Cardmember lending businesses. For its Charge Card products, TRS uses interest rate swaps to achieve a targeted mix of fixed and floating rate funding. For its Cardmember loans, which are linked to a floating rate base and generally reprice each month, TRS generally enters into interest rate swaps paying rates that reprice similarly with changes in the base rate of the underlying loans.

AEB uses interest rate products to manage its portfolio of loans, deposits and, to a lesser extent, securities holdings. The termination dates of nontrading interest

rate swaps are generally matched with the maturity dates of the underlying assets and liabilities.

For interest rate swaps that are used for nontrading purposes and meet the criteria for hedge accounting, interest is accrued and reported in Other Receivables and Interest and Dividends or Accounts Payable and Interest Expense, as appropriate. Products used for trading purposes are reported at fair value in Other Assets or Other Liabilities, as appropriate, with unrealized gains and losses recognized currently in Other Revenues.

AEFA uses interest rate caps, swaps and floors to protect the margin between the interest rates earned on investments and the interest rates credited to holders of investment certificates and fixed annuities. Interest rate caps, swaps and floors generally mature within five years. The costs of interest rate caps and floors are reported in Other Assets and amortized into Interest and Dividends on a straight-line basis over the term of the contract; benefits are recognized in income when earned.

In 1998, AEFA also began using interest rate swaps to manage the level of 1999 fee income earned on the management of fixed income securities in variable annuities and mutual funds. These swaps are used for nontrading purposes and meet the criteria for hedge accounting. Interest is accrued and reported in Other Receivables or Accounts Payable, as appropriate, and Management and Distribution Fees.

See Note 4 for further information regarding the Company's use of interest rate products related to short- and long-term debt obligations.

### *FOREIGN CURRENCY PRODUCTS*

The Company uses foreign currency products primarily to hedge net investments in foreign operations and to manage transactions denominated in foreign currencies. In addition, AEB enters into derivative contracts both to meet the needs of its clients and, to a limited extent, for trading purposes, including taking proprietary positions.

Foreign currency exposures are hedged, where practical and economical, through foreign currency contracts. Foreign currency contracts involve the purchase and sale of a designated currency at an agreed upon rate for settlement on a specified date. Foreign currency forward contracts generally mature within one year, whereas foreign currency spot contracts generally settle within two days.

For foreign currency products used to hedge net investments in foreign operations, unrealized gains and losses as well as related premiums and discounts are reported in Shareholders' Equity. For foreign currency contracts related to transactions denominated in foreign currencies, unrealized gains and losses are reported in Other Assets and Other Commissions and Fees or Other Liabilities and Other Expenses, as appropriate. Related premiums and discounts are reported in Other Assets or Other Liabilities, as appropriate, and amortized into Interest Expense and Other Expenses over the term of the contract. Foreign currency products used for trading purposes are reported at fair value in Other Assets or Other Liabilities, as appropriate, with unrealized gains and losses recognized currently in Other Commissions and Fees.

The Company also uses foreign currency forward contracts to hedge its firm commitments. In addition, for selected major overseas markets, the Company uses foreign currency forward contracts to hedge future income, generally for periods not exceeding one year; unrealized gains and losses are recognized currently in income. In the latter part of 1998 and 1997, foreign currency forward contracts were both sold ($569 million and $562 million, respectively) and purchased ($34 million and $92 million, respectively) to manage a majority of anticipated future cash flows in major overseas markets. The impact of these activities was not material.

### *OTHER PRODUCTS*

Included in Other Products are purchased and written index options used by AEFA to hedge against adverse changes in the U.S. equities markets, which affect revenues earned on assets under management. Index options are carried at market value and included in Other Assets or Other Liabilities, as appropriate. Gains and losses on these options are deferred until the related revenues are earned. At December 31, 1998 and 1997, the notional value of these options was $1.2 billion and $1.0 billion, respectively.

### *OTHER OFF-BALANCE SHEET FINANCIAL INSTRUMENTS*

The Company's other off-balance sheet financial instruments principally relate to extending credit to satisfy the needs of its clients. The contractual amount of these instruments represents the maximum accounting loss the Company would record assuming the contract amount is fully utilized, the counterparty defaults and collateral held is worthless. Management does not expect any material adverse impact to the Company's financial position to result from these contracts.

| December 31, (millions) | 1998 | 1997 |
|---|---|---|
| Unused Credit Available to Cardmembers | $ 44,626 | $ 37,668 |
| Loan Commitments and Other Lines of Credit | $ 1,197 | $ 1,053 |
| Standby Letters of Credit and Guarantees | $ 1,270 | $ 1,301 |
| Commercial and Other Letters of Credit | $ 400 | $ 618 |

The Company is committed to extend credit to certain Cardmembers as part of established lending product agreements. Many of these are not expected to be drawn; therefore, total unused credit available to Cardmembers does not represent future cash requirements. The Company's Charge Card products have no preset spending limit and are not reflected in unused credit available to Cardmembers.

The Company may require collateral to support its loan commitments based on the creditworthiness of the borrower.

Standby letters of credit and guarantees primarily represent conditional commitments to insure the performance of the Company's customers to third parties. These commitments generally expire within one year.

The Company issues commercial and other letters of credit to facilitate the short-term trade-related needs of its clients, which typically mature within six months. At December 31, 1998 and 1997, the Company held $829 million and $744 million, respectively, of collateral supporting standby letters of credit and guarantees and $215 million and $276 million, respectively, of collateral supporting commercial and other letters of credit.

Other financial institutions have committed to extend lines of credit to the Company of $10.3 billion and $9.7 billion at December 31, 1998 and 1997, respectively.

## *NOTE 8* FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table discloses fair value information for most on- and off-balance sheet financial instruments. Certain financial instruments, such as life insurance obligations, employee benefit obligations and investments accounted for under the equity method are excluded. The fair values of financial instruments are estimates based upon market conditions and perceived risks at December 31, 1998 and 1997 and require management judgment. These figures may not be indicative of their future fair values.

| December 31, (millions) | 1998 | | 1997 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Financial Assets** | | | | |
| Assets for which carrying values approximate fair values | $ 55,434 | $ 55,434 | $ 51,037 | $ 51,037 |
| Investments | $ 41,299 | $ 42,166 | $ 39,648 | $ 40,401 |
| Loans | $ 21,258 | $ 21,029 | $ 20,269 | $ 20,206 |
| Derivative financial instruments, net | $ 147 | $ 172 | $ 273 | $ 241 |
| **Financial Liabilities** | | | | |
| Liabilities for which carrying values approximate fair values | $ 48,404 | $ 48,404 | $ 44,383 | $ 44,383 |
| Fixed annuity reserves | $ 19,855 | $ 19,145 | $ 20,731 | $ 19,882 |
| Investment certificate reserves | $ 4,821 | $ 4,830 | $ 4,112 | $ 3,979 |
| Long-term debt | $ 7,019 | $ 7,222 | $ 7,873 | $ 7,903 |
| Separate account liabilities | $ 25,005 | $ 24,179 | $ 21,489 | $ 20,708 |

The carrying and fair values of other off-balance sheet financial instruments are not material as of December 31, 1998 and 1997. See Notes 2 and 7 for carrying and fair value information regarding investments and derivative financial instruments. The following methods were used to estimate the fair values of financial assets and financial liabilities:

### *FINANCIAL ASSETS*

Assets for which Carrying Values Approximate Fair Values: The carrying values of Cash and Cash Equivalents, Accounts Receivable and Accrued Interest, Separate Account Assets and applicable Other Assets approximate their fair values.

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

projections, or for collateral dependent loans, on collateral values.

*FINANCIAL LIABILITIES*

Liabilities for which Carrying Values Approximate Fair Values: The carrying values of Customers' Deposits, Travelers Cheques Outstanding, Accounts Payable, Short-Term Debt and applicable Other Liabilities approximate their fair values.

Fixed Annuity Reserves: Fair values of annuities in deferral status are estimated as the accumulated value less applicable surrender charges and loans. For annuities in payout status, fair value is estimated using discounted cash flow, based on current interest rates. The fair value of these reserves excludes life insurance-related elements of $1.3 billion in 1998 and 1997.

Investment Certificate Reserves: For variable rate investment certificates that reprice within a year, fair values approximate carrying values. For other investment certificates, fair value is estimated using discounted cash flow analysis, based on current interest rates. The valuations are reduced by the amount of applicable surrender charges and related loans.

Long-Term Debt: For variable rate long-term debt that reprices within a year, fair values approximate carrying values. For other long-term debt, fair value is estimated using either quoted market prices or discounted cash flow based on the Company's current borrowing rates for similar types of borrowing.

Separate Account Liabilities: Fair values of these liabilities, after excluding life insurance-related elements of $2.3 billion and $1.7 billion in 1998 and 1997, respectively, are estimated as the accumulated value less applicable surrender charges.

## *NOTE 9* SIGNIFICANT CREDIT CONCENTRATIONS

A credit concentration may exist if customers are involved in similar industries. The Company's customers operate in diverse economic sectors. Therefore, management does not expect any material adverse consequences to the Company's financial position to result from credit concentrations. Certain distinctions between categories require management judgment.

| December 31, (dollars in millions) | 1998 | 1997 |
|---|---|---|
| Financial institutions[a] | $ 13,755 | $ 13,074 |
| Individuals[b] | 82,762 | 74,708 |
| U.S. Government and agencies[c] | 15,836 | 16,706 |
| All other | 25,433 | 25,343 |
| Total | $ 137,786 | $ 129,831 |
| Composition: | | |
| On-balance sheet | 65% | 69% |
| Off-balance sheet | 35 | 31 |
| Total | 100% | 100% |

(a) Financial institutions primarily include banks, broker-dealers, insurance companies and savings and loan associations.

(b) Charge Card products have no preset spending limit; therefore, the quantified credit amount includes only Cardmember receivables recorded on the Consolidated Balance Sheets.

(c) U.S. Government and agencies represent the U.S. Government and its agencies, states and municipalities, and quasi-government agencies.

## *NOTE 10* STOCK PLANS

Under the 1998 Incentive Compensation Plan and previously under the 1989 Long-Term Incentive Plan (the Plans), awards may be granted to officers and other key employees and other key individuals who perform services for the Company and its participating subsidiaries. These awards may be in the form of stock options, stock appreciation rights, restricted stock, performance grants and other awards deemed by the Compensation and Benefits Committee of the Board of Directors to be consistent with the purposes of the Plans. The Company also has options outstanding pursuant to a Directors' Stock Option Plan. Under these plans, there were a total of 53.1 million, 25.9 million and 32.1 million common shares available for grant at December 31, 1998, 1997 and 1996, respectively. Each option has an exercise price at least equal to the market price of the Company's

common stock on the date of grant and a maximum term of 10 years. Options generally vest at 33 1/3 percent per year. The Company also sponsors the American Express Incentive Savings Plan, under which purchases of the Company's common shares are made by or on behalf of participating employees.

In 1998, the Compensation and Benefits Committee adopted a restoration stock option program applicable to existing and future stock option awards. This program provides that employees who exercise options that have been outstanding at least five years by surrendering previously owned shares as payment will automatically receive a new (restoration) stock option with an exercise price equal to the market price on the date of exercise. The size of the restoration option is equal to the number of shares surrendered plus any shares surrendered or withheld to satisfy the employees' income tax requirements. The term of the restoration option, which is exercisable six months after grant, is equal to the remaining life of the original option. Senior officers must be in compliance with their stock ownership guidelines to exercise restoration options.

The Company granted 0.1 million, 1.4 million and 1.4 million restricted stock awards with a weighted average grant date value of $88.97, $67.08 and $46.14 per share for 1998, 1997 and 1996, respectively. Restrictions generally expire four years from date of grant. The compensation cost that has been charged against income for the Company's restricted stock awards was $36 million, $48 million and $39 million for 1998, 1997 and 1996, respectively.

The Company has elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for its employee stock options. Therefore, no compensation cost has been recognized related to stock options. If the Company had elected to account for its stock options under the fair value method of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per common share would have been reduced to the pro forma amounts indicated below:

| (millions, except per share amounts) | 1998 | 1997 | 1996 |
|---|---|---|---|
| Net income: | | | |
| As reported | $ 2,141 | $ 1,991 | $ 1,901 |
| Pro forma | $ 2,060 | $ 1,948 | $ 1,877 |
| Basic EPS: | | | |
| As reported | $ 4.71 | $ 4.29 | $ 4.02 |
| Pro forma | $ 4.53 | $ 4.20 | $ 3.96 |
| Diluted EPS: | | | |
| As reported | $ 4.63 | $ 4.15 | $ 3.89 |
| Pro forma | $ 4.45 | $ 4.07 | $ 3.84 |

The fair value of each option is estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996, respectively:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Dividend yield | 2.0% | 2.6% | 3.1% |
| Expected volatility | 23% | 20% | 23% |
| Risk-free interest rate | 5.5% | 6.2% | 5.9% |
| Expected life of stock option | 5 years | 5 years | 7 years |

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The weighted average fair value per option was $21.70, $14.76 and $11.43 for options granted during 1998, 1997 and 1996, respectively.

A summary of the status of the Company's stock option plans as of December 31 and changes during each of the years then ended is presented below:

| (shares in thousands) | 1998 Shares | 1998 Weighted Average Exercise Price | 1997 Shares | 1997 Weighted Average Exercise Price | 1996 Shares | 1996 Weighted Average Exercise Price |
|---|---|---|---|---|---|---|
| Outstanding at beginning of year | 20,041 | $ 44.32 | 21,116 | $ 32.60 | 23,479 | $ 27.41 |
| Granted | 11,494 | $ 88.53 | 6,295 | $ 66.74 | 5,778 | $ 46.02 |
| Exercised | (4,410) | $ 35.16 | (6,566) | $ 27.65 | (7,104) | $ 25.64 |
| Forfeited/Expired | (1,572) | $ 65.87 | (804) | $ 48.12 | (1,037) | $ 38.49 |
| Outstanding at end of year | 25,553 | $ 64.46 | 20,041 | $ 44.32 | 21,116 | $ 32.60 |
| Options exercisable at end of year | 9,718 | $ 40.11 | 9,124 | $ 30.58 | 10,641 | $ 26.05 |

The following table summarizes information about the stock options outstanding at December 31, 1998:

| (shares in thousands) | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $19.40 - $39.99 | 5,745 | 4.9 | $ 28.65 | 5,745 | $ 28.65 |
| $40.00 - $49.99 | 3,686 | 7.1 | $ 45.90 | 2,208 | $ 45.88 |
| $50.00 - $79.99 | 5,185 | 8.1 | $ 66.61 | 1,575 | $ 66.38 |
| $80.00 - $113.97 | 10,937 | 8.9 | $ 88.51 | 190 | $ 101.71 |
| $19.40 - $113.97 | 25,553 | 7.6 | $ 64.46 | 9,718 | $ 40.11 |

## *NOTE 11* RETIREMENT PLANS

### *PENSION PLANS*

In 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which revises employers' disclosures about pension and other postretirement benefit plans. The following disclosures reflect the requirements of the new rule.

The Company sponsors the American Express Retirement Plan (the Plan), a noncontributory defined benefit plan, under which the cost of retirement benefits for eligible employees in the United States is measured by length of service, compensation and other factors and is currently being funded through a trust. In addition, the Company sponsors an unfunded, nonqualified supplemental plan. Funding of retirement costs for the Plan complies with the applicable minimum funding requirements specified by the Employee Retirement Income Security Act of 1974, as amended. Employees' accrued benefits are based on nominal account balances which are maintained for each individual and are credited with additions equal to a percentage, based on age plus service, of base pay, certain commissions and bonuses, overtime and shift differential, each pay period. Employees' balances are also credited annually with a fixed rate of interest based on the daily average of published five-year Treasury Note yields. Lump sum payout at termination or retirement is available.

Most employees outside the United States are covered by local retirement plans, some of which are funded, or receive payments at the time of retirement or termination under applicable labor laws or agreements. Benefits

under these local plans are generally expensed and are not funded.

Plan assets consist principally of equities and fixed income securities.

Net pension cost consisted of the following components:

| (millions) | 1998 | 1997 | 1996 |
|---|---|---|---|
| Service cost | $ 88 | $ 76 | $ 77 |
| Interest cost | 90 | 82 | 77 |
| Expected return on plan assets | (91) | (86) | (78) |
| Amortization of: | | | |
| Prior service cost | (9) | (9) | (9) |
| Transition obligation | 1 | 1 | 2 |
| Reversion gain | (4) | (4) | (4) |
| Recognized net actuarial loss | 3 | — | 4 |
| Settlement/Curtailment gain | (15) | (11) | (12) |
| Net periodic pension benefit cost | $ 63 | $ 49 | $ 57 |

The funded status of the Company's pension plans is based on valuations as of September 30. The following tables provide a reconciliation of the changes in the plans' benefit obligation and fair value of assets:

Reconciliation of change in benefit obligation

| (millions) | 1998 | 1997 |
|---|---|---|
| Benefit obligation at October 1, | $ 1,199 | $ 1,040 |
| Service cost | 88 | 76 |
| Interest cost | 90 | 82 |
| Benefits paid | (43) | (39) |
| Actuarial loss | 156 | 103 |
| Settlements/Curtailments | (81) | (40) |
| Foreign currency exchange rate changes | 4 | (23) |
| Benefit obligation at September 30, | $ 1,413 | $ 1,199 |

Reconciliation of change in fair value of plan assets

| (millions) | 1998 | 1997 |
|---|---|---|
| Fair value of plan assets at October 1, | $ 1,279 | $ 1,103 |
| Actual return on plan assets | 2 | 228 |
| Employer contributions | 47 | 39 |
| Benefits paid | (43) | (39) |
| Settlements/Curtailments | (71) | (41) |
| Foreign currency exchange rate changes | 2 | (11) |
| Fair value of plan assets at September 30, | $ 1,216 | $ 1,279 |

The following table reconciles the plans' funded status to the amounts recognized on the Consolidated Balance Sheets:

Funded status

| (millions) | 1998 | 1997 |
|---|---|---|
| Funded status at September 30, | $ (197) | $ 80 |
| Unrecognized net actuarial loss (gain) | 38 | (198) |
| Unrecognized prior service cost | (67) | (75) |
| Unrecognized net transition obligation | 4 | 5 |
| Fourth quarter contributions (net of benefit payments) | 20 | 9 |
| Net amount recognized at December 31, | $ (202) | $ (179) |

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

| (millions) | 1998 | 1997 |
|---|---|---|
| Accrued benefit liability | $ (294) | $ (242) |
| Prepaid benefit cost | 78 | 53 |
| Intangible asset | 14 | 10 |
| Net amount recognized at December 31, | $ (202) | $ (179) |

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $540 million, $477 million and $286 million, respectively, as of December 31, 1998, and $186 million, $153 million and $8 million, respectively, as of December 31, 1997.

The prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The weighted average assumptions used in the Company's defined benefit plans were:

| | 1998 | 1997 |
|---|---|---|
| Discount rates | 6.6% | 7.3% |
| Rates of increase in compensation levels | 4.1% | 4.6% |
| Expected long-term rates of return on assets | 9.3% | 9.1% |

The Company also has a defined contribution retirement plan, principally involving a profit sharing plan and a 401(k) savings plan, covering most employees in the United States. The defined contribution plan expense was $106 million, $101 million and $98 million in 1998, 1997 and 1996, respectively.

### *OTHER POSTRETIREMENT BENEFITS*

The Company sponsors postretirement benefit plans that provide health care, life insurance and other postretirement benefits to retired U.S. employees. Net periodic postretirement benefit expenses were $17 million, $15 million and $18 million in 1998, 1997 and 1996, respectively. The liabilities recognized on the Consolidated Balance Sheets for the Company's defined postretirement benefit plans (other than pension plans) at December 31, 1998 and 1997 were $204 million.

## *NOTE 12* INCOME TAXES

The provisions for income taxes were:

| (millions) | 1998 | 1997 | 1996 |
|---|---|---|---|
| Federal | $ 465 | $ 453 | $ 468 |
| State and local | 35 | 46 | 74 |
| Foreign | 284 | 260 | 221 |
| Total | $ 784 | $ 759 | $ 763 |

Accumulated net earnings of certain foreign subsidiaries, which totaled $1.2 billion at December 31, 1998, are intended to be permanently reinvested outside the United States. Accordingly, federal taxes, which would have aggregated $249 million, have not been provided on those earnings.

The current and deferred components of the provision for income taxes were:

| (millions) | 1998 | 1997 | 1996 |
|---|---|---|---|
| Current | $ 883 | $ 824 | $ 846 |
| Deferred | (99) | (65) | (83) |
| Total | $ 784 | $ 759 | $ 763 |

The Company's net deferred tax assets at December 31 were:

| (millions) | 1998 | 1997 |
|---|---|---|
| Deferred tax assets | $ 2,921 | $ 2,767 |
| Deferred tax liabilities | 1,680 | 1,609 |
| Net deferred tax assets | $ 1,241 | $ 1,158 |

Deferred tax assets primarily reflect: reserves not yet deducted for tax purposes of $1.8 billion for both years and deferred Cardmember fees of $225 million and $238 million at December 31, 1998 and 1997, respectively. Deferred tax liabilities for 1998 and 1997 mainly comprise deferred acquisition costs of $853 million and $826 million, respectively; liabilities related to SFAS No. 115 of $320 million and $318 million, respectively; and accelerated depreciation of $158 million and $150 million, respectively.

The principal reasons that the aggregate income tax provision is different from that computed by using the U.S. statutory rate of 35 percent are:

| (millions) | 1998 | 1997 | 1996 |
|---|---|---|---|
| Combined tax at U.S. statutory rate | $ 1,024 | $ 962 | $ 933 |
| Changes in taxes resulting from: | | | |
| Tax-exempt interest income | (122) | (132) | (153) |
| Tax-exempt element of dividend income | (38) | (22) | (22) |
| Foreign income taxed at rates other than U.S. statutory rate | (44) | (13) | (35) |
| State and local income taxes | 23 | 29 | 47 |
| All other | (59) | (65) | (7) |
| Income tax provision | $ 784 | $ 759 | $ 763 |

Net income taxes paid by the Company during 1998, 1997 and 1996 were $977 million, $878 million and $548 million, respectively, and include estimated tax payments and cash settlements relating to prior tax years.

The items composing comprehensive income in the Consolidated Statements of Shareholders' Equity are presented net of income tax provision (benefit). The changes in net unrealized securities gains are presented net of tax provision (benefit) of $2 million, $104 million and ($263 million) for 1998, 1997 and 1996, respectively. Foreign currency translation adjustments are presented net of tax (benefits) of ($8 million), ($4 million) and ($2 million) for 1998, 1997 and 1996, respectively.

## *NOTE 13* EARNINGS PER COMMON SHARE

SFAS No. 128, "Earnings per Share," requires the presentation of basic and diluted earnings per common share (EPS) in the income statement. Under these requirements, basic EPS is computed using the average actual shares outstanding during the period. Diluted EPS is basic EPS adjusted for the dilutive effect of stock options, restricted stock awards (RSAs) and other securities that may be converted into common shares. The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations:

| (millions, except per share amounts) | 1998 | 1997 | 1996 |
|---|---|---|---|
| **Numerator:** | | | |
| Net income | $ 2,141 | $ 1,991 | $ 1,901 |
| Less: Preferred dividends | — | — | 5 |
| Numerator for basic EPS | $ 2,141 | $ 1,991 | $ 1,896 |
| Effect of dilutive securities: | | | |
| 7.75% Convertible Preferred Shares | — | — | 5 |
| Numerator for diluted EPS | $ 2,141 | $ 1,991 | $ 1,901 |
| **Denominator:** | | | |
| Denominator for basic EPS — weighted-average shares | 454.4 | 464.2 | 472.2 |
| **Effect of dilutive securities:** | | | |
| Stock Options and RSAs | 8.3 | 8.8 | 8.2 |
| 5% Exchangeable Lehman Brothers Holdings, Inc. Preferred Shares (see Note 6) | — | 6.1 | 6.2 |
| 7.75% Convertible Preferred Shares | — | — | 1.6 |
| Other | 0.1 | 0.1 | 0.1 |
| Potentially dilutive common shares | 8.4 | 15.0 | 16.1 |
| Denominator for diluted EPS | 462.8 | 479.2 | 488.3 |
| Basic EPS | $ 4.71 | $ 4.29 | $ 4.02 |
| Diluted EPS | $ 4.63 | $ 4.15 | $ 3.89 |

## *NOTE 14* RESTRUCTURING CHARGE

In the fourth quarter of 1996, the Company recorded a $138 million charge ($216 million pretax) primarily for restructuring costs related to a series of reengineering initiatives that were implemented in 1997. Of the total charge, $125 million ($196 million pretax) related to TRS, approximately two-thirds of which applied to international businesses. Most of the remaining $13 million ($20 million pretax) was due to the early retirement of debt at the Corporate level. The pretax charge was included in Other Expenses in the Consolidated Statements of Income. The TRS restructuring charge included $109 million pretax in severance costs and $87 million pretax to close certain leased facilities, to consolidate or outsource certain operations and to write-down certain assets. As of December 31, 1997, the Company had substantially completed all restructuring activities.

### *INDUSTRY SEGMENTS*

In 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." As a result, the Travelers Cheque operations, which were previously included in the TRS segment, have been reported in the same segment as AEB since January 1, 1998, consistent with our management structure.

The Company is principally engaged in providing travel related, financial advisory and international banking services throughout the world. TRS' products and services include, among others, Charge Cards, consumer lending products, and corporate and consumer travel services. American Express Financial Advisors' services and products include financial planning and advice, investment advisory services and a variety of products, including insurance and annuities, investment certificates and mutual funds. American Express Bank/Travelers Cheque (AEB/TC) products and services include Travelers Cheques and providing correspondent, corporate and private banking, consumer financial services and global trading. The Company operates on a global basis, although the principal market for financial advisory services is the United States.

The following table presents certain information regarding these industry segments at December 31, 1998, 1997 and 1996 and for each of the years then ended.

| (millions) | Travel Related Services | American Express Financial Advisors | American Express Bank/ Travelers Cheque | Corporate and Other | Adjustments and Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **1998** | | | | | | |
| Revenues | $ 13,237 | $ 5,095 | $ 1,002 | $ 112 | $ (314) | $ 19,132 |
| Interest and dividends, net | 283 | 2,437 | 620 | 103 | (166) | 3,277 |
| Cardmember lending | | | | | | |
| net finance charge revenue | 1,354 | — | — | — | — | 1,354 |
| Interest expense | 959 | 21 | 28 | 149 | (158) | 999 |
| Pretax income (loss) | 2,064 | 1,192 | (129) | (202) | — | 2,925 |
| Income tax provision (benefit) | 700 | 374 | (172) | (118) | — | 784 |
| Net income (loss) | 1,364 | 818 | 43 | (84) | — | 2,141 |
| Assets | $ 44,682 | $ 64,637 | $ 18,496 | $ 3,606 | $ (4,488) | $ 126,933 |
| **1997** | | | | | | |
| Revenues | $ 12,214 | $ 4,599 | $ 1,124 | $ 123 | $ (300) | $ 17,760 |
| Interest and dividends, net | 295 | 2,339 | 649 | 101 | (209) | 3,175 |
| Cardmember lending | | | | | | |
| net finance charge revenue | 1,244 | — | — | — | — | 1,244 |
| Interest expense | 921 | 18 | 33 | 129 | (177) | 924 |
| Pretax income (loss) | 1,785 | 1,022 | 249 | (306) | — | 2,750 |
| Income tax provision (benefit) | 621 | 315 | (23) | (154) | — | 759 |
| Net income (loss) | 1,164 | 707 | 272 | (152) | — | 1,991 |
| Assets | $ 40,700 | $ 59,828 | $ 19,573 | $ 3,374 | $ (3,472) | $ 120,003 |

| (millions) | Travel Related Services | American Express Financial Advisors | American Express Bank/ Travelers Cheque | Corporate and Other | Adjustments and Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **1996** | | | | | | |
| Revenues | $ 11,357 | $ 4,110 | $ 1,066 | $ 129 | $ (282) | $ 16,380 |
| Interest and dividends, net | 438 | 2,267 | 657 | 112 | (185) | 3,289 |
| Cardmember lending | | | | | | |
| net finance charge revenue | 1,068 | — | — | — | — | 1,068 |
| Interest expense | 1,037 | 19 | 33 | 180 | (153) | 1,116 |
| Pretax income | 1,414 | 885 | 214 | 151 | — | 2,664 |
| Income tax provision (benefit) | 488 | 291 | (33) | 17 | — | 763 |
| Net income | 926 | 594 | 247 | 134 | — | 1,901 |
| Assets | $ 36,414 | $ 52,670 | $ 18,870 | $ 3,158 | $ (2,600) | $ 108,512 |

Income tax provision (benefit) is calculated on a separate return basis; however, benefits from operating losses, loss carrybacks and tax credits (principally foreign tax credits) recognizable for the Company's consolidated reporting purposes are allocated based upon the tax sharing agreement among members of the American Express Company consolidated U.S. tax group.

Assets are those that are used or generated exclusively by each industry segment. The adjustments and eliminations required to determine the consolidated amounts shown above consist principally of the elimination of intersegment amounts.

### *GEOGRAPHIC OPERATIONS*

The following table presents the Company's revenues and pretax income (loss) in different geographic regions.

| (millions) | United States | Europe | Asia/Pacific | All Other | Adjustments and Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **1998** | | | | | | |
| Revenues | $ 14,535 | $ 2,476 | $ 1,332 | $ 1,444 | $ (655) | $ 19,132 |
| Pretax income (loss) | $ 2,520 | $ 340 | $ (59) | $ 124 | — | $ 2,925 |
| **1997** | | | | | | |
| Revenues | $ 13,449 | $ 2,209 | $ 1,378 | $ 1,277 | $ (553) | $ 17,760 |
| Pretax income | $ 2,111 | $ 219 | $ 256 | $ 164 | — | $ 2,750 |
| **1996** | | | | | | |
| Revenues | $ 12,107 | $ 2,123 | $ 1,355 | $ 1,129 | $ (334) | $ 16,380 |
| Pretax income | $ 2,083 | $ 210 | $ 257 | $ 114 | — | $ 2,664 |

Most services of the Company are provided on an integrated worldwide basis. Therefore, it is not practical to separate precisely the U.S. and international services. Accordingly, the data in the above table are, in part, based upon internal allocations, which necessarily involve management judgments.

## NOTE 16 LEASE COMMITMENTS AND OTHER CONTINGENT LIABILITIES

The Company leases certain office facilities and operating equipment under noncancellable and cancellable agreements. Total rental expense amounted to $388 million, $384 million and $397 million in 1998, 1997 and 1996, respectively. At December 31, 1998, the minimum aggregate rental commitment under all noncancellable leases (net of subleases) was (millions): 1999, $290; 2000, $236; 2001, $201; 2002, $153; 2003, $113 and thereafter, $1,216.

The Company is not a party to any pending legal proceedings that, in the opinion of management, would have a material adverse effect on the Company's financial position.

## NOTE 17 TRANSFER OF FUNDS FROM SUBSIDIARIES

The Securities and Exchange Commission requires the disclosure of certain restrictions on the flow of funds to a parent Company from its subsidiaries in the form of loans, advances or dividends.

Restrictions on the transfer of funds exist under debt agreements and regulatory requirements of certain of the Company's subsidiaries. These restrictions have not had any effect on the Company's shareholder dividend policy and management does not anticipate any effect in the future.

At December 31, 1998, the aggregate amount of net assets of subsidiaries that may be transferred to the parent Company was approximately $6.8 billion. Should specific additional needs arise, procedures exist to permit immediate transfer of short-term funds between the Company and its subsidiaries, while complying with the various contractual and regulatory constraints on the internal transfer of funds.

## NOTE 18 QUARTERLY FINANCIAL DATA (UNAUDITED)

| (millions, except per share amounts) | 1998 | | | | 1997 | | | |
|---|---|---|---|---|---|---|---|---|
| Quarter Ended | 12/31 | 9/30 | 6/30 | 3/31 | 12/31 | 9/30 | 6/30 | 3/31 |
| Revenues | $ 5,062 | $ 4,787 | $ 4,761 | $ 4,521 | $ 4,674 | $ 4,500 | $ 4,422 | $ 4,164 |
| Pretax income | 713 | 799 | 800 | 614 | 690 | 718 | 702 | 640 |
| Net income | 530 | 574 | 578 | 460 | 493 | 524 | 520 | 454 |
| Earnings per common share: | | | | | | | | |
| Basic | 1.18 | 1.27 | 1.27 | 1.00 | 1.07 | 1.13 | 1.12 | .97 |
| Diluted | 1.16 | 1.25 | 1.24 | .98 | 1.04 | 1.10 | 1.08 | .94 |
| Cash dividends declared per common share | .225 | .225 | .225 | .225 | .225 | .225 | .225 | .225 |
| Common share prices: | | | | | | | | |
| High | 109.06 | 118.63 | 114.00 | 98.13 | 91.50 | 85.25 | 79.75 | 70.00 |
| Low | 67.00 | 68.00 | 91.88 | 78.38 | 72.00 | 73.69 | 57.50 | 53.63 |

## REPORT OF MANAGEMENT

The management of American Express Company (the Company) is responsible for the preparation and fair presentation of its consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and include amounts based on the best judgment of management. The Company's management is also responsible for the accuracy and consistency of other financial information included in this annual report.

In recognition of its responsibility for the integrity and objectivity of data in the financial statements, the Company maintains a system of internal control over financial reporting which is designed to provide reasonable, but not absolute, assurance with respect to the reliability of the Company's financial statements. The concept of reasonable assurance is based on the notion that the cost of the internal control system should not exceed the benefits derived.

The internal control system is founded on an ethical climate and includes: (i) an organizational structure with clearly defined lines of responsibility, policies and procedures, (ii) a Code of Conduct, and (iii) the careful selection and training of employees. Internal auditors monitor and assess the effectiveness of the internal control system and report their findings to management and the Board of Directors throughout the year. The Company's independent auditors are engaged to express an opinion on the year-end financial statements and, with the coordinated support of the internal auditors, review the financial records and related data and test the internal control system over financial reporting.

The Audit Committee of the Board of Directors, which has only outside directors, meets regularly with the internal auditors, management and independent auditors to review their work and discuss the Company's financial controls and audit and reporting practices. The independent auditors and the internal auditors independently have full and free access to the Committee, without the presence of management, to discuss any matters which they feel require attention.

## REPORT OF ERNST & YOUNG LLP INDEPENDENT AUDITORS

**THE SHAREHOLDERS AND BOARD OF DIRECTORS OF AMERICAN EXPRESS COMPANY**

We have audited the accompanying consolidated balance sheets of American Express Company as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the management of American Express Company. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Express Company at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

New York, New York
February 4, 1999

# CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

| (millions, except per share amounts and where italicized) | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| **Operating Results** | | | | | |
| Revenues | $ 19,132 | $ 17,760 | $ 16,380 | $ 15,921 | $ 14,342 |
| *Percent increase* | *8%* | *8%* | *3%* | *11%* | *8%* |
| Expenses | 16,207 | 15,010 | 13,716 | 13,738 | 12,451 |
| Income from continuing operations: | | | | | |
| As reported | 2,141 | 1,991 | 1,901 | 1,564 | 1,380 |
| Adjusted[(a)] | 2,201 | 1,991 | 1,739 | 1,564 | 1,380 |
| Net income | 2,141 | 1,991 | 1,901 | 1,564 | 1,413 |
| *Return on average shareholders' equity[(b)]* | *24.0%* | *23.5%* | *22.8%* | *22.0%* | *20.3%* |
| **Balance Sheet** | | | | | |
| Cash and cash equivalents | $ 4,092 | $ 4,179 | $ 2,677 | $ 3,200 | $ 3,433 |
| Accounts receivable and accrued interest, net | 22,224 | 21,774 | 20,491 | 19,914 | 17,147 |
| Investments | 41,299 | 39,648 | 38,339 | 42,561 | 40,108 |
| Loans, net | 21,054 | 20,109 | 18,518 | 16,091 | 14,722 |
| Total assets | 126,933 | 120,003 | 108,512 | 107,405 | 97,006 |
| Customers' deposits | 10,398 | 9,444 | 9,555 | 9,889 | 10,013 |
| Travelers Cheques outstanding | 5,823 | 5,634 | 5,838 | 5,697 | 5,271 |
| Insurance and annuity reserves | 25,433 | 26,165 | 25,674 | 25,157 | 24,849 |
| Short-term debt | 22,605 | 20,570 | 18,402 | 17,654 | 14,810 |
| Long-term debt | 7,019 | 7,873 | 6,552 | 7,570 | 7,162 |
| Shareholders' equity | 9,698 | 9,574 | 8,528 | 8,220 | 6,433 |
| **Common Share Statistics** | | | | | |
| Earnings per share from continuing operations: | | | | | |
| Basic | $ 4.71 | $ 4.29 | $ 4.02 | $ 3.19 | $ 2.74 |
| Basic adjusted[(a)] | $ 4.84 | $ 4.29 | $ 3.67 | $ 3.19 | $ 2.74 |
| Diluted | $ 4.63 | $ 4.15 | $ 3.89 | $ 3.10 | $ 2.69 |
| Diluted adjusted[(a)] | $ 4.76 | $ 4.15 | $ 3.56 | $ 3.10 | $ 2.69 |
| *Percent increase (decrease):* | | | | | |
| *Basic* | *10%* | *7%* | *26%* | *16%* | *(16%)* |
| *Basic adjusted[(a)]* | *13%* | *17%* | *15%* | *16%* | *17%* |
| *Diluted* | *12%* | *7%* | *25%* | *15%* | *(15%)* |
| *Diluted adjusted[(a)]* | *15%* | *17%* | *15%* | *15%* | *16%* |
| Earnings per share: | | | | | |
| Basic | $ 4.71 | $ 4.29 | $ 4.02 | $ 3.19 | $ 2.81 |
| Diluted | $ 4.63 | $ 4.15 | $ 3.89 | $ 3.10 | $ 2.75 |
| Cash dividends declared per share: | | | | | |
| Actual | $ .90 | $ .90 | $ .90 | $ .90 | $ .925 |
| Pro forma | $ .90 | $ .90 | $ .90 | $ .90 | $ .90 |
| Book value per share: | | | | | |
| Actual | $ 21.53 | $ 20.53 | $ 18.04 | $ 16.60 | $ 12.57 |
| Pro forma[(b)] | $ 20.24 | $ 19.29 | $ 17.22 | $ 14.79 | $ 13.35 |
| Market price per share: | | | | | |
| High | $ 118.63 | $ 91.50 | $ 60.38 | $ 45.13 | $ 32.00 |
| Low | $ 67.00 | $ 53.63 | $ 38.63 | $ 29.00 | $ 23.17 |
| Close | $ 102.50 | $ 89.25 | $ 56.50 | $ 41.38 | $ 29.50 |
| Average common shares outstanding for earnings per share: | | | | | |
| Basic | 454 | 464 | 472 | 485 | 492 |
| Diluted | 463 | 479 | 488 | 499 | 512 |
| Shares outstanding at year end | 450 | 466 | 473 | 483 | 496 |
| *Number of shareholders of record* | *51,597* | *53,576* | *55,803* | *57,010* | *60,520* |
| **Other Statistics** | | | | | |
| Number of employees at year end: | | | | | |
| *United States* | *50,266* | *44,691* | *43,688* | *41,700* | *43,421* |
| *Outside United States* | *34,466* | *28,929* | *28,611* | *28,647* | *28,991* |
| *Total* | *84,732* | *73,620* | *72,299* | *70,347* | *72,412* |

Note: Historical common share prices for 1994 have been adjusted to reflect the Lehman spin-off at a ratio based on the trading prices of the Company's common shares and shares of Lehman common stock on May 31, 1994. Pro forma cash dividends declared have also been adjusted to reflect the Lehman spin-off.

(a) 1998 is adjusted to exclude the following first quarter items: $138 million credit loss provision at American Express Bank relating to its Asia/Pacific portfolio, as well as income of $78 million representing gains on the sale of First Data Corporation shares and a preferred dividend based on Lehman Brothers' earnings.1996 is adjusted to exclude a $300 million gain on the exchange of the Company's DECS and a $138 million restructuring charge.

(b) Return on average shareholders' equity is based on adjusted income from continuing operations in 1996 and excludes the effect of SFAS No. 115. In addition, book value per share excludes the effect of SFAS No. 115.

This Annual Report includes forward-looking statements. These are subject to certain risks and uncertainties, including those identified below, which could cause actual results to differ materially from such statements. The words "believe," "expect," "anticipate," "optimistic," "intend," "aim," "will" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. American Express Company undertakes no obligation to update publicly or revise any forward-looking statements. Factors that could cause actual results to differ materially from the forward-looking statements, including the Company's goals referred to herein, include but are not limited to the inability of American Express Company to: (i) extend the value of the American Express brand to the financial services industry, (ii) succeed in its ongoing reengineering efforts and in achieving best-in-class economics while also maintaining high service levels, (iii) increase distribution channels for financial, travel, card and other products and services, (iv) invest successfully in, and compete at the leading edge of, technology across all businesses, (v) expand its overall revenues, which depend in part on its ability to increase consumer and/or business spending on its credit and charge cards, gain market share and develop new or enhanced products that capture a greater share of customers' total spending on American Express Cards and other cards issued on its network, and enhance significantly its international operations, (vi) retain Cardmembers in consumer lending products after low introductory rate periods have expired, (vii) sustain premium discount rates, (viii) increase merchant coverage, (ix) manage effectively consumer debt, business loans and other credit exposures in the U.S. and abroad, including unseasoned balances in its new lending portfolios, all of which could be affected by general economic conditions, including interest rates, consumer credit trends, the rate of bankruptcies and movements in currency valuations, (x) increase AEFA's field force and improve its mutual fund performance, (xi) adequately address its Y2K issues, successfully identify its systems containing two digit codes, the nature and amount of programming required to fix the affected systems and the costs of labor and consultants related to such effort, continue to have access to such resources and ensure that third parties that interface with the Company successfully address their Y2K issues and (xii) successfully develop and implement a single company-wide interactive strategy.

# *THE PLANNING AND POLICY COMMITTEE*

## OFFICE OF THE CHIEF EXECUTIVE

*HARVEY GOLUB*
*Chairman and Chief Executive Officer*

*KENNETH I. CHENAULT*
*President and Chief Operating Officer*

*RICHARD KARL GOELTZ*
*Vice Chairman and Chief Financial Officer*

*JONATHAN S. LINEN*
*Vice Chairman*

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Small Business Services
and Consumer Travel

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*President*
American Express Relationship Services

*JAMES M. CRACCHIOLO*
*President*
TRS International

*EDWARD P. GILLIGAN*
*President*
Corporate Services

*DAVID C. HOUSE*
*President*
Establishment Services Worldwide

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*President and Chief Executive Officer*
American Express Financial Advisors

*ALFRED F. KELLY, JR.*
*President*
Consumer Card Services Group

*JOHN A. WARD, III*
*Chairman and Chief Executive Officer*
American Express Bank; *Head*
Travelers Cheque Group

## CORPORATE EXECUTIVES

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*Executive Vice President*
Human Resources and Quality

*JOHN D. HAYES*
*Executive Vice President*
Global Advertising

*ALLAN Z. LOREN*
*Executive Vice President and*
*Chief Information Officer*

*LOUISE M. PARENT*
*Executive Vice President and*
*General Counsel*

*THOMAS SCHICK*
*Executive Vice President*
Corporate Affairs and Communications

# *BOARD OF DIRECTORS*

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Texas A&M University System

***EDWIN L. ARTZT***
*Chairman of the Executive Committee*
The Procter & Gamble Company

***WILLIAM G. BOWEN***
*President*
The Andrew W. Mellon Foundation

***KENNETH I. CHENAULT***
*President and Chief Operating Officer*
American Express Company

***ROBERT L. CRANDALL****
*Former Chairman and*
*Chief Executive Officer*
AMR Corporation and
American Airlines

***CHARLES W. DUNCAN, JR.*****
*Chairman*
Duncan Interests

***HARVEY GOLUB***
*Chairman and Chief Executive Officer*
American Express Company

***BEVERLY SILLS GREENOUGH***
*Chairman*
Lincoln Center for the
Performing Arts

***F. ROSS JOHNSON***
*Chairman and Chief Executive Officer*
RJM Group

***VERNON E. JORDAN, JR.***
*Senior Executive Partner*
Akin, Gump, Strauss, Hauer &
Feld, LLP

***JAN LESCHLY***
*Chief Executive*
SmithKline Beecham PLC

***DREW LEWIS***
*Former Chairman and*
*Chief Executive Officer*
Union Pacific Corporation

***RICHARD A. McGINN***
*Chairman, Chief Executive Officer*
*and President*
Lucent Technologies, Inc.

***FRANK P. POPOFF***
*Chairman of the Board*
The Dow Chemical Company

## ADVISORS TO THE BOARD OF DIRECTORS

***HON. GERALD R. FORD***
*Former President of the*
*United States of America*

***ROBERT L. GENILLARD***
*Vice Chairman of the*
*Supervisory Board*
TBG Holdings N.V.

***HENRY A. KISSINGER***
*Chairman,* Kissinger Associates, Inc.
*Former Secretary of State of the*
*United States of America*

* Effective March 1, 1999.
**Having reached retirement age, Mr. Duncan is not standing for reelection.

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# GENERAL INFORMATION

### EXECUTIVE OFFICES

American Express Company
200 Vesey Street
New York, New York 10285
212-640-2000

### INFORMATION AVAILABLE ON THE INTERNET

Copies of the Company's Form 10-K, proxy statement and other documents, as well as information on financial results, products, services and Company press releases are available through the American Express home page on the Internet at the following address: www.americanexpress.com.

### INFORMATION AVAILABLE ON REQUEST

Copies of the Company's Form 10-K filed with the Securities and Exchange Commission, philanthropic grants and political contributions for 1998 are available without charge upon written request to the Secretary's Office at the above address.

### TRANSFER AGENT AND REGISTRAR

ChaseMellon Shareholder
Services, L.L.C.
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660
1-800-463-5911 or 201-329-8660
Hearing Impaired:
1-800-231-5469 or 201-329-8354
www.chasemellon.com

### STOCK EXCHANGE LISTINGS

Common Shares:
New York Stock Exchange
(Symbol: AXP)
Chicago Stock Exchange
Pacific Stock Exchange
London Stock Exchange
Swiss Stock Exchange
Dusseldorf Stock Exchange
Frankfurt Stock Exchange
Paris Stock Exchange

### INDEPENDENT AUDITORS

Ernst & Young LLP
787 Seventh Avenue
New York, New York 10019

### ANNUAL MEETING

The Annual Meeting of Shareholders of American Express Company will be held at the executive offices of the Company, 200 Vesey Street, New York, New York 10285, on Monday, April 26, 1999 at 10:00 a.m., local time. A written transcript or an audio cassette of the meeting will be available upon written request to the Secretary's Office. There will be a modest fee to defray production and mailing costs.

### DIRECT DEPOSIT OF DIVIDENDS

The Company has established an Electronic Direct Deposit of Dividends service for the electronic payment of quarterly dividends on the Company's common shares. With this service, registered shareholders may have their dividend payments sent electronically to their checking account or financial institution on the payment date.

Shareholders interested in enrolling in this service should call ChaseMellon at 1-800-463-5911.

### STOCK PURCHASE PLAN

The Company's Shareholder's Stock Purchase Plan provides shareholders and new investors with a convenient way to purchase common shares through cash contributions and reinvestment of dividends.

For a prospectus and other inquiries regarding the Shareholder's Stock Purchase Plan, contact:

The Chase Manhattan Bank
c/o ChaseMellon Shareholder Services, L.L.C.
P.O. Box 3336
So. Hackensack, NJ 07606
1-800-842-7629

### SHAREHOLDER AND INVESTOR INQUIRIES

Written shareholder inquiries may be sent either to ChaseMellon Shareholder Services, L.L.C., P.O. Box 3315, So. Hackensack, NJ 07606 or to the Secretary's Office, American Express Company, 200 Vesey Street, New York, New York 10285. Written inquiries from the investment community should be sent to Investor Relations, American Express Company, at the above address.

### TRADEMARKS AND SERVICE MARKS

The following trademarks, service marks and copyrighted material of American Express Company and its affiliates appear in the text of this report:

ADVISORLINK™
AMERICAN EXPRESS Box Logo®
AMERICAN EXPRESS Box Logo and Sunburst Design℠
AMERICAN EXPRESS Card Design®
AMERICAN EXPRESS CORPORATE Card Design®
AMERICAN EXPRESS Travelers Cheque Design®
AMERICAN EXPRESS WORLD SERVICE & Design®
AXI®
CENTURION℠
Gladiator Head®
MEMBERSHIP REWARDS®
OPTIMA®
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