American Express Banking Corp.
Audited Financial Statements
Years Ended December 31, 2008 and 2007

American Express Banking Crop.

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Report of Independent Auditors

To the Board of Directors and Shareholder of
American Express Banking Corp.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows, and of shareholder's equity present fairly, in all material respects, the financial position of American Express Banking Corp. and its branches (the "Company") at December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

November xx, 2009

CONSOLIDATED STATEMENTS OF OPERATIONS

American Express Banking Corp.

Years Ended December 31, (Millions)	2008	2007
Revenues		
Non-interest revenues (Note 10)		
Discount revenue	**$ 72**	$ 66
Other revenues	**15**	11
Total non-interest revenues	**87**	77
Interest income		
Interest and fees on loans	**14**	16
Interest and dividends on investment securities	**3**	–
Deposits with banks and other	**5**	4
Total interest income	**22**	20
Interest expense		
Short-term borrowings	**13**	–
Short-term borrowings from affiliates, net	**5**	–
Deposits	**1**	22
Total interest expense	**19**	22
Net interest income	**3**	(2)
Total revenues net of interest expense	**90**	75
Provision for credit losses	**12**	13
Total revenues net of interest expense after provision for credit losses	**78**	62
Expenses		
Salaries and employee benefits	**42**	27
Marketing, promotion, rewards and cardmember services	**22**	20
Professional services	**13**	7
Occupancy and equipment	**12**	8
Communications	**3**	2
Travel and entertainment	**2**	2
Other operating expenses	**37**	21
Total	**131**	87
Pretax loss from continuing operations	**(53)**	(25)
Income tax benefit (Note 14)	**(18)**	(9)
Loss from continuing operations	**(35)**	(16)
Income (loss) from discontinued operations, net of tax (Note 2)	**23**	(33)
Net loss	**$ (12)**	$ (49)

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

American Express Banking Corp.

December 31, (Millions, except share data)	2008	2007
Assets		
Cash and cash equivalents		
Cash and due from banks	**$ 36**	$ 19
Interest-earning deposits in other banks	**295**	101
Total	**331**	**120**
Accounts receivable and other receivables, less reserves: 2008, $4; 2007, $4 (Note 5)	**105**	137
Loans, less reserves: 2008, $4; 2007, $8 (Note 6)	**61**	68
Investment securities (Note 4)	**46**	–
Premises and equipment – at cost, less accumulated depreciation: 2008, $15; 2007, $18	**17**	22
Due from Parent (Note 3)	**2**	18
Other assets	**34**	5
Assets of discontinued operations (Note 2)	**–**	17,042
Total assets	**$ 596**	$ 17,412
Liabilities and Shareholder's Equity		
Customer deposits (Note 7)	**$ 184**	$ 295
Accounts payable	**28**	22
Short-term borrowings (Note 8)	**42**	–
Due to Parent (Note 3)	**66**	17
Other liabilities	**75**	41
Liabilities of discontinued operations (Note 2)	**–**	16,239
Total liabilities	**395**	16,614
Shareholder's Equity		
Common stock, $100 par value, authorized 100,000 shares; issued & outstanding 100,000 shares in 2008; and $100 par value, authorized 1,000 shares; issued & outstanding 1 share in 2007	**10**	–
Additional paid-in capital	**375**	1,136
Retained deficit	**(181)**	(287)
Accumulated other comprehensive loss (Note 2):		
Net unrealized securities losses, net of tax: 2008, $0; 2007, $8	**–**	(15)
Foreign currency translation adjustments, net of tax: 2008, $2; 2007, $13 (Note 11)	**(3)**	(36)
Accumulated other comprehensive loss	**(3)**	(51)
Total shareholder's equity	**201**	798
Total liabilities and shareholder's equity	**$ 596**	$ 17,412

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

American Express Banking Corp.

Years Ended December 31, (Millions)	2008	2007
Cash Flows from Operating Activities		
Net loss	**$ (12)**	$ (49)
(Income) loss from discontinued operations, net of tax	**(23)**	33
Loss from continuing operations	**(35)**	(16)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Provision for credit losses	**12**	13
Depreciation and amortization	**5**	3
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Receivables and payables with Parent	**63**	206
Accrued interest and other receivables	**7**	(30)
Other assets	**52**	(3)
Accounts payable and other liabilities	**(31)**	(128)
Net cash used in operating activities attributable to discontinued operations	**(716)**	(134)
Net cash used in operating activities	**(643)**	(89)
Cash Flows from Investing Activities		
Purchase of Investment securities	**(46)**	-
Net increase in loans	**(15)**	(5)
Sale of premises and equipment	**4**	-
Purchases of premises and equipment	**(6)**	(24)
Dispositions, net of cash sold ($2,531)	**(1,735)**	-
Net cash provided by (used in) investing activities attributable to discontinued operations	**369**	(987)
Net cash used in investing activities	**(1,429)**	(1,016)
Cash Flows from Financing Activities		
Net (decrease) increase in customer deposits	**(79)**	41
Proceeds from issuance of short-term borrowings	**42**	-
Net increase (decrease) in borrowings from Parent	**118**	(270)
Cash dividend paid to Parent	**(800)**	-
Cash capital contributions from Parent	**-**	269
Net cash (used in) provided by financing activities attributable to discontinued operations	**(750)**	1,553
Net cash (used in) provided by financing activities	**(1,469)**	1,593
Effect of exchange rate changes on cash	**33**	58
Net change in cash and cash equivalents	**(3,508)**	546
Cash and cash equivalents at the beginning of the year (includes cash of discontinued operations): 2008, $3,719; 2007, $3,198	**3,839**	3,293
Cash and cash equivalents at the end of the year (includes cash of discontinued operations): 2008, $0; 2007, $3,719	**$ 331**	$ 3,839
Supplemental Disclosure of Cash Flow Information		
Interest paid	**$ 13**	$ -
Income taxes paid, net of refunds	**$ -**	$ 45

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

American Express Banking Corp.

(Millions)	Total	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained (Deficit) Earnings
Balance, December 31, 2006	$695	$ –	$711	$(78)	$62
Comprehensive loss:					
Net loss	(49)				(49)
Change in net unrealized securities losses	24			24	
Foreign currency translation adjustments	3			3	
Total comprehensive loss	(22)			27	(49)
Capital infusion from Parent (Note 3)	394		394		
Non-cash transfer of equity method investment	(116)				(116)
Transfer of tax related assets and liabilities to Parent	(170)				(170)
Other (Note 3)	17		31		(14)
Balance, December 31, 2007	$798	$ –	$1,136	$(51)	$(287)
Comprehensive income:					
Net loss	**(12)**				**(12)**
Change in net unrealized securities losses	**15**			**15**	
Foreign currency translation adjustments	**33**			**33**	
Total comprehensive income	**36**			**48**	**(12)**
Stock dividend to Parent	**-**	**10**	**(10)**		
Change in equity due to sale of AEB	**62**		**46**		**16**
Cash dividend to Parent	**(800)**		**(800)**		
Non-cash dividend to Parent	**(6)**				**(6)**
Transfer of tax related assets and liabilities to Parent	**94**				**94**
Other	**17**		**3**		**14**
Balance, December 31, 2008	**$201**	**$ 10**	**$375**	**$(3)**	**$(181)**

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal products and services of American Express Banking Corp. (AEBC) are charge and credit payment card products offered to consumers, small businesses, middle-market companies and large corporations in India and a bank branch in Greece.

The accounting and reporting policies of AEBC and its branches conform to U.S. generally accepted accounting principles (GAAP).

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

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of AEBC and its branches. AEBC is a New York investment company organized under Article XII of the New York Banking Law and is a wholly-owned direct subsidiary of American Express Company (Amexco or Parent).

DIVESTITURES

On February 29, 2008, Amexco completed the sale of American Express Bank Ltd. (AEB), a wholly owned subsidiary of AEBC, to Standard Chartered PLC (Standard Chartered) for a final purchase price of $796 million. Accordingly, the 2007 operating results, assets and liabilities, and cash flows of AEB (except for certain components of AEB that were not sold) have been presented separately under discontinued operations in AEBC's Consolidated Financial Statements. The Notes to the Consolidated Financial Statements have been adjusted to exclude discontinued operations unless otherwise noted. Refer to Note 2 for further discussion of AEB as a discontinued operation.

The continuing operations of AEBC are comprised of certain components of AEB that were not sold to Standard Chartered. These include the activities of a bank branch in Greece and those services of AEB's non-banking units in India, which provide products of American Express Travel Related Services Company, Inc. (TRSCO) (a wholly-owned direct subsidiary of Amexco) under banking licenses (credit and charge cards, related merchant services and Travelers Cheques).

In February 2008, prior to the close with Standard Chartered, AEB's banking operations in Chile and Uruguay and non-banking businesses, with the exception of its card and Travelers Cheques operations in India, were transferred to other Amexco entities via sale or dividend. The banking operations in Greece and the non-banking card and Travelers Cheques operations in India were transferred to AEBC. The net asset value of these entities approximated $46 million at the time of transfer.

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements of AEBC are prepared in conformity with GAAP. All intercompany transactions are eliminated in consolidation.

AEBC consolidates entities in which it holds a greater than 50 percent voting interest. Entities in which AEBC's voting interest exceeds 20 percent but is less than or equal to 50 percent are accounted for under the equity method. All other investments are accounted for under the cost method unless AEBC determines that it exercises significant influence over the entity by means other than voting rights, in which case these entities are accounted for under the equity method. AEBC does not have any equity method or cost method investments.

Certain reclassifications of prior period amounts have been made to conform to the current presentation. Specifically, Accrued Interest and Other Receivables have been changed to Accounts Receivable and Other Receivables with the balance of Accrued Interest moving to Other Assets. Commissions and fees have been moved to Foreign Exchange Income and Other Revenues. Discount revenues have been reclassified from Foreign Exchange Income and Other Revenues into its own line item. These reclassifications did not have an impact on AEBC's results of operations or cash flows.

AEBC does not have any Variable Interest Entities (VIEs).

FOREIGN CURRENCY

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars based upon exchange rates prevailing at the end of each year. The resulting translation adjustments, along with any related qualifying hedge and tax effects are included in accumulated other comprehensive loss, a component of shareholder's equity. Translation adjustments, including qualifying hedge and tax effects, are reclassified to earnings upon sale or upon complete or substantially complete liquidation of investments in foreign operations. Revenues and expenses are translated at the average month-end exchange rates prevailing during the year. Gains and losses related to non-functional currency transactions are reported net in foreign exchange income and other revenues in AEBC's Consolidated Statements of Operations.

AMOUNTS BASED ON ESTIMATES AND ASSUMPTIONS

Accounting estimates are an integral part of the Consolidated Financial Statements. These estimates are based, in part, on management's assumptions concerning future events. Among the more significant assumptions are those that relate to fair value measurements, reserves for charge and credit losses, legal reserve, financial instruments and income taxes. These accounting estimates reflect the best judgment of management, but actual results could differ.

REVENUES

AEBC generates revenues from a variety of sources including global payments, such as charge and credit cards, lending, interest on investment securities, deposits with banks and other revenues.

Discount Revenue

Discount revenue represents fees charged to merchants with which AEBC has entered into card acceptance agreements for facilitating transactions between the merchants and AEBC's cardmembers. The discount generally is deducted from the payment to the merchant and recorded as discount revenue at the time the charge is captured.

Interest Income

Interest income for loans is accrued on unpaid principal balances using the effective interest rates, unless collection of interest is in doubt and the loan is placed on nonperforming status. When loans are placed on nonperforming status, all previously accrued but unpaid interest is reversed against current interest income. Cash receipts of interest on nonperforming loans are recognized either as interest income or as a reduction of principal, based on management's judgment as to the ultimate collectibility of principal. Generally, a nonperforming loan may be returned to performing status when all contractual amounts due are reasonably assured of repayment within a reasonable period and the borrower shows sustained repayment performance, in accordance with the contractual terms of the loan or when the loan has become well secured and is in the process of collection. Deferred net fees or costs are amortized over the life of the loan using the effective interest method.

Interest income for performing fixed income investment securities is accrued as earned using the effective interest method, which adjusts the yield for security premiums and discounts, fees and other payments, so that the related security recognizes a constant rate of return on the outstanding balance throughout its term. These amounts are recognized until these securities are in default or when it is likely that future interest payments will not be made as scheduled.

Other Revenues

Other revenues include foreign exchange income, gains on sale of available-for-sale investment securities, as well as fees from letters of credit, acceptances, guarantees and credit line commitments and Amexco-related revenues (net). These fees are recognized over the period in which the related service is provided.

EXPENSES

Provision for Credit Losses

AEBC separately maintains a provision for credit losses for loan and other credit-related commitments. The provision for credit losses represent management's best estimate of the losses inherent in AEBC's outstanding portfolio of loans and other credit related exposures. Management's evaluation process requires certain estimates and judgments.

Reserves for loans, other than smaller-balance consumer loans, are based on several factors, including historical credit loss experience in relation to outstanding credits, a continuous assessment of the collectibility of each credit, and management evaluation of exposures in each applicable country as related to current economic and political conditions.

For smaller-balance consumer loans, management establishes reserves for losses inherent in the portfolio. Generally, these loans are written off in full when an impairment is determined based upon bankruptcy or other customer specific circumstances, or when the loan becomes 180 days past due, depending on loan type. Loans, other than smaller-balance consumer loans, are placed on nonperforming status and considered impaired when payments of principal or interest are 90 days past due or if, in management's opinion, it is probable that AEBC will be unable to collect all amounts due according to the contractual terms of the loan agreement. Any interest accrued on impaired loans is reversed and charged against current earnings, and interest is thereafter included in earnings only to the extent actually received in cash. When there is doubt regarding the ultimate collectibility of principal, all cash receipts are thereafter applied to reduce the recorded investment in the impaired loan. In such cases, amounts received after the recorded investment in the impaired loan has been completely drawn down are recognized as interest income. The allowance for impaired loans is measured as the excess of the loan's recorded investment over either the present value of expected principal and interest payments discounted at the loan's effective interest rate or, if more practical for collateral-dependent loans, the fair value of collateral. For floating rate impaired loans, the effective interest rate is fixed at the rate in effect at the date the impairment criteria are met. Generally, a nonperforming loan may be returned to performing status when all contractual amounts due are reasonably assured of repayment within a reasonable period and the borrower shows sustained repayment performance, in accordance with the contractual terms of the loan or when the loan has become well secured and is in the process of collection.

Credit and charge card receivables, interest-earning advances under lines of credit and other similar consumer loans are written off upon reaching specified contractual delinquency stages or earlier, in the event of the borrower's personal bankruptcy or if the loan is otherwise deemed uncollectible, which is generally determined by the number of days past due. For cardmember loans, in general, bankruptcy and deceased accounts are written-off upon notification, while other accounts are written-off when 180 days past due. Interest income on these loans generally accrues until the loan is written off.

Amounts deemed to be uncollectible are charged against the reserve, and subsequent recoveries, if any, are credited to the reserve. The reserve for credit losses related to loans is reported as a reduction of loans on the balance sheet. The reserve related to other credit-related commitments is reported in other liabilities on the Consolidated Balance Sheets.

BALANCE SHEET

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable primarily represent amounts due from charge card customers. These receivables are recorded at the time a cardmember enters into a point-of-sale transaction with a merchant. Cardmember receivable balances are presented on the Consolidated Balance Sheets net of reserve for losses, and includes principal and any related accrued fees.

Loans

Loans primarily represent amounts due from lending product customers. These loans are recorded at the time a cardmember enters into a point-of-sale transaction with a merchant. Other loans to consumers include secured and unsecured lines of credit, installment loans and some mortgage loans. Loans are stated at the principal amount outstanding net of unearned income and are presented on the Consolidated Balance Sheets net of provision for loan losses.

Investment Securities

Debt and equity investment securities classified as available-for-sale investment securities are carried at fair value on the Consolidated Balance Sheets with unrealized gains (losses) recorded in accumulated other comprehensive loss, net of income tax provisions (benefits). Realized gains and losses are recognized in results of operations upon disposition of the securities using the specific identification method on a trade date basis. In addition, realized losses are recognized when management determines that a decline in value is other-than-temporary, which requires judgment regarding the amount and timing of recovery. Indicators of other-than-temporary impairment for debt securities include issuer downgrade, default or bankruptcy. AEBC also considers the extent to which amortized cost exceeds fair value, the duration and size of that gap, management's judgment about the issuer's current and prospective financial condition, as well as its intent and ability to hold the security until recovery of the unrealized losses.

Fair Value of Investments

Effective January 1, 2008, AEBC partially adopted the Financial Accounting Standards Board (FASB) SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 applies broadly to financial and non-financial assets and liabilities reported or disclosed at fair value under existing authoritative accounting pronouncements. FASB Staff Position (FSP) FAS 157-2, "Effective Date of FASB Statement No. 157" (FSP FAS 157-2), delays the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in AEBC's financial statements on a recurring basis (at least annually), until its fiscal year beginning after November 15, 2008, including interim periods within that fiscal year (January 1, 2009 for AEBC). In accordance with FSP FAS 157-2, AEBC has partially adopted SFAS No. 157 and has not applied the provisions for SFAS No. 157 to its non-financial assets that are not measured at fair value on a recurring basis.

AEBC's partial adoption of SFAS No. 157 did not result in significant changes to the valuation techniques it had previously used to measure the fair value of its financial instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date, and is based on AEBC's principal or most advantageous market for the specific asset or liability. The adoption did not have a material impact on AEBC's financial position or results of operations.

SFAS No. 157 established a three-level hierarchy of valuation techniques used to measure fair value, defined as follows:

- Unadjusted Quoted Prices – The fair value of an asset or liability is based on unadjusted quoted prices, in active markets for identical assets or liabilities. An example would be a marketable equity security that is actively traded on the New York Stock Exchange. (Level 1) AEBC does not have any assets or liabilities classified within Level 1 of the fair value hierarchy.
- Pricing Models with Significant Observable Inputs – The fair value of an asset or liability is based on information derived from either an active market quoted price, which may require further adjustment based on the attributes of the financial asset or liability being measured, or an inactive market transaction. Circumstances when adjustments to market quoted prices may be appropriate include (i) a quoted price for an actively traded equity investment that is adjusted for a contractual trading restriction, or (ii) the fair value derived from a trade of an identical or similar security in an inactive market. (Level 2) AEBC's investment securities and derivatives are classified within Level 2 of the fair value hierarchy.
- Pricing Models with Significant Unobservable Inputs – The fair value of an asset or liability is primarily based on internally derived assumptions surrounding the timing and amount of expected cash flows for the financial instrument. Therefore, these assumptions are unobservable in either an active or inactive market. An example would be the retained subordinated interest in a securitization trust. (Level 3).

The level in the fair value hierarchy to which an asset or liability is classified is based upon the lowest level of input that is significant to the fair value measurement. For example, if an asset or liability is valued based on observable inputs (e.g., Level 2) as well as unobservable inputs (e.g., Level 3), and the unobservable inputs significantly contributed to the determination of fair value, it is classified in Level 3 of the fair value hierarchy.

AEBC obtains fair value of investment securities primarily from third party pricing vendors engaged by AEBC. When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair values are estimated using pricing models, where the inputs to those models are based on observable market inputs. The inputs to the valuation models vary by the type of security being priced but are typically benchmark yields, reported trades, broker dealer quotes, and prices of similar assets. Pricing models generally do not entail material subjectivity because the methodologies employed use inputs observed from active markets. In limited cases observable market prices and input may not be readily available or availability may be limited due to market conditions. Internal models may be used in these situations to determine fair value. No internal models were used to price investments at December 31, 2008.

Premises and Equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation. Costs incurred during construction, as well as related interest, are capitalized and are depreciated once an asset is placed in service. Depreciation is generally computed using the straight-line method over the estimated useful lives of assets, which range from three to eight years for equipment. Buildings are depreciated based upon their estimated useful life at the acquisition date, which generally ranges from 40 to 60 years.

Leasehold improvements are depreciated using the straight-line method over the lesser of the remaining term of the leased facility or the economic life of the improvement, which ranges from five to ten years. AEBC maintains operating leases worldwide for facilities and equipment. Rent expense for facility leases is recognized ratably over the lease term, and is calculated to include adjustments for rent concessions, all non-market based rent escalations, and leasehold improvement allowances. AEBC accounts for lease restoration obligations in accordance with SFAS No. 143 "Account for Asset Retirement Obligations" which requires recognition of the fair value of restoration liabilities when incurred, and amortization of capitalized restoration costs over the lease term.

Income Taxes

AEBC is subject to the income tax laws of the U.S. and its states and municipalities in which AEBC operates. These tax laws are complex, and the manner in which they apply to the taxpayer's facts is sometimes open to interpretation. In establishing a provision for income tax expense, AEBC must make judgments about the application of these inherently complex tax laws. AEBC establishes a liability for unrecognized tax benefits, which are the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized in the financial statements. Interest and penalties relating to unrecognized tax benefits are reported in income tax provision.

The taxable income of AEBC is included in the consolidated U.S. federal income tax return of Amexco. Taxes are recognized on a stand-alone basis by AEBC. If income tax benefits cannot be recognized on a standalone basis (e.g. for net operating losses, future tax deductions and foreign tax credits), such benefits are then recognized based upon a prorata share, derived by formula, of those deductions and credits that are recognizable on Amexco's consolidated reporting basis.

Deferred tax assets and liabilities are determined based on the differences between the GAAP financial statement and tax bases of assets and liabilities using the enacted tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is established when management determines that it is more likely than not that all or some portion of the benefit of the deferred tax assets will not be realized.

RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) has recently issued the following accounting standards, which are effective beginning January 1, 2009. The adoption of the accounting standards listed below will not have a material impact on AEBC's financial position or results of operations:

- SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141(R)) replaces the previous business combination accounting guidance under SFAS No. 141. SFAS No. 141(R) primarily requires the following changes in applying the purchase method of accounting to the acquisition of a business. (i) All acquisitions of controlling interests are fully measured at fair value, including purchases of a less-than-100 percent stake, (ii) direct acquisition costs (e.g., investment banking, legal and accounting costs) are expensed, (iii) contingent consideration is recognized and measured at fair value as of the acquisition date, with post-acquisition adjustments to the fair value recorded through earnings, and (iv) any non-controlling interests' share of earnings in a partially owned subsidiary are included in the consolidated net income of the group.
- SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" (SFAS No. 160), which is to be retrospectively applied for presentation and disclosure purposes, requires entities to include non-controlling (minority) interests in partially owned consolidated subsidiaries within shareholder's equity in the consolidated financial statements. All amounts related to non-controlling interests are presented separately on the face of the financial statements. SFAS No. 160 also requires the consolidating entity to include, prospectively, all earnings of the consolidated subsidiary attributable to the non-controlling interest holder in its income statement with an offsetting charge (credit) to the non-controlling interest in shareholders' equity.
- SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS No. 161), amends and expands the disclosure requirements of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) requiring enhanced disclosures about AEBC's derivative and hedging activities. Under SFAS No. 161, AEBC is required to provide disclosures about (a) how and why it uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect AEBC's financial position, results of operations, and cash flows. SFAS No. 161 is effective prospectively, and applies to derivative instruments existing at the reporting date, with comparative disclosures of earlier periods encouraged upon initial adoption.
- EITF No. 07-1, "Accounting for Collaborative Arrangements" (EITF 07-1), which is to be retrospectively applied, defines collaborative arrangements as those that do not involve a separate legal entity and in which the participants are actively involved and are exposed to significant risks and rewards that depend on the ultimate commercial success of the endeavour. EITF 07-1 also clarifies that the equity method of accounting should not be applied and requires the disclosure of AEBC's accounting policies regarding income statement characterization, the amounts and income statement classification of the arrangements and information about the nature and purpose of the arrangements.
- FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" (FSP FAS 142-3), removes the requirement within SFAS No. 142 "Goodwill and Other Intangible Assets" for an entity to consider, when determining the useful life of a recognized intangible asset, whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions. FSP FAS 142-3 requires an entity to consider its own historical experience in developing renewal or extension assumptions, or assumptions that a marketplace participant would use about renewal or extension.
- FSP No. FAS 157-2, as described above, delays the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in AEBC's financial

statements on a recurring basis (at least annually), until January 1, 2009.

- FSP No. FAS 115-2/FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP FAS 115-2/FAS 124-2), requires a limited form of retrospective application. FSP FAS 115-2/FAS 124-2 modifies current impairment guidance for debt securities, changes the requirements for recognizing an other-than-temporary-impairment on debt securities, and modifies the presentation of other-than-temporary-impairment losses in the Statement of Income and Balance Sheet. In addition, FSP FAS 115-2/FAS 124-2 also requires expanded financial statement disclosures for both debt and equity securities in interim and annual periods.
- FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP FAS 157-4), provides additional guidance in determining whether a market for an asset or a liability within the scope of SFAS No. 157 is inactive, and requires the evaluation of available evidence to determine whether a transaction in an inactive market is not orderly.

NOTE 2 DISCONTINUED OPERATIONS

Summary operating results of AEB included as discontinued operations were:

Year ended December 31, (Millions)	2008	2007
Total revenues net of interest expense after provision	**$ 130**	$ 835
Pretax income (loss) from discontinued operations	**141**	(71)
Income tax (benefit) expense	**118**	(38)
Income (Loss) from discontinued operations, net of tax	**$ 23**	$ (33)

Pretax income from discontinued operations for 2007 includes $66 million ($42 million after-tax) of compliance-related remediation costs (Note 13).

In the second quarter of 2008, AEBC and Standard Chartered agreed on the final purchase price of $796 million, equaling the final net assets value of AEB businesses that were sold plus $300 million. The sale resulted in an after-tax gain of $19 million for AEBC which was booked in 2008.

Assets and liabilities of the discontinued operations were as follows:

December 31, (Millions)	2008	2007
Assets:		
Cash and cash equivalents	**$ –**	$ 3,719
Federal funds sold and securities purchased under resale agreement	**–**	904
Investments	**–**	3,098
Loans, net of reserves	**–**	7,970
Other assets	**–**	1,351
Total assets	**$ –**	$17,042
Liabilities:		
Customer deposits	**$ –**	$14,477
Other liabilities	**–**	1,762
Total liabilities	**$ –**	$16,239
Net Assets	**$ –**	$ 803

Accumulated other comprehensive loss, net of tax, associated with discontinued operations was as follows:

December 31, (Millions)	2008	2007
Net unrealized securities losses	**$ –**	$ (15)
Foreign currency translation	**–**	(27)
Total accumulated other comprehensive loss	**$ –**	$ (42)

Goodwill of approximately $27 million is included in discontinued operations at December 31, 2007.

NOTE 3 TRANSACTIONS WITH RELATED PARTIES

AEBC has various transactions with Parent. These transactions primarily relate to on-balance sheet loans, deposits and borrowed funds. The transactions were based on the terms agreed between AEBC and its related parties at amounts deemed to approximate market terms.

The related party balances with Amexco included in "Due from Parent" and "Due to Parent" are reflected in the Consolidated Balance Sheets, were:

December 31, (Millions)	2008	2007
Assets:		
Loans	**$ –**	$ 4
Other assets	**2**	14
Total assets	**$ 2**	$ 18
Liabilities:		
Deposits and borrowed funds	**$ –**	$ 2
Other liabilities	**66**	15
Total liabilities	**$ 66**	$ 17

On March 30, 2007, Amexco made a capital contribution of $100 million to AEBC, which in turn contributed the same amount to AEB, in consideration of bank regulatory capital requirements to support the $60 million payment for regulatory and legal matters (Note 13). In addition, Amexco made a capital contribution of $294 million to AEBC in December 2007, of which $25 million was contributed to AEB to support the ongoing operations.

On September 18, 2007, Amexco entered into an agreement to sell AEIDC to Standard Chartered. As a result of the sale agreement, AEIDC changed the manner in which it manages its investment portfolio. This change resulted in more active sales of securities as AEIDC rebalances the portfolio until the AEIDC sale closes in order to ensure it meets the AEBC certificate holder obligations. This change in portfolio management also resulted in a reclassification of the AEIDC portfolio from the available-for-sale category to trading securities, resulting in a pretax loss of $25 million charged to AEBC (included in the $66 million related party liabilities above).

In December 2007, AEBC recorded a net non-cash capital infusion of $28 million from Amexco, which primarily represented the deferred compensation liability and the intercompany pension receivable that Amexco retained upon the close of the AEB sale to Standard Chartered. These non-cash capital transactions are included in the "Other" line under "Additional Paid-in Capital" on the Consolidated Statements of Changes in Shareholder's Equity.

In February 2008, prior to the sale of AEB to Standard Chartered, AEBC issued non-cash dividends of $6 million for all outstanding capital stock of American Express Bank Ltd. S.A. and American Express Bank (Uruguay) S.A. to Amexco.

In February 2008, prior to the sale of AEB to Standard Chartered, AEBC transferred the tax assets and liabilities of $94 million to Amexco.

In February 2008, following the sale of AEB to Standard Chartered, AEBC issued an additional 99,999 shares at $100 par value per share through a stock dividend to Amexco.

In March 2008, AEBC declared and paid dividends of $800 million to Amexco.

NOTE 4 INVESTMENT SECURITIES

The following is a summary of investment securities classified as available-for-sale:

December 31, (Millions)	2008				2007			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Foreign government bonds and obligations	**$ 45**	**$ 1**	**$ –** [1]	**$ 46**	$ –	$ –	$ –	$ –

The following is a description of the valuation techniques utilized by AEBC to measure the fair value of its investment securities, including the general classification of such items pursuant to the fair value hierarchy. These techniques may produce fair values that may not be indicative of a future sale, or reflective of future fair values. The use of different techniques to determine the fair value of these types of investment securities could result in different estimates of fair value at the reporting date. SFAS No. 157 was adopted by AEBC on January 1, 2008; therefore, classification of AEBC's investments pursuant to the fair value hierarchy is applicable only to the estimated fair values as of December 31, 2008.

- When available, quoted market prices are used to determine fair value and the investment securities are classified within Level 1 of the fair value hierarchy.
- When quoted prices in an active market are not available, the fair market values for AEBC's investment securities are obtained primarily from pricing services engaged by AEBC, and AEBC receives one price for each security. The fair values provided by the pricing services are estimated by using pricing models, where the inputs to those models are based on observable market inputs. The inputs to the valuation techniques applied by the pricing services vary depending on the type of security being priced by are typically benchmark yields, benchmark security prices, credit spreads, prepayment speeds, reported trades, broker-dealer quotes, all with reasonable levels of transparency. The pricing services do not apply any adjustments to the pricing models used, nor does AEBC apply any adjustments to prices received from the pricing services. Although the underlying inputs are directly observable from active markets or recent trades of similar securities in inactive markets, the pricing models used do entail a certain amount of subjectivity and therefore differing judgments in how the underlying inputs are modeled could result in different estimates of fair value. As of December 31, 2008, all of AEBC's investment securities are classified within Level 2 of the fair value hierarchy.

AEBC has reaffirmed its understanding of the valuation techniques used by its pricing services. No adjustments were deemed necessary to the prices provided by the pricing services as a result of current market conditions. In addition, AEBC corroborates the prices provided by its pricing services to test their reasonableness by comparing their prices to valuations from different pricing sources as well as comparing prices to the sale prices received from sold securities.

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

December 31, 2008 (Millions)	12 months or less		Total	
Description of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Foreign government bonds and obligations	**$ 9**	**$ –** [1]	**$ 9**	**$ –** [1]

[1] – The total amount of gross unrealized losses at December 31, 2008 approximated $0.1 million and rounds to zero to conform with the presentation of these securities in millions.

AEBC reviews and evaluates investments at least quarterly and more often as market conditions may require to identify investments that have indications of other-than-temporary impairments. The determination of other-than-temporary impairment is a subjective process, requiring the use of judgments and assumptions. Accordingly, AEBC considers several metrics when evaluating securities for an other-than-temporary impairment, including the extent to which amortized cost exceeds fair value, the duration and size of that difference, and the issuers credit rating.

The following table summarizes the unrealized losses of temporary impairments by ratio of fair value to amortized cost as of December 31, 2008:

December 31, 2008 (Millions, except number of securities)	12 months or less			Total		
Ratio of Fair Value to Amortized Cost	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
90% – 100%	**2**	**$ 9**	**$ –** [1]	**2**	**$ 9**	**$ –** [1]

The securities with a fair value to amortized cost ratio of less than 100 percent consist entirely of foreign government bonds and obligations. At December 31, 2008, AEBC had approximately nine securities with a fair value of $46 million.

Key factors considered when assessing other-than-temporary impairment include the determination of the extent to which the difference is due to increased default risk for the specific issuer, or the market interest rate risk. With respect to increased default risk, AEBC assesses the collectibility of principal and interest payments by monitoring issuer's credit ratings, related changes to those ratings, specific credit events associated with the individual issuers as well as the credit ratings of financial guarantor, where applicable. With respect to market interest rate risk, including benchmark interest rates and credit spreads, the Company's intent and ability to hold the securities for a time sufficient to recover the unrealized losses is a significant consideration in the other-than-temporary evaluation process.

Unrealized losses may be caused by changes to interest rates, which include both benchmark interest rates and credit spreads, and specific credit events associated with individual issuers. Substantially all of the gross unrealized losses on the securities are attributable to changes in interest rates. AEBC has the ability and the intent to hold these securities for a time sufficient to recover the unrealized losses and expects that contractual principal and interest will be received on these securities.

The change in net unrealized losses on available-for-sale securities in accumulated other comprehensive loss includes two components: (i) holding losses, which are unrealized losses that arose from changes in market value of securities that were held during the period and (ii) discontinued operations.

Change in net unrealized securities losses:

December 31, (Millions, net of tax)	2008	2007
Holding losses	**$ –**	$ –
Discontinued operations	**–**	24
Net unrealized securities gains in accumulated other comprehensive loss	**$ –**	$ 24

The following is a distribution of investment securities classified as available-for-sale by maturity:

December 31, 2008 (Millions)	Cost	Fair Value
Due within 1 year	**$ 45**	$ 46
Total	**$ 45**	$ 46

There were no gross realized gains or losses on sale of available-for-sale securities at December 31, 2008 and 2007.

There were no pledged securities included in available-for-sale securities at December 31, 2008 and 2007.

[1] – The total amount of gross unrealized losses at December 31, 2008 approximated $0.1 million and rounds to zero to conform with the presentation of these securities in millions.

NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable at December 31 consisted of:

December 31, (Millions)	2008	2007
Accounts Receivable:		
Cardmember receivables [a]	**$ 105**	$ 138
Other receivables	**4**	3
Total receivables, gross	**109**	141
Less reserves:	**4**	4
Total receivables, net	**$ 105**	$ 137

[a] *Other receivables primarily represent amounts due to the Company in the ordinary course of business. This amount also includes accrued interest on investments.*

The following table presents changes in the accounts receivable reserve for losses:

December 31, (Millions)	2008	2007
Balances — January 1,	**$ 4**	$ 4
Provision for credit losses	**4**	3
Write-offs	**(4)**	(4)
Recoveries	**1**	1
FX and other	**(1)**	-
Balances — December 31,	**$ 4**	$ 4

NOTE 6 LOANS

Loans are reported at the principal amount outstanding, net of the allowance for loan losses and any net deferred loan fees. The unearned income was nil as of December 31, 2008 and 2007 respectively. The composition of loans by type of borrower was:

December 31, (Millions)	2008	2007
Consumer Loans:		
Installment, revolving credit and other	**$ 53**	$ 59
Loans secured by real estate	**12**	17
Total loans, gross	**65**	76
Less reserves:	**4**	8
Total loans, net	**$ 61**	$ 68

There were no impaired loans at December 31, 2008 and 2007, respectively.

The following table presents changes in reserves for credit losses:

December 31, (Millions)	2008	2007
Balances — January 1,	**$ 8**	$ 7
Provision for credit losses	**8**	11
Write-offs	**(10)**	(11)
Recoveries	**1**	2
FX and other	**(3)**	(1)
Balances — December 31,	**$ 4**	$ 8

NOTE 7 CUSTOMER DEPOSITS

At December 31, 2008 and 2007, customer deposits were split between interest-bearing and non-interest bearing deposits as follows:

December 31, (Millions)	2008	2007
Non-U.S. offices:		
Interest-bearing	**$ 157**	$ 289
Non-interest-bearing	**27**	6
Total customer deposits	**$ 184**	$ 295

The customer deposits are aggregated by deposit type offered by AEBC at December 31, 2008 and 2007, as follows:

December 31, (Millions)	2008	2007
Demand Deposit	**$ 27**	$ 6
Time Deposit	**41**	84
Time deposits with affiliate	**105**	158
Saving Deposit	**8**	13
Call Deposit	**3**	8
Other	**-**	26
Total customer deposits	**$ 184**	$ 295

At December 31, 2008 and 2007, external time deposits in denominations of $100,000 or more were as follows:

December 31, (Millions)	2008	2007
Non-U.S.	**$ 31**	$ 77

The scheduled maturities of all time deposits at December 31, 2008 are as follows:

December 31, (Millions)	Non-U.S
2009	$ 146
2010 and after	-
Total	**$ 146**

NOTE 8 SHORT-TERM BORROWINGS

AEBC's short-term borrowings outstanding, defined as debt with original maturities of less than one year, at December 31, 2008 and 2007 were as follows:

December 31, (Millions)	2008		2007	
	Outstanding Balance	Year-End Stated Rate on Debt	Outstanding Balance	Year-End Stated Rate on Debt
Other short-term borrowings	**$ 42**	**14.23%**	$ -	-

NOTE 9 REGULATORY CAPITAL

AEBC and its branches are subject to continuous supervision and examination by their primary regulator, the New York State Banking Department (NYSBD).

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

As of December 31, 2008 and 2007, AEBC is in compliance with the consolidated risk-based capital and leverage requirements mandated by the NYSBD.

December 31, (Millions, except percentages)	2008	2007	NYSBD Minimum Requirement
Capital Ratios			
Tier 1 capital[(a)]	**58.9%**	10.7%	6.0%
Total capital[(a)]	**60.2%**	13.6%	10.0%
Leverage[(b)]	**29.8%**	4.5%	4.0%
Qualifying capital			
Tier 1 capital	**$ 181**	$ 781	
Total capital	**$ 185**	$ 996	
Adjusted risk-weighted assets	**$ 308**	$ 7,301	
Quarterly adjusted average assets	**$ 628**	$17,217	

(a) *Tier 1 capital or total capital divided by adjusted risk-weighted assets. Adjusted risk-weighted assets represent the total of all on- and off-balance sheet assets adjusted for risk-based factors as prescribed by the capital adequacy guidelines.*

(b) *Tier 1 capital divided by quarterly adjusted average assets.*

Additionally, AEBC is not required to comply on a consolidated basis with the Advanced Internal Ratings Based Approach incorporated in the Basel II Capital Accord Framework published on June 2004. AEBC monitors developments with respect to the implementation of the Basel II Capital Accord in jurisdictions where its branch and subsidiary offices are located, and will implement changes to maintain compliance with applicable requirements.

NOTE 10 NONINTEREST REVENUES

Noninterest revenue consisted of:

Year Ended December 31, (Millions)	2008	2007
Discount revenues	**$ 72**	$ 66
Foreign exchange income and other revenue:		
Foreign exchange income, net	**2**	4
Commissions and fees with affiliates	**12**	7
Other revenues	**1**	–
	15	11
Total	**$ 87**	$ 77

NOTE 11 FOREIGN CURRENCY

Gross income from foreign exchange transactions was $3 million in 2008 and $4 million in 2007. Gross losses from certain foreign currency transactions included in income were $1 million in 2008 and nil in 2007.

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

(Millions)	2008	2007
Balance at January 1,	**$ (36)**	$ (39)
Net translation gain	**2**	4
Discontinued operations	**31**	(1)
Balance at December 31,	**$ (3)**	$ (36)

NOTE 12 DERIVATIVES AND HEDGING ACTIVITIES

AEBC uses derivative financial instruments to manage exposure to various market risks, such as changes in benchmark interest rates and foreign exchange rates. These instruments enable end users to increase, reduce, or alter exposure to various market risks and, for that reason, are an integral component of AEBC's market risk and related asset/liability management strategy and processes.

FAIR VALUE MEASUREMENTS

The fair value of AEBC's derivatives is estimated by using pricing models that do not contain a high level of subjectivity as the valuation techniques used do not require significant judgment and inputs to those models are readily observable from actively quoted markets. The valuation models used by AEBC are consistently applied and reflect the contractual terms of the derivatives, including the period of maturity, and market-based parameters such as interest rates, foreign exchange rates, equity indices or prices, and volatility.

Counterparty risk exposures are monitored by American Express's Institutional Risk Management Committee (IRMC). The IRMC formally reviews large institutional exposures to ensure compliance with the AXP's Enterprise-wide Risk Management Committee guidelines and procedures and determines the risk mitigation actions, when necessary. Additionally, AEBC may, on occasion, enter into master netting agreements.

The following table summarizes the total fair value, excluding interest accruals, of derivative product assets and liabilities at December 31, 2008 and 2007:

December 31, (Millions)	2008[(a)]		2007	
	Assets	Liabilities	Assets	Liabilities
Net Investment hedges	**$ 4**	**$ 4**	$ -	$ -

[(a)] *SFAS No. 157 was adopted by the Company on January 1, 2008. The fair values of the Company's derivative instruments are classified within Level 2 of the fair value hierarchy.*

The following table summarizes the income effects of derivatives for the year ended December 31, 2008 and 2007:

December 31, (Millions)	2008	2007
Net investment hedges, net of tax:		
Ineffective net gains	**$ -**	$ -

NET INVESTMENT HEDGES

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

NOTE 13 LEASE COMMITMENTS AND OTHER CONTINGENT LIABILITIES

AEBC leases certain office facilities and operating equipment under noncancelable and cancelable agreements. Total rent expense amounted to $4 million and $2 million for 2008 and 2007, respectively. At December 31, 2008, the future minimum aggregate rental commitments under all noncancelable operating leases, totaled $2 million for 2009 and $1 million for each year 2010 and 2011.

Certain of AEBC's operating leases provide for additional rentals based upon increases in property taxes, the general cost of living index, or payment of property taxes or other operating expenses by the lessee. In addition, most leases contain standard renewal clauses.

AEBC and its branches are involved in a number of legal proceedings concerning matters arising in connection with the conduct of their business activities.

In early 2004, American Express Bank International ("AEBI"), a subsidiary of AEB headquartered in Miami, received subpoenas from the Department of Justice ("DOJ") relating to certain customer accounts and its anti-money laundering ("AML") compliance program. In early 2007, the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Financial Crimes Enforcement Network ("FinCEN") of the Department of Treasury, and the DOJ informed AEBI of potential enforcement actions relating to its AML program. On August 6, 2007, AEBI reached a settlement with the DOJ, FinCEN and the Federal Reserve relating to deficiencies in its AML program. AEBC paid a total of $60 million in settlement of all these matters which is reflected in discontinued operations for 2007.

Also on August 6, 2007, AEBC entered into a Written Agreement with the NYSBD under which AEBC agreed to implement certain enhancements and remedial measures to its AML compliance program. There was no monetary fine or penalty associated with this Agreement but AEBC incurred expenses in complying with the Agreement. Accordingly, AEBC's Consolidated Statements of Operations include $66 million of remediation related expenses in discontinued operations for 2007.

AEBC is defending a case in Greece brought by the Auxiliary Pension Fund (fund) of American Express Bank Employees. The plaintiff claims an amount of approximately $43.6 million (€30.5 million) in respect of an alleged shortfall in the Auxiliary Pension Fund and in respect of foregone surpluses due to the impact of voluntary early retirement programs. Judgment from the Athens First-Instance Court was issued in June 2008. The court rendered judgment in favor of AEBC on all claims advanced, ruling that AEBC did not guarantee the auxiliary pensions and furthermore that AEBC did not cause damage to the Fund by carrying out voluntary early retirement programs. The plaintiff has filed an appeal which is expected to be heard in March 2010.

The Company has given an indemnification to the purchaser of AEBL for certain claims or potential claims arising from sales of certain investment funds.

NOTE 14 INCOME TAXES

The components of income tax expense included in AEBC's Consolidated Statements of Operations on income from continuing operations were as follows:

Year Ended December 31, (Millions)	2008	2007
Current income tax benefit:		
U.S. federal	**$ -**	$ (9)
Total current income tax benefit	**$ -**	$ (9)
Deferred income tax benefit:		
U.S. federal	**(18)**	-
Total deferred income tax benefit	**$ (18)**	$ -
Total income tax benefit	**$ (18)**	$ (9)

A reconciliation of the U.S. Federal statutory rate of 35 percent to AEBC's actual income tax rates for 2008 and 2007 on continuing operations was as follows:

	2008	2007
Combined tax at U.S. statutory federal income tax rate	**35.0%**	35.0%
Increase (decrease) in taxes resulting from:		
All other	**(0.2%)**	-
Actual tax rates	**34.8%**	35.0%

Effective January 1, 2007, AEBC adopted the provisions of FIN 48, which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities for the year ended December 31, 2008. The initial adoption of FIN 48 resulted in a charge of approximately $12 million to the January 1, 2007 balance of retained earnings and an increase in the liability for unrecognized tax benefits.

The following table presents changes in the unrecognized tax benefits:

(Millions)	2008	2007
Balance, January 1:		
Increases:	**$ 10**	$ 30
Current year tax positions	–	1
Tax positions related to prior years	–	15
Decreases:		
Tax positions related to prior years	**(10)**	(7)
Settlement with Parent Company as a result of the sale of AEB (see note 1)	–	(29)
Balance, December 31	**$ –**	$ 10

The taxable income of AEBC is included in the consolidated U.S. federal income tax return of American Express. American Express is under continuous examination by the Internal Revenue Service (IRS) and tax authorities in other countries and states in which American Express has significant business operations. The tax years under examination and open for examination vary by jurisdiction. In June 2008, the IRS completed its field examination of the American Express federal tax returns for years 1997 through 2002. However, these years continue to remain open as a consequence of certain issues under appeal. American Express is currently under examination by the IRS for the years 2003 and 2004.

AEBC routinely assesses the likelihood of additional assessments in each of the taxing jurisdictions and has established a liability for unrecognized tax benefits that AEBC's management believes to be adequate. Once established, unrecognized tax benefits are adjusted if more accurate information is available, or a change in circumstance, or an event occurs necessitating a change to the reserves. It is reasonably possible that the unrecognized tax benefit will significantly increase or decrease within the next twelve months. Due to the inherent complexities and number of tax years currently under examination, it is not possible to quantify the impact such changes may have on the effective tax rate.

During the year ended December 31, 2008, AEBC did not recognize any interest and penalties. AEBC has no amounts accrued for the payment of interest and penalties.

AEBC records a deferred income tax (benefit) provision when there are differences between assets and liabilities measured for financial reporting and for income tax return purposes. The significant components of deferred tax assets and liabilities at December 31 are reflected in the following table:

December 31, (Millions)	2008	2007
Deferred tax assets:		
Reserves not yet deducted for tax purposes	**$ 18**	$ 8
Other	**3**	12
Gross deferred tax assets	**21**	20
Valuation allowance	**-**	(15)
Total deferred tax assets after valuation allowance	**$ 21**	$ 5
Deferred tax liabilities:		
Other	**2**	-
Gross deferred tax liabilities	**2**	-
Net deferred tax assets	**19**	5

The net deferred tax assets of $5 million at December 31, 2007 pertain to discontinued operations.

AEBC's income tax payable to Amexco was $55 million at December 31, 2008. AEBC's income tax payable to Amexco was $12 million at December 31, 2007 (after settlement of $83 million with the Parent Company as a non-cash dividend).

Net cash paid for income taxes (see Consolidated Statements of Cash Flows) do not include amounts received or paid under a tax-sharing agreement with Amexco. Net refunds under this agreement were nil and $59 million for the years ended December 31, 2008 and 2007, respectively.

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

December 31, (Millions)	2008	2007
Comprehensive loss components:		
Net unrealized securities gains	**$ 8**	$ 13
Foreign currency translation gains	**11**	3
Net income tax provision	**$ 19**	$ 16

NOTE 15 GUARANTEES AND CERTAIN OFF-BALANCE SHEET ITEMS

AEBC provides performance guarantees to its customers in the ordinary course of business that are within the scope of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). Generally, these guarantees range in term from three months to one year. AEBC receives a fee related to these guarantees, many of which help to facilitate customer cross-border transactions.

Performance guarantees are commitments issued by AEBC to ensure the nonfinancial performance of its clients to third parties. The credit risk arising from these commitments results from the potential need to satisfy, in whole or in part, the obligations of another party when certain specified future events occur.

The following table provides information related to such guarantees that are within the scope of FIN 45:

December 31, (Millions)	2008		2007	
	Maximum amount of undiscounted future payments[(a)]	Amount of related liability[(b)]	Maximum amount of undiscounted future payments[(a)]	Amount of related liability[(b)]
Performance guarantees[(c)]	**$ 1**	**$ –**	$ 3	$ –

[(a)] *Calculated based on the hypothetical scenario that all claims occur within the next 12 months.*
[(b)] *Included as part of Other Liabilities on AEBC's Consolidated Balance Sheets.*
[(c)] *AEBC held collateral of $1 million related to such guarantees at December 31, 2008 and 2007, respectively, which were predominantly represented by cash, demand and time deposits.*

AEBC's off-balance sheet financial instruments principally relate to extending credit to satisfy the needs of its banking clients. The contractual amount of these instruments, including those with Amexco, which were $1 million at December 31, 2008, represents AEBC's maximum potential credit risk, assuming the contract amount is fully utilized, the counterparty defaults and collateral held is worthless. Management does not expect any material adverse consequence to AEBC's financial position to result from these contracts.

Commitments to extend credit represent both conditional and unconditional agreements to lend. These commitments primarily carry floating interest rates. The contractual amounts of these commitments do not necessarily represent future cash requirements, as some credit facilities will expire unused. Lending commitments expose AEBC to credit loss arising from the obligation to fund a loan in accordance with the terms of the commitment. AEBC may require collateral or other security in support of these commitments, depending on the credit-worthiness of the client.

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

December 31, (Millions)	2008	2007
Commitments to extend credit	**$ 4**	$ 4
Performance guarantees	**1**	3
Total off-balance sheet items	**$ 5**	$ 7

NOTE 16 FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments", requires the disclosure of the estimated fair value of financial instruments. A financial instrument is defined as cash, evidence of an ownership in an entity, or a contract between two entities to deliver cash or another financial instrument or to exchange other financial instruments. The disclosure requirements of SFAS No. 107 exclude leases, affiliate investments, pension and benefit obligations, insurance contracts, and all non-financial instruments.

The following table discloses fair value information for the AEBC's financial instrument assets and liabilities:

December 31, (Millions)	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Assets for which carrying values equal or approximate fair value	**$ 490**	**$ 490**	$ 280	$ 280
Loans	**$ 61**	**$ 65**	$ 68	$ 76
Financial Liabilities				
Liabilities for which carrying values equal or approximate fair value	**$ 315**	**$ 315**	$ 342	$ 342

The fair values of these financial instruments are estimates based upon market conditions and perceived risks as of December 31, 2008 and 2007 and require management judgment. These figures may not be indicative of their future fair values. The fair value of AEBC, therefore, cannot be estimated by aggregating the amounts presented. The following methods were used to determine fair values.

FINANCIAL INSTRUMENT ASSETS FOR WHICH CARRYING VALUES EQUAL OR APPROXIMATE FAIR VALUE

Financial assets for which carrying values equal or approximate fair values include cash and due from banks, interest-earning deposits with banks, available-for-sale investment securities, accrued interest and other receivable, due from Amexco and certain other assets. For these assets the carrying value approximates fair value because these are short-term in duration, variable rate in nature or recorded at fair value on the Consolidated Balance Sheets.

Available-for-Sale Securities

Available-for-sale investment securities are carried at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in accumulated other comprehensive loss. The realized gains and losses are recognized in the Consolidated Statements of Operations upon disposition of the securities or when management determines that a decline in value is other-than-temporary. See Note 4 for carrying and fair value information regarding available-for-sale investment securities.

Loans

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

See Note 15 for discussion of carrying and fair value information regarding guarantees and certain off-balance sheet items.

FINANCIAL INSTRUMENT LIABILITIES FOR WHICH CARRYING VALUES EQUAL OR APPROXIMATE FAIR VALUE

Financial liabilities for which carrying values equal or approximate fair values include customer deposits, short-term borrowings, due to Amexco and certain other liabilities. For these liabilities, the carrying value approximates fair value because these are short-term in duration, variable rate in nature, or have no defined maturity.

NOTE 17 CREDIT CONCENTRATIONS

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

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

December 31, (Millions)	2008			2007		
	On-Balance Sheet	Off-Balance Sheet	Total	On-Balance Sheet	Off-Balance Sheet	Total
Banks and other financial institutions	**$ 314**	**$ –**	**$ 314**	$ 104	$ –	$ 104
Individuals	**81**	**5**	**86**	96	5	101
Other businesses	**78**	**–**	**78**	116	2	118
Foreign governments	**63**	**–**	**63**	16	–	16
Real estate	**13**	**–**	**13**	17	–	17
Total	**$ 549**	**$ 5**	**$ 554**	$ 349	$ 7	$ 356

NOTE 18 GEOGRAPHIC OPERATIONS

The following table presents AEBC's total assets, net financial revenues and pretax loss from continuing operations in the geographic regions in which it operates. As AEBC's financial services businesses are highly integrated on a worldwide basis, estimates and subjective assumptions have been made to apportion data between the United States and international businesses.

Year ended December 31, (Millions)	Europe	Asia / Pacific[(a)]	North America	Consolidated
2008				
Total assets	**$95**	**$245**	**$256**	**$596**
Total revenues net of interest expense after provision	**2**	**70**	**5**	**77**
Pretax loss	**(11)**	**(15)**	**(28)**	**(54)**
2007				
Total assets	$147	$223	$ –	$370
Total revenues net of interest expense after provision	2	60	–	62
Pretax loss	(1)	(24)	–	(25)

[(a)] *Includes the Subcontinent.*

NOTE 19 RESTRUCTURING CHARGES

During the 2008 and 2007, AEBC recorded restructuring charges primarily related to reductions in workforce. The charges and subsequent adjustments related to severance obligations are included in salaries and employee benefits in AEBC's Consolidated Statements of Income, while other exit costs are included in occupancy and equipment, professional services, and other net expenses.

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

December 31, 2006 (Millions)	2007 Restructuring Charges(Adjustments)			Cash paid during 2007			December 31, 2007 (Millions)		
Total liability	Severance	Other	Total	Severance	Other	Total	Severance liability	Other	Total liability
$2	$(1)	$--	$—	$(1)	$—	$—	$—	$—	$—
December 31, 2007 (Millions)	**2008 Restructuring Charges**			**Cash paid during 2008**			**December 31, 2008 (Millions)**		
Total liability	Severance	Other	Total	Severance	Other	Total	Severance liability	Other	Total liability
$—	**$10**	$—	**$10**	**$3**	**$—**	**$3**	**$7**	**$—**	**$7**

NOTE 20 SUBSEQUENT EVENTS

During the second quarter of 2009, AEBC Greece (or the "Branch") offered an enhanced severance package (ESP) to all employees of the Branch. The ESP was accepted by all employees of the Branch; the final date of employment for the majority of the employees was June 30, 2009. This severance package represented the initial step in the ultimate wind-down of the Branch's operations; the wind-down of the AEBC Greece operations is expected to be completed in 2010.

In connection with the ESP being offered to remaining employees, certain Branch employees were offered an extended employment arrangement to ensure the Branch's remaining loan portfolio will be appropriately serviced and to otherwise assist with wind-down activities. AEBC is currently evaluating available options with respect to the treatment of the Branch's remaining loan portfolio.