BANK ONE CORPORATION | 2000 ANNUAL REPORT

For the Year Ended December 31 (Dollars in millions, except per share data)	**2000**	1999	*% change*
PER COMMON SHARE DATA			
Earnings (loss):			
Basic	$ (0.45)	$ 2.97	N/M
Diluted	(0.45)	2.95	N/M
Dividends declared	1.26	1.68	− 25
Book value (at December 31)	15.90	17.34	− 8
Market price (at December 31)	36.63	32.00	+ 14
FOR THE YEAR			
Total revenue, net of interest expense	$ 13,926	$ 17,713	− 21
Net income (loss)	(511)	3,479	N/M
Net interest income – tax equivalent basis	8,974	9,142	− 2
Provision for credit losses	3,398	1,249	N/M
Noninterest income	5,090	8,692	− 41
Noninterest expense	11,608	11,490	+ 1
Return (loss) on average assets	(0.19)%	1.36%	
Return (loss) on average common equity	(2.7)%	17.1%	
AT YEAR-END			
Managed loans*	$ 236,492	$ 229,196	+ 3
Managed assets*	309,096	315,064	− 2
Total assets	269,300	269,425	—
Deposits	167,077	162,278	+ 3
Common equity	18,445	19,900	− 7
Employees	80,778	87,735	− 8
AVERAGE BALANCES			
Managed loans*	$ 233,192	$ 218,602	+ 7
Managed assets*	314,961	302,189	+ 4
Deposits	162,462	155,184	+ 5
Common equity	19,382	20,264	− 4

**Managed: adjusted to include credit card loans that have been securitized and removed from the balance sheet.*

Bank One, confronting daunting challenges, had an extremely difficult year in 2000. We lost $511 million after taking $5 billion in charge-offs, reserve additions, write-downs and various adjustments. We reduced the dividend by 50 percent — something no corporation should ever have to do. We faced management changes, customer service problems, litigation, incompatible computer systems, costly and inefficient operations and a rapidly deteriorating credit climate. These results are absolutely unacceptable — to you and to Bank One's management.

After you read this letter, I hope you'll see concrete reasons for optimism. The most important are these: This company has strong franchises and a solid core; we've got good market positions; fine, albeit underperforming, businesses; and excellent products and services. As a result, we did not have to resort to radical restructuring to restore the company to health. Yet, we did make many tough decisions. We did what we believed was right and in the best long-term interest of our company. Now that we have put a significant portion of our problems behind us, we enter 2001 a much stronger company.

Since this is my first letter to you, I'd like to tell you about the principles that guide us and then note some of the actions we have taken to revitalize Bank One. You'll find information on Bank One's major businesses elsewhere in this report and in expanded detail in the 10-K.

As we move ahead with Bank One's turnaround, we can't promise you specific outcomes or risk-free results. But here's what we *will* promise you:

1 We will share with you the truth, and offer honest assessments of our businesses and our prospects.
2 We will relentlessly follow our business principles.
3 We will act with integrity and honor.
4 We will always try to do the right thing, not the easy or expedient thing.
5 We will work hard and with fierce resolve to make this a company of which our shareholders, employees, customers and communities can be proud.

Our priorities are to:

BE FIELD AND CLIENT DRIVEN True customer orientation means acting in the customer's best interest, by offering great products and services — not once in a while, but all the time. It also means being highly responsive, courteous and quick to follow through on promises. It requires adopting an outward, not an inward focus, thinking and responding to the competition. It requires always worrying about the competition. We want to infuse that keen awareness into every part of the organization. The field should drive the process, and staff employees in their important support roles need to always remember they are there because of the field; they need to be lean, knowledgeable and extremely responsive.

We have begun to dramatically improve customer service through a variety of actions and sweeping systems enhancements. This renewed customer focus is starting to pay off. As an example, we've put advanced technology, including Internet-enabled PCs, into all of our banking centers, giving our people in the field far better access to information that helps them serve our customers. Our field people also have much more authority and accountability. We also have started a lot of new initiatives because of our new online "suggestion box," where we have received more than 6,000 ideas from employees, who know the most about the company. By most measures, customer problems are down dramatically and service levels are up substantially. We have made substantial progress, but we know we still have a way to go to be the best in class.

SET THE HIGHEST STANDARDS OF PERFORMANCE
It's up to each company, each leadership team and each individual to set their own standards of performance. Ours will be the highest. We will not shy away from comparing ourselves to the best companies, knowing that often we'll come up short. Striving to be the best motivates us to seek constant improvement.

Toward that end, we take corporate governance seriously. Our Board has reviewed its own governance and adopted best practices as to how it will conduct itself. This led us to reduce the size of the Board, while adding two outside directors with considerable expertise. A smaller Board helps create more active dialogue and a thorough and open review of all our issues, whether they are strategic, risk or management related.

SET THE HIGHEST STANDARDS OF INTEGRITY In business, as in every other arena, ethical behavior doesn't just happen. It has to be cultivated and repeatedly affirmed throughout the organization. At Bank One, acting with integrity is a paramount expectation. It applies to every aspect of our company, including compliance, employee relations, marketing and sales.

Maintaining the highest standards of integrity involves faithfully meeting our commitments to our customers, to fellow employees, to the Board, to you our shareholders and to all of our other partners. Every commitment we make should, and will, be sacrosanct.

BUILD FOR GOOD AND BAD TIMES A mark of an exceptional company is consistently good performance relative to that of its competitors, regardless of economic conditions and competitive threats. We want Bank One to be that kind of company.

As you know, there's been a considerable slowdown in the economy, and no one can say with assurance where it's headed. While we have great confidence in the American economy, we also prepare for its occasional unpredictable volatility. Our obligation is to build the company so it can thrive in any environment. The best companies capitalize on their strength to grow aggressively in downturns, when their competition is unable to do so.

To help us withstand economic downturns and competitive pressures, we've taken a number of strong steps, which I will continue to highlight.

CREATE A FORTRESS BALANCE SHEET In 2000, we fortified Bank One's balance sheet by:

Scouring the balance sheet, to thoroughly understand our assets and liabilities; to make sure that someone is accountable for them; to use conservative, economically appropriate accounting; and to have strong financial controls.

Strengthening loan loss reserves. For example, we began 2000 with reserves attributable to loan losses of 1.4 percent of loans — by some measures, the weakest in the industry. During the year we added almost $2 billion to reserves, to end 2000 with loan loss reserves to loans of 2.4 percent — among the industry's strongest. While this reserve addition was needed to address the deteriorating credit environment, we've strengthened our relative position.

Achieving strong capital ratios. We also ended the year with a tangible-equity to managed-assets ratio of 5.5 percent and Tier 1 capital ratio of 7.3 percent — both considered to be strong capital ratios. We expect these ratios to improve even more in 2001.

Maintaining strong credit ratings. We are grateful that we were able to take all of the actions we did and avoid a downgrade. We are committed to maintaining strong credit ratings; in fact, we'd like to improve them over time.

Generating capital and flexibility. Cutting the dividend, as tough as that decision was, has greatly enhanced our capital retention. It has allowed us to reclaim our ability to actively decide what to do with our capital. By the end of this year, we anticipate that we'll be generating substantial excess capital. And we will try to deploy it wisely and in the shareholders' best interest, whether by retaining it, investing in our businesses, acquiring other businesses or buying back our stock.

ACHIEVE AND MAINTAIN GREAT FINANCIAL DISCIPLINE Financial discipline is the bedrock of a healthy and growing company. We need to understand our business in excruciating detail. This means:

Great reporting and management information systems, resulting in financial and operating reports that are comprehensive, comprehensible and transparent; and management reports that are frequent, precise and detailed. We have also tried to enhance our disclosures to the business and financial community.

Meaningful profit and loss statements. We've created more than 2,000 profit and loss statements, including one for each banking center. These will help us make decisions based on fact, allocate capital appropriately and properly compensate based on performance. There will be one set of numbers inside and outside the company, so there can be no disputes about how any unit has performed.

Together, these actions should lead to high-quality earnings that:

- are increasing, recurring and predictable in nature,
- yield high returns on capital,
- produce good margins, and
- have reasonable risk relative to the capital deployed.

These financial disciplines will give us the tools, information and knowledge that we need to be a great company.

Reducing credit risk. It's appropriate here to comment on our corporate credit exposure, particularly in light of a deteriorating credit environment. Based on our analysis, our company has taken too much overall credit risk, has assumed too many big individual risks, and has experienced low returns relative to the capital deployed. Credit has often been a loss leader for commercial banks — a situation that is acceptable if risks are appropriate and if other revenue sources make up for the loss leader. Therefore, we intend to reduce our individual and gross aggregate credit risk, while trying to win more business from our customers to justify the risks that we do take. We expect this to reduce commercial exposures on and off the balance sheet by $10 billion to $20 billion and free up capital that has been earning low returns.

It's important to understand that our goal isn't to reduce the size of our business, but to achieve better returns and create a healthier business. While some of these changes are institutionally and culturally difficult, we will exit unprofitable relationships relentlessly, albeit carefully and respectfully. This action will enable us to develop stronger, deeper and more meaningful relationships with our customers over time.

We also expect and are prepared for several quarters of commercial credit costs at a rate at least double that of the approximately 40 basis points experienced in the last several years. To put these numbers into historical perspective, the 40 basis points is a cyclical low. Although the level expected for the next several quarters would be considered higher than normal, in a deep recession, commercial costs can run as high as 175 basis points. While none of us would like the impact on our earnings of a recession, because of all the steps we have taken we are now prepared to weather even that kind of environment.

BUILD A SOLID INFRASTRUCTURE Great companies — profitable companies — consistently build their infrastructures. They strive for the best systems and back-office operations. They are highly efficient, they cut waste constantly and they invest continuously.

Bank One must be a low-cost producer by eliminating unnecessary costs wherever we find them. In 2001, we will have cut $500 million in wasteful spending from our operations, after investing hundreds of millions of dollars in our businesses. We have reduced our total overhead, net of investments, by $500 million. This waste cutting has not hurt our company's performance or customer service. In fact, it has enhanced our operations by eliminating unnecessary, redundant and bureaucratic behavior.

We have reduced headcount by 8 percent, from 87,700 to 80,800, mainly through attrition and selective staff reductions. Our remaining employees are more productive, and potentially happier and better rewarded. Yet our cost structure, though greatly improved, is still too high. We must continue to reduce it.

We're creating effective systems and efficient operations. As examples, we're aggressively consolidating, streamlining, standardizing and centralizing our back-office activities. In addition, we are collapsing our 20 major bank charters into three and integrating our computer systems. We have four major conversions to do, and we hope to complete two by the end of this year. While these actions will cost us roughly $150 million a year for the next several years, they are critical. Converting to uniform operating systems — and doing it quickly — will help us run our businesses more efficiently, provide better customer service and put us in a strong position to aggressively grow internally or by acquisition. Ultimately, it should save Bank One hundreds of millions of dollars a year.

Centralizing operations does not mean consolidating authority. We won't be doing the latter. Instead, we'll be providing the field with better products and services at a cheaper cost. These changes will enhance our ability to push more authority and decision making to the field.

We are making substantial technological and other investments for the future. No company has ever had much of a future by cutting costs alone. Success is measured by top- and bottom-line growth. So we're investing substantially in our businesses to increase our market share, revenues and profits. Our retail service efforts, banking center platform, e-commerce products and expanding capital markets activities are just some of the areas receiving added support. Also, the importance of technology (here we include the Internet) cannot be overemphasized. We believe it will be critical in the financial services business, and, therefore, we need to embrace it and integrate it into everything we do. We need to continually strive to give our customers more, better, faster and cheaper. Technology, in all of its forms, allows companies to do this as they gain the benefits of economies of scale.

EXECUTE SUPERBLY As important as strategy is, we need to improve our execution, because without it, we will surely fail. Execution involves every employee, every phone call and every contact we have with customers. It is the devil in the details. We've got to execute or we will fail. And we *will* execute, by:

Acting with greater urgency and speed. One thing that has kept us from moving fast is bureaucracy. We still have too much of it at Bank One, and we will eradicate it. Bureaucracy, silos and politics are the bane of large corporations; they must be combated vigorously and continually. Fast and lean is the antidote to creeping bureaucracy. We'll continue to de-layer the organization and empower employees at all levels.

Becoming much more disciplined, which means meeting *all* of our commitments. Without discipline, mediocrity rules.

Giving ample resources and authority to the field, because that's where we interact with our customers. We need all of our banking center managers and business heads to feel and act like they are the president of their own company.

Remembering that our businesses are highly interrelated and field based. Each unit's success depends on the success and contributions of the others. Our strength resides in our regions; therefore, regional teams of senior executives from each business are driving our effort to improve customer service and revenues at the local level.

Communicating effectively and often. Real teamwork demands nothing less. In addition to urging employees to share best practices across the company, we need to be brutally honest with ourselves and foster open debate about what we do well, what we don't do well and what we can do better. Problems don't age well; denying or hiding them guarantees that they will get worse.

Treating fellow employees as customers. At Bank One, everyone counts, and we've got to remember that we support one another. Above all, it means doing what's right for Bank One, even if we have to make unpopular decisions and forgo near-term rewards. We all need to earn each other's respect every day.

CREATE A GREAT TEAM AND WINNING CULTURE Eventually, it all comes down to our people. Building a great team and developing deep "bench strength" are requisites for any company's long-term performance. One of our biggest priorities of 2000 was to assemble an exceptionally capable group of leaders by adding talented executives from outside Bank One and by promoting the deserving from within. We believe that we have done that. Of the top 12 executives who now make up the senior management team, six are new to the company and six come from within the company — three recently promoted to their jobs. This process of seeking out the best individuals for the job is happening throughout the organization, and I believe we are well on our way to having a world-class management team.

Creating a meritocracy. Managers and employees perform best when they're motivated, challenged and rewarded for doing the right thing. And companies perform best when shareholder, management and employee interests are aligned. We're seeking that alignment in a number of ways. For one thing, we are trying to establish a true meritocracy. Employees will be rewarded for their efforts and contributions. We want employees to contribute in any way they can. Some employees' contributions go far beyond the P&L, and hopefully we will have the insight to reward people for the "soft" things they do to help the company, like recruiting, mentoring or simply having the courage and character to stand up for what is right.

You have to get incentives right. We want employees to think and act as owners by offering them an appropriate stake in Bank One's financial performance. We're modernizing compensation to make it fairer, simpler and more performance based. (With our new P&Ls, we are able to do that.) And in the spirit of these principles, we've eliminated most entitlements, special perks and special deals. Compensation will follow performance, not titles. Done right, our new incentive plans will create the proper balance of individual and collective accountability. We want our people to make more money, but only if the company performs. Ultimately, we would love to be the leanest, best performing and highest paying company.

It starts at the top. Your senior management received no bonuses for the year just ended. All of the Planning Group members, including those with guarantees, decided it was appropriate to give them up. This company cannot and will not pay the senior people more when the company does worse. Now we will be the first to sacrifice, as is appropriate. The higher the manager, the more his or her compensation will be tied to the company's performance — no excuses. Leadership is an honor, a privilege and a responsibility to do the right thing and set the right example.

It should include everyone. We made changes to the employee 401(k) and other benefit plans — not just to save money but, more important, to encourage greater stock ownership and long-term commitment to the company. The company match for 401(k) participants is now in Bank One stock. While we have reduced the company match (and eliminated it totally for highly paid individuals), we have added an outright grant of $300 (which we hope to increase as our performance improves) for lower paid individuals who probably did not have enough money to invest in the 401(k) and get the match in the first place. We believe this will add 15,000 of our employees to our shareholder ranks, bringing the total number of employee shareholders to approximately 60,000.

The 2001 stock option awards were spurred by the same principle. They were granted to more people and are based more on performance than on position. We also lengthened the vesting period of all new options from two years to five years. Simply put, we want the most benefits to go to our highest performers who stay to make Bank One a great company.

IN CLOSING Bank One, like all other companies, was built on the shoulders of those who came before us, and we are grateful to all of our retired employees and directors for their service to this company. In particular, we would like to express special appreciation to Verne Istock, who retired in September as President after 35 years. We also want to welcome our newest Board members Heidi Miller and David Novak to our company. We believe that we have started on the path to make Bank One a company that our customers, shareowners, employees (current and former) and communities can be proud of.

I especially want to thank our 80,000 employees. They've made Herculean efforts to turn this company around and to build the platform for enduring success. I'm delighted and honored to work with them, and I am confident that working together we can build Bank One into one of the best financial services companies in America.

Yours truly,

Jamie Dimon

James Dimon
Chairman and Chief
Executive Officer

February 20, 2001

CORPORATE BANKING provides services to corporations, financial institutions, governments and nonprofit entities with annual revenues exceeding $250 million. Services include credit products, corporate finance, treasury, international and capital markets products.

Profile

#3 commercial bank in the U.S., with other offices in Australia, Canada, Germany, Hong Kong, Japan, Mexico, People's Republic of China, Singapore, South Korea, Taiwan, United Kingdom

#1 commercial bank in the Midwest

Leading provider of cash and treasury management services

#4 League table standing (for loan syndications)

Goals

Increase ROE and net income

Improve market penetration of non-credit products

Build only where we can compete

Focus on high-value customer relationships

Exit low-value relationships

Customers
1,500+ (Fortune 1,000 and mid corporate)

Employees
4,589

Revenue
$2.2 billion

Loans (average)
$50.1 billion

Deposits (average)
$21.4 billion

National commercial real estate loans (at 12/31/00)
$9.5 billion

Loan syndications
Lead arranger deals:
$58.1 billion
(6% market share)

MIDDLE MARKET BANKING offers traditional credit products, cash management, capital markets, international and investment management services to companies and nonprofit organizations with annual revenues between $5 million and $250 million.

Profile

Strong business concentration in the Midwest and South

Market share exceeds 20% in 10 of 12 footprint states

Lead bank for 70% of customers

Nearly a third of customers use Bank One exclusively

#1 provider of cash management services in the 12-state footprint

Goals

Run as a separate business line

Improve returns

Achieve disciplined loan growth

Leverage Retail franchise and pursue Private Client opportunities

Gain greater primary share

Improve customer satisfaction

Customers **18,000+**	Revenue **$1.7 billion**	Loans (average) **$32.1 billion**
Employees **12,016**	Treasury Management Services revenue **$1.3 billion*** **included in Corporate and Middle Market revenue*	Deposits (average) **$18.2 billion**

INVESTMENT MANAGEMENT provides investment advisory, insurance, retirement and custody, corporate trust, credit products and investment services to individuals and institutions. One Group® mutual funds and Private Client Services are managed in this business.

Profile

One Group is the third largest bank-owned mutual fund family in the U.S. and one of the country's 25 largest fund complexes.

Among the top three bank-owned insurance companies; Third largest corporate or municipal trustee; Second largest asset-backed and mortgage-backed trustee; Among the top 15 banks in managed and overall trust assets

Morningstar Ratings
One Group funds ranked 4 and 5: **62%**
One Group funds ranked 3 and higher: **97%**

Goals

Build on the strong franchise and solid asset management foundation

Implement Private Client Services for high-net-worth clientele

Expand One Group through third-party distribution

Customers/clients
One Group **607,000**
Retail Investment **800,000**
Private Client Services **215,000**
Institutional **4,500**
Corporate Trust **6,500**
Credit Life Insurance **4.3 million**

Employees **6,562**

Private client advisors **585**

Licensed bankers **2,700**

Mutual fund & annuities sales (through retail brokerage)
$4.2 billion

Assets under management (at 12/31/00)
$131.2 billion:

Mutual funds **$70.4 billion**

Institutional & retail accounts
$60.8 billion

RETAIL BANKING offers a full range of deposit, investment, loan and insurance products to consumers and small businesses in metropolitan and community markets. Its network includes more than 1,800 banking centers, 6,000 ATMs, online banking and other channels.

Profile

Operations in 14 states:

Arizona, Colorado, Florida, Illinois, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Texas, Utah, West Virginia, Wisconsin

#1 or #2 share in more than 60% of markets

#2 ATM distribution network

#3 bank provider of home equity loans

#3 lender to small businesses

Goals

Integrate business and consumer banking at the local level

Improve customer service

Capitalize on strong sales culture

Empower banking center managers

Improve efficiency and profitability

Increase returns from auto business

Customers *Retail* **8 million** *Business* **425,000** *Online* **918,000**	Revenue **$5.5 billion**	Loans (average) **$74.6 billion**
Employees **35,759**	ONE Cards (debit cards) **4.5 million**	Assets (average) **$79.0 billion**
	Investment sales volume **$4.2 billion**	Deposits (average) **$88.4 billion**

FIRST USA, based in Wilmington, Delaware, is a leader in the credit card industry, marketing credit cards for consumers and businesses under the First USA and Bank One brand names. It also markets and issues cards on behalf of some 1,900 marketing partners.

Profile

Partners include U.S. corporations, universities, sports franchises, affinity organizations and financial institutions.

#3 credit card issuer (based on managed loans outstanding)

Largest issuer of VISA® credit cards

One of the first in the U.S. to offer "smart" chip card technology to its cardmembers

Goals

Build on significant strides to improve customer service

Improve marketing efficiency by reducing acquisition costs

Develop new products and services

Continue to eliminate waste and aggressively manage expenses

Improve risk-adjusted margin

Number of partners/affiliates
1,870

Employees
10,901

Managed credit card loans (average)
$66.2 billion

Assets (average)
$70.0 billion

Charge volume
$142.5 billion

Cards issued
51.7 million

Accounts opened in 2000
3.3 million

CORPORATE INVESTMENTS manages Bank One's proprietary investment portfolio, with the exception of traditional fixed-income bond investments. Its activities include growth, tax-oriented and value investing, as well as leveraged and equipment leasing.

Profile

Tax-oriented strategies produce stable, steady earnings

Direct-investment strategies produce more attractive, more volatile returns

Key Investments

Equipment and facilities leasing; Affordable housing; Specialized energy; Venture funds; Private equity; Asset-backed and commercial mortgage-backed securities; High-yield bonds; Hedge funds

Goals

Continue stable earnings run rate

Explore and capitalize on great investment opportunities

Use our businesses as potential products for our customers

Hire new business head

Employees
200

Revenue
$320 million

Net income
$239 million

Assets (average)
$8.5 billion:

Tax-oriented investments
$4.3 billion

Direct investments
$4.2 billion

Return on assets (average)
2.8 percent

Return on equity (average)
20 percent

December 31 (Dollars in millions)	**2000**	1999
ASSETS		
Cash and due from banks	$ 17,291	$ 16,076
Interest-bearing due from banks	5,210	6,645
Federal funds sold and securities under resale agreements	4,737	9,782
Trading assets	2,788	7,952
Derivative product assets	2,322	3,372
Investment securities	50,561	47,912
Loans:		
Commercial	100,460	96,352
Consumer	69,047	63,488
Credit card	4,744	4,037
Allowance for credit losses	(4,110)	(2,285)
Loans, net	170,141	161,592
Premises and equipment, net	2,894	3,317
Customers' acceptance liability	402	366
Other assets	12,954	12,411
Total assets	$ 269,300	$ 269,425
LIABILITIES		
Deposits		
Demand	$ 30,738	$ 31,194
Savings	63,414	64,435
Time	47,958	36,877
Foreign offices	24,967	29,772
Total deposits	167,077	162,278
Federal funds purchased and securities under repurchase agreements	12,120	18,720
Other short-term borrowings	18,003	21,211
Long-term debt	38,428	33,857
Guaranteed preferred beneficial interest in the Corporation's junior subordinated debt	2,483	1,578
Acceptances outstanding	402	366
Derivative product liabilities	2,212	3,332
Other liabilities	9,940	7,993
Total liabilities	250,665	249,335
STOCKHOLDERS' EQUITY		
Preferred stock	190	190
Common stock – $0.01 par value	12	12

Number of Common Shares (In thousands)	**2000**	1999		
Authorized	2,500,000	2,500,000		
Issued	1,181,386	1,182,121		
Outstanding	1,159,829	1,147,343		
Surplus			10,487	10,799
Retained earnings			9,060	11,037
Accumulated other adjustments to stockholders' equity			(5)	(263)
Deferred compensation			(121)	(118)
Treasury stock at cost (shares in thousands)	21,557	34,778	(988)	(1,567)
Total stockholders' equity			18,635	20,090
Total liabilities and stockholders' equity			$ 269,300	$ 269,425

For the Year Ended December 31 (In millions, except per share amounts)	**2000**	1999	1998
INTEREST INCOME			
Loans, including fees	$ 15,214	$ 13,051	$ 14,106
Bank balances	503	233	331
Federal funds sold and securities under resale agreements	577	445	423
Trading assets	440	330	367
Investment securities	3,344	3,235	2,297
Total	20,078	17,294	17,524
INTEREST EXPENSE			
Deposits	6,137	4,651	4,943
Federal funds purchased and securities under repurchase agreements	1,142	935	1,090
Other short-term borrowings	1,216	942	737
Long-term debt	2,747	1,745	1,407
Total	11,242	8,273	8,177
NET INTEREST INCOME	8,836	9,021	9,347
Provision for credit losses	3,398	1,249	1,408
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	5,438	7,772	7,939
NONINTEREST INCOME			
Non-deposit service charges	1,537	1,502	1,390
Credit card revenue	2,299	3,413	3,096
Service charges on deposits	1,310	1,283	1,255
Fiduciary and investment management fees	783	793	807
Investment securities gains (losses)	(235)	509	405
Trading	134	147	141
Other income (loss)	(738)	1,045	977
Total	5,090	8,692	8,071
NONINTEREST EXPENSE			
Salaries and employee benefits	4,388	4,271	4,477
Occupancy and equipment expense	1,010	910	845
Outside service fees and processing	1,532	1,743	1,349
Marketing and development	874	1,188	1,024
Communication and transportation	841	829	781
Depreciation	454	460	512
Other intangible amortization	410	168	91
Goodwill amortization	70	69	77
Other expense	1,868	1,298	1,327
Total noninterest expense before merger-related and restructuring charges	11,447	10,936	10,483
Merger-related and restructuring charges	161	554	1,062
Total	11,608	11,490	11,545
INCOME (LOSS) BEFORE INCOME TAXES	(1,080)	4,974	4,465
Applicable income tax (benefit)	(569)	1,495	1,357
NET INCOME (LOSS)	$ (511)	$ 3,479	$ 3,108
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS' EQUITY	$ (523)	$ 3,467	$ 3,094
EARNINGS (LOSS) PER SHARE:			
Basic	$ (0.45)	$ 2.97	$ 2.65
Diluted	$ (0.45)	$ 2.95	$ 2.61

Timothy P. Moen Human Resources	**Robert A. O'Neill, Jr.** Chief Auditor	**Sarah L. McClelland** Chief Risk Management Officer	**James Dimon** Chairman and Chief Executive Officer	**David P. Bolger** President and CEO, Middle Market Banking	**Austin A. Adams** Technology and Operations

Philip G. Heasley	**R. Michael Welborn**	**Charles W. Scharf**	**Christine A. Edwards**	**James S. Boshart, III**	**David J. Kundert**
President and CEO, First USA	President and CEO, Retail Banking	Chief Financial Officer	Chief Legal Officer and Secretary	President and CEO, Corporate Banking	President and CEO, Investment Management

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312-732-4000

Company Information
Information on Bank One products and services is available on the Internet at the following websites:

www.bankone.com
Bank One's financial supersite

www.onegroup.com
Bank One's proprietary family of mutual funds

www.oneinvest.com
Bank One's online investment services and securities trading

www.firstusa.com
Bank One's credit card company

www.WingspanBank.com
Bank One's Internet-based bank

Privacy Policy
Bank One's Consumer Information Values and Privacy Policy describes how we protect customers' financial privacy. For more information, visit one of Bank One's three major websites:

www.bankone.com
www.firstusa.com
www.WingspanBank.com

Community Report
You're invited to view *ONE Community*, which highlights Bank One's community service and philanthropic programs, at *www.bankone.com*.

General Inquiries
News media representatives and others seeking general information should contact Corporate Media Relations at 312-732-7820.

Financial Information
Bank One annual reports, earnings and news releases, 10-K and 10-Q reports, and other financial information can be obtained by visiting the "About Bank One" section of our website at *www.bankone.com*.

You also can obtain the most recent financial information on Bank One by phoning our toll-free Corporate News and Shareholder Information Service at 877-ONE-FACT (877-663-3228).

Stockholder Relations and Information
Stockholders with questions regarding their stockholder account, dividends, stock transfer, lost certificates or changes of address should contact the transfer agent at the address and applicable phone number below.

First Chicago Trust Company
of New York
c/o EquiServe
P.O. Box 2500
Jersey City, NJ 07303-2500

Telephone:
Inside the United States: 888-764-5592
Outside the United States: 201-324-0498
TDD/TTY (for the hearing impaired):
201-222-4955

Internet: *www.equiserve.com*

Bank One offers stockholders direct deposit of dividends, a convenient and safe method for having dividends deposited without charge into their account at most U.S. financial institutions. Please contact EquiServe for further information.

The Dividend Reinvestment and Stock Purchase Plan provides a simple way to invest in Bank One common stock without paying brokerage commissions. For a prospectus and enrollment card, please contact EquiServe.

Investor Relations
Analysts, portfolio managers and other investors seeking additional financial information are welcome to contact:

Investor Relations
Bank One Corporation
1 Bank One Plaza
Mail Code IL1-0738
Chicago, IL 60670-0738
312-732-4812

Dividend Information
Dividends on the common stock, if declared by the Board of Directors, customarily are paid on January 1, April 1, July 1 and October 1.

Stock Listing
The common stock is listed on the New York and Chicago stock exchanges and trades under the ticker symbol ONE. Two series of preferred stock are listed on the New York Stock Exchange.

Annual Meeting of Stockholders
The Annual Meeting of Stockholders will be held on Tuesday, May 15, 2001, at 9:30 a.m. (Chicago Time) in the Bank One Auditorium, located in the Plaza area of the corporate headquarters at 1 Bank One Plaza in Chicago.

Independent Public Accountants
KPMG LLP
303 East Wacker Drive
Chicago, Illinois 60601

Headquartered in Chicago, Bank One Corporation is the country's fifth largest bank holding company, with assets of more than $265 billion. Bank One offers a full range of financial services to large corporate and middle-market commercial customers and to retail consumers. It is the largest VISA® credit card issuer, the third largest bank lender to small businesses and one of the top 25 managers of mutual funds. A leader in the retail market, Bank One operates more than 1,800 banking centers as well as a nationwide network of ATMs. It also is a major commercial bank in the United States and in select international markets.

BANK ONE CORPORATION 1 Bank One Plaza Chicago, Illinois 60670

For the Year Ended December 31, 2000

BANK ONE CORPORATION

Index To Financial Review

SELECTED FINANCIAL DATA

(In millions, except ratios and per share data)	2000	1999	1998	1997	1996
Income Statement Data:					
Total revenue, net of interest expense	**$ 13,926**	$ 17,713	$ 17,418	$ 16,155	$ 15,239
Net interest income—tax-equivalent basis	**8,974**	9,142	9,469	9,619	9,417
Provision for credit losses	**3,398**	1,249	1,408	1,988	1,716
Noninterest income	**5,090**	8,692	8,071	6,694	5,994
Noninterest expense	**11,608**	11,490	11,545	9,740	8,681
Net income (loss)	**(511)**	3,479	3,108	2,960	3,231
Per Common Share Data:					
Net income (loss):					
Basic	**$ (0.45)**	$ 2.97	$ 2.65	$ 2.48	$ 2.64
Diluted	**(0.45)**	2.95	2.61	2.43	2.57
Cash dividends declared	**1.26**	1.68	1.52	1.38	1.24
Book value	**15.90**	17.34	17.31	16.03	16.64
Balance Sheet:					
Loans:					
Managed	**$236,492**	$229,196	$216,391	$196,993	$182,799
Reported	**174,251**	163,877	155,398	159,579	153,496
Deposits	**167,077**	162,278	161,542	153,726	145,206
Long-term debt (1)	**40,911**	35,435	22,298	21,546	15,363
Total assets:					
Managed	**309,096**	315,064	305,781	278,439	234,710
Reported	**269,300**	269,425	261,496	239,372	225,822
Common stockholders' equity	**18,445**	19,900	20,370	18,724	18,856
Total stockholders' equity	**18,635**	20,090	20,560	19,050	19,507
Credit Quality Ratios:					
Net charge-offs to average loans	**0.81%**	0.77%	0.97%	1.21%	1.04%
Allowance for credit losses to period end loans	**2.36**	1.39	1.46	1.77	1.75
Nonperforming assets to related assets	**1.48**	1.02	0.83	0.68	0.64
Financial Performance Ratios:					
Return (loss) on average assets	**(0.19)%**	1.36%	1.30%	1.29%	1.43%
Return (loss) on average common equity	**(2.7)**	17.1	15.9	15.8	17.5
Net interest margin:					
Managed	**4.76**	5.37	5.56	5.50	5.28
Reported	**3.72**	4.09	4.52	4.75	4.70
Efficiency ratio:					
Managed	**66.7**	54.5	57.6	53.2	51.4
Reported	**82.5**	64.4	65.8	59.7	56.3
Capital Ratios:					
Risk-based capital:					
Tier 1	**7.3**	7.7	7.9	8.2	9.5
Total	**10.8**	10.7	11.3	12.3	13.6
Tangible common equity/tangible managed assets	**5.5**	5.7	5.8	6.2	6.9
Common Stock Data:					
Average shares outstanding:					
Basic	**1,154**	1,168	1,170	1,176	1,199
Diluted	**1,154**	1,178	1,189	1,213	1,254
Stock price, year-end	**$ 36.63**	$ 32.00	$ 51.06	$ 49.37	$ 39.09
Stock dividends	**—**	—	10%	—	10%
Employees (2)	**80,778**	87,735	92,800	95,900	99,400

(1) Includes trust preferred capital securities.

(2) Employee headcount for 2000 and 1999 is based on full-time and part-time employment with benefits. Headcount for years prior to 1999 is an estimate based on full-time and part-time employment with benefits.

DESCRIPTION OF BUSINESS

BANK ONE CORPORATION (“Bank One” or the “Corporation”) is a multibank holding company registered under the Bank Holding Company Act of 1956 (the “BHC Act”), and is headquartered in Chicago, Illinois. Bank One was incorporated in Delaware on April 9, 1998, to effect the merger (the “Merger”) of Banc One Corporation (“Banc One”) and First Chicago NBD Corporation (“FCN”). The Merger became effective on October 2, 1998.

Bank One provides domestic retail banking, finance and credit card services; worldwide commercial banking services; and trust and investment management services. Bank One operates banking offices in Arizona, Colorado, Florida, Illinois, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Texas, Utah, West Virginia and Wisconsin and in selected international markets. Bank One also engages in other businesses related to banking and finance, including credit card and merchant processing, consumer and education finance, mortgage lending and servicing, insurance, venture capital, investment and merchant banking, trust, brokerage, investment management, leasing, community development and data processing. These activities are conducted through bank subsidiaries (collectively, the “Banks”) and nonbank subsidiaries.

Bank One is a leader in retail and small business banking, operating more than 1,800 banking centers and a nationwide network of ATMs. The Corporation is the #3 commercial bank in the United States. Bank One has leadership positions in syndicated lending, asset-backed financing and middle market banking. The Corporation is the third largest credit card company in the United States and is the largest VISA® credit card issuer in the world. Bank One is one of the leading bank-owned investment management companies with in excess of $130 billion in assets under management.

Basis of Presentation

Management’s discussion and analysis may contain forward-looking statements provided to assist in the understanding of anticipated future financial performance. However, such performance involves risks and uncertainties that may cause actual results to differ materially from those expressed in forward-looking statements. See pages 101–102 for a full discussion of these factors.

For funding and risk management purposes, the Corporation periodically securitizes loans, primarily in support of credit card activities. The accounting for securitizations complicates the understanding of underlying trends in net interest income, net interest margin and noninterest income, as well as the underlying growth rates of reported loans. For clarification, these trends are also reviewed on a “managed” basis, which adds data on securitized credit card loans to reported data on loans. Results on a managed basis, where presented, should be read in conjunction with reported results. See page 43 for reconciliation of reported to managed results.

BUSINESS SEGMENTS

The Corporation is managed on a line of business basis. The business segments’ financial results presented reflect the current organization of the Corporation. The following table summarizes certain financial information by line of business for the periods indicated:

	Net Income (Loss) (In millions)		Average Managed Assets (In billions)	
	2000	**1999**	**2000**	**1999**
Retail	**$ 389**	$1,041	**$ 79.0**	$ 72.5
Commercial Banking	**(226)**	788	**109.5**	106.0
First USA	**(1)**	1,135	**70.0**	74.9
Investment Management	**322**	317	**7.6**	7.1
Corporate Investments	**239**	371	**8.5**	7.8
Corporate/Unallocated	**(1,234)**	424	**40.4**	33.9
Total business segment results	**(511)**	4,076	**315.0**	302.2
Merger-related items and other significant items	**—**	(597)	**—**	—
Total Corporation	**$ (511)**	$3,479	**$315.0**	$302.2

Performance in 2000, and to a lesser degree 1999, was impacted by a number of significant items (see Tables 1 and 2 on page 15). In 2000, these items consisted primarily of asset valuation writedowns resulting in a net negative impact on earnings of $2.887 billion pretax ($1.879 billion after tax). These items primarily reflected the result of an intensive review of businesses, systems, operations and the balance sheet conducted throughout the year and exclude any provision for credit loss items. In 1999, such items consisted primarily of merger-related charges and writedowns and gains from asset sales resulting in a net negative impact on earnings of $880 million pretax ($597 million after tax).

Description of Methodology

The results of the business segments are intended to reflect each as if it were a stand-alone business. The management reporting process that derives these results allocates income and expenses using market-based methodologies. Funds transfer pricing is used to allocate interest income and interest expense and reflect an appropriate level of interest rate risk in each line of business. The Corporation's remaining interest rate risk position is included in the Corporate/Unallocated segment.

Beginning in the second quarter of 2000, the provision for credit losses was fully allocated to the appropriate lines of business and reflects Management's estimate of inherent losses. Prior to the second quarter, the provision in the lines of business was determined using standard credit cost methodologies that measured expected losses over a certain period of time. Any difference between the aggregate provision of the businesses and the Corporation's total was reflected in Corporate/Unallocated.

Historically, the costs of certain support units were allocated to the lines of business based on factors other than usage, such as headcount and total assets. The methodology was changed in the third quarter of 2000 to better reflect the actual cost and usage of services provided and was consistently applied to all lines of business. Costs allocated to First USA decreased, while unallocated costs that are included in Corporate/Unallocated increased.

The lines of business are assigned capital that reflects the underlying risk in that business. See the "Capital Management" section on page 43 for a discussion of the economic capital framework.

The 1999 merger-related charges and the effect of certain identified transactions in prior periods were not attributed to any business segment since they were not considered a part of core business activities.

Business Segment Results And Other Data

Retail

Retail includes consumer and small business banking, auto and consumer lending, and interactive banking and financial management through bankone.com and WingspanBank.com. Retail provides a broad range of financial products and services, including deposits, investments, loans, and insurance, to more than 8 million consumers and 425,000 small businesses, over 900,000 of which are serviced on-line.

Retail operates banking centers in 14 states where it has #1 or #2 market share in more than 60% of its markets. Retail's distribution channels include approximately 1,800 banking centers, 6,000 ATMs, online banking, and 24-hour telephone banking.. The ONE Card, issued by Retail is one of the country's leading debit cards for individuals. Bank One is the #3 lender to small businesses.

Bank One is a leader in originating consumer credit nationwide through direct and indirect channels, including its banking centers, relationships with brokers, the Internet and telephone. The Corporation offers real estate secured, education, tax refund, and consumer installment loans, and auto loans and leases to individuals. The Corporation is also the #3 bank provider of home equity loans.

(Dollars in millions)	2000	1999	% Change
Net interest income—tax-equivalent basis	**$4,895**	$4,379	12%
Provision for credit losses	**870**	415	N/M
Noninterest income	**618**	1,541	(60)
Noninterest expense	**4,035**	3,933	3
Net income	**389**	1,041	(63)
Return on equity	**7%**	23%	
Efficiency ratio	**73**	66	
(Dollars in billions)			
Loans—average	**$ 74.6**	$ 66.1	13
Assets—average	**79.0**	72.5	9
Deposits—average	**88.4**	89.1	(1)
Common equity—average	**5.8**	4.6	26
Supplemental Information:			
Headcount—full-time	**35,759**	N/A	—
Loans: (dollars in billions)			
Home equity loans—average	**$ 27.7**	$ 20.1	38
Indirect auto loans/leases—average	**24.2**	23.4	3
Commercial loans—average	**11.7**	11.0	6
Other personal loans—average	**11.0**	11.6	(5)
Distribution:			
Banking centers	**1,810**	1,854	(2)
ATMs	**6,055**	6,824	(11)
On-line customers (in thousands)	**918**	488	88
Investments:			
Sales volume (in billions)	**$ 4.2**	$ 4.1	2

N/M—Not meaningful.

N/A—Not available due to changes in segment composition, see Note 5 on page 59.

Retail reported net income of $389 million in 2000, down from $1.041 billion in 1999. This reduction reflected a combination of factors, most notably a significant increase in provision for credit losses and the negative impact of significant items in 2000 (see Tables 1 and 2 on page 15), which were partially offset by an increase in net interest income. Excluding the significant items, Retail's net income would have been $870 million for 2000.

Net interest income increased $516 million, or 12%, from 1999, reflecting 13% growth in average loans, wider deposit spreads and improved pricing on indirect auto loans, partially offset by a shift in deposit mix toward higher rate certificates of deposits. Loan growth was driven by a 38% increase in average home equity loans, partially offset by a decline in other personal loans.

Provision for credit losses increased $455 million in 2000. This principally reflected the significant growth in home equity loans, higher net charge-offs and increases in home equity nonperforming loans.

Noninterest income declined $923 million, or 60%, from 1999. The most significant factor contributing to this decrease was losses associated with auto leases. Results for 2000 included a $532 million increase in the auto lease residual reserve plus $225 million of losses on sales of autos. An additional $113 million was related to writedowns for planned loan sales and $25 million of writedowns for interest-only strips. At December 31, 2000, Management decided to discontinue its plan to sell these loans. The 2000 results included $83 million less in miscellaneous asset sale gains than in 1999.

Noninterest expense increased $102 million, or 3%, from the prior year reflecting $85 million of significant items, principally $54 million of severance and other writedowns related to business restructuring, and $31 million of operational and other. A $54 million increase in expenses was associated with Wingspan's full year of operation. Excluding these items, noninterest expense was down slightly, reflecting the positive impacts from waste reduction initiatives, reduced incentive compensation and the sale of the consumer finance business.

Commercial Banking

Commercial Banking offers a broad array of products, including cash management, capital markets and lending, to Corporate Banking and Middle Market Banking customers.

Corporate Banking serves more than 1,500 large corporations, financial institutions, government and not-for-profit entities with revenues greater than $250 million. It is the #1 commercial bank in the Midwest and the #3 commercial bank in the United States. In addition to lending, Corporate Banking offers a broad range of financial products and develops, markets, and delivers cash management, capital markets, international treasury and trade, e-Business and other noncredit products and services. Bank One's Capital Markets business is engaged in the origination, trading, and distribution of asset-backed securities, investment grade and high yield securities, derivatives, tax-exempt securities, and government bonds, for which the broker/dealer is a primary dealer. Capital Markets is also actively engaged in loan syndications, market research, advisory services, and private placements.

Middle Market Banking serves customers with annual revenues in excess of $5 million up to $250 million. With more than 18,000 customers, Bank One's market share exceeds 20% in 10 of the 12 states in which it operates. These customers use a wide variety of services with nearly one third using Bank One exclusively. Since privately held companies comprise the vast majority of the Middle Market customer base, providing credit is fundamental to the success of this business. The loan portfolio is well diversified across a broad range of industries and geographic locations. In addition to credit, this customer segment actively uses Bank One's treasury management, international, capital markets, and investment management products and services. Bank One's Middle Market Banking business is the #1 provider of cash management services in the 12 state footprint. Middle Market Banking benefits from both the retail banking infrastructure and investment management capabilities of the Corporation.

(Dollars in millions)	2000	1999	% Change
Net interest income—tax-equivalent basis	**$2,717**	$2,538	7%
Provision for credit losses	**2,213**	435	N/M
Noninterest income	**1,397**	1,281	9
Noninterest expense	**2,257**	2,195	3
Net income (loss)	**(226)**	788	N/M
Return (loss) on equity	**(3)%**	14%	
Efficiency ratio	**55**	57	
(Dollars in billions)			
Loans—average	**$ 82.2**	$ 74.4	10
Assets—average	**109.5**	106.0	3
Deposits—average	**39.6**	37.7	5
Common equity—average	**6.6**	5.7	16
Supplemental Information:			
Headcount—full-time	**16,605**	N/A	—
Total Commercial Banking Credit Quality:			
Charge-offs—%	**0.68%**	0.39%	
Nonperforming loans (in millions)	**$1,523**	$ 871	75
Nonperforming loans ratio—end of period	**1.87%**	1.10%	
Corporate Banking:			
Loans and leases—average (in billions)	**$ 50.1**	$ 44.7	12
Deposits—average (in billions)	**$ 21.4**	$ 19.1	12
Net charge-offs to average loans	**0.87%**	0.53%	
Nonperforming loans (in millions)	**$1,065**	$ 578	84
Nonperforming loans ratio—end of period	**2.22%**	1.12%	
Syndications/Lead Arranger Deals:			
Volume (in billions)	**$ 58.1**	$ 47.9	21
Number of transactions	**209**	190	10
League table standing—rank	**4**	4	—
League table standing—market share	**6%**	7%	
Middle Market Banking:			
Loans and leases—average (in billions)	**$ 32.1**	$ 29.7	8
Deposits—average (in billions)	**18.2**	18.6	(2)
Net charge-offs to average loans	**0.40%**	0.18%	
Nonperforming loans (in millions)	**$ 458**	$ 293	56
Nonperforming loans ratio—end of period	**1.37%**	0.93%	

N/M—Not meaningful.

N/A—Not available due to changes in segment composition, see Note 5 on page 59.

Commercial Banking reported a net loss of $226 million for 2000, compared with 1999's net income of $788 million. This $1.014 billion decrease was principally driven by an increase in the provision for credit losses of $1.778 billion.

Net interest income increased $179 million, or 7% from the prior year, driven by 10% average loan growth partially offset by a modest decline in spread due to competitive pricing pressures in Corporate Banking and Middle Market banking and higher nonperforming loans. Middle Market Banking average loans were $32.1 billion, increasing 8% from the prior year. Corporate Banking reported a 12% increase in average loans year-over-year. While loan balances continued to grow throughout the year in Middle Market Banking, Corporate Banking loans started to decline in the fourth quarter, reflecting efforts to focus on more profitable customers.

The provision for credit losses increased $1.778 billion in 2000 from the prior year due to deterioration in the quality of loans and a higher reserve level established for the general loan portfolio. The deterioration in credit quality reflected the slowing of the economy as well as weakness in several industries and leveraged finance transactions. See Credit Risk Management (on page 26) for additional credit related discussion.

Noninterest income of $1.397 billion increased $116 million, or 9% from the prior year. Treasury Management Services revenue of $647 million increased $71 million, or 12%, driven by strong growth in commercial card activity, higher sweep fees and continued growth in wholesale lockbox imaging. Capital markets revenue of $429 million improved $25 million, or 6%, due to growing market share in municipals, increased activity in the asset-backed finance business, foreign exchange trading and high yield securities. Lending-related fees of $205 million increased $60 million, or 41%, reflecting higher levels of loan commitment fees.

Noninterest expense increased $62 million, or 3%, from the prior year, and included $21 million for severance and $6 million for fixed asset writeoffs, as well as an increase in treasury management services investment spending. These increases were partially offset by lower incentive compensation and waste reduction efforts.

First USA

First USA is the third largest credit card company in the United States and is the largest Visa® credit card issuer in the world, with $67 billion in managed credit card receivables and 51.7 million cardmembers. First USA.com is the leader in online card marketing and customer service, with over 2.3 million registered users of its web site.

First USA offers its products through cards marketed directly to customers under the First USA brand, affinity groups and co-brand relationships. First USA offers two types of general-purpose credit cards, premium and standard, as well as small business cards. All cards are issued to customers under either the Visa® or MasterCard® name. Premium cards, which include Platinum and Titanium cards, generally have higher usage and balances than do standard cards. First USA directs the majority of its new account acquisition efforts to members of endorsing groups, commercial firms, and financial institutions, including Bank One and has more than 1,800 marketing partners.

First USA grants credit by carefully applying a credit decision model to new customers. This model has been developed over the years, and is the result of the over 100 million credit decisions that First USA has made over its history.

(Dollars in millions)	2000	1999	% Change
Net interest income—tax-equivalent basis	**$ 5,835**	$6,881	(15)%
Provision for credit losses	**3,637**	3,593	1
Noninterest income	**746**	1,632	(54)
Noninterest expense	**2,946**	3,204	(8)
Net income (loss)	**(1)**	1,135	N/M
Return on outstandings (pretax)	**—%**	2.5%	
Return on equity	**—**	19	
Efficiency ratio	**45**	38	
(Dollars in billions)			
Loans—average	**$ 66.2**	$ 69.0	(4)
Assets—average	**70.0**	74.9	(7)
Common equity—average	**6.1**	6.0	2
Supplemental Information:			
Headcount—full-time	**10,901**	N/A	—
Percentage of Average Outstandings:			
Net interest income—tax-equivalent basis	**8.81%**	9.97%	
Provision for credit losses	**5.49**	5.21	
Noninterest income	**1.13**	2.37	
Noninterest expense	**4.45**	4.64	
Pretax income—tax-equivalent basis	**—**	2.49	
Net income	**—**	1.64	
Credit Card Loans—end of period: **(dollars in billions)**			
Owned credit card loans	**$ 4.7**	$ 4.0	17
Seller's interest in credit cards	**22.5**	19.7	14
Loans on balance sheet	**27.2**	23.7	15
Securitized credit card loans	**39.8**	45.7	(13)
Managed credit card loans	**$ 67.0**	$ 69.4	(3)
Credit Quality:			
Managed charge-offs **(in millions)**	**$ 3,584**	$3,790	(5)
Managed charge-off-ratio	**5.42%**	5.49%	
Delinquency ratio—30+ days	**4.51**	4.57	
Delinquency ratio—90+ days	**2.02**	2.13	
Charge volume **(in billions)**	**$ 142.5**	$142.7	—
New accounts opened **(in thousands)**	**3,324**	8,108	(59)
Cards issued (1) **(in thousands)**	**51,693**	64,191	(19)

(1) The decrease in cards issued is partly attributable to purging of accounts as noted below.

N/M—Not meaningful.

N/A—Not available due to changes in segment composition, see Note 5 on page 59.

First USA reported a net loss of $1 million in 2000, compared with net income of $1.135 billion in 1999. This reflected a 23% decline in revenue and a slightly higher provision for credit losses, partially offset by lower expenses. Current year results included $830 million pretax of significant items (see Tables 1 and 2 on page 15). Excluding these items, 2000 results represented a 1.3% pretax return on outstandings, down from 2.5% in 1999. On this same basis, return on equity declined to 9% from 19% in 1999.

Net interest income declined $1.046 billion, or 15%, from 1999. This was primarily driven by decreased spread, lower late fee revenue, and a decline in average loans. Average managed outstandings were $66.2 million, down 4% from the prior year. Attrition on mature vintage balances continued to improve throughout 2000. At year-end 2000, First USA had 51.7 million cards issued, compared to 64.2 million at December 31, 1999. Approximately 7 million inactive accounts were purged during 2000.

Provision for credit losses increased only 1% in 2000. This reflected an increase in provision mostly offset by a decrease in the managed charge-off rate to 5.42% from 5.49% in 1999. The prior year charge-offs included $183 million related to the early adoption of the Federal Financial Institutions Examination Council's (FFIEC) revised consumer credit guidelines. At year end, the managed 30-day and 90-day delinquency rates were 4.51% and 2.02%, respectively, down from 4.57% and 2.13% a year earlier.

Noninterest income declined $886 million, or 54% from the prior year. Current year results included $467 million of significant items primarily related to writedowns of the interest-only strip on securitized credit card receivables and marketing partnership agreements (see Table 1 on page 15). In addition, 2000 results included $116 million of net securitization amortization compared with net securitization gains of $61 million in 1999. Revenue sharing payments to partnership and affinity groups, which are included in noninterest income, increased in 2000 reflecting the emphasis on these growing customer groups. In addition, lower revenue from fee-based products contributed to the decline in noninterest income from the prior year, as well as the prior year's inclusion of $126 million of nonrecurring items.

Noninterest expense declined $258 million, or 8%, from the prior year. Excluding the impact of $328 million of significant items, noninterest expense declined $586 million, or 18%. This decrease reflected a decline in marketing expenses and the positive impact of waste reduction initiatives, such as lower headcount and improved operating efficiency, as well as the sale of the international operations, lower processing costs due to the decrease in portfolio size, and a decrease in internal costs related to a change in allocation methodology. This change in allocation methodology was implemented in the 2000 third quarter to better reflect the actual cost of services provided. These positive impacts were partially offset by increased fraud and operational losses.

Investment Management

The Investment Management Group (IMG) provides investment, insurance, trust and private banking services to individuals. The Group also provides investment-related services, including retirement and custody services, securities lending and corporate trust to institutions.

The Investment Management Group's registered investment advisory arm, Banc One Investment Advisors, ranks among the nation's top asset managers, with approximately $131 billion in assets under management. In addition, the Investment Management Group manages One Group Mutual Funds, one of the largest mutual fund families with more than $70 billion in assets under management. Performance of the funds has been exceptionally strong with 97% ranked 3 stars or better and 62% ranked 4 stars or better by Morningstar.

Private Client Services (PCS) is uniquely designed to help manage and build wealth for high net worth clients. PCS provides integrated financial advice and services such as brokerage, investment and alternative asset management, personal trust, private banking, insurance and financial planning through 585 advisors.

Investment Management serves Bank One's retail customer base by delivering investment products and services through our 1,800 banking centers in 14 states. IMG teams 700 dedicated investment professionals with 2,700 licensed bankers in Retail's banking centers to deliver high quality investment and insurance products.

Custody, master trust and retirement services (such as 401(k), defined benefit and non-qualified plans) are provided to institutional customers. Corporate trust services are provided to governmental and municipal entities, as well as a broad range of middle market and large companies. The Corporate Trust unit ranks among the three largest providers in the country for bond trustee services.

(Dollars in millions)	2000	1999	% Change
Net interest income—tax-equivalent basis	**$ 409**	$ 376	9%
Provision for credit losses	**13**	2	N/M
Noninterest income	**1,161**	1,179	(2)
Noninterest expense	**1,049**	1,075	(2)
Net income	**322**	317	2
Return on equity	**36%**	35%	
Efficiency ratio	**67**	69	
(Dollars in billions)			
Loans—average	**$ 6.6**	$ 5.7	16
Assets—average	**7.6**	7.1	7
Deposits—average	**8.5**	8.8	(3)
Common equity—average	**0.9**	0.9	—
Supplemental Information:			
Headcount—full-time	**6,562**	N/A	
Assets Under Management—end of period (dollars in billions):			
Mutual funds	**$ 70.4**	$ 64.4	9
Other	**60.8**	64.5	(6)
Total	**$131.2**	$128.9	2
Morningstar Rankings:			
Percentage of 4 & 5 ranked funds	**62%**	54%	
Percentage of 3+ ranked funds	**97**	84	
Retail Brokerage:			
Mutual fund & annuities sales (in billions)	**$ 4.2**	$ 4.0	5
Number of accounts (in thousands)	**384**	349	10
Market value customer assets-end of period (in billions)	**$ 23.1**	$ 23.4	(1)
Private Client Services:			
Loans—average (in billions)	**$ 6.4**	$ 5.5	16
Deposits—average (in billions)	**7.0**	7.2	(3)
Number of Advisors	**585**	N/A	

N/M—Not meaningful.
N/A—Not available due to changes in segment composition, see Note 5 on page 59.

Investment Management reported net income of $322 million, up $5 million from the prior year.

Net interest income increased $33 million, or 9%, from the prior year, reflecting a 16% increase in average loans partially offset by narrower spreads related to the 3% decrease in average deposits.

Provision for credit losses increased $11 million, principally related to higher net charge-offs and loan growth.

Noninterest income, which is principally fiduciary and investment fees, decreased $18 million, or 2%, due to the sale of a subsidiary in the 1999 second quarter. Excluding the impact of this sale, noninterest income increased 2%, reflecting growth in retail brokerage and insurance volumes and moderate growth in assets under management.

Noninterest expense decreased $26 million, or 2%, also related to the 1999 second quarter sale of a subsidiary. Excluding the impact of this sale, expenses increased 2%, principally related to volume growth in retail brokerage and insurance activities.

Assets under management totaled $131.2 million, up 2% from the end of 1999. One Group® mutual fund assets under management increased 9% to $70.4 billion. One Group® fund performance continued to remain strong, with 97% of these funds rated three stars or higher by Morningstar. Average assets under management increased 5% compared with 1999, driven principally by a 14% increase in One Group mutual funds.

Corporate Investments

The Corporate Investments Group engages in proprietary investment activities for the account of Bank One. A diversified portfolio of investments is allocated between tax-oriented transactions and portfolios of more traditional asset classes.

Tax-oriented investments include investments in and advising on leases for commercial aircraft and major industrial and power production facilities and equipment. Investments also are made in alternative energy programs and affordable housing projects qualifying for federal tax credits.

Investment portfolios in the other asset classes are executed by a combination of direct investing and fund investing. Fund investments are made pursuant to allocations for selected investment strategies and are committed to proven managers satisfying established due diligence criteria. Fund investments include venture capital funds, hedge funds and commercial real estate funds. Direct investments are comprised of a diversified portfolio that includes exposure to several market sectors, including commercial mortgage-backed securities, asset-backed securities, collateralized debt obligations, high-yield bonds, private equity and mezzanine debt.

Corporate Investment's portfolio is diversified among several asset classes, some of which provide stable earnings streams while others may be more volatile.

(Dollars in millions)	**2000**	**1999**	**% Change**
Net interest income—tax-equivalent basis	**$107**	$175	(39)%
Provision for credit losses	**2**	—	N/M
Noninterest income	**213**	407	(48)
Noninterest expense	**102**	134	(24)
Net income	**239**	371	(36)
Return on equity	**20%**	37%	
Efficiency ratio	**32**	23	
(Dollars in billions)			
Loans—average	**$ 3.6**	$ 3.5	3
Assets—average	**8.5**	7.8	9
Common equity—average	**1.2**	1.0	20
Supplemental Information:			
Headcount—full time	**200**	N/A	—

N/M—Not meaningful.

N/A—Not available due to changes in segment composition, see Note 5 on page 59.

Corporate Investments reported net income of $239 million, down $132 million, or 36%, from 1999. Tax-oriented strategies continued to provide stable core performance. This performance was offset by the third quarter sale of the operations and substantially all of the assets of Banc One Capital Funding Corporation (primarily housing and healthcare investments and related servicing rights), as well as a decline in the collective contribution from all other investment strategies during the year's difficult capital markets environment.

Net interest income declined $68 million, or 39%. Growth in investment levels for venture capital, private equity, hedge funds and tax-oriented housing and energy investments which are noninterest yielding, accounted for $43 million of the decline, and was due to the funding cost of these investments. Spread income from Banc One Capital Funding Corporation activities declined $39 million from the prior year. Spread income is expected to decline approximately $8 million in the coming year as compared to 2000 due to the absence of the Banc One Capital Funding activities, with negligible impact to net income.

Noninterest income declined $194 million, or 48%. Equity securities gains totaled $187 million in 2000, down from $334 million in 1999. Securities gains from venture capital and private equity investing declined $148 million, or 55%, reflecting the weak market for initial public offerings (IPOs) and financial restructurings in 2000. Asset impairment charges and realized losses related to the collateralized debt obligation investment portfolios represented $27 million of the overall decline.

Noninterest expense declined $32 million, or 24%, reflecting the benefits from waste reduction efforts, lower performance-based compensation, and a $5 million reduction attributable to the sale of certain assets.

Corporate/Unallocated

Corporate/Unallocated includes certain items that are not allocated to the lines of business. Going forward, Corporate/Unallocated results are expected to reflect the Corporation's investment securities portfolio, the unallocated interest rate risk position, unallocated expenses of certain corporate support areas, and the impact of unallocated net assets and capital. The 2000 and 1999 results included certain unallocated expenses for support areas, gains and losses, restructuring charges, and writedowns and expenses resulting from Management's review of the business.

(Dollars in millions)	**2000**	**1999**	**% Change**
Net interest income (expense)—tax-equivalent basis	**$ (457)**	$ 108	N/M
Provision for credit losses	**—**	(107)	N/M
Noninterest income	**(240)**	433	N/M
Noninterest expense	**1,218**	77	N/M
Net income (loss)	**(1,234)**	424	N/M
Return (loss) on equity	**(95)%**	20%	
Efficiency ratio	**N/M**	14	
(Dollars in billions)			
Assets—average	**$ 40.4**	$33.9	19
Deposits—average	**23.3**	18.5	26
Common equity—average	**(1.3)**	2.1	N/M
Supplemental Information:			
Headcount—full time	**10,751**	N/A	—

N/M—Not meaningful.

N/A—Not available due to changes in segment composition, see Note 5 on page 59.

The net loss in Corporate/Unallocated was $1.234 billion in 2000, compared with net income of $424 million in 1999. The 2000 results included the negative impact of $1.279 billion, pretax, of significant items. (See tables 1 and 2 on page 15).

Net interest expense was $457 million in 2000, compared with net interest income of $108 million for 1999. The year-over-year change reflects the interest rate risk position of the Corporation and the level of unallocated equity and assets. The 1999 unallocated equity was a positive $2.1 billion, while in 2000 the unallocated equity was a negative $1.3 billion. The amount of unallocated equity represents the difference between shareholders' equity and attributed economic capital. Refer to the ''Capital Management'' section, beginning on page 43 for additional information. The change, in part, reflects the writedowns taken during 2000 in conjunction with Management's effort to strengthen the balance sheet.

Provision for credit losses was fully allocated to the lines of business in 2000. The 1999 provision was a negative $107 million, reflecting the difference between standard credit costs in the lines of business and the Corporation's actual provision expense.

Noninterest income was a negative $240 million in 2000, compared with $433 million in 1999. Investment securities losses totaled $428 million in 2000, compared with gains of $94 million in 1999. The investment securities losses in 2000 included $415 million of losses resulting from the repositioning of the Corporation's investment portfolio in the second quarter of 2000, more than offsetting the income on corporate-owned life insurance. Income on corporate-owned life insurance and gains on sales of assets were included in 1999's results.

Noninterest expense was $1.218 billion for 2000, compared with $77 million in 1999. Significant items recorded in 2000 included $350 million for operational and other losses, $315 million for occupancy-related costs, a $190 million addition to legal accruals and $9 million in severance.

Significant Items

The following table summarizes significant items recorded in 2000 by each business segment and income statement line, excluding provision for credit losses not FFIEC-related:

Business Segments—Table 1 (In millions)	**Retail**	**Commercial**	**First USA**	**Investment Management**	**Corporate Investments**	**Corporate/ Unallocated**	**Total**
Pretax expense (income):							
Writedown of auto lease residuals	$532	$ —	$ —	$—	$—	$ —	$ 532
Repositioning of investment securities portfolio						415	415
Operational and other (1)	42	(19)	63		10	350	446
Writedown of interest-only strip			354				354
Occupancy and fixed asset related	9	6	11	(4)		315	337
Writedown of purchased credit card relationship intangibles			275				275
Writedowns primarily related to planned loan sales (2)	167						167
Increase to legal accruals						190	190
Writedown of marketing partnership agreements			121				121
Severance related	10	21	6	4		9	50
Total	$760	$ 8	$830	—	$10	$1,279	$2,887
After tax	$481	$ 5	$526	$—	$ 7	$ 860	$1,879
Income Statement line—Table 2 (In millions)							
Pretax expense (income):							
Net interest income	$ 14	$ (7)	$ —	$—	$—	$ (6)	$ 1
Provision for loan loss	11		35				46
Noninterest income:							
Non-deposit service charges					(1)		(1)
Credit card revenue			152				152
Service charges on deposits		5					5
Investment securities (gains) losses		(1)			11	415	425
Trading		44					44
Other income	650	3	315	2		11	981
Total noninterest income	650	51	467	2	10	426	1,606
Noninterest expense:							
Salaries and employee benefits (1)	12	(42)	(4)	(19)		145	92
Net occupancy and equipment	9	6	11			72	98
Depreciation and amortization			275	9		36	320
Other expense	24	1	39	8		466	538
Merger-related and restructuring	40	(1)	7			140	186
Total noninterest expense	85	(36)	328	(2)	—	859	1,234
Pretax expense	$760	$ 8	$830	$—	$10	$1,279	$2,887

(1) Includes $75 million of incentive accruals reversed in the fourth quarter relating to the full year in which existing plans were adjusted to a pay for performance basis.

(2) At December 31, 2000, Management discontinued its plan to dispose of these loans, and as such, are now considered part of the general portfolio.

During 1999, significant items totaling $880 million pretax ($597 million after-tax) were not allocated to specific business segments. These items included charges of $722 million for merger and restructuring costs, $321 million for asset impairment, valuation adjustments and other charges, and $197 million for provision for credit losses primarily associated with the FFIEC implementation. These charges were partially offset by gains of $111 million and $249 million, respectively, for the sale of Concord/EPS and the Indiana divestitures.

The income statement lines affected in 1999 are as follows:

(In millions)	
Provision for credit losses	**$ 176**
Noninterest income	**(169)**
Noninterest expense	**873**
Pretax expense	**$ 880**
After tax	**$ 597**

CONSOLIDATED RESULTS

Summary of Financial Results

The Corporation reported a 2000 net loss of $511 million, or $0.45 per share, compared with net income of $3.479 billion, or $2.95 per diluted share, in 1999, and $3.108 billion, or $2.61 per diluted share, in 1998.

Net Interest Income

Net interest income includes spreads on earning assets as well as items such as loan fees, cash interest collections on problem loans, dividend income, interest reversals, and income or expense on derivatives used to manage interest rate risk. Net interest margin measures how effectively the Corporation uses its earning assets and underlying capital.

In order to understand fundamental trends in net interest income, average earning assets and net interest margins, it is useful to analyze financial performance on a managed portfolio basis, which adds data on securitized loans to reported data on loans as presented below:

	Year Ended December 31		
(Dollars in millions)	2000	1999	1998
Managed:			
Net interest income—tax-equivalent basis	**$ 13,506**	$ 14,457	$ 13,828
Average earning assets	**284,035**	269,237	248,621
Net interest margin	**4.76%**	5.37%	5.56%
Reported:			
Net interest income—tax-equivalent basis	**$ 8,974**	$ 9,142	$ 9,469
Average earning assets	**241,058**	223,539	209,514
Net interest margin	**3.72%**	4.09%	4.52%

Lower average credit card outstandings, lower fee revenues and narrower spread on credit card loans were the most significant causes of the decline in both the net interest income and related margin in 2000. Lower average credit card outstandings and fee revenues reflected customer attrition and reduced new account origination, while narrower spread reflected higher funding costs in 2000. Competitive pricing pressures in Corporate Banking and Middle Market Banking and higher nonperforming loans reduced margins slightly in the commercial loan portfolio.

During the second half of 2000, net interest income declined, reflecting a lower level of loans and the cost of carrying a higher level of nonperforming assets. Exposure to the Corporate Banking market could decline in 2001 as the line of business places increased emphasis on relationship profitability.

On a reported basis, net interest margin was 3.72% in 2000, compared with 4.09% in 1999 and 4.52% in 1998. The decrease in net interest margin in 2000 was related to lower credit card spreads as well as a less favorable earning asset mix.

Loans, which are presented on a managed basis, are as follows:

(Dollars in millions)	2000	Percent	1999	Percent	1998	Percent
Average managed loans:						
Credit card	**$ 66,178**	**28%**	$ 68,980	32%	$ 60,532	30%
Commercial	**100,202**	**43**	90,182	41	82,118	41
Consumer	**66,812**	**29**	59,440	27	57,206	29
Total	**$233,192**	**100%**	$218,602	100%	$199,856	100%

Average managed credit card loans in 2000 were down $2.8 billion, or 4%, from 1999 levels. Average managed credit card loans in 1999 were up 14% or $8.4 billion from 1998 levels to $69.0 billion.

Average commercial loans increased $10.0 billion or 11% in 2000 and $8.1 billion or 10% in 1999, reflecting underlying growth, concentrated in the Corporate Banking and Middle Market Banking portfolios.

Average consumer loans, excluding credit card loans, were up $7.4 billion, or 12%, from 1999. Growth in home equity loans was partially offset by run-off in residential mortgages and portfolio sales. The Corporation expects continued growth in consumer loans in 2001.

Noninterest Income

The table below shows the components of noninterest income for the periods indicated:

	Year Ended December 31			Percent Increase (Decrease)	
(Dollars in millions)	2000	1999	1998	1999-2000	1998-1999
Non-deposit service charges	**$1,537**	$1,502	$1,390	2%	8%
Credit card revenue (1)	**1,104**	1,363	1,244	(19)	10
Service charges on deposits	**1,310**	1,283	1,255	2	2
Fiduciary and investment management fees	**783**	793	807	(1)	(2)
Investment securities gains (losses)	**(235)**	509	405	N/M	26
Trading	**134**	147	141	(9)	4
Other income (loss)	**(738)**	685	718	N/M	(5)
Gains from banking center sales	**—**	—	259	—	N/M
Gain on Indiana Divestitures	**—**	249	—	N/M	N/M
Gain on sale of Concord/EPS	**—**	111	—	N/M	N/M
Managed noninterest income	**$3,895**	$6,642	$6,219	(41)%	7%

(1) Excludes net credit card revenue due to securitization totaling $1.195 billion in 2000, $2.050 billion in 1999 and $1.852 billion in 1998.
N/M—Not meaningful.

In order to provide more meaningful trend analysis, credit card fee revenue and total noninterest income in the above table are shown on a managed basis. Credit card fee revenue excludes the net interest revenue associated with securitized credit card receivables. Components of noninterest income that are primarily related to a single business segment are discussed within that business segment rather than the consolidated section.

Noninterest income in each of the last three years was affected by a number of significant items. In 2000, such items resulted in a negative impact of $1.606 billion (see Table 2 on page 15), primarily related to securities losses and writedowns of auto lease residuals and planned loan sales. In 1999, these items resulted in a $191 million net positive impact ($169 million of negative impact related to asset impairment and valuation adjustments (see page 15), which were offset by $360 million of gains), and 1998 included $259 million of one-time gains (see above table).

Excluding the impact of these items, noninterest income in 2000 was $5.500 billion, down $951 million, or 15%, from $6.451 billion in 1999, with results for 1999 up $491 million, or 8%, from $5.960 billion in 1998.

Non-deposit service charges increased 2% in 2000, compared with the 1999 levels, as higher loan syndication fees were partially offset by lower leasing fees for auto loans. Non-deposit service charges in 1999 increased 8% from 1998 levels, reflecting growth in fees from asset-backed finance transactions, higher loan syndication fees, and continued growth in other fee revenue from retail product areas.

Managed credit card revenue declined 19% to $1.104 billion in 2000 as compared to 1999, reflecting a decline in managed credit card receivables as well as writedowns for certain affinity partnership agreements of $137 million, which included the second quarter writedown of $121 million. Credit card fee revenue in 1999 included asset impairment writedowns of $59 million for certain assets, including affinity programs.

Service charges on deposit accounts, which include deficient balance fees, increased 2% in both 2000 and 1999, reflecting growth in cash management fees, due in part to the extensive cross selling of product offerings across an expanded geographic region. Effective cross selling was supported by enhanced product features and functionality of the core treasury management services provided to customers on a national basis.

Fiduciary and investment management fees decreased slightly in 2000 as compared to 1999, as fee growth from traditional trust products and services, investment management activities and shareholder services was offset by the absence of revenues from certain unprofitable account relationships exited in 2000. In 1999, fiduciary and investment management fees, adjusted for certain noncomparable items recorded in 1998, were up 11% over 1998 as a result of higher market values of trust assets and increases in proprietary mutual fund revenue.

Investment securities portfolio activities produced a loss of $235 million in 2000 as compared to $509 million of net revenue in 1999, primarily as the result of the repositioning of the Corporation's investment portfolio in the 2000 second quarter (see Significant Items Tables 1 and 2 on page 15) and lower venture capital valuations. The 26% increase in investment securities gains in 1999 as compared to 1998 primarily reflected favorable equity market conditions.

Trading results declined slightly to $134 million in 2000 compared with $147 million in 1999 as improved foreign exchange trading was offset by a decline in revenue generated from interest rate derivatives. The 1999 improvement over the $141 million in 1998 reflected favorable results in interest rate derivatives offset by a decline in foreign exchange trading income.

Other activities generated losses of $738 million in 2000, compared with $685 million of income in 1999. Net securitization amortization in 2000 totaled $116 million, compared with net gains of $54 million and $180 million in 1999 and 1998, respectively. Asset impairment writedowns associated with credit card interest-only strip securities were $432 million for 2000 compared to $40 million for 1999. These writedowns were driven by the narrower margin and increased attrition based on the earnings decline in the credit card business. Auto residual losses totaled $757 million for 2000, compared with $167 million for 1999. Included in these losses were charges of $552 million ($532 million significant items), $100 million and $102 million in 2000, 1999 and 1998, respectively, for asset valuation adjustments. While the Corporation has estimated the level of other than temporary impairment inherent in its leasing residual portfolio at December 31, 2000, continued deterioration in used car prices may result in additional charges, further reducing the carrying value of the Corporation's auto lease residual portfolio.

Included in other income in 1999 were $249 million of gains on the divestiture of banking centers in Indiana required in connection with the Banc One/FCN merger and a $111 million gain from an investment in Concord/EPS. Gains of $259 million from sales of banking centers were recorded in 1998.

Noninterest Expense

Noninterest expense in 2000 was $11.608 billion, compared with $11.490 billion in 1999. Noninterest expense has been relatively flat over the past three years. Certain expense categories decreased during 2000 as a result of the Corporation's waste reduction efforts.

The table below shows the components of noninterest expense for the periods indicated:

(Dollars in millions)	Year Ended December 31 2000	1999	1998	Percent Increase (Decrease) 1999-2000	1998-1999
Salaries and employee benefits:					
Salaries	**$ 3,735**	$ 3,668	$ 3,770	2%	(3)%
Employee benefits	**653**	603	707	8	(15)
Total salaries and employee benefits	**4,388**	4,271	4,477	3	(5)
Occupancy and equipment expense	**1,010**	910	845	11	8
Outside service fees and processing	**1,532**	1,743	1,349	(12)	29
Marketing and development	**874**	1,188	1,024	(26)	16
Communication and transportation	**841**	829	781	1	6
Depreciation	**454**	460	512	(1)	(10)
Other intangible amortization	**410**	168	91	N/M	85
Goodwill amortization	**70**	69	77	1	(10)
Other	**1,868**	1,298	1,327	44	(2)
Total noninterest expense before merger-related and restructuring charges	**11,447**	10,936	10,483	5	4
Merger-related and restructuring charges	**161**	554	1,062	(71)	(48)
Total noninterest expense	**$11,608**	$11,490	$11,545	1	—
Employees (1)	**80,778**	87,735	92,800	(8)	(5)
Efficiency ratio—managed basis	**66.7%**	54.5%	57.6%		

(1) For 2000 and 1999 employee headcount is based on full-time and part-time employment with benefits. Employee headcount for 1998 is an estimate based on full-time and part-time employment with benefits.

N/M—Not meaningful.

Components of noninterest expense that are primarily related to a single business segment are discussed within that business segment rather than the consolidated section.

Salary and benefit costs, including severance charges, were $4.388 billion in 2000, up 3% from $4.271 billion in 1999. The increase was due to higher salary levels, partially offset by reduced headcount and lower incentive compensation in 2000. At December 31, 2000, the number of employees with benefits totaled 80,778, down 8% from 87,735 in 1999. The decrease in salary and benefits costs in 1999 from 1998 was largely attributable to staff reductions and reduced pension costs and the integration of employee benefit programs.

Occupancy and equipment expense in 2000 was up $100 million, or 11%, from 1999 levels. This increase included $98 million of the $337 million significant item (see table 1 on page 15) related to writedowns concerning vacant space and other occupancy-related matters. The increase in 1999 reflected growth in production facilities as well as higher equipment costs for certain business units. The 1999 increase also reflected the outsourcing of various property management services and the implementation and ongoing support of an expanded ATM delivery network, including the Rapid Cash retail banking initiative.

Outside service fees and processing expense decreased 12% in 2000 after increasing 29% in 1999. A portion of the decrease in 2000 and the increase in 1999 reflected consulting and implementation costs incurred to support Year 2000 readiness, as well as other development, technology and reengineering initiatives in various businesses in 1999. The 2000 decrease also included benefits from the Corporation's waste reduction initiatives.

Marketing and development expense decreased 26% in 2000 and increased 16% in 1999 from 1998. Credit card marketing efforts accounted for much of the fluctuations in these periods. These expenses are expected to increase in 2001 as First USA begins to refocus on certain marketing programs. The increase in these expenses in 1999 over 1998 included a change in business practice, which resulted in expensing credit card account sourcing costs as they are incurred rather than capitalizing them.

Other intangible amortization expense included $288 million and $21 million of additional writedowns in purchased credit card relationships in 2000 and 1999, respectively. In 2000, $275 million of these writedowns is included in the Significant Items tables on page 15. These asset writedowns reduced the carrying value of identified intangible assets and will reduce the ongoing level of related amortization expense.

Other operating expense increased $570 million in 2000 compared with 1999, primarily relating to $538 million of significant items recorded in 2000. These charges included $190 million to the legal reserve to cover increased corporate and business litigation exposure, approximately $85 million of fixed assets and software writeoffs, as well as miscellaneous and operational errors.

Applicable Income Taxes

The following table shows the Corporation's income (loss) before income taxes, as well as applicable income tax expense (benefit) and effective tax rate for each of the past three years:

(Dollars in millions)	2000	1999	1998
Income (loss) before income taxes	**$(1,080)**	$4,974	$4,465
Applicable income taxes (benefit)	**(569)**	1,495	1,357
Effective tax rates	**52.7%**	30.1%	30.4%

Applicable income tax expense or (benefit) for all three years included benefits for tax-exempt income, tax-advantaged investments and general business tax credits offset by the effect of nondeductible expenses, including goodwill. In the case of a loss before income taxes, the effect of the net tax benefits described above is to increase, rather than decrease, the effective tax benefit. This is the primary reason for the difference in effective tax rates between 2000 and the previous years. More detail on income taxes can be found in Note 19, beginning on page 78.

Risk Management

Risk Management Policy and Structure

Risk is an inherent part of the Corporation's businesses and activities. The extent to which the Corporation properly and effectively identifies, assesses, monitors and manages each of the various types of risk involved in its business activities is critical to its soundness and profitability. The Corporation's lines of businesses help reduce the impact that volatility in any particular area or related areas may have on its operating results as a whole. The Corporation seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal risks involved in the Corporation's business activities: liquidity risk, market risk, credit risk and operational risk.

The risk management process of the Corporation is dynamic with independent oversight that requires effective communication between lines of businesses and corporate-level departments, judgment and knowledge of specialized products and markets. The Corporation's senior management takes an active role in the risk management process and has developed policies and procedures that require specific functions to assist in the identification, assessment and control of various risks. In recognition of the nature of the Bank One's business activities, the Corporation's risk management policies, procedures and methodologies are evolutionary in nature and are subject to ongoing review and modification.

Overall risk management policies for the Corporation are established by the Corporate Risk and Capital Committee, who reviews the Corporation's performance relative to these policies. The Corporate Risk and Capital Committee has oversight responsibility for various risk committees of the Corporation's distinct lines of business and assists the Audit and Risk Management Committee of the Board of Directors in monitoring Bank One's policy standards and guidelines for risk management, among other duties. The individual line of business committees monitor and review their respective lines of businesses compliance with the Corporation's risk management practices, as well as manage and monitor specific risks, sales practices, pricing and reserve adequacy, legal enforceability, and operational and systems risks. Line of business subsidiary committees, which report to the respective line of business risk management committees, approve transactions, manage market and credit risk, approve significant policy and underwriting decisions, review major analytical findings for business implications, and develop and maintain credit underwriting policy initiatives.

The Corporation's Corporate Risk Management Department, Finance Department and Law, Compliance and Governmental Relations Department, also assist senior management and the Corporate Risk and Capital Committee in monitoring and controlling the Corporation's risk profile. The Corporate Risk Management department is responsible for risk policy development, risk analysis and risk reporting to senior management and the Corporate Risk and Capital Committee and has operational responsibility for measuring and monitoring aggregate market and credit risk with respect to institutional trading activities. In addition, the Internal Audit Department, which also reports to senior management, periodically examines and evaluates the Corporation's operations and control environment. The Corporation continues to be committed to employing qualified personnel with appropriate expertise in each of its various areas to implement effectively the Company's risk management and monitoring systems and processes.

The Corporation's various business activities generate liquidity, market, credit and operating risks:

- Liquidity risk is the possibility of being unable to meet all current and future financial obligations in a timely manner.
- Market risk is the possibility that changes in future market rates or prices will make the Corporation's positions less valuable.
- Credit risk is the possibility of loss from borrowers and counterparties failing to perform according to the terms of a transaction.
- Operating risk, among other things, includes the risk of fraud by employees or persons outside the Corporation, the execution of unauthorized transactions by employees, and errors relating to transaction processing and systems.

Liquidity Risk Management

Liquidity is managed in order to preserve stable, reliable and cost-effective sources of cash to meet all current and future financial obligations in a timely manner. The Corporation considers strong capital ratios, credit quality and core earnings essential to retaining high credit ratings and, consequently, cost-effective access to market liquidity. In addition, a portfolio of liquid assets, consisting of federal funds sold, deposit placements and selected highly marketable investment securities, is maintained to meet short-term demands on liquidity.

The Consolidated Statement of Cash Flows, on page 51, presents data on cash and cash equivalents provided and used in operating, investing and financing activities.

The Corporation's ability to attract wholesale funds on a regular basis and at a competitive cost is fostered by strong ratings from the major credit rating agencies. As of December 31, 2000, the Corporation and its principal banks had the following long- and short-term debt ratings:

	Short-Term Debt		Senior Long-Term Debt	
	S & P	Moody's	S & P	Moody's
The Corporation (Parent)	A-1	P-1	A	Aa3
Principal Banks	A-1	P-1	A+	Aa2

The Treasury Department is responsible for identifying, measuring and monitoring the Corporation's liquidity profile. The position is evaluated monthly by analyzing the composition of the liquid asset portfolio, performing various measures to determine the sources and stability of the wholesale purchased funds market, tracking the exposure to off-balance sheet draws on liquidity, and monitoring the timing differences in short-term cash flow obligations.

Access to a variety of funding markets and customers in the retail and wholesale sectors is vital both to liquidity management and to cost minimization. A large retail customer deposit base is one of the significant strengths of the Corporation's liquidity position. In addition, a diversified mix of short- and long-term funding sources from the wholesale markets is maintained through active participation in global capital markets and by securitizing and selling assets such as credit card receivables.

Deposits and Other Purchased Funds

The following table shows the total funding source at December 31:

(In millions)	2000	1999	1998	1997	1996
Domestic offices:					
Demand	**$ 30,738**	$ 31,194	$ 39,854	$ 35,954	$ 33,479
Savings	**63,414**	64,435	62,645	58,946	56,359
Time:					
Under $100,000	**25,302**	22,825	24,483	28,815	30,955
$100,000 and over	**22,656**	14,052	11,819	11,329	10,312
Foreign offices	**24,967**	29,772	22,741	18,682	14,101
Total deposits	**167,077**	162,278	161,542	153,726	145,206
Federal funds purchased and securities Under repurchase agreements	**12,120**	18,720	23,164	20,346	21,662
Commercial paper	**3,048**	3,184	2,113	1,507	2,446
Other short-term borrowings	**14,955**	18,027	14,824	11,299	10,593
Long-term debt (1)	**40,911**	35,435	22,298	21,546	15,363
Total other purchased funds	**71,034**	75,366	62,399	54,698	50,064
Total	**$238,111**	$237,644	$223,941	$208,424	$195,270

(1) Includes trust preferred capital securities.

Changes in the relative mix of funding sources reflect an ongoing shift in consumer investment preferences and the Corporation's decision, for liquidity management purposes, to decrease reliance on short-term borrowings through the issuance of longer-term deposits and debt.

Overview

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices, as well as the correlation among these factors and their volatility. The portfolio effect of engaging in diverse trading activities helps reduce the potential impact of market risk on earnings. Through its trading activities, the Corporation strives to take advantage of profit opportunities available in interest and exchange rate movements. In asset and liability management activities, policies are in place that are designed to closely manage structural interest rate and foreign exchange rate risk. Disclosures about the fair value of financial instruments, which reflect changes in market prices and rates, can be found in Note 22, beginning on page 82.

Trading Activities

The Corporation's trading activities are primarily customer-oriented. Cash instruments are sold to satisfy customers' investment needs. Derivative contracts are initially entered into to meet the risk management needs of customers. In general, the Corporation then enters into offsetting positions to reduce market risk. In order to accommodate customers, an inventory of capital markets instruments is carried, and access to market liquidity is maintained by making bid-offer prices to other market makers. The Corporation may also take proprietary trading positions in various capital markets cash instruments and derivatives, and these positions are designed to profit from anticipated changes in market factors.

Many trading positions are kept open for brief periods of time, often less than one day. Other positions may be held for longer periods. Trading positions are valued at estimated fair value. Realized and unrealized gains and losses on these positions are included in noninterest income as trading profits.

Value-At-Risk

The Corporation has developed policies and procedures to manage market risk through a value-at-risk measurement and control system, through a stress testing process and through dollar trading limits. The objective of this process is to quantify and manage market risk in order to limit single and aggregate exposures. Dollar trading limits are subject to varying levels of approval by senior line of business management, with review by the Capital Markets Risk Management Department. The Corporation's Capital Markets Risk Management Department works with various line of business personnel in refining and monitoring of the Corporation's market risk policies and procedures, and is the primary oversight unit for market risk arising from line of business trading and trading related activity.

Value-at-risk is intended to measure the maximum fair value the Corporation could lose on a trading position, given a specified confidence level and time horizon. Value-at-risk limits and exposure are monitored on a daily basis for each significant trading portfolio. Stress testing is similar to value-at-risk except that the confidence level is geared to capture more extreme, less frequent market events.

The Corporation's value-at-risk calculation measures potential losses in fair value using a 99% confidence level and a one-day time horizon. This equates to 2.33 standard deviations from the mean under a normal distribution. This means that, on average, daily profits and losses are expected to exceed value-at-risk one out of every 100 overnight trading days. Value-at-risk is calculated using various statistical models and techniques for cash and derivative positions, including options.

The following table shows the average, high and low of the value-at-risk measurements at each quarter end in 2000 and 1999, along with value-at-risk amounts at December 31, 2000 and December 31, 1999:

(In millions)	2000 Average	2000 High	2000 Low	2000 Dec 31	1999 Average	1999 High	1999 Low	1999 Dec 31
Risk type								
Interest rate	**$11**	**$15**	**$7**	**$7**	$21	$28	$14	$14
Currency exchange rate	**1**	**1**	**—**	**1**	1	2	—	—
Equity	**1**	**2**	**1**	**1**	1	1	1	1
Diversification benefit				**—**				(2)
Aggregate portfolio market risk				**$9**				$13

The activities covered by the table above reflect trading and other activities, including certain overseas balance sheet positions that are managed principally as trading risk. Value-at-risk from commodity price risk was immaterial.

Interest rate risk was the predominant type of market risk incurred during 2000. At December 31, 2000, approximately 75% of primary market risk exposures were related to interest rate risk. Exchange rate, equity and commodity risks accounted for 11%, 11% and 3%, respectively, of primary market risk exposures.

U.S. Treasury, corporate, asset-backed, municipal and mortgage-backed securities generated 79% of interest rate risk. Interest rate derivatives accounted for 19% of interest rate risk. The remaining 2% of interest rate risk were derived from money market and foreign exchange trading activities.

Within the category of currency exchange rate risk, foreign exchange spot, forward and option trading generated 98% of the risk. Of the currency exchange rate risk arising from these activities, 62% related to major currency exposures and 38% to minor currencies.

Equity derivatives trading generated 93% of equity price risk, and equity cash instruments generated the remaining 7% of equity price risk.

At December 31, 2000, aggregate portfolio market risk exposures were 30% lower than at year-end 1999. The majority of this decline was due to decreased market risk in various trading books.

Structural Interest Rate Risk Management

Interest rate risk exposure in the Corporation's "core" business (non-trading) activities, i.e., asset/liability management ("ALM") position, is a result of reprice, option and basis risks associated with on- and off-balance sheet positions. Reprice risk represents timing mismatches in the Corporation's ability to alter contractual rates earned on financial assets or paid on liabilities in response to changes in market interest rates. Basis risk refers to the potential for changes in the underlying relationship between market rates or indices, which subsequently result in a narrowing of the spread earned on a loan or investment relative to its cost of funds. Option risk arises from "embedded options" present in many financial instruments such as interest rate options, loan prepayment options and deposit early withdrawal options. These provide customers and investors opportunities to take advantage of directional changes in rates, which could have an adverse impact on the Corporation's margin performance. Embedded options are complex risk positions that are difficult to predict and offset, and are a large component of the interest rate risk exposure to the Corporation.

The Corporation has established risk measures, limits, policy guidelines and internal control mechanisms (collectively referred to as the Interest Rate Risk Policy) for managing the overall ALM position. According to these policies, responsibility for the management of interest rate risk resides in the Corporate Treasury function. Other business units are prohibited from purposefully assuming interest rate risk, except in circumstances where it is uniquely related to a product or business offering.

The ALM position is measured and monitored using sophisticated and detailed risk management tools, including earnings simulation modeling and economic value of equity sensitivity analysis, to capture both near-term and longer-term interest rate risk exposures. The level of interest rate risk taken by the Corporation is closely monitored and managed by a comprehensive risk control process involving senior executives from across the Corporation, including finance, risk management and the various lines of business. Senior Management is regularly apprised of the risks associated with the ALM position, with exposures tested under multiple rate and yield curve scenarios. The Corporation balances the return potential of the ALM position against the desire to limit volatility in earnings and/or economic value.

Earnings simulation analysis, or earnings-at-risk, measures the sensitivity of pretax earnings to various interest rate movements. The base-case scenario is established using the implied forward curve. The comparative scenarios assume an immediate parallel shock of the forward curve in increments of ± 100 basis point rate movements. Numerous other scenarios are analyzed, including more gradual rising or declining rate changes and non-parallel rate shifts. Estimated earnings for each scenario are calculated over a 12-month and 24-month horizon. The interest rate scenarios are used for analytical purposes and do not necessarily represent Management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings and economic value of the Corporation.

The table below shows the Corporation's pretax earnings sensitivity profile as of year-end 2000 and 1999:

(In millions)	Immediate Change in Rates	
	−100 bp	**+100 bp**
December 31, 2000	**$29**	**$ 5**
December 31, 1999	194	(178)

The change in the earnings sensitivity between 1999 and 2000 primarily reflects Management's decision to maintain a relatively neutral rate risk posture, and was achieved largely by shortening the duration of investments held for liquidity and collateral purposes.

Modeling the sensitivity of earnings to interest rate risk is highly dependent on the numerous assumptions embedded in the model. While the earnings sensitivity analysis incorporates Management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. For mortgage-related assets, the earnings simulation model captures the expected prepayment behavior under changing interest rate environments. Additionally, the model measures the impact of interest rate caps and floors on adjustable-rate loan products. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity products, e.g., credit card receivables, savings, money market, NOW and demand deposits reflect Management's best estimate of expected future behavior and are reviewed regularly. Sensitivity of service fee income to market interest rate levels, such as those related to cash management products, is included as well. The earnings sensitivity profile does not reflect potential differences in the timing of income recognition on transactions that were designed to have an offsetting economic effect. For example, the interest-only strip recorded in conjunction with a credit card securitization may be subsequently subject to the accounting recognition of impairment due to adverse changes in market interest and payment rates while the income or expense on offsetting asset and liability positions are recorded on an accrual basis.

The Corporation has risk exposure at time periods beyond the 24 months captured in earnings sensitivity analysis. Management uses an economic value of equity sensitivity technique to capture the risk in both short and long-term positions. This analysis involves calculating future cash flows over the full life of all current assets, liabilities and off-balance sheet positions under different rate scenarios. The discounted present value of all cash flows represents the Corporation's economic value of equity. The sensitivity of this value to shifts in the yield curve allows Management to measure longer-term repricing and option risk in the portfolio. Interest rate risk in trading activities and other activities, including certain overseas balance sheet positions, is managed principally as trading risk.

Foreign Exchange Risk Management

Whenever possible, foreign currency-denominated assets are funded with liability instruments denominated in the same currency. If a liability denominated in the same currency is not immediately available or desired, a forward foreign exchange or cross-currency swap contract is used to fully hedge the risk due to cross-currency funding.

To minimize the capital impact of translation gains or losses measured on an after-tax basis, the Corporation uses forward foreign exchange contracts to hedge the exposure created by investments in overseas branches and subsidiaries.

CREDIT RISK MANAGEMENT

In conducting its business operations, the Corporation is exposed to the risk that borrowers or counterparties may default on their obligations to the Corporation. These transactions create credit exposure that is reported both on and off the balance sheet. On-balance sheet credit exposure includes such items as loans. Off-balance sheet credit exposure includes unfunded credit commitments and other credit-related financial instruments. Credit exposures resulting from derivative financial instruments are reported both on and off the balance sheet; see page 38 for more details.

The Corporation has developed policies and procedures to manage the level and composition of risk in its credit portfolio. The objective of this credit risk management process is to quantify and manage credit risk on an aggregate portfolio basis as well as to reduce the risk of a loss resulting from a customer's failure to perform according to the terms of a transaction. The Corporation's Risk Management Department works with lending officers and other various line of business personnel involved in credit decision making and is involved in the implementation, refinement and monitoring of the Corporation's credit policies and procedures. Credit limits are subject to varying levels of approval by senior line of business management and the Corporate Risk Management Department.

In order to meet its credit risk management objectives, the Corporation maintains a risk profile that is diverse in terms of borrower concentrations, product-type, and industry and geographic concentrations. Additional diversification of the Corporation's exposure is accomplished through syndication of credits, participations, loan sales, securitizations and other risk-reduction measures.

Consumer Risk Management

The Corporation's consumer risk management process utilizes sophisticated risk assessment tools, including credit scoring, across each of the consumer lines of business, including credit cards, loans secured by real estate, automobile loans and leases, and other unsecured loans. With these tools, product and price offerings are targeted to best match the consumer risk profile.

Management of consumer lines of business continue to proactively manage the risk/reward relationship of each consumer loan portfolio segment, such that these businesses are positioned to achieve profitability targets and required rates of return on investment.

Commercial Risk Management

The Corporation's commercial risk management process utilizes enterprise policies focused on origination, portfolio management and managed asset related activities. This risk management framework establishes approval authorities and related processes, risk rating methodologies, portfolio review parameters and management of problem loans. Line of business senior management and the Corporate Risk Management Department are actively engaged in these activities as well as continuously exploring methods to improve commercial risk management.

Management of the commercial lines of business continue to proactively manage the risk/reward relationship of each commercial relationship and portfolio segment such that these businesses are positioned to achieve profitability targets and required rates of return.

Within the commercial portfolio, borrowers/transactions are assigned specific risk ratings (on a scale from 1–12, with 1 and 12 the highest and lowest rating, respectively) by the originating credit officer based upon an established underwriting and approval process. Approvals are made based upon the amount of credit exposure inherent in the credit extension and are reviewed by senior line of business management and the Corporate Risk Management Department, as appropriate. Risk ratings are reviewed periodically by senior line of business personnel and the Corporate Risk Management Department and revised, if needed, to reflect the borrowers'/transactions' current risk profile. The lower categories of credit risk are equivalent to the four bank regulatory classifications: Special Mention, Substandard, Doubtful and Loss.

OPERATING RISK MANAGEMENT

In addition to being exposed to liquidity, market and credit risk, the Corporation is also exposed to numerous types of operating risk. Operating risk generally refers to the risk of loss resulting from the Corporation's operations, including, but not limited to, the risk of fraud by employees or persons outside the Corporation, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and other breaches of the internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

The Corporation operates in many different businesses in diverse markets and placed reliance on the ability of its employees and systems to process a high number of transactions. In the event of a breakdown in the internal control systems, improper operation of systems or improper employee actions, the Corporation could suffer financial loss, face regulatory action and suffer damage to its reputation. In order to address this risk, Management maintains a system of internal controls with the objective of providing proper transaction authorization, safeguarding of assets from misuse or theft, and ensuring the reliability of financial and other data.

The Corporation maintains systems of controls that it believes are reasonably designed to provide Management with timely and accurate information about the operations of Bank One. These systems have been designed to manage operating risk at appropriate levels given the Corporation's financial strength, the environment in which it operates, and considering factors such as competition and regulation. Bank One has also established procedures that are designed to ensure that Management's policies relating to conduct, ethics and business practices are followed on a uniform basis. In certain cases, the Corporation has experienced losses from operating risk. Such losses, among other things, have included the effects of operational errors that the Corporation has discovered and taken charges for (see Significant Items on page 15). While there can be no assurance that the Corporation will not suffer such losses in the future, Management believes that substantial progress has been made in improving internal controls, systems and corporate-wide processes and procedures. Furthermore, Management believes the plans to streamline the organization through charter consolidations and further systems integration, as well as policies enacted to push down reporting accountabilities further in the organization, have improved the Corporation's ability to identify and limit operating risk.

Selected Statistical Information

The significant components of credit risk and the related ratios, presented on a reported basis, for the years indicated are as follows:

(Dollars in millions)	December 31, 2000	1999	1998	1997	1996
At year-end:					
Loans outstanding	**$174,251**	$163,877	$155,398	$159,579	$153,496
Nonperforming loans	**2,475**	1,559	1,207	1,025	912
Other, including other real estate owned	**98**	106	90	61	71
Nonperforming assets	**2,573**	1,665	1,297	1,086	983
Allowance for credit losses	**4,110**	2,285	2,271	2,817	2,687
Nonperforming assets/ related assets	**1.48%**	1.02%	0.83%	0.68%	0.64%
Allowance for credit losses/loans outstanding	**2.36**	1.39	1.46	1.77	1.75
Allowance for credit losses/nonperforming loans	**166**	147	188	275	295
For the year ended:					
Average loans	**$171,768**	$156,855	$154,952	$155,926	$146,094
Net charge-offs	**1,391**	1,206(1)	1,498	1,887	1,522
Net charge-offs/average loans	**0.81%**	0.77%	0.97%	1.21%	1.04%
Allowance for credit losses/net charge-offs	**295**	189(1)	152	149	177

(1) The $1.206 billion net charge-off amount in 1999 included $143 million of charges required to bring the consumer portfolio into compliance with FFIEC guidelines. Excluding these incremental charge-offs, the adjusted coverage ratio would have been 215%.

Loan Composition

For analytical purposes, the Corporation's portfolio is divided into commercial, consumer and credit card categories as of December 31 for the years indicated:

	2000		1999		1998		1997		1996	
	Amount	% (1)	Amount	% (1)	Amount	% (1)	Amount	% (1)	Amount	% (1)
Commercial:										
Domestic:										
Commercial	**$ 65,270**	**28%**	$ 59,070	26%	$ 53,362	25%	$ 48,458	25%	$ 44,791	25%
Real estate:										
Construction	**5,757**	**2**	5,836	3	5,108	2	4,639	2	4,387	2
Other	**16,778**	**7**	18,817	8	17,787	8	16,545	8	16,016	9
Lease financing	**5,818**	**3**	5,562	2	6,236	3	4,537	2	4,258	2
Foreign	**6,837**	**3**	7,067	3	5,945	3	5,127	3	4,160	2
Total commercial	**100,460**	**43**	96,352	42	88,438	41	79,306	40	73,612	40
Consumer:										
Residential real estate	**40,596**	**17**	32,313	14	25,804	12	28,088	14	26,941	15
Automotive—loans	**12,130**	**5**	12,925	6	10,839	5	10,315	5	12,126	6
Automotive—leases	**8,611**	**4**	10,642	5	9,795	5	7,683	4	5,167	3
Other	**7,710**	**3**	7,608	3	11,488	5	11,522	6	10,795	6
Total consumer	**69,047**	**29**	63,488	28	57,926	27	57,608	29	55,029	30
Credit card: (2)										
On balance sheet	**4,744**	**2**	4,037	2	9,034	4	22,665	12	24,855	14
Securitized	**62,241**	**26**	65,319	28	60,993	28	37,414	19	29,303	16
Managed credit card	**66,985**	**28**	69,356	30	70,027	32	60,079	31	54,158	30
Total managed	**$236,492**	**100%**	$229,196	100%	$216,391	100%	$196,993	100%	$182,799	100%
Total reported	**$174,251**		$163,877		$155,398		$159,579		$153,496	

(1) Percentages shown above for loan type are determined as a percentage of total managed assets.

(2) During 1998, the Corporation's certificated retained interests in credit card securitizations were reclassified to investment securities—available for sale. The Corporation's certificated retained interests totaled $22.6 billion, $19.7 billion and $16.7 billion at December 31, 2000, 1999 and 1998, respectively.

Consumer and Credit Card Portfolio

Consumer loans consist of credit card receivables as well as loans secured by residential real estate, automobile financing, and other forms of secured and unsecured consumer installment credit. Individual decisions to grant credit are made pursuant to processes existing at the appropriate line of business level, with the Credit Risk Management Department's oversight for overall credit policies (see Consumer Risk Management discussion on page 27). Excluding securitized receivables, the aggregate consumer and credit card loan portfolio increased during the year to $73.8 billion at year-end 2000. Including securitized credit card receivables, the consumer portfolio increased $3.2 billion, or 2%, to $136 billion at December 31, 2000.

Credit quality within the Corporation's consumer and credit card portfolios deteriorated modestly in 2000 from 1999 levels, reflecting increases in nonperforming consumer finance and home equity loans. Consumer bankruptcies, while down from their peak levels experienced in 1998, remain at historically high levels. An increase in the rate of bankruptcy filings in 2001 would result in higher credit losses across the consumer and credit card portfolios.

Managed Credit Card Receivables

For analytical purposes, the Corporation reports credit card receivables on both a reported basis and a managed basis. Reported credit card receivables include those receivables held in the portfolio and reported on the balance sheet. Managed credit card receivables include reported credit card receivables and those sold to investors through securitization (see page 41 for discussion of Loan Securitizations).

	December 31		
(Dollars in millions)	**2000**	**1999**	**1998**
Average balances:			
Credit card loans	**$ 4,754**	$ 7,233	$15,628
Securitized credit card receivables	**61,424**	61,747	44,904
Total average managed credit card receivables	**$66,178**	$68,980	$60,532
Total net charge-offs (including securitizations)	**$ 3,584**	$ 3,790	$ 3,369
Net charge-offs/average total receivables (1)	**5.42%**	5.49%	5.57%
Credit card delinquency rate at period-end:			
30 or more days	**4.51%**	4.57%	4.47%
90 or more days	**2.02%**	2.13%	1.98%

(1) Ratios include $183 million of securitized charge-offs taken in the fourth quarter of 1999 related to the early adoption of certain of the FFIEC's new consumer charge-off guidelines.

Average managed credit card receivables at December 31, 2000 were down slightly from year-end 1999, reflecting attrition, the disposition of international card operations and reduced new account origination. The increase in managed credit card loans in 1999 from 1998 reflected in part the Corporation's September 1998 purchase of the credit card operations of Chevy Chase Bank, FSB, including $4.8 billion of managed credit card loans.

The decline in the managed credit card charge-off rate to 5.42% in 2000 from 5.49% in 1999 reflected the effect of $183 million of securitized charge-offs taken in the 1999 fourth quarter related to the early adoption of certain new FFIEC consumer charge-off guidelines. The 1999 rate also included the effect of charge-off policy conformance changes made in the 1998 fourth quarter. Without conforming such practices, and excluding the impact of the $183 million of securitized charge-offs, the 1999 charge-off rate would have been 5.36%, compared with 5.57% in 1998. Future charge-offs in the credit card portfolio and credit quality are subject to uncertainties which may cause actual results to differ widely from that forecasted, including the direction and level of loan delinquencies, changes in consumer behavior, bankruptcy trends, portfolio seasoning, interest rate movements, and portfolio mix, among other things. Current economic data suggests that credit quality will not significantly deteriorate. However, any change in the general economy could materially change these expectations.

Consumer Loans

Information pertaining to consumer loans (i.e., non-credit card) for the years ended is as follows:

	December 31		
(Dollars in millions)	**2000**	**1999**	**1998**
Average balances	**$66,812**	$59,440	$57,206
Total net charge-offs	**547**	558	413
Net charge-offs/average balances (1)	**0.82%**	0.94%	0.72%

(1) Ratios include $143 million of consumer charge-offs taken in the fourth quarter of 1999 related to the early adoption of the FFIEC's new consumer charge-off guidelines. Excluding these charge-offs, the 1999 rate was 0.70%.

The consumer loan portfolio primarily consists of loans secured by real estate as well as auto loans and leases, and provides broad diversification of risk from both a product and geographic perspective. The net charge-off rate for non-credit card consumer loans in 2000 was 0.82%. The decrease from 1999 reflects $143 million of consumer charge-offs taken in the fourth quarter of 1999 related to early adoption of the FFIEC's new consumer credit guidelines. The 1999 consumer charge-off rate, excluding these charge-offs, would have been 0.70%. The 12 basis point increase in the 2000 net charge-off rate over the adjusted 1999 rate reflected the maturing credit loss profile associated with high volume prior year vintages. The adjusted 1999 consumer charge-off rate of 0.70% was down two basis points from the 1998 ratio, reflecting consistent performance. Future consumer portfolio charge-offs and credit quality are subject to uncertainties which may cause actual results to differ widely from that forecasted, including the direction and level of loan delinquencies, changes in consumer behavior, bankruptcy trends, portfolio seasoning, interest rate movements, and portfolio mix, among other things. Current data suggests that credit quality will not significantly deteriorate with the exception of certain indirect portfolios underwritten over the past few years. However, any change in the general economy could materially change these expectations.

The Corporation continues to proactively manage its consumer credit operation to ensure profitable and manageable growth that can be sustained regardless of the economic environment. Recent actions taken include 1) tightening of credit underwriting criteria, 2) rationalization of the number and quality of third party loan originators (i.e., brokers and correspondents) and 3) refinement of pricing and risk management models. Collectively, these actions are intended to result in a more prudent and profitable portfolio growth trend in 2001.

Commercial Portfolio

The Corporation's commercial portfolio primarily comprises Corporate Banking (including syndicated credits) and Middle Market Banking loans and leases as well as commercial real estate loans made across various industries and geographic regions. Commercial loans increased 4%, from $96.4 billion at December 31, 1999, to $100.5 billion at December 31, 2000, primarily driven by growth in both the Corporate Banking and Middle Market Banking portfolios. Nonperforming commercial loans increased $708 million to $1.761 billion at year-end 2000, from $1.053 billion at December 31, 1999, primarily due to portfolio deterioration across several industries and acquisition finance transactions. Commercial net charge-offs were $597 million, or 0.60% of average loans, in 2000, compared with $306 million, or 0.34%, in 1999. For 2001, net charge-offs are expected to increase given increases in nonperforming commercial loans and loan losses observed in 2000, and the general outlook for weaker economic conditions in 2001. Future charge-offs and credit quality in the commercial portfolio are subject to uncertainties which may cause actual results to differ widely from that forecasted, including the direction and level of economic activity and its impact on selected industries, commercial real estate values, interest rate movements, and portfolio mix, among other things. Management currently anticipates that commercial credit losses for the next several quarters will at least double that of the approximately 40 basis points experienced in the last several years. While credit losses expected for the next several quarters would be considered higher than normal, a deep recession would cause dramatically higher credit losses than currently anticipated.

Commercial Portfolio Concentrations

The following table reflects the more significant borrower industry concentrations of the commercial loan portfolio as of December 31, 2000:

(Dollars in millions)	Carrying Amount	Percent
Commercial real estate	**$ 22,535**	**22.4%**
Wholesale trade	**6,080**	**6.0**
Industrial materials	**4,775**	**4.8**
Oil and gas	**4,207**	**4.2**
Metals and products	**4,128**	**4.1**
Consumer staples	**3,880**	**3.9**
Other	**54,855**	**54.6**
Total commercial	**$100,460**	**100.0%**

Commercial Real Estate

The commercial real estate segment of the portfolio is the largest product category and consists primarily of loans secured by real estate as well as certain loans that are real estate-related. This exposure includes loans and commitments that finance both owner-occupied and investment properties/projects.

At December 31, 2000, commercial real estate loans totaled $22.5 billion, or 22% of commercial loans, compared with $24.7 billion, or 26% of commercial loans, at December 31, 1999. This 9% decline was largely due to Management efforts to reduce commercial real estate exposure. During 2000, net charge-offs in the commercial real estate portfolio segment were $14 million, compared with $1 million in 1999. Nonperforming commercial real estate assets, including other real estate owned, totaled $401 million, or 1.8% of related assets, at December 31, 2000, compared with $413 million, or 1.7% of related assets, at December 31, 1999.

Commercial real estate lending is conducted in several lines of business with the majority of these loans originated by Corporate Banking primarily through its specialized National Commercial Real Estate Group. This group's focus is lending to targeted regional and national real estate developers, homebuilders and REITs/REOCs. As of December 31, 2000, this group's loan outstandings totaled $9.5 billion or 42% of the commercial real estate portfolio. Middle Market Banking originates primarily owner-occupied real estate loans located in the various markets served by Middle Market bankers.

The table below presents commercial real estate loans for the National Commercial Real Estate Group by property type as of December 31, 2000:

PROPERTY-TYPE (National Commercial Real Estate Group only) (Dollars in millions)	Carrying Amount	Percent
Retail	**$ 1,608**	**16.9%**
Apartment complexes	**1,525**	**16.1**
Office buildings	**1,412**	**14.9**
REIT/REOC	**1,228**	**12.9**
Industrial	**491**	**5.2**
Lodging	**402**	**4.2**
Other	**2,823**	**29.8**
Total National Commercial Real Estate Group loans	**9,489**	**100.0%**
Other commercial real estate loans (1)	**13,046**	
Total commercial real estate loans	**$22,535**	

(1) Comprised primarily of Middle Market Banking loans secured by real estate.

The commercial real estate portfolio is geographically diverse, with no geographic concentrations greater than 10% of the portfolio at December 31, 2000.

Asset Quality

Nonperforming Assets

The Corporation defines nonperforming loans as commercial loans that are impaired and/or on nonaccrual status, consumer loans (i.e., non-credit card) greater than 90 days past due and restructured loans. These loans, along with assets primarily consisting of foreclosed real estate, represent nonperforming assets.

The following table shows the Corporation's nonperforming assets for the past five years:

(Dollars in millions)	December 31 2000	1999	1998	1997	1996
Nonperforming Loans:					
Commercial	**$1,761**	$1,053	$ 729	$ 609	$536
Consumer (1)	**714**	506	478	416	376
Total (2)	**2,475**	1,559	1,207	1,025	912
Other, primarily other real estate owned	**98**	106	90	61	71
Total nonperforming assets	**$2,573**	$1,665	$1,297	$1,086	$983
Nonperforming assets/related assets	**1.48%**	1.02%	0.83%	0.68%	0.64%
Loans 90 days or more past due and accruing interest (1)	**$ 62**	$ 126	$ 239	$ 578	$542

(1) Prior year amounts were restated for comparison purposes to reflect a change in policy adopted in 2000 to classify consumer loans 90 days past due as nonperforming.

(2) The amount of interest on nonperforming loans that was contractually due in 2000 totaled $143 million. Of this amount, $22 million was actually recorded in 2000.

At December 31, 2000, nonperforming assets totaled $2.573 billion, compared with $1.665 billion at year-end 1999 and $1.297 billion at year-end 1998. The increase in nonperforming assets from year-end 1999 was primarily due to increases in nonperforming loans in the non-real estate portion of the commercial portfolio, and to a lesser extent, the consumer portfolio. The $208 million increase in consumer nonperforming loans in 2000 was attributable mainly to a deterioration in the home equity portfolio segment. Consumer nonperforming loans are written down to net realizable value once they reach 120 days delinquent and within 60 days of bankruptcy notification, thus minimizing the potential for additional credit charge-offs in this portfolio segment. The $708 million increase in nonperforming loans in the commercial portfolio resulted from credit deterioration across several industries and leveraged acquisition finance transactions. During 2000, Management substantially increased its focus on reviewing and analyzing credit, including giving more weight to recent history in estimating the potential for borrower default. This has led in some cases to earlier recognition of nonperforming and problem assets as compared to previous years.

Despite the Corporation's diversified commercial portfolio, the Corporation has experienced credit quality deterioration in a number of distinct market segments. A weakening economy, among other things, had led to an increase in nonperforming loans. The Corporation has established processes for identifying potential problem areas of the portfolio, which currently include exposure to leveraged lending and acquisition finance activities, healthcare, automotive parts and manufacturing, business finance and leasing, professional services, miscellaneous transportation services, selected utilities, telecommunications, and companies engaged in ongoing asbestos litigation. The Corporation will continue its enhanced focus on identifying and monitoring these potential exposure areas.

Charge-offs

Managed net charge-offs increased 2% during 2000 to $4.728 billion, reflecting higher commercial charge-offs. This increase was partially offset by lower consumer and credit card charge-offs relative to the 1999 period, which reflected early adoption of certain new FFIEC consumer charge-off guidelines. The managed net charge-off rate decreased to 2.03% in 2000 versus 2.13% in 1999. Excluding the FFIEC-related charges adopted in 1999, the net charge-off rate for 2000 was five basis points higher than in 1999.

The following table shows a breakout of net charge-offs by portfolio segment for the past three years ended December 31:

	2000			1999			1998		
(Dollars in millions)	**Net charge-offs**	**Average balance**	**Net charge-off rate**	**Net charge-offs**	**Average balance**	**Net charge-off rate**	**Net charge-offs**	**Average balance**	**Net charge-off rate**
Commercial	**$ 597**	**$100,202**	**0.60%**	$ 306	$ 90,182	0.34%	$ 222	$ 82,118	0.27%
Consumer (1)	**547**	**66,812**	**0.82**	558	59,440	0.94	413	57,206	0.72
Credit card (1)(2)	**3,584**	**66,178**	**5.42**	3,790	68,980	5.49	3,369	60,532	5.57
Total—Managed	**4,728**	**$233,192**	**2.03%**	4,654	$218,602	2.13%	4,004	$199,856	2.00%
Securitized	**(3,337)**			(3,448)			(2,506)		
Total—Reported	**$ 1,391**	**$171,768**	**0.81%**	$ 1,206	$156,855	0.77%	$ 1,498	$154,952	0.97%

(1) Includes $143 million of consumer charge-offs and $183 million of securitized charge-offs taken in the fourth quarter of 1999 related to the early adoption of certain of the FFIEC's new consumer charge-off guidelines.

(2) Reported on a managed basis.

Charge-off Policies

A charge-off on commercial loans is recorded in the reporting period in which either an event occurs that confirms the existence of a loss or it is determined that a loan or a portion of a loan is uncollectible.

The timing and amount of the charge-off on consumer loans will depend on the type of loan, giving consideration to available collateral, as well as the circumstances giving rise to the delinquency. The Corporation adheres to uniform guidelines published by FFIEC in charging off consumer loans. A credit card loan is charged off when it becomes 180 days past due or in the event of bankruptcy notification, specifically, 60 days of receipt of notification. Consumer loans (i.e., non-credit card) are generally charged-off following a delinquency period of 120 days past due, or 60 days of receipt of notification in case of bankruptcy. Closed-end consumer loans such as auto loans and leases, and home mortgage loans, are typically written down to the extent of loss after considering the net realizable value of the collateral.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level that in Management's judgment is adequate to provide for estimated probable credit losses inherent in various on- and off-balance sheet financial instruments. Reserves are based on an estimate of potential inherent loss at a point in time using a combination of empirically driven tests and Management's judgment. Each quarter, reserves are formally estimated by each line of business and reviewed and modified by the Corporate Risk Management Department and Senior Management. The allowance for credit losses also include provisions for losses on loans considered impaired and measured pursuant to Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan" (see Note 7 to the Consolidated Financial Statements on page 61). Securitized and held for sale loans, including credit card receivables, are not subject to this reserve process.

It is the Corporate Risk Management Department's responsibility to recommend a reserve and provision that result in adequate coverage of inherent losses within the Corporation's credit portfolios. The Corporate Risk Management Department's assessment is based on line-of-business reserve tests, portfolio-level econometric modeling and stress testing, as well as Management's judgment. The Corporate Risk Management Department also utilizes third-party analysis to validate internal measures of expected inherent loss, credit quality and reserve adequacy.

The table below summarizes the changes in the allowance for credit losses for the years ended December 31:

(In millions)	2000	1999	1998	1997	1996
Balance, beginning of year	**$2,285**	$2,271	$2,817	$2,687	$2,422
Charge-offs:					
Commercial:					
Domestic:					
Commercial	**618**	325	222	200	174
Real estate:					
Construction	**8**	5	3	3	3
Other	**11**	27	25	19	28
Lease financing	**7**	12	20	12	15
Foreign	**64**	41	52	—	2
Total commercial	**708**	410	322	234	222
Consumer:					
Residential real estate	**230**	189	74	52	32
Automotive:					
Loans	**215**	256	220	260	221
Leases	**91**	87	61	51	27
Other	**162**	203	246	256	209
Total consumer	**698**	735	601	619	489
Credit card	**261**	386	1,022	1,544	1,216
Total charge-offs	**1,667**	1,531	1,945	2,397	1,927
Recoveries:					
Commercial:					
Domestic:					
Commercial	**98**	70	68	97	87
Real estate:					
Construction	**1**	6	3	6	10
Other	**4**	25	23	29	27
Lease financing	**1**	2	5	3	4
Foreign	**7**	1	1	12	15
Total commercial	**111**	104	100	147	143
Consumer:					
Residential real estate	**17**	12	11	14	8
Automotive:					
Loans	**69**	82	92	105	93
Leases	**21**	23	21	17	5
Other	**44**	60	64	63	55
Total consumer	**151**	177	188	199	161
Credit card	**14**	44	159	164	101
Total recoveries	**276**	325	447	510	405
Net charge-offs:					
Commercial	**597**	306	222	87	79
Consumer	**547**	558	413	420	328
Credit Card	**247**	342	863	1,380	1,115
Total net charge-off	**1,391**	1,206	1,498	1,887	1,522
Provision for credit losses	**3,398**	1,249	1,408	1,988	1,716
Transfers	**(182)**	(29)	(456)	29	71
Balance, end of year	**$4,110**	$2,285	$2,271	$2,817	$2,687

Transfers from the allowance for credit losses primarily represent allocable credit reserves associated with consumer loan sale transactions, including securitization transactions.

Composition of Allowance for Credit Losses

While the allowance for credit losses is available to absorb credit losses in the entire portfolio, the tables below present an estimate of the allowance for credit losses allocated by loan type and the percentage of loans in each category to total loans as of December 31:

(Dollars in millions)	2000		1999		1998		1997		1996	
Commercial (1)	**$3,199**	**78%**	$ 972	43%	$ 834	37%	$ 660	23%	$ 674	25%
Consumer	**714**	**17**	486	21	440	19	484	17	345	13
Credit Card	**197**	**5**	148	6	199	9	813	29	930	35
Unallocated	**—**	**—**	679	30	798	35	860	31	738	27
Total	**$4,110**	**100%**	$2,285	100%	$2,271	100%	$2,817	100%	$2,687	100%
Percentage of loans to total loans:										
Commercial		**58%**		59%		57%		50%		48%
Consumer		**39**		39		37		36		36
Credit Card		**3**		2		6		14		16
Total		**100%**		100%		100%		100%		100%

(1) Includes reserves related to Business and Community Banking loans, which are included in the Retail business segment results.

The $1.825 billion increase in the allowance for credit losses in 2000, of which $1 billion relates to the fourth quarter, was due primarily to significantly higher commercial net charge-offs and nonperforming loans, and to some extent, portfolio growth. Contributing to the increase were refinements in the credit management process that involved analyzing all of the Corporation's credit exposure at an increasingly granular level. These actions include:

- Giving more weight to recent history when estimating expected default rates.
- Increasing the loss assumptions from default across most risk categories.
- Increasing the likelihood of draw downs against unfunded commitments.
- Stress-testing the portfolio based upon more recent, as well as long-term trends.

At December 31, 2000, the allowance for credit losses was 295% of current year net charge-offs (on a reported basis) as compared to a reserve coverage ratio of 189% at December 31, 1999. This increase reflected significant deterioration in certain components of the commercial portfolio, leading to a strengthening of loan loss reserves. The allowance for credit losses at December 31, 2000, represented 2.36% of period-end loans and 166% of nonperforming loans, up from 1.39% and 147%, respectively, at December 31, 1999. The allowance for credit losses established for specifically identified off-balance sheet lending exposures was insignificant at December 31, 2000.

Reserve Determination

The Corporation determines reserve amounts based upon the probable loss in the credit portfolios. The reserve is based on ranges of estimates and is intended to be adequate but not excessive. This process includes deriving probable loss estimates that are based on historical loss rates, portfolio stress testing of probable loss estimates and Management's judgment.

During the fourth quarter of 2000, the Corporation reviewed its practice of maintaining unallocated reserves in light of continuing refinement in loss estimation processes, including improvements in portfolio level stress testing techniques. It was concluded that the use of unallocated reserves would be discontinued. These reserves are now aligned with their respective portfolios.

Probable Loss Estimation

The Corporation employs several different methodologies for estimating probable losses. Methodologies are determined based on a number of factors, including type of asset (e.g., consumer installment versus commercial loan), risk measurement parameters (e.g., delinquency status and bureau score versus commercial risk rating), and risk management and collection processes (e.g., retail collection center versus centrally managed workout units).

For each of the consumer portfolios, including the credit card portfolio, reserves are established based on a statistical analysis of inherent loss over discrete periods of time. The analysis reviews historical losses, vintage performance, delinquencies and other risk characteristics of the various consumer products to estimate probable losses. These other risk characteristics evaluated may include, among other things, recent loss experience in the consumer portfolios, changes in origination sources, portfolio seasoning and underlying credit practices, including charge-off policies. These factors and analysis are updated on a quarterly basis.

For the commercial portfolio, the Corporation conducts a two-part test. First, significant credits that have a risk rating equivalent to the bank regulatory classifications of substandard, doubtful and loss are formally reviewed each quarter and asset-specific reserves are established as appropriate. Second, inherent losses for the remaining commercial portfolio are estimated by assigning a specific reserve factor to each risk category of the portfolio based on a statistical analysis of historical loss experience over a discrete period of time. During the second quarter of 2000, the Corporation refined its measurement process for estimating probable losses inherent in the commercial portfolio. To refine the process, the Corporation analyzed historical credit loss and risk-rating migration data. The results of the analysis showed deterioration in the Corporation's risk-class-specific default probabilities and loss given default estimates. The factors were updated to reflect a higher estimate of incurred losses in the portfolio, based on recent experience and Management's view of the current portfolio and economic conditions. The Corporation continues to review its estimated loss factors on a regular basis and updates such factors where appropriate.

Portfolio Stress-Testing

Stress-test based reserves are established in order to appropriately reflect the presence of indicators of inherent losses that are not fully reflected in the historical loss information. The factors considered include: nonperforming, charge-off, delinquency, portfolio growth and concentration trends; the imprecision inherent in the rating process that drives the application of reserve factors; and the effect of known changes in the economy or other events that affect loss performance and Management's judgment.

The Corporation has incorporated portfolio level stress testing since the first quarter of 1999. The focus of stress testing is to provide a range of reserve estimates which incorporate the Corporation's historical loss experience and the reserve impact of events that have occurred but which are not reflected in either the Corporation's historical expected loss factors or the current assigned risk rating.

Stress testing of the commercial portfolio is accomplished using a framework developed to test default and loss probability estimates and the expected downgrades to exposures in identified high-risk industries. This process includes: a base case scenario using three alternative market comparable probability sets and an estimated loss given default probability to measure the impact on reserves; determining the need to apply a higher loss given default probability to the base case since historical loss rates may vary over the business cycle; and the determination of trend based reserves in high-risk industries that may not be fully reflected in the historically based loss factors, using market-based tools and information as well as sanctioned macroeconomic forecasts.

Beginning in the second quarter of 2000, results of econometric modeling and stress testing of the consumer (i.e., non-credit card) portfolio by the Corporate Risk Management Department were formally incorporated into the estimation process. The purpose of this analysis is to quantify the impact of events that have occurred but whose effects are not yet incorporated into the historically based reserve rates. In this analysis, the consumer subportfolios were subjected to seven distinct economic scenarios, and aggregate twelve-month losses were forecasted. Findings for the various scenarios were weighted to reflect the relative likelihood of the scenarios, and weighted average losses were obtained for each subportfolio within the consumer portfolio. The weighted average losses represent our best estimate of expected losses for each segment of the consumer portfolio. Based on an analysis of these tests and Management's judgment, line of business specific stress test based reserves were established. Specific factors incorporated into these tests included: increased concentration of higher loan-to-value ("LTV" greater than 90%) and sub-prime credits untested by a higher interest rate environment; higher concentration levels of used auto installment loans; lower new application quality; increased third party obligations; longer loan durations; and higher advance rates.

Beginning in the second quarter of 2000, results of econometric modeling and stress testing of the credit card portfolio by the Corporate Risk Management Department were formally incorporated into the estimation process. The purpose of this analysis is to quantify the impact of events that have occurred but whose effects are not yet incorporated into the historically based reserve rates. In this analysis, the subportfolios of First USA were subjected to seven distinct economic scenarios, and aggregate nine-month losses were forecasted. Findings for the various scenarios were weighted to reflect the relative likelihood of the scenarios and weighted average loss was obtained for the line of business. The weighted average loss represents our best estimate of expected losses for the credit card portfolio. Based on an analysis of these tests and Management's judgment, specific stress test based reserves were established for the credit card portfolio as detailed above.

Derivative Financial Instruments

The Corporation uses a variety of derivative financial instruments in its trading, asset and liability management, and corporate investment activities. See Note 21 (c), beginning on page 81, for a discussion of the nature and the terms of derivative financial instruments.

Notional Principal or Contractual Amounts of Derivative Financial Instruments

The following tables represent the gross notional principal or contractual amounts of outstanding derivative financial instruments used in certain activities:

December 31, 2000 (In billions)	**Trading**	**Asset and Liability Management**	**Total**
Interest rate contracts	**$ 695**	**$13**	**$ 708**
Foreign exchange contracts	**91**	**1**	**92**
Equity contracts	**8**	**—**	**8**
Commodity contracts	**3**	**—**	**3**
Total	**$ 797**	**$14**	**$ 811**
December 31, 1999 (In billions)			
Interest rate contracts	$ 895	$20	$ 915
Foreign exchange contracts	106	1	107
Equity contracts	10	—	10
Commodity contracts	1	—	1
Total	$1,012	$21	$1,033

These amounts indicate the volume of transaction activity, and they do not represent the market or credit risk associated with these instruments. In addition, these volumes do not reflect the netting of offsetting transactions.

Accounting for Derivative Financial Instruments

Derivative financial instruments used in trading activities are valued at estimated fair value. Such instruments include swaps, forwards, spot, futures, options, caps, floors and forward rate agreements and other conditional or exchange contracts in the interest rate, foreign exchange, equity and commodity markets. The estimated fair values are based on quoted market prices or pricing and valuation models on a present value basis using current market information. Realized and unrealized gains and losses, including any interest income or expense, are recorded in noninterest income as trading profits. Where appropriate, compensation for credit risk and ongoing servicing is deferred and recorded as income over the life of the derivative financial instruments.

Purchased option, cap and floor contracts are reported in derivative product assets, and written option, cap and floor contracts are reported in derivative product liabilities. For other derivative financial instruments, an unrealized gain is reported in derivative product assets, and an unrealized loss is reported in derivative product liabilities. However, fair value amounts recognized for derivative financial instruments executed with the same counterparty under a legally enforceable master netting arrangement are reported on a net basis. Cash flows from derivative financial instruments are reported net as operating activities.

Derivative financial instruments used in ALM activities, principally interest rate swaps, are typically classified as synthetic alterations or anticipatory hedges and are required to meet specific criteria. Such interest rate swaps are designated as ALM derivatives, and are linked to and adjust the interest rate sensitivity of a specific asset, liability, firm commitment, or anticipated transaction or a specific pool of transactions with similar risk characteristics. Interest rate swaps that do not meet these and the following criteria are designated as derivatives used in trading activities and are accounted for at estimated fair value.

Synthetic Alteration—(1) the asset or liability to be converted creates exposure to interest rate risk; (2) the swap is effective as a synthetic alteration of the balance sheet item; (3) the start date of the swap does not extend beyond that point in time at which it is believed that modeling systems produce reliable interest rate sensitivity information; and (4) the related balance sheet item, from trade date to final maturity, has sufficient balances for alteration.

Anticipatory Hedge—(1) the transaction to be hedged creates exposure to interest rate risk; (2) the swap acts to reduce inherent rate risk by moving closer to being insensitive to interest rate changes; (3) the swap is effective as a hedge of the transaction; (4) the significant characteristics and expected terms of the anticipated transaction are identified; and (5) it is probable that the anticipated transaction will occur.

Income or expense on most ALM derivatives used to manage interest rate exposure is recorded on an accrual basis, as an adjustment to the yield of the linked exposures over the periods covered by the contracts. This matches the income recognition treatment of that exposure, generally assets or liabilities carried at historical cost, that are recorded on an accrual basis. If an interest rate swap is terminated early or dedesignated as an ALM derivative, any unrecognized gain or loss at that point in time is deferred and amortized as an adjustment of the yield on the linked interest rate exposure position over the remaining periods originally covered by the swap. If all or part of a linked position is terminated, e.g., a linked asset is sold or prepaid, or if the amount of an anticipated transaction is likely to be less than originally expected, then the related pro rata portion of any unrecognized gain or loss on the swap is recognized in earnings at that time, and the related pro rata portion of the swap is subsequently accounted for at estimated fair value.

Income Resulting from Derivative Financial Instruments

The Corporation uses interest rate derivative financial instruments to reduce structural interest rate risk and the volatility of net interest margin. Net interest margin reflects the effective use of these derivatives. Without their use, net interest income would have been lower by $52 million in 2000, lower by $181 million in 1999 and lower by $78 million in 1998.

Deferred gains, net of deferred losses, on interest rate swaps terminated early or dedesignated as ALM derivatives totaled $19 million as of December 31, 2000. This amount will be amortized as an adjustment to interest income or expense on the linked interest rate exposure position. The net adjustment remaining to be amortized is $31 million in 2001, $12 million in 2002, $1 million in 2003 and $(25) million thereafter.

Credit Exposure Resulting from Derivative Financial Instruments

The Corporation maintains risk management policies that monitor and limit exposure to credit risks. For a further discussion of credit risks, see the "Credit Risk Management" section, beginning on page 26.

Credit exposure from derivative financial instruments arises from the risk of a counterparty default on the derivative contract. The amount of loss created by the default is the replacement cost or current fair value of the defaulted contract. The Corporation utilizes master netting agreements whenever possible to reduce its credit exposure from customer defaults. These agreements allow the netting of contracts with unrealized losses against contracts with unrealized gains to the same counterparty, in the event of a counterparty default.

The table below shows the impact of these master netting agreements:

(In millions)	December 31 2000	December 31 1999
Gross replacement cost	**$9,769**	$12,254
Less: Adjustment due to master netting agreements	**(7,222)**	(8,895)
Current credit exposure	**2,547**	3,359
Unrecognized net (gains) losses due to nontrading activity	**(225)**	13
Balance sheet exposure	**$2,322**	$ 3,372

Current credit exposure represents the total loss the Corporation would have suffered had every counterparty been in default on those dates. These amounts are adjusted by the unrealized and unrecognized gains and losses on derivatives used in asset and liability management activities to arrive at the balance sheet exposure.

Asset and Liability Management Derivatives

Access to the derivatives market is an important element in maintaining the Corporation's desired interest rate risk position. In general, the assets and liabilities generated through ordinary business activities do not naturally create offsetting positions with respect to repricing, basis or maturity characteristics. Using off-balance sheet instruments, principally plain vanilla interest rate swaps (ALM swaps), the interest rate sensitivity of specific on-balance sheet transactions, as well as pools of assets, is adjusted to maintain the desired interest rate risk profile.

At December 31, 2000, the notional value of ALM interest rate swaps tied to specific assets or liabilities totaled $12.6 billion as follows:

(In millions)	Receive Fixed Pay Floating	Pay Fixed Receive Floating	Basis Swaps	Total
Interest rate swaps associated with:				
Investment securities	$ —	$ 50	$—	$ 50
Funds borrowed (including long-term debt)	5,300	7,212	60	12,572
Total	$5,300	$7,262	$60	$12,622

Interest rate swaps used to adjust the interest rate sensitivity of specific transactions will not need to be replaced at maturity, since the corresponding asset or liability will mature along with the swap.

The Corporation has reviewed and modified its policies and procedures regarding the designation of hedged assets and liabilities in response to the January 1, 2001 adoption of a new accounting standard for derivatives, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". Certain types of assets and liabilities are less likely to be designated as hedged under the new accounting standard. However, this new standard has had only a minor impact on the Corporation's ability to hedge structural interest rate risk using interest rate swaps. The accounting treatment for derivative instruments used in hedging activities changed significantly on January 1, 2001, with the adoption of SFAS 133. See Note 1(j), beginning on page 54 for more information.

Asset and Liability Management Swaps—Maturities and Rates

The notional amounts, expected maturity, and weighted-average pay and receive rates for the ALM swap position at December 31, 2000, are summarized as follows:

(Dollars in millions)	2001	2002	2003	2004	2005	Thereafter	Total
Receive fixed/pay floating swaps:							
Notional amount	$ 475	$ —	$ 25	$ —	$2,000	$2,800	$ 5,300
Weighted average:							
Receive rate	7.24%	—%	7.61%	—%	7.12%	6.97%	7.05%
Pay rate	6.85%	—%	7.17%	—%	6.85%	6.87%	6.86%
Pay fixed/receive floating swaps:							
Notional amount	$ —	$2,787	$1,250	$2,690	$ 250	$ 285	$ 7,262
Weighted average:							
Receive rate	—%	7.03%	7.06%	6.99%	7.23%	7.11%	7.03%
Pay rate	—%	6.90%	7.18%	6.69%	7.67%	6.91%	6.90%
Basis swaps:							
Notional amount	$ 50	$ —	$ —	$ 10	$ —	$ —	$ 60
Total notional amount	$ 525	$2,787	$1,275	$2,700	$2,250	$3,085	$12,622

For generic interest rate swaps, the maturities are contractual. Variable interest rates—which generally are the one-month, three-month and six-month London interbank offered rates ("LIBOR") in effect on the date of repricing—are assumed to remain constant. However, interest rates will change and consequently will affect the related weighted-average information presented.

Loan Securitizations

The Corporation transforms loans into securities, which are sold to investors—a process referred to as securitization. The Corporation primarily securitizes credit card receivables but also securitizes home equity loans and consumer assets to a limited extent. In a credit card securitization, a designated pool of credit card receivables is removed from the balance sheet and transferred to a third-party special purpose entity ("SPE" or "Trust"), that in turn sells securities to investors entitling them to receive specified cash flows during the life of the security. The proceeds from the issuance are then distributed by the SPE to the Corporation as consideration for the loans transferred. Following a securitization, the Corporation receives: fees for servicing the receivables and any excess finance charges, yield-related fees, and interchange revenue on the receivables over and above the interest paid to the investors, net credit losses and servicing fees (termed "the excess spread").

The Corporation's continuing involvement in the securitized assets includes the process of managing and servicing the transferred receivables, as well as maintaining an undivided, pro rata interest in all credit card receivables that have been securitized, referred to as seller's interest, which is generally equal to the pool of assets included in the securitization less the investor's portion of those assets. As the amount of the loans in the securitized pool fluctuates due to customer payments, purchases, cash advances, and credit losses, the carrying amount of the seller's interest will vary. However, the seller's interest is required to be maintained at a minimum level to ensure receivables are available for allocation to the investor interest. This minimum level is generally between 4% and 7% of the SPE's principal receivables.

Investors in the beneficial interests of the securitized loans have no recourse against the Corporation if cash flows generated from the securitized loans are inadequate to service the obligations of the SPE. To help ensure that adequate funds are available in the event of a shortfall, the Corporation is required to deposit funds into cash spread accounts if excess spread falls below certain minimum levels. Spread accounts are funded from excess spread that would normally be returned to the Corporation. In addition, various forms of other credit enhancement are provided to protect more senior investor interests from loss. Credit enhancements associated with credit card securitizations, such as cash collateral or spread accounts, totaled $311 million at December 31, 2000, and are classified on the balance sheet as other assets.

The following comprised the Corporation's managed credit card loans at December 31, 2000:

(In millions)	
Owned credit card loans—held in portfolio	$ 2,835
Owned credit card loans—held for future securitization	1,909
Seller's interest in credit card loans (investment securities) (1)	22,446
Total credit card loans reflected on balance sheet	27,190
Securities sold to investors and removed from balance sheet	39,795
Managed credit card loans	$66,985

(1) Includes approximately $900 million of credit card loans sold in a securitization occurring in the first quarter of 2001.

For analytical purposes only, the following table shows income statement line items adjusted for the net impact of securitization of credit card receivables for the years ended December 31:

(Dollars in millions)	Reported	Credit Card Securitizations	Managed
		2000	
Net interest income—tax-equivalent basis	**$ 8,974**	**$ 4,532**	**$ 13,506**
Provision for credit losses	**3,398**	**3,337**	**6,735**
Noninterest income	**5,090**	**(1,195)**	**3,895**
Noninterest expense	**11,608**	**—**	**11,608**
Net income (loss)	**(511)**	**—**	**(511)**
Total average loans	**171,768**	**61,424**	**233,192**
Total average earning assets	**241,058**	**42,977**	**284,035**
Total average assets	**271,984**	**42,977**	**314,961**
Net interest margin	**3.72%**	**10.55%**	**4.76%**
Delinquency and charge-off rates:			
Credit card delinquencies over 30 days as a percentage of ending credit card loan balances	**2.74%**	**4.64%**	**4.51%**
Credit card delinquencies over 90 days as a percentage of ending credit card loan balances	**1.20%**	**2.08%**	**2.02%**
Net credit card charge-offs as a percentage of average credit card loan Balances	**5.20%**	**5.43%**	**5.42%**
		1999	
Net interest income—tax-equivalent basis	$ 9,142	$ 5,315	$ 14,457
Provision for credit losses	1,249	3,265	4,514
Noninterest income	8,692	(2,050)	6,642
Noninterest expense	11,490	—	11,490
Net income	3,479	—	3,479
Total average loans	156,855	61,747	218,602
Total average earning assets	223,539	45,698	269,237
Total average assets	256,491	45,698	302,189
Net interest margin	4.09%	11.63%	5.37%
Delinquency and charge-off rates:			
Credit card delinquencies over 30 days as a percentage of ending credit card loan balances	4.06%	4.60%	4.57%
Credit card delinquencies over 90 days as a percentage of ending credit card loan balances	1.87%	2.15%	2.13%
Net credit card charge-offs as a percentage of average credit card loan Balances	4.73%	5.58%	5.49%

Capital Management

Capital represents the stockholders' investment on which the Corporation strives to generate attractive returns. It is the foundation of a cohesive risk management framework and links return with risk. Capital supports business growth and provides protection to depositors and creditors.

In conjunction with the annual financial planning process, a capital plan is established to ensure that the Corporation and all of its subsidiaries have capital structures consistent with prudent management principles and regulatory requirements.

Economic Capital

An important aspect of risk management and performance measurement is the ability to evaluate the risk and return of a business unit, product or customer consistently across all lines of business. The Corporation's economic capital framework facilitates this standard measure of risk and return. Business units are assigned capital consistent with the underlying risks of their product methodology set, customer base and delivery channels. The following principles are inherent in the capital attribution employed:

- An equal amount of capital is assigned for each measured unit of risk.
- Risk is defined in terms of "unexpected" losses over the life of the exposure, measured at a confidence interval consistent with that level of capitalization necessary to achieve a targeted AA debt rating. Unexpected losses are in excess of those normally incurred and for which reserves are maintained.
- Business units are assessed a uniform charge against allotted capital, representing a target hurdle rate on equity investments. Returns on capital in excess of the hurdle rate contribute to increases in shareholder value.

Four forms of risk are measured—credit, market, operational and lease residual. Credit risk capital is determined through an analysis of both historical loss experience and market expectations. Market risk capital is set consistent with value at risk limits established by the Corporation's risk oversight committees. Operational risk capital incorporates event and technology risks, as well as the general business risks arising from operating leverage. The operating risk evaluation process involves an examination of various risk factors that contribute to a greater likelihood of loss due to business failure, fraud or processing error. Finally, lease residual risk capital covers the potential for losses arising from the disposition of assets returned at the end of lease contracts. This price risk is analyzed based upon historical loss experiences and market factors, as well as by reviewing event-specific scenarios.

The economic capital process provides a valuable analytical tool that is critical to the understanding of business segment performance trends. The methodologies employed are subject to ongoing development and review. Over time, the Corporation's view of individual risks and associated capital will likely change given improvements in our ability to quantify risks inherent in various business activities.

Regulatory Capital Requirements

Bank One is subject to capital requirements and guidelines imposed on bank holding companies by the Federal Reserve Board. The Office of the Comptroller of the Currency ("OCC"), the Federal Deposit Insurance Corporation ("FDIC") and the Federal Reserve Board impose similar requirements and guidelines on the Banks within their respective jurisdictions. These capital requirements establish higher capital standards for banks and bank holding companies that assume greater risks. For this purpose, a bank holding company's or bank's assets and certain specified off-balance sheet commitments are assigned to four risk categories, each weighted differently based on the level of credit risk ascribed to such assets or commitments. A bank holding company's or bank's total capital, in turn, is divided into three tiers:

- core ("Tier 1") capital, which includes common equity, certain qualifying cumulative and noncumulative perpetual preferred stock and related surplus, and minority interests in equity accounts of consolidated subsidiaries;
- supplementary ("Tier 2") capital, which includes perpetual preferred stock and related surplus not meeting the Tier 1 definition, hybrid capital instruments, perpetual debt and mandatory convertible securities, subordinated debt, intermediate-term preferred stock, and allowances for loan and lease losses; and
- market risk ("Tier 3") capital, which includes qualifying unsecured subordinated debt.

Goodwill, certain identifiable intangible assets, and certain other assets must be deducted in calculating the sum of the core capital elements.

Bank One, like other bank holding companies, is required to maintain Tier 1 and total capital (the sum of Tier 1, Tier 2 and Tier 3 capital) equal to at least 4% and 8%, respectively, of its total risk-weighted assets. At December 31, 2000, Bank One met both requirements, with Tier 1 and total capital equal to 7.3% and 10.8%, respectively, of its total risk-weighted assets. Each of the Banks was in compliance with its applicable minimum capital requirement at December 31, 2000.

The Federal Reserve Board, the FDIC and the OCC have adopted rules to incorporate market and interest-rate risk components into their risk-based capital standards. Under these market risk requirements, capital is allocated to support the amount of market risk related to a financial institution's ongoing trading activities.

The Federal Reserve Board also requires bank holding companies to maintain a minimum "leverage ratio" (Tier 1 capital to adjusted average assets) of 3% for bank holding companies that have the highest regulatory rating or have implemented the risk-based capital measures for market risk, or 4% for holding companies that do not meet either of these requirements. Each of the Banks is subject to similar requirements adopted by the applicable federal regulatory agency. At December 31, 2000, Bank One's leverage ratio was 7.3%, and each of the Banks was in compliance with its applicable leverage ratio requirement.

Each federal banking regulator may set capital requirements higher than the minimums noted above if circumstances warrant it. For example, institutions experiencing or anticipating significant growth may be expected to maintain capital ratios, including tangible capital positions, well above the minimum levels. Furthermore, the Federal Reserve Board has indicated that it will consider a "tangible Tier 1 capital leverage ratio" (deducting all intangibles) and other measures of capital strength in evaluating proposals for expansion or new activities. No federal banking regulator has imposed any such special capital requirement on Bank One or the Banks.

Failure to meet capital requirements could subject a bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business, which are described below.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), among other things, identifies five capital categories (from "well capitalized" to "critically undercapitalized") for insured depository institutions and requires the respective federal bank regulatory agencies to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements within these categories.

Failure to meet the capital guidelines could subject a depository institution to capital-raising requirements. An "undercapitalized" depository institution must develop a capital restoration plan, and its parent holding company must guarantee the bank's compliance with the plan. In the event of the bankruptcy of the parent holding company, this guarantee would take priority over the parent's general unsecured creditors. In addition, FDICIA requires the federal bank regulatory agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation, and it permits regulatory action against a financial institution that does not meet these standards.

As of December 31, 2000, each Bank was "well capitalized" based on the "prompt corrective action" ratios and guidelines described above. It should be noted, however, that a Bank's capital category is determined solely for the purpose of applying the federal banking agencies' "prompt corrective action" regulations; the capital category may not constitute an accurate representation of the Bank's overall financial condition or prospects.

Selected Capital Ratios

The Corporation aims to maintain regulatory capital ratios, including those of the principal banking subsidiaries, in excess of the well-capitalized guidelines under federal banking regulations. The Corporation has maintained a well-capitalized regulatory position of the past five years.

The tangible common equity to tangible managed assets ratio is also monitored. This ratio adds securitized credit card loans to reported total assets and is calculated net of total intangible assets. The tangible common equity to tangible managed assets ratio was 5.5% at December 31, 2000, down from 5.7% at December 31, 1999. Tier 1 and Total Capital ratios were 7.3% and 10.8%, respectively, at December 31, 2000, down from 7.7% and up from 10.7%, respectively, at December 31, 1999.

The Corporation's capital ratios that adhere to regulatory guidelines appear in the table below:

	December 31					Well-Capitalized Regulatory Guidelines
	2000	**1999**	**1998**	**1997**	**1996**	
Regulatory leverage (1)	**7.3%**	7.7%	8.0%	7.8%	8.9%	3.0%
Risk-based capital ratios (1)						
Tier 1	**7.3**	7.7	7.9	8.2	9.5	6.0
Total	**10.8**	10.7	11.3	12.3	13.6	10.0
Common equity/managed assets	**6.0**	6.3	6.7	6.7	8.0	
Tangible common equity/tangible managed assets	**5.5**	5.7	5.8	6.2	6.9	—
Double leverage ratio (1)	**108**	112	108	107	107	—
Divided payout ratio	**N/M**	57	58	61	38	—

(1) Includes trust preferred capital securities.
N/M—Not meaningful.

The components of the Corporation's regulatory risk-based capital and risk-weighted assets are as follows December 31:

(In millions)	2000	1999	1998	1997	1996
Regulatory risk-based capital:					
Tier 1 capital	**$ 19,824**	$ 20,247	$ 19,495	$ 17,958	$ 19,241
Tier 2 capital	**9,316**	7,967	8,295	9,000	8,196
Total capital	**$ 29,140**	$ 28,214	$ 27,790	$ 26,958	$ 27,437
Total risk-weighted assets	**$270,182**	$263,169	$244,473	$219,557	$202,213

In deriving Tier 1 and total capital, goodwill and other nonqualifying intangible assets are deducted as indicated December 31:

(In millions)	2000	1999	1998	1997	1996
Goodwill	**$ 858**	$ 934	$1,075	$1,120	$ 920
Other nonqualifying intangibles	**375**	669	637	109	61
Subtotal	**1,233**	1,603	1,712	1,229	981
Qualifying intangibles	**214**	583	984	473	278
Total intangibles	**$1,447**	$2,186	$2,696	$1,702	$1,259

Dividend Policy

The Corporation's common dividend policy reflects its earnings outlook, desired payout ratios, the need to maintain an adequate capital level and alternative investment opportunities. The common dividend payout ratio is targeted in the range of 25%—30% of earnings over time. Common stock dividends declared for 2000 were $1.26 per share compared with $1.68 per share for 1999. This reflects a 50% reduction of the quarterly dividend rate from 42 cents per share to 21 cents per share in the third quarter of 2000. On January 16, 2001, the Corporation declared its quarterly common cash dividend of 21 cents per share, payable on April 1, 2001.

On January 20, 1998, Banc One declared a 10% common stock dividend to shareholders of record on February 12, 1998. On January 18, 2000, the Corporation announced the discontinuation of the biannual 10% stock dividend.

Double Leverage

Double leverage is the extent to which the Corporation's debt is used to finance investments in subsidiaries. Double leverage was 108% at December 31, 2000 and 112% at December 31, 1999. Trust Preferred Capital Securities of $2.483 billion in 2000 and $1.578 billion in 1999 were included in capital for purposes of this calculation.

Stock Repurchase Program and Other Capital Activities

On May 18, 1999, the Corporation's Board of Directors authorized the purchase of up to 65 million shares of the Corporation's common stock. As of December 31, 2000, the Corporation had purchased 36.6 million shares of common stock at an average price of $44.95 per share. No shares have been repurchased under the authorized plan since September 30, 1999.

On January 30, 2001, the Corporation added to its Tier 1 capital through the sponsorship of a trust that issued $300 million aggregate principal amount of trust preferred securities, maturing on January 30, 2031, with a distribution rate of 8.00%. The sole asset of the sponsored trust is $309.3 million principal amount of 8.00% junior subordinated debt of the Corporation that will mature on January 30, 2031, and is redeemable prior to maturity at the Corporation's option on or after January 30, 2006.

During 2000, the Corporation added to its Tier 1 capital through the sponsorship of three trusts that issued $915 million in aggregate principal amount of trust preferred securities. During 1999, the Corporation sponsored one trust that issued $575 million in aggregate principal amount of trust preferred securities. These preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment. See Note 12 to the Corporation's consolidated financial statements for more detail.

On August 10, 1999, the Corporation redeemed all of its outstanding 7½% Preferred Purchase Units, totaling $150 million. The redemption price was $25.00 per unit, plus accrued and unpaid interest and contract fees totaling $0.47 per unit.

During 2000 and 1999, the Corporation strengthened its capital position through the issuance of $1 billion and $350 million of subordinated debt, respectively.

On December 1, 2000, the Corporation converted all outstanding 12¾% First Commerce Convertible Debenture Bonds, Series A and B. The conversion rate was 18.9473. All of the debentures were converted to shares of the Corporation's common stock.

CONSOLIDATED BALANCE SHEETS

BANK ONE CORPORATION and Subsidiaries

(Dollars in millions)	December 31 2000	1999
Assets		
Cash and due from banks	**$ 17,291**	$ 16,076
Interest-bearing due from banks	**5,210**	6,645
Federal funds sold and securities under resale agreements	**4,737**	9,782
Trading assets	**2,788**	7,952
Derivative product assets	**2,322**	3,372
Investment securities	**50,561**	47,912
Loans:		
Commercial	**100,460**	96,352
Consumer	**69,047**	63,488
Credit card	**4,744**	4,037
Allowance for credit losses	**(4,110)**	(2,285)
Loans, net	**170,141**	161,592
Premises and equipment, net	**2,894**	3,317
Customers' acceptance liability	**402**	366
Other assets	**12,954**	12,411
Total assets	**$269,300**	$269,425
Liabilities		
Deposits:		
Demand	**$ 30,738**	$ 31,194
Savings	**63,414**	64,435
Time	**47,958**	36,877
Foreign offices	**24,967**	29,772
Total deposits	**167,077**	162,278
Federal funds purchased and securities sold under repurchase agreements	**12,120**	18,720
Other short-term borrowings	**18,003**	21,211
Long-term debt	**38,428**	33,857
Guaranteed preferred beneficial interest in the Corporation's junior subordinated debt	**2,483**	1,578
Acceptances outstanding	**402**	366
Derivative product liabilities	**2,212**	3,332
Other liabilities	**9,940**	7,993
Total liabilities	**250,665**	249,335
Stockholders' Equity		
Preferred stock	**190**	190
Common stock—$0.01 par value	**12**	12

Number of common shares (in thousands):	2000	1999
Authorized	**2,500,000**	2,500,000
Issued	**1,181,386**	1,182,121
Outstanding	**1,159,829**	1,147,343

	2000	1999
Surplus	**10,487**	10,799
Retained earnings	**9,060**	11,037
Accumulated other adjustments to stockholders' equity	**(5)**	(263)
Deferred compensation	**(121)**	(118)
Treasury stock, at cost (21,557,000 shares in 2000 and 34,778,000 shares in 1999)	**(988)**	(1,567)
Total stockholders' equity	**18,635**	20,090
Total liabilities and stockholders' equity	**$269,300**	$269,425

The accompanying notes are an integral part of this statement.

CONSOLIDATED INCOME STATEMENTS

BANK ONE CORPORATION and Subsidiaries

(In millions, except per share data)	For the Year Ended December 31 2000	1999	1998
Interest Income:			
Loans, including fees	**$15,214**	$13,051	$14,106
Bank balances	**503**	233	331
Federal funds sold and securities under resale agreements	**577**	445	423
Trading assets	**440**	330	367
Investment securities	**3,344**	3,235	2,297
Total	**20,078**	17,294	17,524
Interest Expense:			
Deposits	**6,137**	4,651	4,943
Federal funds purchased and securities under repurchase agreements	**1,142**	935	1,090
Other short-term borrowings	**1,216**	942	737
Long-term debt	**2,747**	1,745	1,407
Total	**11,242**	8,273	8,177
Net Interest Income	**8,836**	9,021	9,347
Provision for credit losses	**3,398**	1,249	1,408
Net Interest Income After Provision for Credit Losses	**5,438**	7,772	7,939
Noninterest Income:			
Non-deposit service charges	**1,537**	1,502	1,390
Credit card revenue	**2,299**	3,413	3,096
Service charges on deposits	**1,310**	1,283	1,255
Fiduciary and investment management fees	**783**	793	807
Investment securities gains (losses)	**(235)**	509	405
Trading	**134**	147	141
Other income (loss)	**(738)**	1,045	977
Total	**5,090**	8,692	8,071
Noninterest Expense:			
Salaries and employee benefits	**4,388**	4,271	4,477
Occupancy and equipment expense	**1,010**	910	845
Outside service fees and processing	**1,532**	1,743	1,349
Marketing and development	**874**	1,188	1,024
Communication and transportation	**841**	829	781
Depreciation	**454**	460	512
Other intangible amortization	**410**	168	91
Goodwill amortization	**70**	69	77
Other	**1,868**	1,298	1,327
Total noninterest expense before merger and restructuring charges	**11,447**	10,936	10,483
Merger-related and restructuring charges	**161**	554	1,062
Total	**11,608**	11,490	11,545
Income (Loss) Before Income Taxes	**(1,080)**	4,974	4,465
Applicable income taxes (benefit)	**(569)**	1,495	1,357
Net Income (Loss)	**$ (511)**	$ 3,479	$ 3,108
Net Income (Loss) Attributable to Common Stockholders' Equity	**$ (523)**	$ 3,467	$ 3,094
Earnings (Loss) Per Share:			
Basic	**$ (0.45)**	$ 2.97	$ 2.65
Diluted	**$ (0.45)**	$ 2.95	$ 2.61

The accompanying notes are an integral part of this statement.

Consolidated Statements of Stockholders' Equity

BANK ONE CORPORATION and Subsidiaries

(In millions)	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Adjustments to Stockholders' Equity	Deferred Compensation	Treasury Stock	Total Stockholders' Equity
Balance—December 31, 1997	$ 326	$12	$12,584	$ 8,063	$ 209	$(137)	$(2,007)	$19,050
Net income				3,108				3,108
Change in fair value, investment securities—available for sale, net of taxes					15			15
Translation gain, net of hedge results and taxes					15			15
Net income and changes in accumulated other adjustments to stockholders' equity								3,138
Cash dividends declared:								
On common stock				(1,228)				(1,228)
On preferred stock				(5)				(5)
On common stock by pooled affiliates				(401)				(401)
On preferred stock by pooled affiliates				(9)				(9)
Conversion of preferred stock	(136)		136					—
Issuance of stock			(189)				430	241
Acquisition of subsidiaries							2	2
Purchase of common stock							(375)	(375)
Cancellation of shares held in treasury			(1,866)				1,866	—
Awards granted, net of forfeitures and amortization						29		29
Other			104			14		118
Balance—December 31, 1998	190	12	10,769	9,528	239	(94)	(84)	20,560
Net income				3,479				3,479
Change in fair value, investment securities—available for sale, net of taxes					(489)			(489)
Translation (loss), net of hedge results and taxes					(13)			(13)
Net income and changes in accumulated other adjustments to stockholders' equity								2,977
Cash dividends declared:								
On common stock				(1,958)				(1,958)
On preferred stock				(12)				(12)
Issuance of stock			(14)				175	161
Purchase of common stock							(1,677)	(1,677)
Awards granted, net of forfeitures and amortization						(24)		(24)
Other			44				19	63
Balance—December 31, 1999	190	12	10,799	11,037	(263)	(118)	(1,567)	20,090
Net loss				**(511)**				**(511)**
Change in fair value, investment securities—available for sale, net of taxes					**256**			**256**
Translation gain, net of hedge results and taxes					**2**			**2**
Net loss and changes in accumulated other adjustments to stockholders' equity								**(253)**
Cash dividends declared:								
On common stock				**(1,454)**				**(1,454)**
On preferred stock				**(12)**				**(12)**
Issuance of stock			**(302)**				**615**	**313**
Purchase of common stock							**(17)**	**(17)**
Awards granted, net of forfeitures and amortization						**(34)**		**(34)**
Other			**(10)**			**31**	**(19)**	**2**
Balance—December 31, 2000	**$ 190**	**$12**	**$10,487**	**$ 9,060**	**$ (5)**	**$(121)**	**$ (988)**	**$18,635**

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF CASH FLOWS

BANK ONE CORPORATION and Subsidiaries

(In millions)	For the Year Ended December 31 2000	1999	1998
Cash Flows from Operating Activities:			
Net income (loss)	**$ (511)**	$ 3,479	$ 3,108
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**934**	697	680
Provision for credit losses	**3,398**	1,249	1,408
Equity securities gains	**(193)**	(415)	(250)
Investment securities (gains) losses	**429**	(94)	(155)
Net (increase) decrease in net derivative product assets	**(71)**	(233)	187
Net (increase) decrease in trading assets	**11,691**	(292)	(180)
Net (increase) decrease in other assets	**(655)**	245	(2,290)
Net increase (decrease) in other liabilities	**1,502**	(830)	(35)
Gain on sale of banks and branch offices	**—**	(348)	(343)
Merger-related and restructuring charges	**161**	276	1,026
Other operating adjustments	**143**	(100)	1,516
Net cash provided by operating activities	**16,828**	3,634	4,672
Cash Flows from Investing Activities:			
Net (increase) decrease in federal funds sold and securities under resale agreements	**5,045**	80	(695)
Securities available for sale:			
Purchases	**(72,098)**	(56,564)	(27,077)
Maturities	**17,882**	16,150	7,336
Sales	**48,960**	38,361	18,543
Securities held to maturity:			
Maturities	**—**	—	104
Credit card receivables securitized	**—**	7,279	10,323
Net increase in loans	**(14,903)**	(21,377)	(20,831)
Loan recoveries	**276**	325	447
Net cash and cash equivalents due to mergers, acquisitions and dispositions	**—**	(1,669)	(2,337)
Additions to premises and equipment	**(533)**	(593)	(824)
All other investing activities, net	**(1,194)**	41	(4,854)
Net cash used in investing activities	**(16,565)**	(17,967)	(19,865)
Cash Flows from Financing Activities:			
Net increase in deposits	**4,681**	3,907	10,548
Net increase (decrease) in federal funds purchased and securities under repurchase agreements	**(6,599)**	(4,444)	2,819
Net increase (decrease) in other short-term borrowings	**(3,208)**	4,274	3,992
Proceeds from issuance of long-term debt	**13,914**	28,736	19,062
Repayment of long-term debt	**(9,237)**	(16,245)	(18,062)
Cash dividends paid	**(1,222)**	(2,420)	(1,322)
Proceeds from issuance of trust preferred stock	**911**	575	—
Proceeds from issuance of common and treasury stock	**152**	61	161
Purchase of treasury stock	**(3)**	(1,647)	(375)
All other financing activities, net	**(19)**	(238)	(4)
Net cash provided by (used in) financing activities	**(630)**	12,559	16,819
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**147**	(25)	604
Net Increase (Decrease) in Cash and Cash Equivalents	**(220)**	(1,799)	2,230
Cash and Cash Equivalents at Beginning of Year	**22,721**	24,520	22,290
Cash and Cash Equivalents at End of Year	**$ 22,501**	$ 22,721	$ 24,520
Other Cash-Flow Disclosures:			
Interest paid	**$ 10,777**	$ 8,082	$ 8,281
State and federal income taxes paid	**510**	704	680

The accompanying notes are an integral part of this statement.

NOTE 1—Summary of Significant Accounting Policies

The consolidated financial statements of BANK ONE CORPORATION (''the Corporation'' and ''Bank One'') and subsidiaries have been prepared in conformity with generally accepted accounting principles. Management is required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes that could differ from actual results. Certain prior-year financial statement information has been reclassified to conform to the current year's financial statement presentation. Consolidated financial statements have been restated to include the results of operations, financial position and changes in cash flows for each period in which an acquisition was accounted for as a pooling of interests. Adjustments to conform accounting policies have been made upon integration of each acquired entity.

(a) Principles of Consolidation

The Corporation's consolidated financial statements include all accounts of the Corporation (the ''Parent Company'') and all significant majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

(b) Trading Activities

Trading assets and liabilities are carried at fair value. Trading profits include realized and unrealized gains and losses from both cash and derivative financial instruments used in trading activities. Trading profits also include any interest income or expense from derivative instruments. Trading activities involve instruments with interest rate, exchange rate, equity price and commodity price market risk.

(c) Investment Securities

Debt and equity investment securities classified as available-for-sale are carried at fair value. Fair value for venture capital investments that are publicly traded is determined using quoted market prices when the investment is unrestricted; otherwise fair value is estimated using quoted market prices adjusted for market liquidity and sale restrictions. Fair value for venture capital investments that are not publicly traded is estimated based on the investees' financial results, conditions and prospects, values of comparable public companies, market liquidity and sales restrictions. Unrealized and realized gains and losses related to venture capital investments and realized gains and losses, including other than temporary impairments, on other available-for-sale equity securities are included in noninterest income as equity securities gains. Unrealized gains and losses, net of taxes, on all other available-for-sale securities are included in accumulated other adjustments to stockholders' equity. Realized gains and losses, including other than temporary impairments, on available-for-sale investment debt securities are included in investment securities gains. The specific identification method is used to calculate realized gains or losses.

(d) Loans

Loans held for the foreseeable future are carried at cost. Unearned income includes deferred loan origination fees reduced by loan origination costs. Loans held for sale are carried at the lower of cost or fair value with unrealized losses included in other income. Realized gains or losses resulting from loan sales typically are included in other income but may be recorded as a recovery or charge-off when the shortfall is primarily credit related. The Corporation typically provides lease financing to its customers through direct financing leases. Leveraged leases, which represent direct financing leases involving nonrecourse debt, also are provided to customers.

Loan origination fees and commitment fees are typically deferred and amortized over the life of the related loan. Loan origination fees and costs on credit card and other revolving loans are typically deferred and amortized into interest income using a straight-line method over one year. Other credit-related fees, such as syndication management fees, commercial letter of credit fees, and fees on unused, available lines of credit, are recorded as service charges and commissions when received or over time to match the earnings process.

Direct financing leases are recorded at the aggregate amount of lease payments to be received plus the estimated residual values of the underlying leased assets, plus any unamortized initial direct costs, less unearned income. Leveraged leases are recorded net of nonrecourse debt. Income from direct lease financing is recognized over the lives of the leases on an approximate level rate of return on the unrecovered investment. The income recognition pattern for leveraged leases is to record losses in the early years and earnings in the later years. Residual values of leased assets are reviewed periodically for reasonableness. Declines in residual values judged to be other than temporary are recognized in the period such determinations are made.

(e) Nonperforming Loans

A loan is considered nonperforming when placed on nonaccrual status, or when renegotiated at terms that represent an economic concession to the borrower. Commercial nonperforming loans are generally identified as impaired loans. An economic concession on a renegotiated loan may represent forgiveness of principal and/or interest or a below-market interest rate offered to the borrower to maximize recovery of the loan. Generally, this occurs when the borrower's cash flow is insufficient to service the loan under its original terms. Subject to the nonaccrual policy below, interest on these loans is accrued at the reduced rates.

Management places a commercial loan or lease financing receivable on nonaccrual status when the collection of contractual principal or interest is deemed doubtful, or it becomes 90 days or more past due, is not well-secured and in the process of collection. Accrued but uncollected interest is reversed and charged against interest income. Subsequently, the commercial loan or lease financing receivable is accounted for on a cash basis. Cash payments received are recognized either as interest income or as a reduction of principal when collection of principal is doubtful. A commercial loan or lease financing receivable is returned to accrual status only when all of the principal and interest amounts contractually due are reasonably assured of repayment within a reasonable time frame and when the borrower has demonstrated payment performance. Subsequently, the commercial loan or lease financing receivable is accounted for on an accrual basis.

A credit card loan is charged off rather than placed on nonaccrual status when it becomes 180 days past due. Prior to the second quarter of 2000, other consumer loans also were charged off rather than placed on nonaccrual status. During the second quarter of 2000, the accounting policy for other consumer loans was changed, and the Corporation now places other consumer loans on nonaccrual status when they become 90 days past due. Accrued but uncollected interest is reversed and charged against interest income when credit card loans are charged off or other consumer loans are placed on nonaccrual status. Reporting of nonperforming loans was restated for all prior periods to reflect the change in accounting policy.

The Corporation's charge-off policies for both commercial and consumer loans are presented on page 33.

(f) Allowance for Credit Losses

Management maintains the allowance for credit losses at a level it believes is adequate to provide for estimated probable credit losses inherent in on- and off-balance sheet credit exposure. The allowance for credit losses attributable to specifically identified off-balance sheet credit exposure is not material. For a more detailed discussion, see the "Allowance for Credit Losses" section on page 34.

(g) Premises and Equipment

Depreciation and amortization is computed using the straight-line method over the estimated useful life of the owned asset and, for leasehold improvements, over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. For owned and capitalized assets, estimated useful lives range from three to 30 years. Maintenance and repairs are charged to expense as incurred, while major improvements are capitalized.

(h) Other Real Estate Owned

Other real estate owned includes assets that have been received in satisfaction of debt. Other real estate owned is initially recorded and subsequently carried at the lower of cost or fair value less estimated selling costs. Any valuation adjustments required at the date of transfer are charged to the allowance for credit losses. Subsequently, unrealized losses and realized gains and losses on sale typically are included in other income. Operating results from other real estate are recorded in other noninterest expense.

(i) Intangible Assets

Intangible assets include goodwill resulting from acquisitions accounted for by the purchase method and identifiable intangible assets, such as customer lists, core deposits and credit card relationships. Goodwill is equal to an acquired company's acquisition cost less the net fair value assigned to identifiable assets acquired and liabilities assumed.

Intangible assets are reported in other assets and are amortized into other noninterest expense on an accelerated or straight-line basis over the period the Corporation expects to benefit from such assets. Goodwill is amortized over estimated periods ranging from five to 40 years (See Note 3—Mergers and Acquisitions for further details). Intangible assets are periodically reviewed for other than temporary impairment with any such declines in value included in other noninterest expense.

(j) Derivative Financial Instruments

Effective January 1, 2001, the Corporation adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment of FASB Statement No. 133." SFAS No. 133, as amended, establishes new accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognizes all derivatives as either assets or liabilities on the balance sheet and measure those derivatives at fair value. The accounting for the gains or losses resulting from changes in the value of those derivatives depends on the intended use of the derivative and whether it qualifies for hedge accounting. SFAS No. 133, as amended, significantly changes the accounting treatment for interest rate and foreign exchange derivatives the Corporation uses in its asset and liability management activities.

SFAS No. 133, as amended, requires that certain adjustments be made to the financial statements upon adoption of the standard. Based upon qualified and documented hedging relationships as of December 31, 2000, these adjustments, referred to as transition adjustments, had the following impact on the Corporation's financial position on January 1, 2001 (In millions):

Increase in derivative product assets	$ 319
Increase in all other assets	2
Increase in derivative product liabilities	(162)
Increase in all other liabilities	(312)
Pretax balance sheet impact of transition adjustments	(153)
Increase in deferred tax asset	56
	(97)
Decrease in accumulated other adjustments to stockholders' equity, net of tax	(98)
Pretax increase in net income	$ 1

The transition adjustments recorded on January 1, 2001, were reported in net income and accumulated other adjustments to stockholders' equity, as appropriate.

For a discussion of the Corporation's pre-SFAS No. 133 accounting policies for derivative financial instruments in effect for all periods presented herein, see the ''Derivative Financial Instruments'' section, beginning on page 38.

(k) Foreign Currency Translation

If a foreign installation's functional currency is the U.S. dollar, then its local currency financial statements are remeasured to U.S. dollars. Remeasurement effects and the results of related hedging transactions are included in other income.

If a foreign installation's functional currency is its local currency, then its local currency financial statements are translated into U.S. dollars. Translation adjustments, related hedging results and applicable income taxes are included in accumulated other adjustments to stockholders' equity.

(l) Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in rates is recognized as income or expense in the period that includes the enactment date.

(m) Cash Flow Reporting

The Corporation uses the indirect method, which reports cash flows from operating activities by adjusting net income to reconcile to net cash flows from operating activities. Cash and cash equivalents consist of cash and due from banks, whether interest-bearing or not. Net reporting of cash transactions has been used when the balance sheet items consist predominantly of maturities of three months or less, or where otherwise permitted. Other items are reported on a gross basis.

(n) Stock-Based Compensation

The Corporation has elected to continue to account for stock options granted and its Employee Stock Purchase Plan pursuant to the methods prescribed in Accounting Principles Board (''APB'') Opinion No. 25, ''Accounting for Stock Issued to Employees'', as permitted by Statement of Financial Accounting Standards (''SFAS'') No. 123, ''Accounting for Stock-Based Compensation,'' and related interpretations. Accordingly, there are no charges to earnings associated with stock options granted or with the Employee Stock Purchase Plan offered by the Corporation. Compensation expense related to restricted stock awards is recorded ratably over the period the shares remain restricted. Information on the Corporation's stock-based compensation plans and disclosure of the pro forma effect of applying the fair value method contained in SFAS No. 123 is included in Note 18, beginning on page 75.

(o) New Accounting Pronouncements

Accounting for Transfers and Servicing of Financial Assets and Liabilities

In September 2000, the FASB issued SFAS No. 140, ''Accounting for Transfers and Servicing of Financial Assets and Liabilities'' (''SFAS No. 140''). SFAS No. 140 revises certain criteria promulgated in previous accounting literature (SFAS No. 125) for accounting for securitizations and other transfers of financial assets and collateral, and requires additional disclosures concerning these activities. The accounting requirements of SFAS No. 140 for securitizations and other transfers of financial assets are effective for securitizations and transfers occurring on or after April 1, 2001. The applicable disclosures are required to be adopted for calendar year companies effective December 15, 2000, and accordingly, have been incorporated in these Notes to Consolidated Financial Statements. The Corporation is currently evaluating the effects of adopting the remaining provisions of SFAS No. 140 on its current accounting policies for loan securitizations and other transfers of financial assets. The Corporation currently believes that the impact, if any, of adopting SFAS No. 140 will be insignificant to its financial position and net income.

Revenue Recognition in Financial Statements

In December 1999, the Securities and Exchange Commission (''SEC'') issued Staff Accounting Bulletin No. 101, ''Revenue Recognition in Financial Statements'' (''SAB No. 101''). SAB No. 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. In June 2000, the SEC issued SAB No. 101B to defer the effective date of implementation of SAB No. 101 until the fourth quarter of fiscal 2000. The Corporation has reviewed its existing revenue recognition practices related to various products and services and has determined these practices are in compliance with the recognition rules prescribed in SAB No. 101 and the recent interpretive guidance issued by the SEC.

NOTE 2—Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the average number of common shares outstanding for the period. Except when the effect would be antidilutive, the diluted EPS calculation includes shares that could be issued under outstanding stock options and the employee stock purchase plans, and common shares that would result from the conversion of convertible preferred stock and convertible debentures. In the diluted calculation for 1998, net income is not reduced by dividends related to convertible preferred stock in the amount of $2 million, since such dividends would not have been paid had the convertible portion of the preferred stock converted to common stock. In addition, interest on convertible debentures (net of tax) is added to net income, since this interest would not be paid if the debentures were converted to common stock.

The following table sets forth the computation of basic and diluted earnings per share:

(In millions, except per share data)	Year Ended December 31 2000	1999	1998
Basic:			
Net income (loss)	**$ (511)**	$3,479	$3,108
Preferred stock dividends	**(12)**	(12)	(14)
Net income (loss) attributable to common stockholders' equity	**$ (523)**	$3,467	$3,094
Diluted:			
Net income (loss)	**$ (511)**	$3,479	$3,108
Interest on convertible debentures, net of tax (1)	**—**	6	7
Preferred stock dividends	**(12)**	(12)	(12)
Diluted income (loss) available to common stockholders (1)	**$ (523)**	$3,473	$3,103
Average shares outstanding	**1,154**	1,168	1,170
Dilutive shares:			
Stock options (1)	**—**	6	12
Convertible preferred stock	**—**	—	1
Convertible debentures (1)	**—**	4	4
Employee stock purchase plans	**—**	—	2
Average shares outstanding, assuming full dilution	**1,154**	1,178	1,189
Earnings (loss) per share:			
Basic	**$(0.45)**	$ 2.97	$ 2.65
Diluted (1)	**$(0.45)**	$ 2.95	$ 2.61

(1) Common equivalent shares and related income have been excluded from the computation of diluted loss per share for the year ended December 31, 2000, as the effect would be antidilutive.

NOTE 3—Mergers and Acquisitions

On October 2, 1998, Banc One Corporation (''Banc One'') and First Chicago NBD Corporation (''FCN'') were each merged into the Corporation, which was a wholly owned subsidiary of Banc One formed in 1998 to effect the Merger. Each share of Banc One common stock was converted into one share of the Corporation's common stock. Each share of FCN common stock was converted into the right to receive 1.62 shares of the Corporation's common stock. In aggregate, 291 million shares of FCN were converted into 471 million shares of the Corporation's common stock. Each share of preferred stock of FCN outstanding immediately prior to the Merger was converted into one share of a series of corresponding preferred stock of the Corporation with substantially the same terms. The transaction was accounted for as a pooling of interests.

On September 30, 1998, the Corporation purchased the credit card operation of Chevy Chase Bank, FSB. The portfolio included $4.8 billion in managed credit card loans and 2.8 million Visa® and Master Card® credit card accounts. At the purchase date, a credit card account premium of $291 million was recognized on the balance sheet and is being amortized over seven years using the straight-line method. During 2000, the Corporation recognized an impairment loss associated with this purchased premium of $107 million.

On June 12, 1998, the Corporation completed its acquisition of First Commerce Corporation (''First Commerce'') located in New Orleans, Louisiana, resulting in the issuance of approximately 56 million shares of the Corporation's common stock valued at $3.5 billion for all the outstanding shares of First Commerce common stock, in a tax-free exchange. Each share of First Commerce common stock was exchanged for 1.408 shares of the Corporation's common stock. First Commerce was a multi-bank holding company with total assets of approximately $9.3 billion and stockholders' equity of approximately $805 million at June 12, 1998. The acquisition was accounted for as a pooling of interests.

NOTE 4—Merger-Related and Restructuring Charges

a) Second Quarter 2000 Restructuring Charge

The Corporation recorded restructuring costs in the second quarter of 2000 related to the restructuring of certain of its retail businesses as well as exit costs associated with specific decisions made to abandon identified facilities, equipment and application software. The following table summarizes the details of these restructuring charges:

(In millions)	Personnel-Related Costs	Asset Writedowns	Contractual Obligations	Total
June 30, 2000 Restructuring Charge	**$32**	**$104**	**$97**	**$233**
Reserve Adjustments:				
Increases	**—**	**—**	**—**	**—**
Decreases	**(14)**	**(1)**	**—**	**(15)**
Amounts Paid/Asset Writedowns	**(1)**	**(27)**	**(96)**	**(124)**
December 31, 2000 Reserve Balance	**$17**	**$ 76**	**$ 1**	**$ 94**

Personnel-related items recorded initially consisted primarily of severance costs related to identified staff reductions totaling 2,200 positions in the Retail line of business that would be implemented when assets were sold. Asset writedowns included leasehold write-offs related to leased properties following the decision to abandon such facilities, as well as in the case of fixed assets and capitalized software for which similar decisions were made. Contractual obligations included the estimated costs associated with lease and other contract termination costs incorporated in the business restructuring plans.

At December 31, 2000, Management decided not to dispose of the assets previously identified for sale and, as a result, Management reduced its estimate of staff reductions to approximately 1,257 positions. Accordingly, Management reduced the severance reserve established for this potential asset sale to $14 million. The remaining liabilities, including severance, associated with these actions will be paid as required over the contract period.

b) Fourth Quarter 1999 Restructuring Charge

Restructuring costs recorded in the fourth quarter of 1999 totaled $207 million. The following table summarizes the activity related to this restructuring reserve during 2000:

(In millions)	Personnel-Related Costs	Asset Writedowns	Contractual Obligations	Total
December 31, 1999 Reserve Balance	$143	$ 24	$ 40	$ 207
Reserve Adjustments:				
Increases	4	1	16	21
Decreases	(26)	(3)	(17)	(46)
Amounts Paid/Asset Writedowns	(91)	(22)	(36)	(149)
December 31, 2000 Reserve Balance	**$ 30**	**$ —**	**$ 3**	**$ 33**

The Corporation's restructuring plan included severance and other exit costs related to the closure of the Corporation's consumer finance branch network. Personnel-related items consisted primarily of severance and benefits costs for separated employees and executives due to delayering and management realignment. The net reduction in force was anticipated to approximate 5,100 positions. Other charges include identified asset write-offs and the termination costs associated with lease and other vendor contracts.

The restructuring plan was modified in 2000 as the branch network was packaged for sale with $2.2 billion in consumer loans. The final transaction included a provision to provide job opportunities for employees and for the assumption of remaining lease obligations. As a result, $16 million in reserves established to cover these costs were reversed and an additional restructuring charge of $4 million was taken in the first quarter of 2000 to reflect further planned integration efforts in the consumer lending function, primarily associated with staff reductions.

At December 31, 2000, Management reduced its estimate of remaining staff reductions to approximately 725 positions and accordingly, recorded a $26 million reduction in the severance reserve. Actions under this restructuring plan were completed by year-end 2000. The remaining liabilities, including severance, associated with these actions will be paid as required over the contract period.

c) Banc One/FCN Merger

Actions under this restructuring plan have been completed, with only the payment of identified obligations remaining. Unpaid amounts totaled $28 million at December 31, 2000, and will be paid as required over the contract period.

Note 5—Business Segments

In the second quarter of 2000, the Corporation significantly realigned its organization, which resulted in the following changes in the composition of the Corporation's externally reported segments compared to those reported in the Corporation's 1999 Form 10-K:

- Consumer Lending and Other Consumer were combined in a new segment defined as "Retail"; WingspanBank.com was moved to Retail from First USA.
- Private Banking was transferred from Commercial Banking to Investment Management.
- Investment Management, which was previously allocated to the other segments, was presented as a separate line of business.
- Corporate Investments, which was previously included in Commercial Banking, was presented as a separate line of business.
- The segment defined as "Other Activities" was eliminated.

The Corporation has not presented segment information for the year ended December 31, 1998, as it would be impracticable to restate the 1998 period based on the current segment compositions in an efficient and cost-effective matter. The Corporation also has not presented 2000 data under both the "old" and "new" segment compositions, as it would be impracticable to restate 2000 financial data using the 1999 segment definitions and methodologies.

The information presented on page 3 is consistent with the content of business segment data provided to the Corporation's management. The Corporation's management currently does not use product group revenues to assess consolidated results. Aside from investment management and insurance products, product offerings are tailored to specific customer segments. As a result, the aggregation of product revenues and related profit measures across lines of business is not available.

Aside from the United States, no single country or geographic region generates a significant portion of the Corporation's revenues or assets. In addition, there are no single customer concentrations of revenue or profitability.

See the following "Business Segments" sections for additional disclosure regarding the Corporation's operating segments:

- "Business Segments" on page 3.

- Data presented in tables up until sections entitled "Supplemental Information" are included in the "Business Segment Results and Other Data" section beginning with "Retail" through "Corporate/Unallocated" on pages 4–14.

NOTE 6—Investment Securities—Available for Sale

The following table is a summary of the available-for-sale investment portfolio:

December 31, 2000 (In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Book Value)
U.S. Treasury	**$ 2,587**	**$ 2**	**$ 34**	**$ 2,555**
U.S. government agencies	**14,415**	**18**	**47**	**14,386**
States and political subdivisions	**1,276**	**24**	**8**	**1,292**
Interest in credit card securitized receivables	**22,652**	**116**	**205**	**22,563**
Other debt securities	**5,237**	**18**	**57**	**5,198**
Equity securities (1) (2)	**4,373**	**253**	**59**	**4,567**
Total	**$50,540**	**$431**	**$410**	**$50,561**

December 31, 1999 (In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Book Value)
U.S. Treasury	$ 2,569	$ 1	$101	$ 2,469
U.S. government agencies	12,919	3	412	12,510
States and political subdivisions	1,599	20	38	1,581
Interests in securitized credit card receivables	20,369	279	193	20,455
Other debt securities	7,611	5	172	7,444
Equity securities (1) (2)	3,238	281	66	3,453
Total	$48,305	$589	$982	$47,912

December 31, 1998 (In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Book Value)
U.S. Treasury	$ 4,496	$ 66	$ 12	$ 4,550
U.S. government agencies	10,469	108	18	10,559
States and political subdivisions	1,980	84	—	2,064
Interests in securitized credit card receivables	17,544	201	375	17,370
Other debt securities	8,174	72	75	8,171
Equity securities (1) (2)	2,094	115	71	2,138
Total	$44,757	$646	$551	$44,852

(1) The fair values of certain securities for which market quotations were not available were estimated. In addition, the fair values of certain securities reflect liquidity and other market-related factors.

(2) Includes investments accounted for at fair value in keeping with specialized industry practice.

As of December 31, 2000, debt investment securities had the following maturity and yield characteristics:

(Dollars in millions)	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield
U.S. Treasury	**$ 1,178**	**5.97%**	**$ 993**	**4.66%**	**$ 175**	**4.75%**	**$ 241**	**5.25%**	**$ 2,587**	**5.31%**
U.S. government agencies	**11,695**	**6.16**	**848**	**5.82**	**878**	**5.95**	**994**	**6.54**	**14,415**	**6.15**
States and political subdivisions (1)	**185**	**7.72**	**487**	**8.00**	**261**	**8.28**	**343**	**5.10**	**1,276**	**7.24**
Other debt securities	**21,193**	**9.33**	**5,620**	**7.65**	**697**	**7.67**	**379**	**8.94**	**27,889**	**8.94**
Total debt securities—at amortized cost	**$34,251**	**8.12%**	**$7,948**	**7.10%**	**$2,011**	**6.74%**	**$1,957**	**6.59%**	**$46,167**	**7.82%**
Total debt securities—at fair value	**$34,171**		**$7,913**		**$1,999**		**$1,911**		**$45,994**	

(1) Includes tax-equivalent adjustments based on federal income tax rate of 35%.

The distribution of mortgage-backed securities and collateralized mortgage obligations is based on average expected maturities. Actual maturities might differ because issuers may have the right to call or prepay obligations.

NOTE 7—Loans

Loan composition is as follows:

December 31 (in millions)	2000	1999
Commercial:		
Domestic:		
Commercial	**$ 65,270**	$ 59,070
Real estate:		
Construction	**5,757**	5,836
Other	**16,778**	18,817
Lease financing	**5,818**	5,562
Foreign	**6,837**	7,067
Total commercial	**100,460**	96,352
Consumer:		
Residential real estate	**40,596**	32,313
Automotive—loans	**12,130**	12,925
Automotive—leases	**8,611**	10,642
Other	**7,710**	7,608
Total consumer	**69,047**	63,488
Credit card	**4,744**	4,037
Total loans	**174,251**	163,877
Less: Allowance for credit losses	**4,110**	2,285
Total loans, net	**$170,141**	$161,592

Loans are net of unearned income of $3.467 billion and $4.075 billion as of December 31, 2000 and 1999, respectively. Loans held for sale totaled $3.0 billion at both December 31, 2000 and 1999.

The Corporation's primary goal in managing credit risk is to minimize the impact of default by an individual borrower or group of borrowers. As a result, the Corporation strives to maintain a loan portfolio that is diverse in terms of loan type, industry, borrower and geographic concentrations. As of December 31, 2000 and 1999, there were no significant loan concentrations with any single borrower, industry or geographic segment (see Credit Portfolio Composition on pages 28–32).

The Corporation's impaired loan information is as follows:

(In millions)	Year Ended December 31 2000	1999
Impaired loans with related allowance	**$1,748**	$1,026
Impaired loans with no related allowance (1)	**13**	27
Total impaired loans	**$1,761**	$1,053
Allowance on impaired loans (2)	**$ 407**	$ 246

(In millions)	Year Ended December 31 2000	1999	1998
Average balance of impaired loans	**$1,335**	$ 972	$ 638
Interest income recognized on impaired loans	**31**	46	38

(1) Impaired loans for which the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan do not require an allowance under SFAS No. 114.

(2) The allowance for impaired loans is included in the Corporation's overall allowance for credit losses.

A loan is considered impaired when it is probable that all principal and interest amounts due will not be collected in accordance with the loan's contractual terms. Certain loans, such as loans carried at the lower of cost or fair value or small-balance homogeneous loans (e.g., credit card, home mortgages and installment credit) are exempt from impairment determinations for disclosure purposes. Impairment is recognized to the extent that the recorded investment of an impaired loan or pool of loans exceeds its value either based on the loan's underlying collateral or the calculated present value of projected cash flows discounted at the contractual interest rate. Loans having a significant recorded investment are measured on an individual basis, while loans not having a significant recorded investment are grouped and measured on a pool basis.

Maturity Distribution and Interest Rate Sensitivity of Loans

The following table shows a distribution of the maturity of loans and, for those loans due after one year, a breakdown between those loans that have floating interest rates and those that have predetermined interest rates at December 31, 2000 follows:

(In millions)	One Year or Less	One to Five Years	Over Five Years	Total
Domestic:				
Commercial	$24,926	$34,582	$5,762	$65,270
Real estate	10,422	10,207	1,906	22,535
Total domestic	35,348	44,789	7,668	87,805
Foreign	4,472	2,132	233	6,837
Total	$39,820	$46,921	$7,901	$94,642
Loans with floating interest rates		$34,786	$3,521	$38,307
Loans with predetermined interest rates		12,135	4,380	16,515
Total		$46,921	$7,901	$54,822

The amounts above exclude domestic consumer loans and domestic lease financing receivables.

Foreign Outstandings

Included in claims are loans, balances with banks, acceptances, securities, equity investments, accrued interest, other monetary assets and current credit exposure on derivative contracts. At year-end 2000 and 1998, there were no countries for which cross-border and net local country claims exceeded 1.0% of total assets.

The table below presents 1999 foreign outstandings where such outstandings exceeded 1.0% of total assets:

(In millions) December 31, 1999	Cross-Border Claims: Banks	Cross-Border Claims: Governments & Official Institutions	Cross-Border Claims: Other	Net Local Country Claims	Total Cross-Border & Net Local Country Claims
Germany (1)	$2,199	$600	$319	—	$3,118

(1) At year-end 1999, local country claims were reduced by $129 million of local country liabilities.

At December 31, 2000 and 1998, Germany was the only country for which cross-border and net local country claims totaled between 0.75% and 1.0% of total assets. These outstandings amounted to $2.512 billion and $2.194 billion, respectively.

At December 31, 1999, there were no countries for which cross-border and net local country claims totaled between 0.75% and 1.0% of total assets.

NOTE 8—Loan Securitizations

The Corporation transforms loans into securities, which are sold to investors—a process referred to as securitization. At the time the Corporation enters into a securitization, a gain or loss is generally recognized based upon the fair value of the retained interests, primarily the interest-only strip. During the revolving period of a credit card securitization, the cash excess spread (excluding interchange income) received reduces the interest-only strip. At the same time, an additional gain is recognized each month over the life of the transaction as additional receivables are sold. The interest-only strip is ultimately extinguished when the securities sold to investors are repaid. For the year ended December 31, 2000, the Corporation's normal revolving credit card activities resulted in a net decrease in the interest-only strip of $52 million. This was comprised of $594 million in revolving gains on credit card securitizations, less cash excess spread of $646 million received. In addition, $432 million of impairment write-downs of the interest-only strip were recorded. The Corporation recognized $116 million in net securitization amortization in the managed income statement, including amortization of transaction costs, as investors in individual series were repaid.

A servicing asset or liability is not generally recognized in a credit card securitization (and thus considered in the gain or loss computation) since the Corporation receives adequate compensation relative to current market servicing prices to service the receivables sold. Transaction costs in credit card securitizations are typically deferred and amortized over the life of the security as a reduction of noninterest income. Other securitization transaction costs may be included in the gain or loss on sale.

At December 31, 2000, the estimated fair value of seller's interest and interest-only strip from credit card securitizations were as follows:

(In millions)	
Seller's interest	$22,356
Interest-only strip	221
Total interests in credit card securitizations	$22,577

Certain estimates are used in determining the fair value of the interest-only strip at both the date of securitization and the balance sheet date, including the excess spread, receivable lives and the discount rate. The components of excess spread, which are estimated, include finance charge and fee revenue (excluding interchange income) generated by the securitized loans in excess of interest paid to investors, related net credit losses and servicing fees. The resulting expected cash flows over the lives of the receivables are discounted at a rate commensurate with the risk of the cash flows to determine the fair value. Such estimates and assumptions are subject to change, and accordingly, the Corporation may not recover all of the recorded investment of the interest-only strip (and thus be measured for impairment). The receivables in each trust have unique attributes and therefore the interest-only strip related to each trust is evaluated separately. The seller's interest resulting from credit card securitizations is recorded at fair value using a present value approach, with assumptions that are consistent with the valuation of the interest-only strip.

The following represents the Corporation's key weighted-average assumptions used to estimate the fair value of the interest-only strip and seller's interest relating to credit card securitizations at December 31, 2000, and the pretax sensitivity of the fair values to immediate 10 and 20 percent adverse changes in these assumptions are as follows:

(Dollars in millions)	**Interest-Only Strip (1)**	**Sellers Interest (2)**	**Total Retained Interests**
Receivable Lives			**0.5 Years**
10% Adverse Change	$ 23.6	$11.3	$ 34.9
20% Adverse Change	47.4	22.7	70.1
Excess Spread:			**1.23%**
10% Adverse Change	24.2	11.6	35.8
20% Adverse Change	48.4	23.2	71.6
Expected Net Credit Losses (3):			**6.80%**
10% Adverse Change	103.4	56.2	159.6
20% Adverse Change	194.1	98.1	292.2
Discount Rate:			**10.00%**
10% Adverse Change	0.7	0.3	1.0
20% Adverse Change	1.5	0.7	2.2

(1) The effect of adverse changes in key assumptions on the fair value of the interest-only strip would be recorded in non-interest income.

(2) The effect of adverse changes in key assumptions on the value of the seller's interest is recorded in accumulated other adjustments to stockholders' equity, unless the decline in value is deemed to be other than temporary, which would result in a charge to noninterest income upon recognition.

(3) Certain Trust legal documents include finance charge and fee revenue reversals in the definition of net credit losses, resulting in a higher net credit loss rate for Trust purposes.

The sensitivity analysis presented above illustrates the potential magnitude of significant adverse changes in key assumptions used in valuing the interest-only strip and seller's interest, and thus the potential impact to the Corporation's financial position and results of operations. However, the sensitivities of the fair values of the interest-only strip and seller's interest to changes in each key assumption presented above may not be linear. Furthermore, the sensitivities above for each key variable are calculated independently of changes in the other key variables. Therefore, the sensitivity analysis above does not purport to present the maximum impairment loss that would result from 10 and 20 percent adverse changes in these assumptions. Actual experience observed may result in changes in multiple key assumptions concurrently, the magnitude of which on the fair value of the interest-only strip and seller's interest would be dependent on the relative change and the direction of change. In addition, the sensitivity analysis does not give effect to corrective action that Management could and would take to mitigate the impact of adverse changes in key assumptions. The asset values of the seller's interest, interest-only strip and credit enhancements are periodically reviewed for other-than-temporary impairment (see page 10 for 2000 impairment related disclosures for First USA).

The key weighted average economic assumptions and ranges of assumptions used to estimate the fair value of interest-only strip and seller's interest at the date of securitization (including transfer of new balances under revolving structures) for credit card securitizations occurring during 2000 were as follows:

	Assumptions
Receivable Lives	0.5 Years
Excess Spread	1.22% to 3.14%
Expected Net Credit Losses	6.47% to 6.82%
Discount Rate	10.00%

The table below summarizes the cash flows received from (paid to) credit card securitization master trusts (i.e., SPEs) during the year ended December 31, 2000:

(In millions)	
Cash collections used by Trusts to purchase new revolving balances	$83,469
Servicing fees received	649
Cash flows received on retained interests (1)	2,224
Cash used to fund reserve (spread) accounts	(32)

(1) Includes cash flows from interest-only strips as well as interchange fees received from securitized accounts.

For a detailed discussion of the Corporation's loan securitization process for credit card loans, see the ''Loan Securitizations'' section, beginning on page 41.

Note 9—Allowance for Credit Losses

Changes in the allowance for credit losses for the years ended December 31 were as follows:

(In millions)	2000	1999	1998
Balance, beginning of year	**$ 2,285**	$ 2,271	$ 2,817
Additions (deductions):			
Charge-offs	**(1,667)**	(1,531)	(1,945)
Recoveries	**276**	325	447
Net charge-offs	**(1,391)**	(1,206)	(1,498)
Provision for credit losses	**3,398**	1,249	1,408
Transfers	**(182)**	(29)	(456)
Balance, end of year	**$ 4,110**	$ 2,285	$ 2,271

NOTE 10—Long-Term Debt

Long-term debt consists of borrowings having an original maturity of greater than one year. Original issue discount and deferred issuance costs are amortized into interest expense over the terms of the related notes. Long-term debt at December 31, 2000 and 1999, was as follows:

(Dollars in millions)	Effective Rate(1)	2000	1999
Parent Company			
Subordinated debt			
9⅞% notes due 2000	—%	**$ —**	$ 100
9⅕% notes due 2001	9.20	**5**	5
9¼% notes due 2001	9.27	**100**	100
10¼% notes due 2001	10.20	**100**	100
11¼% notes due 2001	8.76	**97**	99
7¼% notes due 2002(2)	7.47	**349**	348
8⅞% notes due 2002	7.05	**102**	104
8⅒% notes due 2002	6.94	**203**	205
8¼% notes due 2002	6.73	**102**	104
8.74% notes due 2003(2)	8.77	**170**	170
7⅝% notes due 2003	7.68	**200**	200
6⅞% notes due 2003	6.90	**200**	200
Floating rate notes due 2003(3)	6.92	**150**	150
7¼% debentures due 2004	7.28	**200**	200
Floating rate notes due 2005(3)	6.43	**96**	96
7% notes due 2005	6.85	**300**	297
6⅛% notes due 2006	6.33	**149**	149
7% notes due 2006	7.07	**149**	149
7⅛% notes due 2007	7.16	**199**	199
7⅗% notes due 2007(2)	7.62	**398**	398
6% notes due 2009	7.15	**315**	349
6⅜% notes due 2009	6.35	**200**	200
9⅞% notes due 2009(2)	9.97	**53**	53
7⅞% notes due 2010	8.41	**995**	—
10% notes due 2010	10.06	**198**	198
9⁹⁄₁₀% notes due 2019	9.91	**143**	143
7¾% notes due 2025(2)	7.98	**295**	294
7⅝% notes due 2026(2)	7.61	**492**	492
8% notes due 2027(2)	8.48	**490**	490
Convertible debentures 12¾% Series A	—	**—**	19
Convertible debentures 12¾% Series B	—	**—**	46
Senior debt			
Medium-term notes	6.83	**14,360**	14,445
Other	—	**14**	9
Total Parent Company		**20,824**	20,111
Subsidiaries			
Bank notes, various rates and maturities	6.76	**13,375**	11,279
Subordinated 7⅜% notes due 2002	8.44	**149**	148
Subordinated 6¼% notes due 2003	6.25	**200**	200
Subordinated 6⅝%–7.65% notes due 2003	6.81–7.78	**453**	452
Subordinated 6% notes due 2005	6.84	**149**	148
Subordinated 6¼% notes due 2008	6.40	**496**	496
Subordinated 8¼% notes due 2024	7.72	**248**	254
Capitalized lease and others, at various rates and maturities	various	**2,534**	769
Total subsidiaries		**17,604**	13,746
Total long-term debt		**$38,428**	$33,857

(1) The effective rate includes amortization of premium or discount. Interest rate swap agreements have been entered into that have altered the stated interest rate for certain of the borrowings from fixed to variable interest rates and from variable to fixed interest rates. The effective rates include the impact of these interest rate swap agreements at December 31, 2000. The terms to maturity of the interest rate swaps are equal to those of the altered borrowings.

(2) The notes are not subject to redemption and impose certain limitations relating to funded debt, liens and the sale or issuance of capital stock of significant bank subsidiaries.

(3) The floating rate notes due in 2003 have an interest rate priced at the greater of 4¼% or the three-month LIBOR plus ⅛%. The floating rate notes due in 2005 have an interest rate of the greater of 5¼% or the three-month LIBOR rate plus ¼%.

Aggregate annual scheduled repayments of long-term debt at December 31, 2000:

(In millions)	Total
2001	$10,925
2002	8,007
2003	4,435
2004	3,718
2005	4,118
Thereafter	7,225
Total	$38,428

NOTE 11—Deposits and Short-Term Borrowings

Deposits

The following tables show a maturity distribution of domestic time certificates of deposit of $100,000 and over, other domestic time deposits of $100,000 and over, and deposits in foreign offices, predominantly in amounts in excess of $100,000 at December 31, 2000:

(Dollars in millions)

Domestic Time Certificates of Deposit of $100,000 and Over	Amount	Percent
Three months or less	**$ 6,645**	30%
Over three months to six months	**2,021**	9
Over six months to twelve months	**3,108**	14
Over twelve months	**10,671**	47
Total	**$22,445**	100%

Domestic Other Time Deposits of $100,000 and Over	Amount	Percent
Three months or less	**$ 206**	98%
Over three months to six months	**—**	—
Over six months to twelve months	**—**	—
Over twelve months	**5**	2
Total	**$ 211**	100%

Foreign Offices	Amount	Percent
Three months or less	**$22,423**	90%
Over three months to six months	**1,761**	7
Over six months to twelve months	**738**	3
Over twelve months	**45**	—
Total	**$24,967**	100%

Short-Term Borrowings

Borrowings with original maturities of one year or less are classified as short-term. The following is a summary of short-term borrowings for each of the three years ended December 31:

(Dollars in millions)	2000	1999	1998
Federal funds purchased:			
Outstanding at year-end	**$ 5,253**	$ 5,483	$12,112
Weighted-average rate at year-end.	**5.89%**	4.54%	4.65%
Daily average outstanding for the year	**$ 6,281**	$ 7,060	$ 9,262
Weighted-average rate for the year	**6.14%**	4.96%	5.24%
Highest outstanding at any month-end	**$ 9,663**	$ 8,806	$12,112
Securities under repurchase agreements:			
Outstanding at year-end	**$ 6,867**	$13,237	$11,052
Weighted-average rate at year-end	**6.01%**	4.08%	4.43%
Daily average outstanding for the year	**$12,680**	$12,651	$12,423
Weighted-average rate for the year	**5.96%**	4.62%	4.87%
Highest outstanding at any month-end	**$17,609**	$16,102	$15,676
Bank notes:			
Outstanding at year-end	**$12,426**	$12,707	$10,321
Weighted-average rate at year-end	**6.71%**	5.60%	5.22%
Daily average outstanding for the year	**$12,298**	$11,112	$ 8,175
Weighted-average rate for the year	**6.50%**	5.57%	5.52%
Highest outstanding at any month-end	**$13,327**	$12,947	$10,321
Commercial paper:			
Outstanding at year-end	**$ 3,048**	$ 3,184	$ 2,113
Weighted-average rate at year-end	**6.62%**	6.09%	4.54%
Daily average outstanding for the year	**$ 3,137**	$ 3,006	$ 1,882
Weighted-average rate for the year	**5.94%**	5.23%	5.58%
Highest outstanding at any month-end	**$ 3,303**	$ 3,595	$ 2,491
Other short-term borrowings:			
Outstanding at year-end	**$ 2,529**	$ 5,320	$ 4,503
Weighted-average rate at year-end	**6.22%**	4.46%	4.51%
Daily average outstanding for the year	**$ 3,543**	$ 3,739	$ 3,733
Weighted-average rate for the year	**6.50%**	4.98%	4.86%
Highest outstanding at any month-end	**$ 6,861**	$ 5,475	$ 7,202
Total short-term borrowings:			
Outstanding at year-end	**$30,123**	$39,931	$40,101
Weighted-average rate at year-end	**6.36%**	4.86%	4.73%
Daily average outstanding for the year	**$37,939**	$37,568	$35,475
Weighted-average rate for the year	**6.26%**	5.00%	5.15%

NOTE 12—Guaranteed Preferred Beneficial Interest in the Corporation's Junior Subordinated Debt

The Corporation has sponsored eight trusts with a total aggregate issuance of $2.483 billion at December 31, 2000 in trust preferred securities. These trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment. Distributions on these securities are included in interest expense on long-term debt. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds thereof in junior subordinated debentures of the Corporation, the sole asset of each trust. The preferred trust securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly owned by the Corporation. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Corporation making payment on the related junior subordinated debentures. The Corporation's obligations under the junior subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Corporation of each respective trust's obligations under the trust securities issued by such trust. See Note 14 for discussion of the restrictions on the ability of the Corporation to obtain funds from its subsidiaries.

	Trust Preferred			Junior Subordinated Debt Owned by Trust		
(Dollars in millions)	IssuanceDate	Initial Liquidation Value	Distribution Rate	Initial Principal Amount	Maturity	Redeemable Beginning
Capital IV	August 30, 2000	$160	3-mo LIBOR plus 1.50%	$164.9	September 1, 2030	See (1) below.
Capital III	August 30, 2000	475	8.75	489.7	September 1, 2030	See (1) below.
Capital II	August 8, 2000	280	8.50	288.7	August 15, 2030	August 15, 2005
Capital I	September 20, 1999	575	8.00	593	September 15, 2029	September 20, 2004
First Chicago NBD Capital 1	January 31, 1997	250	3-mo LIBOR plus 0.55%	258	February 1, 2027	February 1, 2007
First USA Capital Trust I (2)	December 20, 1996	200	9.33	206.2	January 15, 2027	January 15, 2007
First Chicago NBD Institutional Capital A	December 3, 1996	500	7.95	515	December 1, 2026	December 1, 2006
First Chicago NBD Institutional Capital B	December 5, 1996	250	7.75	258	December 1, 2026	December 1, 2006

(1) Redeemable at any time subject to approval by the Federal Reserve Board.

(2) The Corporation paid a premium of $36 million to repurchase $193 million of these securities in 1997.

NOTE 13—Stock Dividends and Preferred Stock

The Corporation is authorized to issue 50,000,000 shares of preferred stock with a par value of $0.01 per share. The Board of Directors is authorized to fix the particular designations, preferences, rights, qualifications and restrictions for each series of preferred stock issued. All preferred shares rank prior to common shares, both as to dividends and liquidation, but have no general voting rights. The dividend rate on each of the cumulative adjustable rate series is based on stated value and adjusted quarterly, based on a formula that considers the interest rates for selected short- and long-term U.S. Treasury securities prevailing at the time the rate is set.

Information on preferred stock is as follows:

	Stated Value	Issued and Outstanding December 31		Carrying Amount December 31 (in millions)	
		2000	1999	2000	1999
Preferred Stock					
Series B	$100	1,191,000	1,191,000	$119	$119
Series C	100	713,800	713,800	71	71

The maximum, minimum and current dividend rates for individual series of preferred stock were as follows at December 31, 2000:

	Shares Outstanding	Stated Value Per Share	Annual Dividend Rate			Redemption Price (1)
			Maximum	Minimum	Current	
Cumulative Adjustable Rate (2)						
Series B	1,191,000	$100.00	12.0%	6.0%	6.0%	$100.00
Series C	713,800	$100.00	12.5%	6.5%	6.5%	$100.00

(1) Plus accrued and unpaid dividends.
(2) Currently redeemable.

On January 18, 2000, the Corporation announced the discontinuation of a biannual 10% stock dividend.

Note 14—Dividends and Capital Restrictions

The Corporation's national bank subsidiaries are subject to two statutory limitations on their ability to pay dividends. Under the first, dividends cannot exceed the level of undivided profits. In addition, a national bank cannot declare a dividend, without regulatory approval, in an amount in excess of its net income for the current year combined with the combined net profits for the preceding two years. State bank subsidiaries may also be subject to limitations on dividend payments. The amount of dividends available from certain nonbank subsidiaries that are subject to dividend restrictions is regulated by the governing agencies to which they report.

Based on these statutory requirements, the bank affiliates could, in the aggregate, have declared additional dividends of up to approximately $409 million without regulatory approval at January 1, 2001. The payment of dividends by any bank may also be affected by other factors, such as the maintenance of adequate capital.

The bank affiliates are subject to various regulatory capital requirements that may require them to maintain minimum ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Failure to meet minimum capital requirements results in certain actions by bank regulators that could have a direct material effect on the bank affiliates' financial statements. As of December 31, 2000, management believed that each of the bank affiliates met all capital adequacy requirements to which it is subject and is correctly categorized as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that categorization that management believes have changed the institution's category. For more information, see the ''Capital Management—Regulatory Capital Requirements'' section, beginning on page 44.

The actual and required capital amounts and ratios for the Corporation and its principal banking subsidiaries are presented as follows:

	Actual		To Be Categorized Adequately Capitalized	
	Capital Amount	Capital Ratio	Capital Amount	Capital Ratio
At December 31, 2000 (Dollars in millions)				
Risk-adjusted capital (to risk-weighted assets):				
The Corporation (consolidated)	**$29,140**	**10.8%**	**$21,615**	**8.0%**
Bank One, N.A. (Chicago) (1)	**9,411**	**11.1**	**6,761**	**8.0**
Bank One, N.A. (Columbus)	**4,283**	**12.0**	**2,862**	**8.0**
Bank One, Texas, N.A.	**2,924**	**10.7**	**2,182**	**8.0**
Bank One, Michigan (2)	**2,406**	**10.9**	**1,759**	**8.0**
Bank One, Arizona, N.A.	**2,663**	**11.0**	**1,940**	**8.0**
First USA Bank, N.A.	**2,230**	**15.8**	**1,126**	**8.0**
Tier 1 capital (to risk-weighted assets):				
The Corporation (consolidated)	**$19,824**	**7.3%**	**$10,807**	**4.0%**
Bank One, N.A. (Chicago) (1)	**5,564**	**6.6**	**3,380**	**4.0**
Bank One, N.A. (Columbus)	**2,867**	**8.0**	**1,431**	**4.0**
Bank One, Texas, N.A.	**1,720**	**6.3**	**1,091**	**4.0**
Bank One, Michigan (2)	**1,582**	**7.2**	**879**	**4.0**
Bank One, Arizona, N.A.	**1,699**	**7.0**	**970**	**4.0**
First USA Bank, N.A..	**2,110**	**15.0**	**563**	**4.0**
Tier 1 leverage (to average assets):				
The Corporation (consolidated)	**$19,824**	**7.3%**	**$ 8,167**	**3.0%**
Bank One, N.A. (Chicago) (1)	**5,564**	**5.6**	**3,996**	**4.0**
Bank One, N.A. (Columbus)	**2,867**	**7.8**	**1,471**	**4.0**
Bank One, Texas, N.A	**1,720**	**5.6**	**1,221**	**4.0**
Bank One, Michigan (2)	**1,582**	**7.2**	**878**	**4.0**
Bank One, Arizona, N.A.	**1,699**	**7.1**	**956**	**4.0**
First USA Bank, N.A.	**2,110**	**11.8**	**718**	**4.0**
At December 31, 1999				
Risk-adjusted capital (to risk-weighted assets):				
The Corporation (consolidated)	$28,214	10.7%	$21,054	8.0%
Bank One, N.A. (Chicago) (1)	8,892	11.5	6,196	8.0
Bank One, N.A. (Columbus)	3,207	10.1	2,551	8.0
Bank One, Texas, N.A.	2,972	11.0	2,153	8.0
Bank One, Michigan (2)	2,403	11.2	1,713	8.0
Bank One, Arizona, N.A.	2,763	11.0	2,017	8.0
First USA Bank, N.A.	2,493	18.3	1,088	8.0
Tier 1 capital (to risk-weighted assets):				
The Corporation (consolidated)	$20,247	7.7%	$10,527	4.0%
Bank One, N.A. (Chicago) (1)	5,697	7.4	3,098	4.0
Bank One, N.A. (Columbus)	2,157	6.8	1,276	4.0
Bank One, Texas, N.A.	1,928	7.2	1,077	4.0
Bank One, Michigan (2)	1,612	7.5	856	4.0
Bank One, Arizona, N.A.	1,881	7.5	1,009	4.0
First USA Bank, N.A.	2,201	16.2	544	4.0
Tier 1 leverage (to average assets):				
The Corporation (consolidated)	$20,247	7.7%	$ 7,911	3.0%
Bank One, N.A. (Chicago) (1)	5,697	6.3	3,630	4.0
Bank One, N.A. (Columbus)	2,157	6.6	1,306	4.0
Bank One, Texas, N.A	1,928	6.6	1,173	4.0
Bank One, Michigan (2)	1,612	7.0	927	4.0
Bank One, Arizona, N.A.	1,881	8.4	898	4.0
First USA Bank, N.A.	2,201	12.0	737	4.0

(1) Formerly The First National Bank of Chicago.

(2) Formerly NBD Bank (Michigan).

Federal banking law restricts each bank subsidiary from extending credit to the Corporation in excess of 10% of the subsidiary's capital stock and surplus, as defined. Any such extensions of credit are subject to strict collateral requirements.

NOTE 15—Supplemental Disclosures for Statement of Cash Flows

During 2000, the Corporation transferred $6.5 billion of available for sale securities to trading securities. The transfer was for capital management purposes. All of these securities were sold during 2000.

During 1999, the Corporation transferred $2.3 billion of asset-backed securities and variable corporate coupons from investment securities available for sale to trading assets. This transfer was for capital management purposes and reflects the Corporation's intent to sell these assets in the short term.

In connection with the Banc One/FCN merger, a $656 million transfer was made in 1998 to reclassify debt investment securities from held to maturity to available for sale. The reclassification was made to maintain an interest rate risk position that existed prior to the business combination.

During 1998, the Corporation reclassified $9.5 billion from loans, and $468 million from other assets, to investment securities-available for sale. The amounts transferred represent the Corporation's retained interests in its securitized credit card receivables.

Loans transferred to other real estate owned totaled $131 million, $113 million and $239 million in 2000, 1999 and 1998, respectively.

During both 2000 and 1999, the Corporation recognized several noncash charges to earnings for significant items. Several of these items will never result in future cash outflows while other items represent future uses of cash. See tables 1 and 2 on page 15 and "Business Segments" on pages 4–14 for a detailed listing of significant items.

NOTE 16—Supplemental Disclosures for Accumulated Other Adjustments to Stockholders' Equity

Accumulated other adjustments to stockholders' equity is as follows:

(In millions)	2000	1999	1998
Fair value adjustment on investment securities—available for sale:			
Balance, beginning of period	**$(271)**	$ 218	$203
Change in fair value, net of taxes of $6 in 2000, $(180) in 1999 and $72 in 1998	**(5)**	(391)	120
Reclassification adjustment, net of taxes of $151 in 2000, $(56) in 1999 and $(57) in 1998	**261**	(98)	(105)
Balance, end of period	**(15)**	(271)	218
Accumulated translation adjustment:			
Balance, beginning of period	**8**	21	6
Translation gain(loss), net of hedge results and taxes	**2**	(13)	15
Balance, end of period	**10**	8	21
Total accumulated other adjustments to stockholders' equity	**$ (5)**	$(263)	$239

NOTE 17—Employee Benefits

(a) Pension Plans

Prior to 2000, the Corporation had various noncontributory defined benefit pension plans covering substantially all salaried employees. Effective December 31, 1999, all noncontributory defined benefit pension plans were combined into one plan. Effective December 31, 2000, the supplemental executive retirement plan was discontinued. There was no effect on the 2000 periodic pension cost, however, ongoing periodic pension cost will be reduced by approximately $4.3 million annually.

The tables below set forth the Corporation's qualified plans' change in benefit obligation, change in plan assets and funded status:

(In millions)	2000	1999
Change in benefit obligation		
Benefit obligation, January 1	**$2,250**	$2,380
Service cost	**103**	116
Interest cost	**182**	165
Actuarial loss (gain)	**128**	(259)
Plan change	**—**	109
Curtailment	**—**	(12)
Benefits paid	**(415)**	(249)
Benefit obligation, December 31	**2,248**	2,250
Change in plan assets		
Fair value of plan assets, January 1	**3,400**	3,393
Actual return on plan assets	**146**	254
Corporation contribution	**3**	2
Benefits paid	**(415)**	(249)
Fair value of plan assets, December 31	**3,134**	3,400
Funded status	**886**	1,150
Unrecognized net actuarial loss (gain)	**(357)**	(655)
Unrecognized prior service cost	**28**	32
Unrecognized net transition assets	**(7)**	(21)
Prepaid pension costs, December 31	**$ 550**	$ 506

Plan assets include approximately 1.0 million shares of the Corporation's common stock with a fair value of approximately $37 million at December 31, 2000, and $32 million at December 31, 1999.

The table below sets forth net periodic pension cost for 2000, 1999 and 1998 for the Corporation's qualified and nonqualified pension plans:

(In millions)	2000	1999	1998
Service cost—benefits earned during the period	**$ 110**	$ 123	$ 135
Interest cost on benefit obligation	**194**	175	172
Expected return on plan assets	**(300)**	(293)	(271)
Amortization of prior service cost	**9**	(1)	(2)
Recognized actuarial (gain) loss	**(11)**	(1)	1
Amortization of transition assets	**(13)**	(13)	(13)
Curtailment gain	**—**	(13)	—
Net periodic pension cost	**$ (11)**	$ (23)	$ 22

The accrued pension cost for the Corporation's nonqualified supplemental pension plans was $77 million and $90 million at December 31, 2000 and 1999, respectively. Such plans are unfunded.

The assumptions used in determining the Corporation's benefit obligation and net periodic pension cost for both qualified and nonqualified supplemental pension plans are as follows:

	December 31		
(In millions)	2000	1999	1998
Actuarial assumptions:			
Weighted-average discount rate for benefit obligation	**7.50%**	8.00%	7.00%
Weighted-average rate of compensation increase	**4.25%**	5.00%	5.00%
Expected long-term rate of return on plan assets	**9.50%**	9.50%	9.50%

(b) Postretirement Benefits Other Than Pensions

The Corporation sponsors postretirement life insurance plans and provides health care benefits for certain retirees and grandfathered employees when they retire. The postretirement life insurance benefit is noncontributory, while the health care benefits are contributory.

The Corporation's postretirement benefit plans' change in benefit obligation and funded status at December 31, 2000 and 1999 are as follows:

(In millions)	2000	1999
Change in benefit obligation		
Benefit obligation, January 1	**$ 164**	$ 190
Service cost	**—**	1
Interest cost	**13**	13
Actuarial loss (gain)	**37**	(21)
Benefits paid	**(17)**	(19)
Curtailment	**(2)**	—
Benefit obligation, December 31	**195**	164
Change in plan assets		
Fair value of plan assets, January 1	**—**	—
Employer contribution	**17**	19
Benefits paid	**(17)**	(19)
Fair value of plan assets, December 31	**—**	—
Funded status	**(195)**	(164)
Unrecognized net actuarial loss (gain)	**20**	(17)
Unrecognized prior service cost	**(38)**	(47)
Accrued postretirement benefit costs, December 31	**$(213)**	$(228)

Net periodic cost for postretirement health care and life insurance benefits during 2000, 1999 and 1998 includes the following:

(In millions)	2000	1999	1998
Service cost—benefits earned during the period	**$ —**	$ 1	$ 6
Interest cost on accumulated postretirement benefit obligation	**13**	13	17
Amortization of prior service cost	**(12)**	(12)	—
Adjustment for acquisitions	**—**	2	—
Curtailment	**1**	—	—
Net periodic postretirement benefit cost	**$ 2**	$ 4	$23

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.50% at December 31, 2000, and 8.00% at December 31, 1999.

For measurement purposes, an annual rate of increase of 6.00% was assumed for 2000 in the cost of covered health care benefits; this range was assumed to decrease to 5.00% in the years 2001 and thereafter. These assumptions have a significant effect on the amounts reported. Accordingly, the effect of a 1.00% change in the assumed health-care-cost trend rates is as follows:

(In millions)	1% increase	1% decrease
Effect on 2000 service and interest cost components	**$0.8**	**$0.7**
Effect on December 31, 2000, accumulated postretirement benefit obligation	**$9.6**	**$8.5**

(c) 401(k) Plans

The Corporation sponsored various 401(k) plans that together covered substantially all of its employees. Up until 2000, the Corporation was required to make contributions to the plans in varying amounts. The expense related to these plans was $137 million in 2000, $81 million in 1999 and $89 million in 1998. Effective December 31, 1999, all new contributions are being made to one Corporation-sponsored 401(k) plan, thereby establishing uniform contribution requirements for the entire Corporation.

NOTE 18—Stock-Based Compensation

The Corporation utilizes several types of stock-based awards as part of its overall compensation program. In addition, the Corporation provides employees the opportunity to purchase its shares through its Employee Stock Purchase Plan. The Corporation's stock-based compensation plans provide for the granting of awards to purchase or receive common shares and include limits as to the aggregate number of shares available for grants and the total number of shares available for grants of stock awards in any one year. The compensation cost that has been charged against income for the Corporation's stock-based compensation plans was $59 million for 2000, $38 million for 1999 and $52 million for 1998. As a result of the 1999 fourth-quarter restructuring plan, $4 million was recorded as a restructuring charge related to the immediate vesting of restricted shares for certain executives. In 1998, $113 million was recorded as a restructuring charge related to the immediate vesting of certain restricted and performance shares resulting from the respective changes in control at FCN and First Commerce.

(a) Restricted Shares

Restricted shares granted to key officers of the Corporation require them to continue employment for a stated number of years from the grant date before restrictions on the shares lapse. The market value of the restricted shares as of the date of grant is amortized to compensation expense ratably over the period the shares remain restricted. Holders of restricted stock receive dividends and have the right to vote the shares. As a result of the respective changes in control at FCN and First Commerce in 1998, substantially all outstanding restricted stock issued at these entities vested immediately at the time of the respective changes in control.

(b) Stock Options

The Corporation's stock option plans generally provide that the exercise price of any stock option may not be less than the fair value of the common stock on the date of grant.

Options granted under the Corporation's current stock-based compensation program generally vest over a five-year period and have a term of ten years. Certain option grants include the right to receive additional option grants (''reload'' or ''restorative'' options) in an amount equal to the number of common shares used to satisfy the exercise price. Upon grant, reload options assume the same remaining term as the related original option and vest over a six-month period. Under a number of predecessor programs, options were granted with distinct provisions including vesting periods generally ranging from two to five years and possessing maximum terms of eight to 20 years. As a result of the change in control at FCN and First Commerce in 1998, all outstanding stock options issued at these entities vested and became exercisable immediately at the time of the respective changes in control.

The following tables summarize stock option activity for 2000, 1999 and 1998, respectively, and provide details of the Corporation's stock options outstanding at December 31, 2000:

(Shares in Thousands)	2000 Shares	2000 Wtd. Avg. Exercise Price	1999 Shares	1999 Wtd. Avg. Exercise Price	1998 Shares	1998 Wtd. Avg. Exercise Price
Outstanding at January 1	**44,630**	**$40.88**	38,247	$34.34	40,798	$26.60
Granted	**42,659**	**27.25**	15,556	50.35	8,896	54.79
Exercised	**(2,089)**	**19.66**	(6,473)	24.34	(9,902)	20.29
Forfeited	**(7,885)**	**38.56**	(2,700)	36.56	(1,545)	37.77
Outstanding at December 31	**77,315**	**$34.17**	44,630	$40.88	38,247	$34.34
Exercisable at December 31	**25,503**	**$36.41**	19,847	$32.86	22,983	$29.30

(Shares in Thousands) Range of Exercise Prices	Options Outstanding: Number Outstanding Dec. 31, 2000	Options Outstanding: Wtd. Avg. Exercise Price	Options Outstanding: Wtd. Avg. Remaining Contractual Life	Options Exercisable: Number Exercisable Dec. 31, 2000	Options Exercisable: Wtd. Avg. Exercise Price
Less than $20.00	**3,031**	16.58	2.6 years	**3,031**	$16.58
$20.01—$25.00	**4,060**	24.27	4.6	**4,060**	24.27
$25.01—$30.00	**37,990**	26.60	16.6	**3,752**	26.43
$30.01—$35.00	**5,288**	32.54	8.0	**1,645**	32.42
$35.01—$45.00	**6,056**	38.82	7.2	**3,540**	39.00
$45.01—$55.00	**16,695**	49.55	12.9	**6,778**	48.71
Greater than $55.00	**4,195**	59.12	8.7	**2,697**	59.00
Total	**77,315**	$34.17	12.8 years	**25,503**	$36.41

(c) Employee Stock Purchase Plan

The Corporation sponsors an Employee Stock Purchase Plan designed to encourage employee stock ownership. This plan generally allows eligible employees to purchase shares of the Corporation's common stock at a 15% discount from the market price at the beginning of an offering or the market price at the end of such offerings, whichever is lower. During the current 18-month offering period, an employee is allowed to make deposits of up to 20% of his/her earnings (up to a designated maximum) on an annual basis to an interest-bearing savings account to purchase the number of shares permissible under the plan. The maximum number of shares each participant may purchase cannot exceed the contribution limit divided by the applicable purchase price on the offering date. The Corporation does not recognize any compensation expense with respect to this plan.

(d) Pro Forma Costs of Stock-Based Compensation

The grant date fair values of stock options granted under the Corporation's various stock option plans and the Employee Stock Purchase Plan were estimated using the Black-Scholes option-pricing model. This model was developed to estimate the fair value of traded options, which have different characteristics than employee stock options. In addition, changes to the subjective input assumptions can result in materially different fair market value estimates. Therefore, the Black-Scholes model may not necessarily provide a reliable single measure of the fair value of employee stock options and purchase rights.

The following table summarizes stock-based compensation grants and their related weighted-average grant-date fair values for the years ended December 31:

	2000		1999		1998	
(Shares in Thousands)	Number of Shares	Wtd. Avg. Grant Date Fair Value	Number of Shares	Wtd. Avg. Grant Date Fair Value	Number of Shares	Wtd. Avg. Grant Date Fair Value
Stock option plans	**42,659**	**$ 9.80**	15,556	$12.28	8,896	$12.03
Restricted shares	**4,517**	**27.85**	1,728	51.13	651	56.54
Employee Stock Purchase Plan (1)	**2,122**	**3.27**	2,974	7.28	—	—

(1) Estimated number of shares that employees would purchase under the plan for 1999.

The following assumptions were used to determine the Black-Scholes weighted-average grant date fair value of stock option awards and conversions in 2000, 1999 and 1998: (1) expected dividend yields ranged from 2.61%—4.86%, (2) expected volatility ranged from 19.11%—42.29%, (3) risk-free interest rates ranged from 4.36%—6.43% and (4) expected lives ranged from two to 13 years.

The following assumptions were used to determine the Black-Scholes weighted-average grant-date fair value of employees' purchase rights under the employee stock purchase plans in 2000 and 1999, respectively: (1) expected dividend yields of 2.58% and 2.86%, (2) expected volatility of 39.63% and 34.68%, (3) risk-free interest rates of 6.22% and 5.07% and (4) expected lives of 0.5 and 1.0 years. As certain employee stock purchase plans expired during 1998 and no additional rights were granted, determination of the average grant date fair value was not required in 1998.

Had the compensation cost for the Corporation's stock-based compensation plans been determined in accordance with the fair-value-based accounting method provided by SFAS No. 123, the net income and earnings per share implications for the years ended December 31, 2000, 1999 and 1998 would have been as follows:

	2000		1999		1998	
(In millions, except per share data)	Pro Forma(1)	As Reported	Pro Forma(1)	As Reported	Pro Forma(1)	As Reported
Net income (loss)	**$ (646)**	**$ (511)**	$3,413	$3,479	$3,034	$3,108
Net income per common share, basic	**(0.57)**	**(0.45)**	2.91	2.97	2.58	2.65
Net income per common share, diluted	**(0.57)**	**(0.45)**	2.89	2.95	2.55	2.61

(1) The above pro forma information may not be representative of the pro forma impact in future years.

As a result of the change in control at FCN and First Commerce, additional compensation expense of $21 million associated with the accelerated vesting of stock options was included in the 1998 pro forma net income under SFAS No. 123.

NOTE 19—Income Taxes

The components of total applicable income tax expense (benefit) in the consolidated income statement for the years ended December 31, 2000, 1999 and 1998, are as follows:

(In millions)	2000	1999	1998
Income tax expense:			
Current:			
Federal	**$ 571**	$ 735	$ 801
Foreign	**25**	2	4
State	**26**	97	98
Total	**622**	834	903
Deferred:			
Federal	**(1,151)**	624	424
State	**(40)**	37	30
Total	**(1,191)**	661	454
Applicable income taxes (benefit)	**$ (569)**	$1,495	$1,357

The tax effects of fair value adjustments on securities available for sale, foreign currency translation adjustments and certain tax benefits related to stock options are recorded directly to stockholders' equity. The net tax (benefit) charge recorded directly to stockholders' equity amounted to $107 million in 2000, $(259) million in 1999 and $(66) million in 1998.

A summary reconciliation of the differences between applicable income taxes and the amounts computed at the applicable regular federal tax rate of 35% follows:

(Dollars in millions)	2000		1999		1998	
Statutory tax rate	**$(378)**	**35.0%**	$1,741	35.0%	$1,563	35.0%
Increase (decrease) resulting from:						
State income taxes, net of federal income tax benefit	**(4)**	**0.3**	87	1.8	83	1.9
Tax-exempt interest	**(57)**	**5.3**	(66)	(1.3)	(58)	(1.3)
Tax credits	**(179)**	**16.6**	(133)	(2.7)	(94)	(2.1)
Goodwill	**25**	**(2.3)**	23	0.5	25	0.5
Cash surrender value of life insurance	**(56)**	**5.2**	(48)	(1.0)	(45)	(1.0)
Nontaxable liquidating distributions	**—**	**—**	—	—	(142)	(3.2)
Other, net	**80**	**(7.4)**	(109)	(2.2)	25	0.6
Applicable income taxes (benefit)	**$(569)**	**52.7%**	$1,495	30.1%	$1,357	30.4%

A net deferred tax liability is included in other liabilities in the consolidated balance sheet as a result of temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their related tax bases. The components of the net deferred tax liability as of December 31, 2000 and 1999 are as follows:

(In millions)	2000	1999
Deferred tax liabilities:		
Deferred income on lease financing	**$3,895**	$3,632
Prepaid pension costs	**165**	91
Securitizations of credit card receivables	**155**	247
Deferred fee income	**336**	59
Other	**200**	36
Gross deferred tax liabilities	**4,751**	4,065
Deferred tax assets:		
Allowance for credit losses	**1,667**	969
Restructure reserves	**127**	142
Incentive compensation	**257**	112
Other	**933**	(4)
Gross deferred tax assets	**2,984**	1,219
Net deferred tax liability	**$1,767**	$2,846

The Corporation has an alternative minimum tax (AMT) credit carryforward for tax purposes of $109 million at December 31, 2000. The Corporation also had carryforwards of foreign tax credits (FTC) and general business credits (GBC) in the amounts of $25 million and $156 million respectively. The FTC's will expire after 2006 and the GBC's will expire after 2020.

NOTE 20—Lease Commitments

The Corporation has entered into a number of operating lease agreements for premises and equipment. The minimum annual rental commitments under these leases are shown below:

(In millions)	
2001	$ 279
2002	250
2003	242
2004	213
2005	180
2006 and thereafter	1,035
Total	$2,199

The leasing commitments presented above include $259 million of cumulative charges to earnings taken through December 31, 2000, relating to the early exit from certain facilities. Rental income from premises leased to others in the amount of $80 million in 2000, $87 million in 1999 and $101 million in 1998 has reduced occupancy expense. Rental expense under operating leases approximated $384 million in 2000, $414 million in 1999 and $356 million in 1998.

NOTE 21—Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Corporation is a party to financial instruments containing credit and/or market risks that are not required to be reflected in the balance sheet. These financial instruments include credit-related instruments as well as certain derivative instruments. The Corporation has risk management policies to identify, monitor and limit exposure to credit, liquidity and market risks.

The following disclosures represent the Corporation's credit exposure, assuming that every counterparty to financial instruments with off-balance sheet credit risk fails to perform completely according to the terms of the contracts, and that the collateral and other security, if any, proves to be of no value to the Corporation.

This note does not address the amount of market losses the Corporation would incur if future changes in market prices make financial instruments with off-balance sheet market risk less valuable or more onerous.

(a) Collateral and Other Security Arrangements

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, the Corporation generally determines the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness. The Corporation may also receive comfort letters and oral assurances. The amount and type of collateral held to reduce credit risk varies but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in the Corporation's possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is requested when appropriate.

(b) Credit-Related Financial Instruments

The table below summarizes credit-related financial instruments, including both commitments to extend credit and letters of credit:

	December 31	
(In billions)	**2000**	**1999**
Unused credit card lines	**$272.7**	$270.5
Unused loan commitments	**162.9**	143.6
Standby letters of credit and foreign office guarantees	**19.0**	16.8
Commercial letters of credit	**0.7**	0.8

Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

Credit card lines allow customers to use a credit card to buy goods or services and to obtain cash advances. However, the Corporation has the right to change or terminate any terms or conditions of a customer's credit card account, upon notification to the customer. Loan commitments are agreements to make or acquire a loan or lease as long as the agreed-upon terms (e.g., expiry, covenants or notice) are met. The Corporation's commitments to purchase or extend loans help its customers meet their liquidity needs.

Standby letters of credit and foreign office guarantees are issued in connection with agreements made by customers to counterparties. If the customer fails to comply with the agreement, the counterparty may enforce the standby letter of credit or foreign office guarantee as a remedy. Credit risk arises from the possibility that the customer may not be able to repay the Corporation for standby letters of credit or foreign office guarantees. At December 31, 2000 and 1999, standby letters of credit and foreign office guarantees had been issued for the following purposes:

	December 31	
(In millions)	**2000**	**1999**
Financial	**$15,705**	$14,261
Performance	**3,305**	2,551
Total (1)	**$19,010**	$16,812

(1) Includes $2.7 billion at December 31, 2000, and $1.9 billion at December 31, 1999, participated to other institutions.

At December 31, 2000, $14.8 billion of standby letters of credit and foreign office guarantees was due to expire within three years, and $4.2 billion was to expire after three years.

Commercial letters of credit are issued or confirmed to ensure payment of customers' payables or receivables in short-term international trade transactions. Generally, drafts will be drawn when the underlying transaction is consummated as intended. However, the short-term nature of this instrument serves to mitigate the risk associated with these contracts.

(c) Derivative Financial Instruments

The Corporation enters into a variety of derivative financial instruments in its trading, asset and liability management, and corporate investment activities. These instruments offer customers protection from rising or falling interest rates, exchange rates, equity prices and commodity prices. They can either reduce or increase the Corporation's exposure to such changing rates or prices.

The following is a brief description of such derivative financial instruments:

- Interest rate forward and futures contracts represent commitments either to purchase or sell a financial instrument at a specified future date for a specified price, and may be settled in cash or through delivery.
- An interest rate swap is an agreement in which two parties agree to exchange, at specified intervals, interest payment streams calculated on an agreed-upon notional principal amount with at least one stream based on a specified floating rate index.
- Interest rate options are contracts that grant the purchaser, for a premium payment, the right either to purchase from or sell to the writer of the option, a financial instrument at a specified price within a specified period of time or on a specified date.
- Interest rate caps and floors are contracts with notional principal amounts that require the seller, in exchange for a fee, to make payments to the purchaser if a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate on specified future dates.
- Forward rate agreements are contracts with notional principal amounts that settle in cash at a specified future date based on the differential between a specified market interest rate and a fixed interest rate.
- Foreign exchange contracts represent swap, spot, forward, futures and option contracts to exchange currencies.
- Equity price contracts represent swap, forward, futures, cap, floor and option contracts that derive their values from underlying equity prices.
- Commodity price contracts represent swap, futures, cap, floor and option contracts that derive their values from underlying commodity prices.

The Corporation's objectives and strategies for using derivative financial instruments for structural interest rate risk management and foreign exchange risk management are discussed on pages 24 to 26.

Balance sheet exposure for derivative financial instruments includes the amount of recognized gains in the market valuations of those contracts. Those amounts fluctuate as a function of maturity, interest rates, foreign exchange rates, equity prices and commodity prices.

The credit risk associated with exchange-traded derivative financial instruments is limited to the relevant clearinghouse. Options written do not expose the Corporation to credit risk, except to the extent of the underlying risk in a financial instrument that the Corporation may be obligated to acquire under certain written put options. Caps and floors written do not expose the Corporation to credit risk.

On some derivative financial instruments, the Corporation may have additional risk. This is due to the underlying risk in the financial instruments that the Corporation may be obligated to acquire or the risk that the Corporation will deliver under a contract, but the customer fails to deliver the countervailing amount. The Corporation believes that its credit and settlement procedures minimize these risks.

Not all derivative financial instruments have off-balance sheet market risk. Market risk associated with options purchased and caps and floors purchased are recorded in the balance sheet.

NOTE 22—Fair Value of Financial Instruments

The Corporation is required to disclose the estimated fair value of its financial instruments in accordance with SFAS No. 107, ''Disclosures about Fair Value of Financial Instruments.'' These disclosures do not attempt to estimate or represent the Corporation's fair value as a whole. The disclosure excludes assets and liabilities that are not financial instruments as well as the significant unrecognized value associated with core deposits and credit card relationships.

Fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Estimated fair value amounts in theory represent the amounts at which financial instruments could be exchanged or settled in a current transaction between willing parties. In practice, however, this may not be the case due to inherent limitations in the methodologies and assumptions used to estimate fair value. For example, quoted market prices may not be realized because the financial instrument may be traded in a market that lacks liquidity; or a fair value derived using a discounted cash flow approach may not be the amount realized because of the subjectivity involved in selecting underlying assumptions, such as projecting cash flows or selecting a discount rate. The fair value amount also may not be realized because it ignores transaction costs and does not include potential tax effects. The Corporation does not plan to dispose of, either through sale or settlement, the majority of its financial instruments at these estimated fair values.

The following table summarizes the carrying values and estimated fair values of financial instruments as of December 31, 2000 and 1999:

(In millions)	2000 Carrying Value	2000 Estimated Fair Value	1999 Carrying Value	1999 Estimated Fair Value
Financial assets:				
Cash and other short-term financial instruments (a)	**$ 27,640**	**$ 27,640**	$ 32,869	$ 32,869
Trading assets (a)	**2,788**	**2,788**	7,952	7,952
Investment securities (b)	**50,561**	**50,561**	47,912	47,912
Loans (c)	**174,251**	**171,633**	163,877	161,911
Allowance for credit losses	**(4,110)**	**—**	(2,285)	—
Loans, net	**170,141**	**171,633**	161,592	161,911
Derivative product assets:				
Trading purposes (1)(f)	**2,148**	**2,148**	3,160	3,160
Other than trading purposes (f)	**174**	**313**	212	199
Total derivative product assets	**2,322**	**2,461**	3,372	3,359
Financial instruments in other assets (a)	**2,220**	**2,220**	1,911	1,911
Financial liabilities:				
Deposits (d)	**167,077**	**167,882**	162,278	162,135
Securities sold not yet purchased (a)	**285**	**285**	753	753
Other short-term financial instruments (a)	**30,240**	**30,240**	39,544	39,544
Long-term debt (2)(e)	**40,911**	**40,867**	35,435	35,678
Derivative product liabilities:				
Trading purposes (1)(f)	**2,090**	**2,090**	3,115	3,115
Other than trading purposes (f)	**122**	**161**	217	137
Total derivative product liabilities	**2,212**	**2,251**	3,332	3,252
Financial instruments in other liabilities (a)	**1,828**	**1,828**	1,363	1,363

(1) The estimated average fair values of derivative financial instruments used in trading activities during 2000 and 1999 were $2.8 billion and $4.3 billion, respectively, classified as assets and $2.8 billion and $4.4 billion, respectively, classified as liabilities.

(2) Includes trust preferred capital securities.

Estimated fair values are determined as follows:

(a) Financial Instruments Whose Carrying Value Approximates Fair Value

A financial instrument's carrying value approximates its fair value when the financial instrument has an immediate or short-term maturity (generally one year or less), or is carried at fair value.

Quoted market prices or dealer quotes typically are used to estimate fair values of trading securities and securities sold under repurchase agreements.

Commitments to extend credit and letters of credit typically result in loans with a market interest rate when funded. The recorded book value of deferred fee income approximates the fair value.

(b) Investment Securities

Quoted market prices typically are used to estimate the fair value of debt investment securities. Quoted market prices for similar securities are used to estimate fair value when a quoted market price is not available for a specific debt investment security. See Note 1(c) on page 52 for the methodologies used to determine the fair value of equity investment securities.

(c) Loans

The loan portfolio was segmented based on loan type, credit quality and repricing characteristics. Carrying values are used to estimate fair values of certain variable rate loans with no significant credit concerns and frequent repricing. A discounted cash flow method was used to estimate the fair value of other loans. Discounting was based on the contractual cash flows, and discount rates typically are based on the year-end yield curve plus a spread that reflects pricing on loans with similar characteristics. If applicable, prepayment assumptions are factored into the fair value determination based on historical experience and current economic and lending conditions.

(d) Deposits

The amount payable on demand at the report date is used to estimate fair value of demand and savings deposits with no defined maturity. A discounted cash flow method is used to estimate the fair value of fixed-rate time deposits. Discounting was based on the contractual cash flows and the current rates at which similar deposits with similar remaining maturities would be issued, adjusted for servicing costs. Carrying value typically is used to estimate the fair value of floating-rate time deposits.

(e) Long-Term Debt

Quoted market prices or the discounted cash flow method was used to estimate the fair value of the Corporation's fixed-rate long-term debt. Discounting was based on the contractual cash flows and the current rates at which debt with similar terms could be issued. Carrying value typically is used to estimate the fair value of floating-rate long-term debt.

(f) Derivative Product Assets and Liabilities

Quoted market prices or pricing and valuation models were used to estimate the fair value of derivative product assets and liabilities. Assumptions input into models were based on current market information.

NOTE 23—Related Party Transactions

Certain executive officers, directors and their related interests are loan customers of the Corporation's affiliates. The Securities and Exchange Commission (the "Commission") has determined that, with respect to the Corporation and significant subsidiaries (as defined by the Commission), disclosure of borrowings by directors and executive officers and certain of their related interests should be made if the loans are greater than 5% of stockholders' equity, in the aggregate. These loans in aggregate were not greater than 5% of stockholders' equity at December 31, 2000 or 1999.

NOTE 24—Pledged Assets

Assets having a book value of $44.2 billion as of December 31, 2000, and $62.7 billion as of December 31, 1999, were pledged as collateral for repurchase agreements, off-balance sheet investment products, and governmental and trust department deposits in accordance with federal and state requirements, and for other purposes required by law. The assets pledged generally were comprised of commercial mortgage loans and investment securities. Of the total collateral pledged as of December 31, 2000, $491 million of collateral, which was comprised of investment securities posted as collateral for repurchase agreements, was permitted to be sold or repledged by the secured party.

The Corporation's bank affiliates are required to maintain average noninterest-bearing cash balances, in accordance with Federal Reserve Board regulations. The average required reserve balances were $2.5 billion in 2000 and $2.9 billion in 1999.

NOTE 25—Collateral Policy Related to Certain Asset Transfer Activity

It is the Corporation's policy to take possession of securities purchased under agreements to resell in order to secure the risk of counterparty nonperformance on the transaction. The Corporation monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest, and adjusts the level of collateral as necessary. With respect to securities lent, the Corporation receives collateral to secure the risk of counterparty nonperformance in the form of cash or other collateral, in an amount generally in excess of the fair value of the lent securities. The Corporation monitors the fair value of the securities lent on a daily basis, and additional cash or securities are obtained as necessary.

The fair value of collateral accepted by the Corporation in connection with these activities was $4.1 billion at December 31, 2000, of which, $3.8 billion had been sold or repledged as of the balance sheet date.

NOTE 26—Contingent Liabilities

The Corporation and certain of its subsidiaries have been named as defendants in various legal proceedings, including certain class actions, arising out of the normal course of business or operations. In certain of these proceedings, which are based on alleged violations of consumer protection, securities, banking, insurance and other laws, rules or principles, substantial money damages are asserted against the Corporation and its subsidiaries. Since the Corporation and certain of its subsidiaries, which are regulated by one or more federal and state regulatory authorities, are the subject of numerous examinations and reviews by such authorities, the Corporation also is and will be, from time to time, normally engaged in various disagreements with regulators, related primarily to its financial services businesses. The Corporation has also received certain tax deficiency assessments. In view of the inherent difficulty of predicting the outcome of such matters, the Corporation cannot state what the eventual outcome of pending matters will be; however, based on current knowledge and after consultation with counsel, Management does not believe that liabilities arising from these matters, if any, will have a material adverse effect on the consolidated financial position of the Corporation.

NOTE 27—BANK ONE CORPORATION (Parent Company Only)
Condensed Financial Statements

Condensed Balance Sheets

December 31 (In millions)	2000	1999
Assets		
Cash and due from banks:		
Bank subsidiaries	**$ 14**	$ 16
Interest-bearing due from banks:		
Bank subsidiaries	**7,247**	2,836
Trading assets	**13**	—
Investment securities—available for sale	**135**	353
Loans and receivables—subsidiaries:		
Bank subsidiaries	**7,044**	7,109
Nonbank subsidiaries	**6,934**	8,845
Investment in subsidiaries:		
Bank subsidiaries	**21,166**	20,148
Nonbank subsidiaries	**1,663**	4,255
Other assets	**424**	445
Total assets	**$44,640**	$44,007
Liabilities and Stockholders' Equity		
Short-term borrowings:		
Nonbank subsidiaries	**$ 73**	$ 66
Other	**1,166**	1,268
Long-term debt:		
Nonbank subsidiaries	**2,560**	1,621
Other	**20,824**	20,118
Other liabilities	**1,382**	844
Total liabilities	**26,005**	23,917
Stockholders' equity	**18,635**	20,090
Total liabilities and stockholders' equity	**$44,640**	$44,007

BANK ONE CORPORATION (Parent Company Only)
Condensed Income Statements

(In millions)	For the Year December 31 2000	1999	1998
Operating Income			
Dividends:			
Bank subsidiaries	**$ 1,775**	$2,367	$4,087
Nonbank subsidiaries	**762**	373	359
Interest income:			
Bank subsidiaries	**822**	534	478
Nonbank subsidiaries	**513**	438	247
Other	**22**	11	8
Management and other fees from affiliates	**—**	—	606
Other income:			
Bank subsidiaries	**7**	7	—
Other	**19**	190	26
Total	**3,920**	3,920	5,811
Operating Expense			
Interest expense:			
Nonbank subsidiaries	**161**	93	80
Other	**1,556**	1,132	863
Merger-related charges	**140**	287	675
Salaries and employee benefits	**52**	9	209
Professional fees and services	**4**	3	76
Marketing and development	**—**	—	60
Other expense	**255**	97	373
Total	**2,168**	1,621	2,336
Income Before Income Taxes and Equity in Undistributed Net Income of Subsidiaries	**1,752**	2,299	3,475
Applicable income tax benefit	**(197)**	(198)	(284)
Income Before Equity in Undistributed Net Income of Subsidiaries	**1,949**	2,497	3,759
Equity in undistributed net income (loss) of subsidiaries:			
Bank subsidiaries	**(1,835)**	797	(420)
Nonbank subsidiaries	**(625)**	185	(231)
Net Income (Loss)	**$ (511)**	$3,479	$3,108

BANK ONE CORPORATION (Parent Company Only)
Condensed Statements of Cash Flows

(In millions)	For the Year December 31 2000	1999	1998
Cash Flows from Operating Activities			
Net income (loss)	**$ (511)**	$3,479	$3,108
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in net income of subsidiaries	**(77)**	(3,722)	(3,965)
Dividends received from subsidiaries	**2,537**	2,740	4,446
Other operating adjustments	**83**	417	17
Total adjustments	**2,543**	(565)	498
Net cash provided by operating activities	**2,032**	2,914	3,606
Cash Flows from Investing Activities			
Net (increase) in loans to subsidiaries	**2,296**	(3,226)	(3,024)
Net increase in capital investments in subsidiaries	**(668)**	(1,277)	(1,559)
Purchase of investment securities—available for sale	**(1,095)**	(805)	(38)
Proceeds from sales and maturities of investment securities—available for sale	**1,321**	729	44
Other, net	**29**	(29)	—
Net cash provided by (used in) investing activities	**1,883**	(4,608)	(4,577)
Cash Flows from Financing Activities			
Net increase (decrease) in commercial paper and short-term borrowings	**(181)**	37	443
Proceeds from issuance of long-term debt	**3,964**	9,524	3,387
Redemption and repayment of long-term debt	**(2,216)**	(2,843)	(350)
Dividends paid	**(1,222)**	(2,420)	(1,322)
Proceeds from issuance of common and treasury stock	**152**	61	161
Purchase of treasury stock	**(3)**	(1,647)	(375)
Net cash provided by financing activities	**494**	2,712	1,944
Net Increase in Cash and Cash Equivalents	**4,409**	1,018	973
Cash and Cash Equivalents at Beginning of Year	**2,852**	1,834	861
Cash and Cash Equivalents at End of Year	**$7,261**	$2,852	$1,834
Other Cash-Flow Disclosures			
Interest paid	**$1,620**	$1,113	$ 923
Income tax receipt	**(139)**	(335)	(50)

In connection with issuances of commercial paper, the Corporation has an agreement providing future credit availability (back-up lines of credit) with non-affiliated banks. The agreements aggregated $300 million at December 31, 2000. The commitment fee paid under these agreements was 0.07%. The back-up lines of credit, together with overnight money market loans, short-term investments and other sources of liquid assets, exceeded the amount of commercial paper issued at December 31, 2000.

NOTE 27—Quarterly Financial Data (Unaudited)

	2000				1999			
(In millions, except ratios and per share data)	**Fourth**	**Third**	**Second**	**First**	**Fourth**	**Third**	**Second**	**First**
Income Statement Data:								
Total revenue, net of interest expense	**$ 3,461**	**$ 3,942**	**$ 2,509**	**$ 4,014**	$ 3,970	$ 4,340	$ 4,533	$ 4,870
Net interest income—tax-equivalent basis	**2,247**	**2,242**	**2,257**	**2,228**	2,221	2,271	2,341	2,309
Provision for credit losses	**1,507**	**516**	**1,013**	**362**	416	277	275	281
Noninterest income	**1,247**	**1,734**	**288**	**1,821**	1,782	2,098	2,222	2,590
Noninterest expense	**2,847**	**2,593**	**3,507**	**2,661**	3,030	2,713	2,806	2,941
Net income (loss)	**(512)**	**581**	**(1,269)**	**689**	411	925	992	1,151
Per Common Share Data:								
Net income (loss):								
Basic	**$ (0.44)**	**$ 0.50**	**$ (1.11)**	**$ 0.60**	$ 0.36	$ 0.79	$ 0.84	$ 0.97
Diluted	**(0.44)**	**0.50**	**(1.11)**	**0.60**	0.36	0.79	0.83	0.96
Cash dividends declared	**0.21**	**0.21**	**0.42**	**0.42**	0.42	0.42	0.42	0.42
Book value	**15.90**	**16.47**	**16.12**	**17.43**	17.34	17.32	17.73	17.68
Balance Sheet:								
Loans:								
Managed	**$236,492**	**$237,505**	**$234,412**	**$229,673**	$229,196	$222,117	$218,795	$213,814
Reported	**174,251**	**176,419**	**172,591**	**168,078**	163,877	158,143	157,464	154,850
Deposits	**167,077**	**164,130**	**163,169**	**164,643**	162,278	156,900	156,454	153,699
Long-term debt (1)	**40,911**	**42,641**	**39,093**	**38,753**	35,435	34,735	27,728	24,988
Total assets:								
Managed	**309,096**	**324,780**	**316,011**	**317,176**	315,064	311,490	302,844	294,694
Reported	**269,300**	**283,373**	**272,709**	**273,008**	269,425	264,135	256,033	250,402
Common stockholders' equity	**18,445**	**19,042**	**18,630**	**20,081**	19,900	19,860	20,860	20,870
Total stockholders' equity	**18,635**	**19,232**	**18,820**	**20,271**	20,090	20,050	21,050	21,060
Credit Quality Ratios:								
Net charge-offs to average loans	**1.11%**	**0.74%**	**0.75%**	**0.64%**	0.95%	0.68%	0.71%	0.73%
Allowance for credit losses to period end loans	**2.36**	**1.75**	**1.73**	**1.39**	1.39	1.42	1.43	1.47
Nonperforming assets to related assets	**1.48**	**1.21**	**1.03**	**0.99**	1.02	1.06	1.03	1.04
Financial Performance Ratios:								
Return (loss) on average assets	**(0.75)%**	**0.85%**	**(1.87)%**	**1.03%**	0.62%	1.44%	1.57%	1.85%
Return (loss) on average common equity	**(10.7)**	**12.2**	**(26.0)**	**13.9**	8.2	18.2	19.1	22.9
Net interest margin:								
Managed	**4.65**	**4.66**	**4.80**	**4.91**	4.98	5.32	5.55	5.66
Reported	**3.67**	**3.68**	**3.77**	**3.78**	3.79	4.04	4.26	4.30
Efficiency ratio:								
Managed	**66.0%**	**54.6%**	**103.8%**	**53.7%**	62.1%	52.1%	52.3%	52.1%
Reported	**81.5**	**65.2**	**137.8**	**65.7**	75.7	62.1	61.5	60.0
Capital Ratios:								
Risk-based capital:								
Tier 1	**7.3**	**7.5**	**7.2**	**7.7**	7.7	7.7	8.1	8.2
Total	**10.8**	**10.9**	**10.3**	**10.6**	10.7	10.8	11.4	11.7
Tangible common equity/tangible managed assets	**5.5**	**5.4**	**5.4**	**5.7**	5.7	5.7	6.2	6.3
Common Stock Data:								
Average shares outstanding:								
Basic	**1,158**	**1,156**	**1,153**	**1,149**	1,147	1,167	1,180	1,178
Diluted (2)	**1,158**	**1,167**	**1,153**	**1,155**	1,154	1,177	1,195	1,193
Stock price:								
High	**$ 37.69**	**$ 38.81**	**$ 36.88**	**$ 34.75**	$ 39.56	$ 60.88	$ 63.13	$ 57.75
Low	**31.88**	**28.44**	**26.56**	**24.25**	29.98	34.31	53.75	47.50
Close	**36.63**	**38.06**	**26.56**	**34.38**	32.00	34.81	59.56	55.06

(1) Includes trust preferred capital securities.

(2) Common equivalent shares have been excluded from the computation of diluted loss per share in the second and fourth quarters of 2000 as the effect would be antidilutive.

REPORT OF MANAGEMENT

Management of BANK ONE CORPORATION and its subsidiaries ("the Corporation") is responsible for the preparation, integrity and fair presentation of its published financial reports. These reports include consolidated financial statements that have been prepared in accordance with Generally Accepted Accounting Principles, using Management's best judgment and all information available.

The consolidated financial statements of the Corporation have been audited by Arthur Andersen LLP, independent auditors. Their accompanying report is based upon an audit conducted in accordance with generally accepted auditing standards, including the related review of internal accounting controls and financial reporting matters. The Audit and Risk Management Committee of the Board of Directors, which consists solely of outside directors, meets at least quarterly with the independent auditors, the Internal Audit Department and representatives of management to discuss, among other things, accounting and financial reporting matters.

Management of the Corporation is responsible for establishing and maintaining an effective internal control structure over financial reporting, including the safeguarding of assets against unauthorized acquisition, use or disposition. The Corporation maintains systems of controls that it believes are reasonably designed to provide Management with timely and accurate information about the operations of the Corporation. Both the Corporation's independent auditors and the internal audit function directly provide reports on significant matters to the Audit and Risk Management Committee. The Corporation's independent auditors, the internal audit function and the Audit and Risk Management Committee have free access to each other. Substantial changes were made in 2000 which Management believes improved internal controls, systems and corporate-wide processes and procedures.

The Corporation is dedicated to maintaining a culture that reflects the highest standards of integrity and ethical conduct when engaging in its business activities. Management of the Corporation is responsible for compliance with various federal and state laws and regulations, and the Corporation has established procedures that are designed to ensure that Management's policies relating to conduct, ethics and business practices are followed on a uniform basis.

BANK ONE CORPORATION

James Dimon
Chairman and Chief Executive Officer

Charles W. Scharf
Executive Vice President and
Chief Financial Officer

Chicago, Illinois
January 16, 2001

Report of Independent Public Accountants

To the Stockholders and Board of Directors
of BANK ONE CORPORATION:

We have audited the accompanying consolidated balance sheets of BANK ONE CORPORATION (a Delaware corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of BANK ONE CORPORATION's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of BANK ONE CORPORATION and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Chicago, Illinois,
January 17, 2001

SELECTED STATISTICAL INFORMATION

Common Stock and Stockholder Data: (1)(2)	2000	1999	1998	1997	1996
Market price:					
High for the year	**$38.81**	$63.13	$64.78	$54.37	$43.53
Low for the year	**24.25**	29.98	37.58	35.57	28.41
At year-end	**36.63**	32.00	51.06	49.37	39.09
Book value (at year-end)	**15.90**	17.34	17.31	16.03	16.64
Dividend payout ratio (3)	**N/M**	57%	58%	61%	38%
Financial Ratios:					
Net income (loss) as a percentage of: (4)					
Average stockholders' equity	**(2.6)%**	17.0%	15.8%	15.6%	17.1%
Average common stockholders' equity	**(2.6)**	17.2	15.9	16.0	17.8
Average total assets	**(0.2)**	1.4	1.3	1.3	1.4
Average earning assets	**(0.2)**	1.6	1.5	1.5	1.6
Stockholders' equity at year-end as a percentage of:					
Total assets at year-end	**6.9**	7.5	7.9	8.0	8.6
Total loans at year-end	**10.7**	12.3	13.2	11.9	12.7
Total deposits at year-end	**11.2**	12.4	12.7	12.4	13.4
Average stockholders' equity as a percentage of:					
Average total assets	**7.2**	8.0	8.2	8.2	8.4
Average loans	**11.4**	13.0	12.7	12.2	12.9
Average deposits	**12.0**	13.2	13.1	12.9	13.2
Income to fixed charges: (5)					
Excluding interest on deposits	**0.8x**	2.3x	2.3x	2.4x	2.6x
Including interest on deposits	**0.9x**	1.6x	1.5x	1.5x	1.6x

(1) There were 114,511 common stockholders of record as of December 31, 2000.

(2) The principal market for the Corporation's common stock is the New York Stock Exchange. The Corporation's common stock also is listed on the Chicago Stock Exchange.

(3) Due to loss.

(4) Does not include deduction for preferred dividends.

(5) Results for the year ended December 31, 2000, were insufficient to cover fixed charges. The coverage deficiency was approximately $1.2 billion.

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Average Balances/Net Interest Margin/Rates

BANK ONE CORPORATION and Subsidiaries

(Income and rates on tax-equivalent basis) (Dollars in millions)	Year Ended December 31					
	2000			1999		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets						
Short-term investments	**$ 16,941**	**$ 1,080**	**6.38%**	$ 13,976	$ 678	4.85%
Trading assets	**6,937**	**439**	**6.33**	6,128	332	5.42
Investment securities: (1)						
U.S. government and federal agencies	**14,406**	**958**	**6.65**	15,228	1,008	6.62
States and political subdivisions	**1,367**	**105**	**7.68**	1,835	135	7.36
Other (2)	**29,639**	**2,362**	**7.97**	29,517	2,169	7.35
Total investment securities	**45,412**	**3,425**	**7.54**	46,580	3,312	7.11
Loans: (3)						
Commercial	**100,202**	**8,381**	**8.36**	90,182	6,812	7.55
Consumer	**66,812**	**6,086**	**9.11**	59,440	5,142	8.65
Credit card	**4,754**	**805**	**16.93**	7,233	1,139	15.75
Total loans	**171,768**	**15,272**	**8.89**	156,855	13,093	8.35
Total earning assets (4)	**241,058**	**$20,216**	**8.39%**	223,539	$17,415	7.79%
Allowance for credit losses	**(2,860)**			(2,290)		
Other assets	**33,786**			35,242		
Total assets	**$271,984**			$256,491		
Liabilities and Stockholders' Equity						
Deposits—interest-bearing:						
Savings	**$ 16,433**	**$ 240**	**1.46%**	$ 19,866	$ 310	1.56%
Money market	**47,552**	**1,658**	**3.49**	44,730	1,445	3.23
Time	**43,555**	**2,646**	**6.08**	35,202	1,784	5.07
Foreign offices (5)	**27,609**	**1,593**	**5.77**	24,157	1,112	4.60
Total deposits—interest-bearing	**135,149**	**6,137**	**4.54**	123,955	4,651	3.75
Federal funds purchased and securities under repurchase agreements	**18,961**	**1,142**	**6.02**	19,711	935	4.74
Other short-term borrowings	**18,978**	**1,216**	**6.41**	17,857	942	5.28
Long-term debt (6)	**39,395**	**2,747**	**6.97**	29,367	1,745	5.94
Total interest-bearing liabilities	**212,483**	**$11,242**	**5.29%**	190,890	$ 8,273	4.33%
Demand deposits	**27,313**			31,229		
Other liabilities	**12,616**			13,918		
Preferred stock	**190**			190		
Common stockholders' equity	**19,382**			20,264		
Total liabilities and stockholders' equity	**$271,984**			$256,491		
Interest income/earning assets		**$20,216**	**8.39%**		$17,415	7.79%
Interest expense/earning assets		**11,242**	**4.67**		8,273	3.70
Net interest margin		**$ 8,974**	**3.72%**		$ 9,142	4.09%

(1) The combined amounts for investment securities available for sale and held to maturity are based on their respective carrying values. Based on the amortized cost of investment securities available for sale, the combined average balance for 2000, 1999, 1998, 1997 and 1996 would be $45.500 billion, $46.612 billion, $33.415 billion, $26.246 billion and $28.613 billion, respectively, and the average earned rate in 2000, 1999, 1998, 1997 and 1996 would be 7.53%, 7.11%, 7.12%, 6.63% and 6.73%, respectively.

(2) The Corporation's undivided interest in securitized credit card receivables was reclassified from loans to investment securities during 1998. Such amounts averaged $18,447 million for 2000, $16,048 million for 1999 and $5,798 million for 1998.

(3) Nonperforming loans are included in average balances used to determine rates.

(4) Includes tax-equivalent adjustments based on federal income tax rate of 35%.

(5) Includes international banking facilities' deposit balances in domestic offices and balances of Edge Act and overseas offices.

(6) Includes trust preferred capital securities.

Year Ended December 31								
1998			1997			1996		
Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
$ 14,632	$ 754	5.15%	$ 14,412	$ 801	5.56%	$ 18,040	$ 1,010	5.60%
6,203	366	5.90	5,616	331	5.89	7,366	425	5.77
16,683	1,102	6.61	18,851	1,273	6.75	20,562	1,451	7.06
2,211	176	7.96	2,648	220	8.31	3,191	224	7.02
14,833	1,101	7.42	4,881	246	5.04	5,006	252	5.03
33,727	2,379	7.05	26,380	1,739	6.59	28,759	1,927	6.70
82,118	6,382	7.77	76,636	6,108	7.97	71,376	5,691	7.97
57,206	5,360	9.37	56,410	5,324	9.44	51,792	4,811	9.29
15,628	2,405	15.39	22,880	3,400	14.86	22,926	3,371	14.70
154,952	14,147	9.13	155,926	14,832	9.51	146,094	13,873	9.50
209,514	$17,646	8.42%	202,334	$17,703	8.75%	200,259	$17,235	8.60%
(2,731)			(2,751)			(2,577)		
33,007			30,299			27,946		
$239,790			$229,882			$225,628		
$20,710	$ 470	2.27%	$ 22,408	$ 519	2.32%	$ 21,346	$ 491	2.30%
39,115	1,458	3.73	34,565	1,302	3.77	33,763	1,194	3.54
38,211	2,066	5.41	41,894	2,315	5.53	43,169	2,355	5.46
18,489	949	5.13	16,476	855	5.19	15,772	817	5.18
116,525	4,943	4.24	115,343	4,991	4.33	114,050	4,857	4.26
21,685	1,090	5.03	20,430	1,073	5.25	23,971	1,267	5.29
13,790	737	5.34	14,129	786	5.56	15,244	799	5.24
22,089	1,407	6.37	18,945	1,234	6.51	13,277	895	6.74
174,089	$ 8,177	4.70%	168,847	$ 8,084	4.79%	166,542	$ 7,818	4.69%
33,647			31,199			29,279		
12,323			10,889			10,907		
223			487			757		
19,508			18,460			18,143		
$239,790			$229,882			$225,628		
	$17,646	8.42%		$17,703	8.75%		$17,235	8.60%
	8,177	3.90		8,084	4.00		7,818	3.90
	$ 9,469	4.52%		$ 9,619	4.75%		$ 9,417	4.70%

Analysis of Changes in Net Interest Income

The following table shows the approximate effect on net interest income of volume and rate changes for 2000 and 1999 for the year ended December 31:

Year Ended December 31 (in millions)	2000 over 1999			1999 over 1998		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:						
Short-term investments	**$ 189**	**$213**	**$ 402**	$ (32)	$ (44)	$ (76)
Trading assets	**51**	**56**	**107**	(4)	(30)	(34)
Investment securities:						
U.S. government and federal agency	**(55)**	**5**	**(50)**	(96)	2	(94)
States and political subdivisions	**(36)**	**6**	**(30)**	(28)	(13)	(41)
Other	**10**	**183**	**193**	1,079	(11)	1,068
Loans:						
Commercial	**838**	**731**	**1,569**	609	(179)	430
Consumer	**672**	**272**	**944**	193	(411)	(218)
Credit card	**(420)**	**86**	**(334)**	(1,322)	56	(1,266)
Total			**2,801**			(231)
Increase (decrease) in interest expense:						
Deposits:						
Savings	**(50)**	**(20)**	**(70)**	(13)	(147)	(160)
Money market	**98**	**115**	**213**	181	(194)	(13)
Time	**507**	**355**	**862**	(152)	(130)	(282)
Foreign offices	**199**	**282**	**481**	261	(98)	163
Federal funds purchased and securities under repurchase agreements	**(45)**	**252**	**207**	(94)	(61)	(155)
Other short-term borrowings	**72**	**202**	**274**	215	(10)	205
Long-term debt	**699**	**303**	**1,002**	432	(94)	338
Total			**2,969**			96
Decrease in net interest income			**$ (168)**			$ (327)

For purposes of this table, changes that are not due solely to volume or rate changes are allocated to volume.

ANNUAL REPORT ON FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2000

Commission file number 001-15323

BANK ONE CORPORATION
Incorporated in the State of Delaware
IRS Employer Identification #31-0738296
Address: 1 Bank One Plaza, Chicago, Illinois 60670
Telephone: (312) 732-4000

Securities registered pursuant to Section 12(b) of the Act (Common Stock listed on the New York Stock Exchange and the Chicago Stock Exchange; all others listed only on the New York Stock Exchange):

Common Stock, $0.01 par value
Preferred Stock with Cumulative and Adjustable Dividends, Series B ($100 stated value), $0.01 par value
Preferred Stock with Cumulative and Adjustable Dividends, Series C ($100 stated value), $0.01 par value
7¼% Subordinated Debentures Due 2004
8.10% Subordinated Notes Due 2002
Guarantee of 8.00% Preferred Securities of BANK ONE Capital I
Guarantee of 8.50% Preferred Securities of BANK ONE Capital II
Guarantee of 8.00% Preferred Securities of BANK ONE Capital V

Securities registered pursuant to Section 12(g) of the Act: None.

The registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of voting stock held by nonaffiliates of the Corporation at December 31, 2000, was approximately $37,800,000,000 (based on the average price of such stock on February 23, 2001). At December 31, 2000, the Corporation had 1,159,828,803 shares of its Common Stock, $0.01 par value, outstanding.

(1) The information required by this Item has been previously reported in Bank One's Current Report on Form 8-K dated February 23, 2001, and is expressly incorporated herein by reference. It is also set forth under the heading "Proposal 2—Ratification of Appointment of Independent Auditor" in Bank One's definitive proxy statement dated March 30, 2001.

(2) The information required by Items 10, 11, 12 and 13, respectively, is contained under the following headings in Bank One's definitive proxy statement dated March 30, 2001 and is expressly incorporated herein by reference:

Item 10—"Proposal 1—Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance."

Item 11—"Compensation of Executive Officers," "Director Meeting Attendance and Fee Arrangements" and "Transactions with Directors, Executive Officers, Stockholders and Associates—Organization, Compensation and Nominating Committee Interlocks and Insider Participation."

Item 12—"Beneficial Ownership of Bank One's Common Stock."

Item 13—"Transactions with Directors, Executive Officers, Stockholders and Associates."

EMPLOYEES

As of December 31, 2000, Bank One and its subsidiaries had 80,778 full time and part time employees with benefits.

COMPETITION

Bank One and its subsidiaries face active competition in all of their principal activities, not only from commercial banks, but also from savings and loan associations, credit unions, finance companies, mortgage companies, leasing companies, insurance companies, mutual funds, securities brokers and dealers, other domestic and foreign financial institutions, and various nonfinancial institutions. The Gramm-Leach-Bliley Act of 1999 (''the GLB Act'') likely will intensify competition. Additional discussion of this legislation is included in the ''Supervision and Regulation'' section below.

MONETARY POLICY AND ECONOMIC CONTROLS

The earnings of the Banks, and therefore the earnings of Bank One, are affected by the policies of regulatory authorities, including the Board of Governors of the Federal Reserve System (the ''Federal Reserve Board''). An important function of the Federal Reserve Board is to promote orderly economic growth by influencing interest rates and the supply of money and credit. Among the methods that have been used to achieve this objective are open market operations in United States government securities, changes in the discount rate for member bank borrowings and changes in reserve requirements against bank deposits. These methods are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, interest rates on loans and securities, and rates paid for deposits.

The effects of the various Federal Reserve Board policies on the future business and earnings of Bank One cannot be predicted. Other economic controls also have affected Bank One's operations in the past. Bank One cannot predict the nature or extent of any effects that possible future governmental controls or legislation might have on its business and earnings.

SUPERVISION AND REGULATION

General

As a bank holding company, Bank One is regulated under the BHC Act, and is subject to inspection, examination and supervision by the Federal Reserve Board. Under the BHC Act, bank holding companies generally may not own or control more than 5% of the voting shares of any company, including a bank, or acquire certain assets of banks and other companies, without the Federal Reserve Board's prior approval. In addition, bank holding companies (except those that have become ''financial holding companies'') generally may engage, directly or indirectly, only in banking and such other activities as are determined by the Federal Reserve Board to be closely related to banking. The BHC Act, as amended by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (''Riegle-Neal''), permits bank holding companies, subject to certain restrictions, to merge with or acquire banks and branches in any state that has not opted out of Riegle-Neal.

The 'GLB Act' eliminated many of the restrictions placed on the activities of certain qualified bank holding companies. Among other things, the GLB Act repealed certain Glass-Steagall Act restrictions on affiliations between banks and securities firms, and amended the BHC Act to permit bank holding companies that qualify as ''financial holding companies'' (''FHCs'') to engage in activities, and acquire companies engaged in activities, that are: financial in nature (including insurance underwriting, insurance company portfolio investment, financial advisory, securities underwriting, dealing and market-making, and merchant banking activities); incidental to financial activities; or complementary to financial activities if the Federal Reserve Board determines that they pose no substantial risk to the safety or soundness of depository institutions or the financial system in general.

The GLB Act also permits national banks, under certain circumstances, to engage through special financial subsidiaries in the financial and other incidental activities authorized for FHCs. Bank One has not yet determined when it may elect to become an FHC or to establish a financial subsidiary.

Liability for Bank Subsidiaries

The Federal Reserve Board requires that a bank holding company act as a source of financial and managerial strength to each of its subsidiary banks and to maintain resources adequate to support each subsidiary bank. In addition, the National Bank Act permits the Office of the Comptroller of the Currency (''OCC'') to order the pro rata assessment of shareholders of a national bank whose capital has become impaired. If a shareholder fails to pay such an assessment, the OCC can order the sale of the shareholder's stock to cover the deficiency. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank would be assumed by the bankruptcy trustee and entitled to priority of payment.

Under the Federal Deposit Insurance Act, the Federal Deposit Insurance Corporation (''FDIC'') can hold any FDIC-insured depository institution liable for any loss the FDIC incurs, or reasonably expects to incur, in connection with (1) the default of any commonly controlled FDIC-insured depository institution or (2) any assistance provided by the FDIC to any commonly controlled depository institution that is in danger of default. ''Default'' is defined generally as the appointment of a conservator or receiver and ''in danger of default'' is defined generally as the existence of certain conditions indicating that a ''default'' is likely to occur absent regulatory assistance. All of the Banks are FDIC-insured depository institutions.

Capital Requirements

Bank One is subject to capital requirements and guidelines imposed on bank holding companies by the Federal Reserve Board. The OCC, the FDIC and the Federal Reserve Board impose similar requirements and guidelines on the Banks within their respective jurisdictions. These capital requirements are described in ''Capital Management—Regulatory Capital Requirements'' on pages 44-45.

The Banks

Most of the Banks are national banking associations and, as such, are subject to regulation primarily by the OCC and, secondarily, by the FDIC and the Federal Reserve Board. Bank One's state-chartered Banks are subject to regulation by the Federal Reserve Board and the FDIC and, in addition, by their respective state banking departments. The Banks' operations in other countries are subject to various restrictions imposed by the laws of those countries.

Various federal and state laws limit the amount of dividends the Banks can pay to Bank One without regulatory approval. In addition, federal bank regulatory agencies have authority to prohibit the Banks from engaging in unsafe or unsound practices in conducting their business. The payment of dividends, depending upon the financial condition of the bank in question, could be deemed to constitute an unsafe or unsound practice.

Depositor Preference Statute

Federal law provides that deposits and certain claims for administrative expenses and employee compensation against an insured depository institution are afforded a priority over other general unsecured claims against such institution, including federal funds and letters of credit, in the liquidation or other resolution of the institution by any receiver.

Other

Bank One's nonbank subsidiaries and banking-related business units are subject to regulation by various state and federal regulatory agencies and self-regulatory organizations. Activities subject to such regulation include investment management, investment advisory services, commodities and securities brokerage, insurance services and products, securities dealing and transfer agency services.

PROPERTIES

Bank One's headquarters are in Chicago, Illinois. The 60-story building, located in the center of the Chicago "Loop" business district, is master-leased and has 1,750,000 square feet of space, of which Bank One occupies approximately 57%; the balance is subleased to other tenants. Bank One and its subsidiaries occupy more than 2,800 owned or leased domestic properties, including banking centers, operations facilities and commercial banking offices. In addition, Bank One has foreign offices in major cities in Canada, Mexico, Europe, Asia and Australia. These offices all are located in leased premises.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, the Corporation may make or approve certain statements in future filings with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with the Corporation's approval that are not statements of historical fact and may constitute forward-looking statements. Forward-looking statements may relate to, without limitation, the Corporation's financial condition, results of operations, plans, objectives, future performance or business.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believes", "anticipates", "expects", "intends", "plans", "estimates", "targets" or words of similar meaning or future or conditional verbs such as "will", "would", "should", "could" or "may".

Forward-looking statements involve risks and uncertainties. Actual conditions, events or results may differ materially from those contemplated by a forward-looking statement. Factors that could cause this difference—many of which are beyond the Corporation's control—include the following, without limitation:

- Local, regional and international business or economic conditions may differ from those expected.
- The effects of and changes in trade, monetary and fiscal policies and laws, including the Federal Reserve Board's interest rate policies may adversely affect the Corporation's business.
- The timely development and acceptance of new products and services may be different than anticipated.
- Technological changes instituted by the Corporation and by persons who may affect the Corporation's business may be more difficult to accomplish or more expensive than anticipated or may have unforeseen consequences.
- Acquisitions and integration of acquired businesses may be more difficult or expensive than expected.
- The ability to increase market share and control expenses may be more difficult than anticipated.
- Changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) may adversely affect the Corporation or its business.
- Changes in accounting policies and practices, as may be adopted by regulatory agencies and the Financial Accounting Standards Board, may affect expected financial reporting.
- The costs, effects and outcomes of litigation may adversely affect the Corporation or its business.
- The Corporation may not manage the risks involved in the foregoing as well as anticipated.

Forward-looking statements speak only as of the date they are made. The Corporation undertakes no obligation to update any forward-looking statement to reflect subsequent circumstances or events.

Executive Officers of the Registrant

Name and Age	Current Position Held with the Corporation and Effective Date First Elected to Office Indicated
James Dimon (45)	Director, Chairman and Chief Executive Officer (3/27/00)
Austin A. Adams (57)	Executive Vice President (3/1/01)
David P. Bolger (43)	Executive Vice President (4/20/99)
James S. Boshart, III (55)	Executive Vice President (9/5/00)
Christine A. Edwards (48)	Executive Vice President, Chief Legal Officer and Secretary (5/16/00)
Philip G. Heasley (51)	Executive Vice President (1/2/01)
David J. Kundert (58)	Executive Vice President (12/15/98)
Sarah L. McClelland (41)	Executive Vice President (9/4/00)
Timothy P. Moen (48)	Executive Vice President (12/15/98)
Robert A. O'Neill, Jr. (47)	Executive Vice President and Chief Auditor (1/19/99)
Charles W. Scharf (35)	Executive Vice President and Chief Financial Officer (6/12/00)
R. Michael Welborn (49)	Executive Vice President (5/16/00)

Messrs. Bolger, Kundert, Moen, O'Neill and Welborn, and Ms. McClelland, each have served as an officer of Bank One, or a subsidiary or predecessor, for more than five years. The prior business experience of the other executive officers is set forth below:

James Dimon: November 1998–March 2000—private investor; October–November 1998—President, Citigroup, Inc., and Chairman and Co-Chief Executive Officer of Citigroup subsidiary Salomon Smith Barney Holdings, Inc.; November 1993–October 1998—President and Chief Operating Officer, Travelers Group, as well as executive positions with Travelers' subsidiaries Smith Barney, Inc. and Salomon Smith Barney Holdings, Inc. during that period.

Austin A. Adams: 1985–February 2001—Executive Vice President of the Automation and Operations Group, First Union Corporation.

James S. Boshart, III: June 1998–September 2000—Co-Chief Executive Officer, Schroder Salomon Smith Barney; January 1998–June 1998—Head of Transition Team, Salomon Smith Barney; 1997–January 1998—Vice Chairman and Co-Head of Investment Banking, Salomon Smith Barney; 1995–1997—Head of Capital Markets, Smith Barney, Inc.

Christine A. Edwards: 1999–May 2000—Executive Vice President and Chief Legal Officer, ABN AMRO North America; 1997–1999—Executive Vice President, Chief Legal Officer and Secretary, Morgan Stanley Dean Witter; 1990–1997—Executive Vice President, General Counsel and Secretary, Dean Witter Discover & Co.

Philip G. Heasley: July, 1999–November, 2000—President and Chief Operating Officer, U.S. Bancorp; 1994–July 1999—Vice Chairman, U.S. Bancorp.

Charles W. Scharf: 1998–June, 2000—Chief Financial Officer, Citigroup Global Corporate and Investment Bank; 1995–1998—Chief Financial Officer, Salomon Smith Barney, Inc.

Bank One's executive officers serve until the annual meeting of the Board of Directors (May 15, 2001).

EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) Financial Statements.

(2) Financial Statement Schedules.

All schedules normally required by Form 10-K are omitted, since either they are not applicable or the required information is shown in the financial statements or the notes thereto.

(3) Exhibits.

3(A). Bank One's Restated Certificate of Incorporation, as amended [Exhibit 3(A) to Bank One's 1998 Annual Report on Form 10-K (File No. 333-60313) incorporated herein by reference].

3(B). Bank One's By-Laws, as amended [Exhibit 3(B) to Bank One's 1999 Annual Report on Form 10-K (File No. 001-15323) incorporated herein by reference].

4. Instruments defining the rights of security holders, including indentures.†

10(A). Summary of BANK ONE CORPORATION Stock Performance Plan.*

10(B). BANK ONE CORPORATION Director Stock Plan, as amended.*

10(C). Summary of BANK ONE CORPORATION Supplemental Executive Retirement Plan.*

10(D). BANK ONE CORPORATION Deferred Compensation Plan, as amended.*

10(E). BANK ONE CORPORATION Supplemental Savings and Investment Plan [Exhibit 10(F) to Bank One's 1999 Annual Report on Form 10-K (File No. 001-15323) incorporated herein by reference].*

10(F). BANK ONE CORPORATION Supplemental Personal Pension Account Plan [Exhibit 10(G) to Bank One's 1999 Annual Report on Form 10-K (File No. 001-15323) incorporated herein by reference].*

10(G). Form of BANK ONE CORPORATION Individual Change of Control Employment Agreement for each executive officer listed above under "Executive Officers of the Registrant" except Messrs. Dimon, Adams and Heasley [Exhibit 10 (H-2) to Bank One's 1999 Annual Report on Form 10-K (File No. 001-15323) incorporated herein by reference).*

10(H). Summary of BANK ONE CORPORATION Executive Management Separation Plan.*

10(I). BANK ONE CORPORATION Planning Group Annual Incentive Plan [Exhibit 10 (J) to Bank One's 1999 Annual Report on Form 10-K (File No. 001-15323) incorporated herein by reference].*

10(J). BANK ONE CORPORATION Investment Option Plan [Exhibit 10(K) to Bank One's 1999 Annual Report on Form 10-K (File No. 001-15323) incorporated herein by reference].*

10(K). BANK ONE CORPORATION Executive Life Insurance Plan [Exhibit 10(L) to Bank One's 1999 Annual Report on Form 10-K (File No. 001-15323) incorporated herein by reference].⋆

10(L). Summary of BANK ONE CORPORATION Executive Life Plus Plan.⋆

10(M). Summary of BANK ONE CORPORATION Director Deferred Compensation Plan.⋆

10(N). First Chicago Corporation Stock Incentive Plan, [Exhibit 10(P) to Bank One's 1998 Annual Report on Form 10-K (File No. 333-60313) incorporated herein by reference].⋆

10(O). NBD Bancorp, Inc. Performance Incentive Plan, as amended [Exhibit 10(Q) to Bank One's 1998 Annual Report on Form 10-K (File No. 333-60313) incorporated herein by reference].⋆

10(P). Revised and Restated BANC ONE CORPORATION 1989 Stock Incentive Plan [Exhibit 10.8 to Banc One's 1997 Annual Report on Form 10-K (File No. 1-8552) incorporated herein by reference].⋆

10(Q). Revised and Restated BANC ONE CORPORATION 1995 Stock Incentive Plan [Exhibit 10(Z) to Bank One's 1998 Annual Report on Form 10-K (File No. 333-60313) incorporated herein by reference].⋆

10(R). Agreement dated March 27, 2000, between BANK ONE CORPORATION and James Dimon [Exhibit 10(a) to Bank One's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000 (File No. 001-15323) incorporated herein by reference].⋆

10(S). Retirement Agreement dated August 22, 2000, between BANK ONE CORPORATION and Verne G. Istock [Exhibit 10(a) to Bank One's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000 (File No. 001-15323) incorporated herein by reference].⋆

10(T). Agreement dated March 1, 2000, between BANK ONE CORPORATION and William P. Boardman [Exhibit 10(AA) to Bank One's 1999 Annual Report on Form 10-K (File No. 001-15323) incorporated herein by reference].⋆

12. Statements re computation of ratios.

21. Subsidiaries of the Corporation.

23. Consents of experts and counsel.

(b) Bank One filed the following Current Reports on Form 8-K during the quarter ended December 31, 2000:

Date	Item Reported
October 17, 2000	Announcement of third quarter 2000 earnings.
November 7, 2000	Announcements of certain management changes affecting the Retail Banking and First USA credit card businesses.

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†Bank One hereby agrees to furnish to the Commission upon request copies of instruments defining the rights of holders of long-term debt of Bank One and its consolidated subsidiaries; the total amount of such debt does not exceed 10% of the total assets of Bank One and its subsidiaries on a consolidated basis.

⋆Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 8th day of March, 2001.

BANK ONE CORPORATION
(Registrant)

By: /s/ JAMES DIMON
James Dimon
Principal Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, this 8th day of March, 2001.

/s/ JOHN H. BRYAN
John H. Bryan
Director

/s/ JAMES S. CROWN
James S. Crown
Director

/s/ JAMES DIMON
James Dimon
Director

/s/ MAUREEN A. FAY
Maureen A. Fay
Director

/s/ JOHN R. HALL
John R. Hall
Director

/s/ LABAN P. JACKSON, JR.
Laban P. Jackson, Jr.
Director

/s/ JOHN W. KESSLER
John W. Kessler
Director

/s/ RICHARD A. MANOOGIAN
Richard A. Manoogian
Director

/s/ WILLIAM T. MCCORMICK, JR.
William T. McCormick, Jr.
Director

/s/ HEIDI G. MILLER
Heidi G. Miller
Director

/s/ DAVID C. NOVAK
David C. Novak
Director

/s/ JOHN W. ROGERS, JR.
John W. Rogers, Jr.
Director

/s/ FREDERICK P. STRATTON, JR.
Frederick P. Stratton, Jr.
Director

/s/ ROBERT D. WALTER
Robert D. Walter
Director

/s/ CHARLES W. SCHARF
Charles W. Scharf
Principal Finanical Officer

/s/ WILLIAM J. ROBERTS
William J. Roberts
Principal Accounting Officer

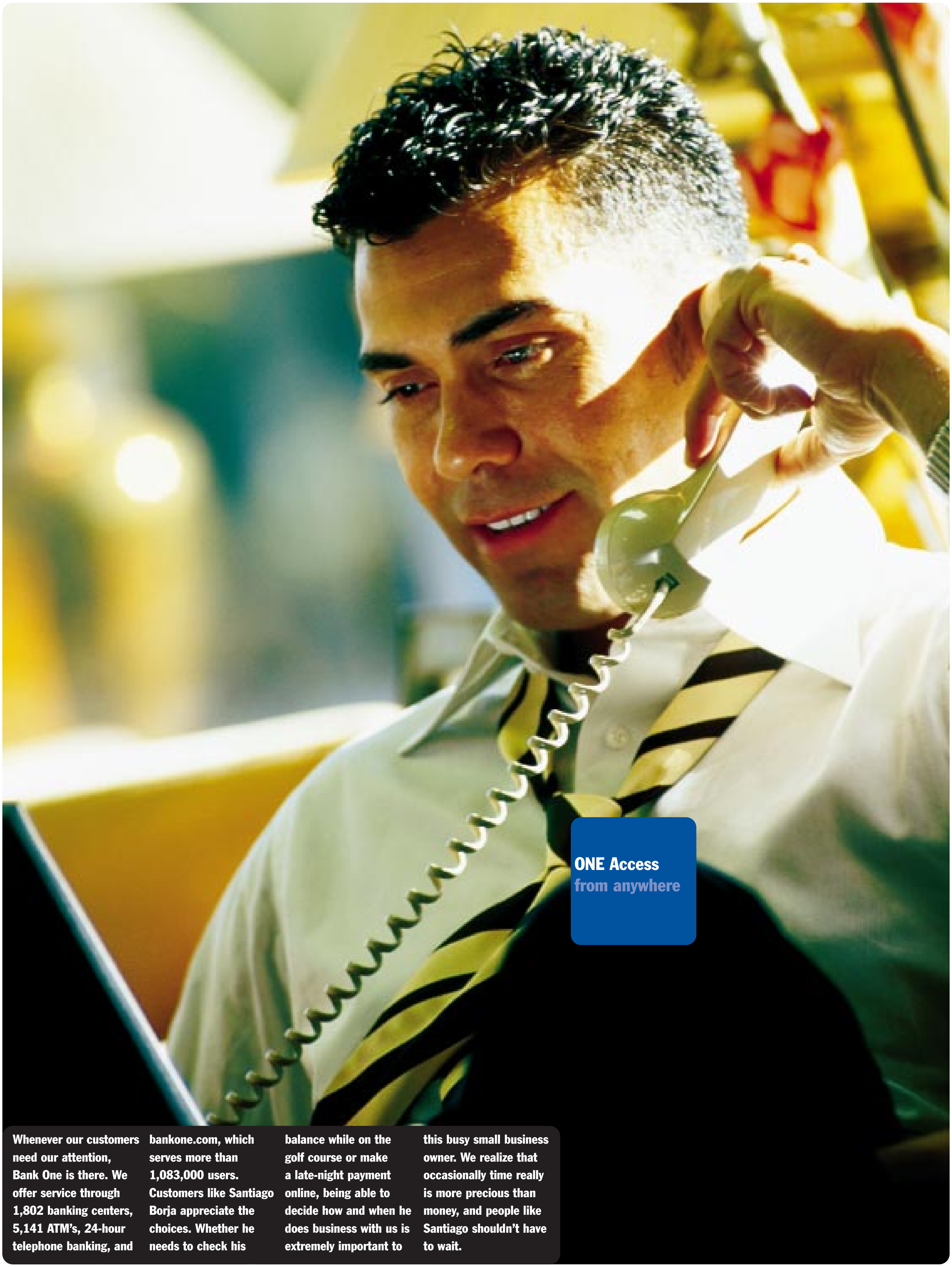

Doing business as
BANK ONE 2001 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED DECEMBER 31, (Dollars in millions, except per share data)	2001	2000	% change
Segment Results			
Retail	$ 1,272	$ 414	N/M
Commercial Banking	721	(115)	N/M
First USA	946	3	N/M
Investment Management	374	322	16
Corporate	(409)	(1,033)	60
Total business segments operating income (loss), net of tax	2,904	(409)	N/M
Accounting change, net of tax	(44)	–	N/M
Merger and restructuring-related charges, net of tax	(222)	(102)	N/M
Total Corporation net income (loss)	$ 2,638	$ (511)	N/M
Operating Financial Ratios (1)			
Return (loss) on average assets	1.09%	(0.15)%	
Return (loss) on average common equity	14.7%	(2.1)%	
Managed net interest margin	4.89%	4.76%	
Managed efficiency ratio	47.4%	65.8%	
Consolidated Results			
Total revenue, net of interest expense	$ 15,861	$ 13,926	14
Net interest income – tax equivalent basis	8,769	8,974	– 2
Noninterest income	7,223	5,090	42
Provision for credit losses	2,510	3,398	– 26
Operating noninterest expense	9,200	11,447	– 20
Operating income (loss)	2,904	(409)	N/M
Net income (loss)	2,638	(511)	N/M
At Year End			
Managed loans	$ 218,102	$ 236,492	– 8
Managed assets	306,304	309,096	– 1
Deposits	167,530	167,077	–
Common equity	20,226	18,445	10
Employees	73,519	80,778	– 9
Cash dividends declared	0.84	1.26	– 33
Book value	17.33	15.90	9
Market price	39.05	36.63	7
Capital Ratios			
Risk-based capital:			
Tier 1	8.6%	7.3%	
Total	12.2%	10.8%	
Tangible common equity/tangible managed assets	5.9%	5.5%	

N/M–Not meaningful

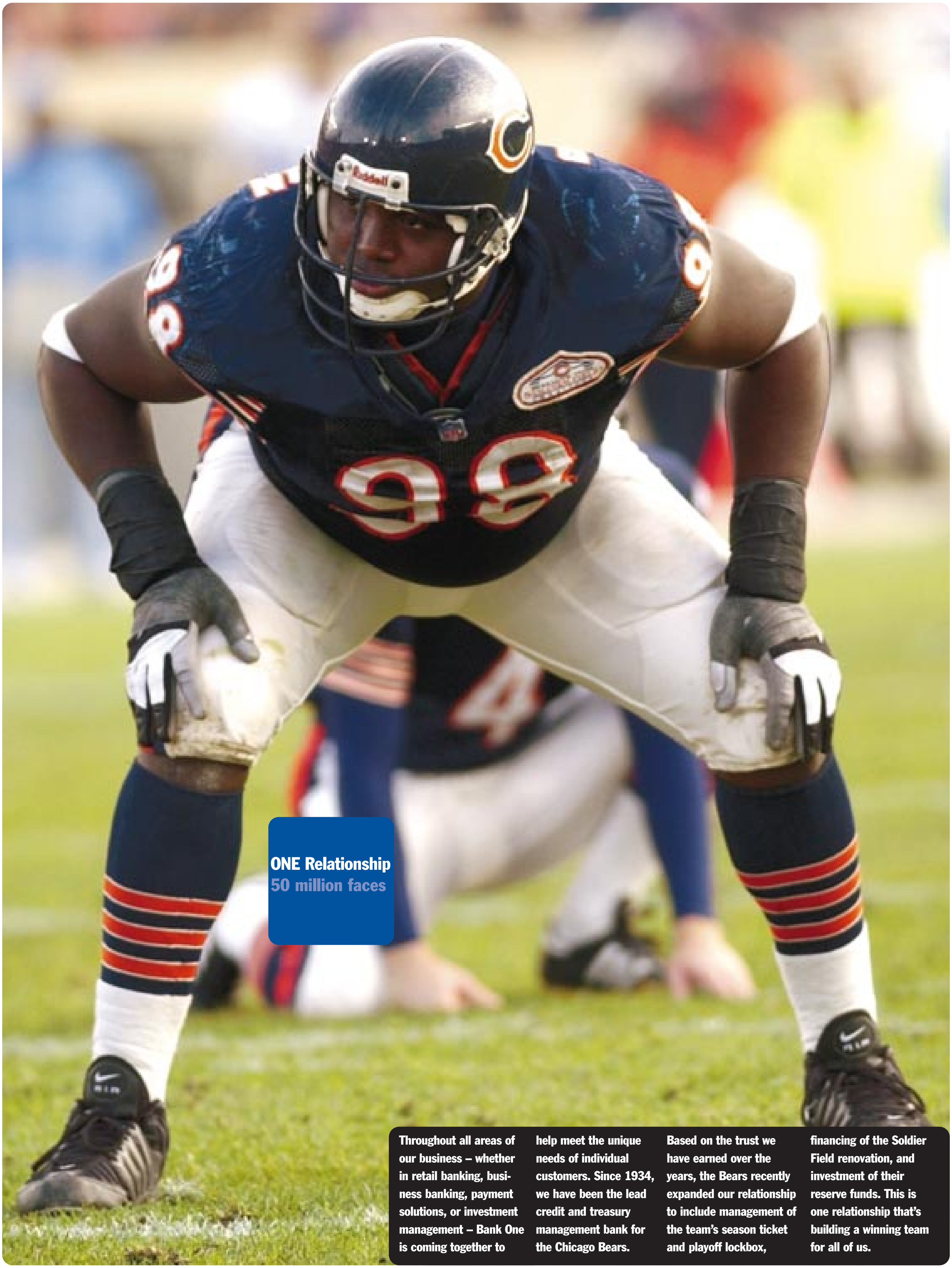
(1) Excludes merger and restructuring–related charges and cumulative effect of accounting change.



Whenever our customers need our attention, Bank One is there. We offer service through 1,802 banking centers, 5,141 ATM's, 24-hour telephone banking, and bankone.com, which serves more than 1,083,000 users. Customers like Santiago Borja appreciate the choices. Whether he needs to check his balance while on the golf course or make a late-night payment online, being able to decide how and when he does business with us is extremely important to this busy small business owner. We realize that occasionally time really is more precious than money, and people like Santiago shouldn't have to wait.

ONE Provider
for many needs

It helps to do business with a banker who takes the time to understand all your needs. Bob and Myrna Schlegel, owners of Pavestone, began banking with us in 1987. In the last 10 years, annual revenues have soared from $5 million to $170 million. Of course, growth at that level presents tremendous challenges. Bank One has provided the credit, leasing, capital markets, treasury management, and international tools the Schlegels have needed to grow their business. On the personal side, the Schlegels are also working with us to manage their wealth. One customer working with one provider has made for one great success story.



ONE Relationship
50 million faces

Throughout all areas of our business – whether in retail banking, business banking, payment solutions, or investment management – Bank One is coming together to help meet the unique needs of individual customers. Since 1934, we have been the lead credit and treasury management bank for the Chicago Bears. Based on the trust we have earned over the years, the Bears recently expanded our relationship to include management of the team's season ticket and playoff lockbox, financing of the Soldier Field renovation, and investment of their reserve funds. This is one relationship that's building a winning team for all of us.

ONE Community
many locations

Bank One is working to help improve the lives of people all over the country. Our contribution, investment, and lending programs support community-based projects and organizations such as Homeward Bound – a transitional housing program in Maricopa County, Arizona, for homeless, impending homeless, and families affected by domestic violence. In 2001, Bank One contributed more than $40 million to educational, community development, and civic leadership causes. Our community investment program worked to ensure access to financial services and to promote economic development throughout our markets. One community, many locations. Bank One is working to make one big difference in each community we serve.

2001 was a year that none of us will ever forget. It was an extraordinary time for our nation and our economy. At Bank One, it was a year of coming together as one company and one team with a singular passion to win. A time to make enormous progress in the face of numerous unforeseen challenges.

Bank One made good progress in 2001. We earned $2.6 billion in a difficult economic environment. Equally important, we substantially improved our systems and service, financial discipline, balance sheet, cost structure, and management team. Of course, 2001 had its pluses, minuses, challenges and lessons. In the first part of this letter, I will report on what we accomplished (or didn't) in 2001 and how we have positioned ourselves for 2002. In the second part, I will deal with some more forward-looking issues, specifically our developing views of our businesses and a few of the key challenges we must confront.

I. REVIEW OF 2001, OUTLOOK FOR 2002

Our financial performance – earnings of $2.6 billion and a return on equity of 13% – was satisfactory but not outstanding. Despite the recession, we should have done better. Our credit costs were worse than you should expect, and worse than most of our competitors. On most other measures, however, we made good progress in positioning ourselves for 2002 and beyond.

IMPROVED FINANCIAL DISCIPLINE AND RISK MANAGEMENT

In 2001, we strengthened the quality of both earnings and capital. Our actions were, and will continue to be, driven by the following priorities:

Conservative Accounting Policies and Practices. Your company uses relatively conservative accounting policies and assumptions that affect valuation of assets and liabilities. For example, we manage all off-balance sheet assets and liabilities with the same attention and level of consistency as if they were on the balance sheet. (For the interested reader, we make full disclosures on these in the financial review section.)

We have consistently strengthened reserves to protect against loan losses. While a material amount of the reserve increase was necessary due to declining credit quality, we are also more accurately reflecting the risk within our loan book through a more disciplined and granular rating system (a 20-grade system versus a 12-grade system), and a more rapid recognition and response to loan deterioration. In fact, I believe that where in the past we significantly lagged changes in ratings by the rating agencies, we now recognize deterioration more quickly.

In addition, we report internally thousands of profit-and-loss statements, covering everything from individual branches and products to cost and capital allocations. These disciplines are allowing us to make better and more informed decisions.

Managing Risk. Last year we told you we had too much aggregate risk, too much risk in individual names, and that we were not properly compensated for the risks we were taking. Three examples illustrate how seriously we undertook the task of properly managing risk:

1. In our large corporate business, we reduced on- and off-balance sheet credit exposures by $38.5 billion, or 26%. Our total exposure is now $109 billion, which is close to the aggregate level we believe is appropriate. Additionally, we instituted tougher individual limits, and now have fewer exceptions. Most importantly, our corporate business revenue is essentially flat, which means that our revenue per dollar of risk is up 22%. Furthermore, our revenue is of better quality because a greater percentage comes from the higher margin fee businesses.

   In spite of this, fourth quarter credit losses for our large corporate business were 1.7% – higher than normal – and our full-year return on equity (ROE) was 8%. If normalized for credit losses (60-70 basis points through a cycle), our ROE would have been 13%, a respectable number and one that is now far more stable than in the past. Middle market losses, at 1.9% in the fourth quarter, were also embarrassingly high. Even with this high loss, however, our full-year ROE was 13%, which demonstrates how strong this business can be when properly executed. Finally, our loan loss reserve for our total commercial business is now a very strong 4.37% of loans, giving us great comfort against adverse events.

2. We stopped buying brokered home equity loans that: 1) we did not individually underwrite, and 2) had certain high risk characteristics, even though they were at the time among the most profitable and rapidly growing part of our home equity business. At their peak, these loans totaled approximately $8 billion and credit losses were running under 1%. In 2002, however, we expect credit losses to reach over 4%. Since we stopped writing this

business in 2000, we have reduced exposure to $5 billion and the remainder is running off. This explains a large part of our higher than expected consumer credit losses.

3. We substantially reduced auto lease production from $500 million per month to $50 million per month due to concerns related to declining used auto valuations. Our total auto lease portfolio has been reduced to $6.1 billion from a peak of nearly $11 billion. By the end of 2003, the portfolio should be at approximately $2.5 billion, leaving us with what we believe is an appropriate level of risk.

These three examples illustrate how we manage risk and deal with problems. We could have sold these assets, but they would have been hugely discounted below what we believe was their intrinsic value. This would not, in our opinion, be in the best financial interest of shareholders. We are willing to make the tough decisions. These are just a few examples of how we have tightened policies and procedures across the board. We know these actions can slow short-term growth, but we value a clean balance sheet over growth at any cost. We want our growth to be solid and healthy.

We believe the actions we have taken will substantially lower future credit losses. We are determined to become superior – not just average – credit underwriters. While credit risk tends to deteriorate during a recession, borrowers still have the contractual right and option to borrow. We need to incorporate these facts into our analysis of risk over an economic cycle. We also must acknowledge and account for the fact that in average times credit quality increases and decreases proportionately, but in a recession it generally moves only downward. We want to be ready for that contingency, especially in times like these. Whatever the future holds – and we expect at least the first half of 2002 to continue to be a difficult credit environment – we are prepared.

Improving Quality of Earnings and Capital. Higher fundamental margins (mostly due to a lower cost structure), higher levels of recurring revenues, and reduced risk on the balance sheet have improved the quality of our earnings. They also effectively improve the quality of our capital: The quality of our capital is higher than that of an identically capitalized company with more aggressive accounting and more risk on its balance sheet.

Better Capital, Capital Usage and Flexibility. We have higher quality capital and more of it: Our year-end Tier 1 capital ratios went from 7.3% in 2000 to 8.6% in 2001, among the highest for a bank our size. According to our internal calculations, which are more conservative than in the past, we are now more than adequately capitalized. We believe we are at the right place, particularly during these uncertain economic times.

We want a fortress balance sheet with unquestionable strength. I cannot overemphasize how happy we were to maintain our credit ratings as we went through our restructuring, nor can I overemphasize how absolutely committed we are to keeping and hopefully improving our ratings – even if it means reducing short-term earnings or slowing short-term growth.

Clearly, we are now generating capital in excess of our immediate needs. This capital flexibility is a strategic imperative, providing us with the option to increase our dividends, invest in our businesses, make acquisitions, or simply do nothing. This year, we added another capital tool when your Board approved (without any negative rating implication) a modest $500 million stock buyback program. We will use this provision wisely based on our view of opportunities and risk. We also believe tough times can provide better relative opportunities for strong companies.

One more year of fine-tuning and intensive management, and these finance and risk disciplines will be part of our culture. Of course, error and surprise can never be entirely eliminated. However, we are far more secure, enabling us to make sound decisions based on economics, not on accounting.

BUILDING OUR CORE AND INFRASTRUCTURE We made good progress on building our “core” in 2001 by:

Becoming More Efficient. We are now well on our way to becoming a low-cost provider. We reduced our overhead costs by approximately $1.2 billion in 2001, which was more than we originally hoped for. Headcount decreased from 81,000 to 73,500 and will continue to drop in 2002 as we complete more consolidations and conversions. With overhead now running at approximately $9.2 billion, we plan to strengthen our business by reinvesting additional efficiencies of more than $300 million into systems, services, and marketing in the coming year. As a shareholder, I would be concerned to see costs cut dramatically if proper investments weren't being made for the future. I can assure you we are making substantial investments that we believe will pay dividends in the future.

Consolidating and Upgrading Our Technology. We completed one major credit card and two major deposit conversions, all virtually flawlessly, this year. The deposit conversions cost upwards of $75 million, and covered four states serving five million customers. We still have two remaining deposit system conversions to go in 2002. Due to the higher level of complexity of these conversions, they may not go as smoothly, but we have established discrete milestones to ensure that deadline pressures do not compromise our franchise. It's more important to do these right than it is to do them quickly.

If we accomplish these conversions by the end of the year, then we will essentially be on one platform. Throughout the process, we will continue to retire hundreds of obsolete programs, upgrade some, and install top-of-the-line systems. We are also upgrading loan and deposit systems, as well as our cash management systems and banker workstations. These workstations standardize sales and profitability platforms, and automate many manual functions. They also deliver new customer information systems which provide a complete view of customer relationships and allow for greatly enhanced service. Imagine our capabilities in 2003 if our team can accomplish all of this. I can't wait.

Lastly, we will have substantially upgraded our national telecom network and reduced reliance on consultants and vendors. We are taking advantage of the downturn in the technology business to hire hundreds of great, talented individuals.

Providing Better Customer Service. Through better systems and proper compensation plans, the quality of service is now tracked, measured and rewarded. It is constantly getting better and we are confident that in the next few years we will be best in class. Perhaps the most dramatic example is at First USA, where our customer satisfaction ratings over the past two years have improved by 23%.

BUILDING MANAGEMENT CAPABILITIES At the end of the day, great management and great people are the most important elements for success (although capital allocation and luck come close). Sustained success, however, requires integrity, courage, trust, openness and a true meritocracy at all levels. We want everyone – branch managers, call center employees, sales managers and staff department managers – to know their job, know it counts, share information freely, and fight to win. People now speak up when something is wrong. Teamwork requires practice, perseverance *and* maximum individual effort. It's not just one or another. And we are getting there. People throughout our company are stepping up and fighting for their team. Highlights include:

A Changing Culture. We are now acting with more openness, passion and urgency. For example, when we introduced a new Bureaucracy Busters program to rid ourselves of stifling bureaucracy and to streamline processes, we received thousands of recommendations, many of which have been implemented. The process of busting bureaucracy never ends, but what's different now is that all of our folks are engaged in challenging the system and solving the problems.

Giving More Authority to the Field. As we centralize operations and standardize policies and procedures, we also strive to give our people in the field more authority and responsibility. Each of our local businesses supports and feeds the others with ideas, customers and products. Local profit-and-loss statements now allow us to push decision-making into the field, where it belongs. At the same time, by centralizing certain functions we were able to achieve economies of scale, maintain quality standards, and create better products, cheaper and faster. These efficiencies and improvements help empower our employees on the front lines. We have terrific people in the field, and we want to support them, not impede them. Once we get the balance right, it will be one of our greatest strengths.

Increasing Ownership and Teamwork. This year, we gave nearly 40,000 of our lower paid people with a year or more of service a $300 grant of Bank One stock to their 401(k). At the time these grants were issued, roughly 15,600 of these employees didn't have a 401(k) and for the most part didn't own stock. Now, almost everyone who has been with us for more than a year owns stock. There is a feeling that this is *our* company. Teamwork within and across business lines is growing. For example, our corporate bankers now join with our investment managers on customer calls. The result: record asset growth in our investment management group during a year when most money managers saw assets shrinking.

There are, of course, many other great examples, but one touched me in particular. American National Bank, a proud institution that has been part of Bank One since 1984, decided to change its name to Bank One, as did our credit card subsidiary, First USA. These decisions were made in the lines of business – not by management here at headquarters. Although systems conversions had something to do with it, the real impetus was their desire to come together with us: One Company, One Name, One Stock, One Team. Incentives must be done right, but they aren't what matter most. Teamwork creates real winners.

II. LOOKING FORWARD

We believe our immediate priorities of customer service, financial discipline, system conversions, and building the management team are absolutely the right ones for us. They are essential to building a great company, but they are, admittedly, not sufficient. We also need good franchises and solid growth. With that in mind, I'd like to give you a view of our current thinking about our franchise and growth prospects.

Building Strong Franchises. Retail banking and asset management, small business banking, private client services and middle market banking are strong franchises. We group these businesses together because they feed and complement each other and their strength is in the field. They are particularly valuable when a company has a significant local market share, which we mostly do.

When taken together and run properly, we believe these businesses are an attractive franchise that can deliver good returns and solid growth. These businesses should grow at least with the economy, and probably faster as we expand our products and services. Of course, local competition can be fierce, and some of the basic products will gradually be disintermediated by innovations and other changes. But how many businesses can consistently average 15-20% ROE over time while growing? I think these businesses can.

Therefore, our goal in these businesses is to simply be very good at them, and to grow both organically (e.g., "same store" sales, new products, market-share gains, etc.) and by acquisition. Our view is that as these businesses continue to consolidate, the winners will be those that combine a superior customer experience with the benefits of economies of scale, great systems, product breadth, lower funding costs, credit diversification, and branding. That is, of course, if the scourge of large corporations – bureaucracy – is kept at bay. Our actions to date – taming bureaucracy, improving financial and operating disciplines, and strengthening management – put us in a position to win.

Three of our other businesses – credit cards, payment systems and asset management – are excellent businesses on their own. They are also a natural fit with the "general banking" business. Together, they provide each other with the competitive advantage of free access and a vast distribution network.

In credit cards, we have made significant progress in the past year. We have dramatically lowered expenses and our service platform is as good as any. The credit card industry is consolidating. Growth in a consolidating industry comes from taking share from others, as well as through acquisitions. Our capabilities and scale, combined with our access to capital and distribution, put us in an excellent position to be a winning consolidator.

Payment systems, which include card, traditional cash management, and Paymentech (our merchant processor), are outstanding businesses. They have solid margins, require low capital and grow with time. They, too, benefit from our large distribution network and in 2002 we hope to prove to our shareholders their extraordinary potential.

Asset management has always been a terrific business (although we believe margins will be squeezed over time because they are simply too high in a low-return environment). Competitively, we feel we are well positioned for growth as we continue to leverage our superior performance and natural distribution advantage.

Large corporate banking is probably our toughest competitive business, but it also gives us the opportunity to develop highly sophisticated, industrial-strength products that can be used in all of our franchises. With proper risk management and cross-selling, returns are reasonable. Large corporate relationships are deep and our bankers have been extremely successful selling additional payment systems, asset management, and capital markets products. We believe that many of our capital markets products (syndication, foreign exchange, derivatives, asset-backed securities and investment grade bond origination) can compete with the industry's best without our being forced to take excessive risk. We still owe our shareholders a more defined strategy in this arena. As we develop it, we will continue to run the business well and grow it profitably with reasonable risk.

Building A Brand. One of our new goals for 2002 will be building our national brand. One of our advantages is that Bank One does business with more than 60 million individuals and institutions. But many of them aren't aware of it. For instance, many of our First USA customers don't draw a connection to Bank One, which is one of the reasons First USA is moving to the Bank One name. The value of a unified brand will be far greater. A brand is a promise to customers, but more importantly it is a commitment we are making to ourselves about who we are and just how good we want to be. We're now ready to step up our game at all levels – inside the company, for our customers, and against the competition.

Becoming Innovative. We want to make innovation part of our DNA. This does not mean spending hundreds of millions of dollars on failed ideas. It does mean we will take some chances knowing that some will fail. It requires that we build forward-looking ideas into every conversation, every analysis and every new product we look at. We have a few new products coming out this year that we think fill this bill.

An example is our recent agreement with Microsoft. We have a number of specific leading edge products, but the truly exciting idea is that we are now working together to use new technology and the Internet to continuously develop new financial products and services. We believe this pioneering work will put us at the forefront as the industry constantly changes.

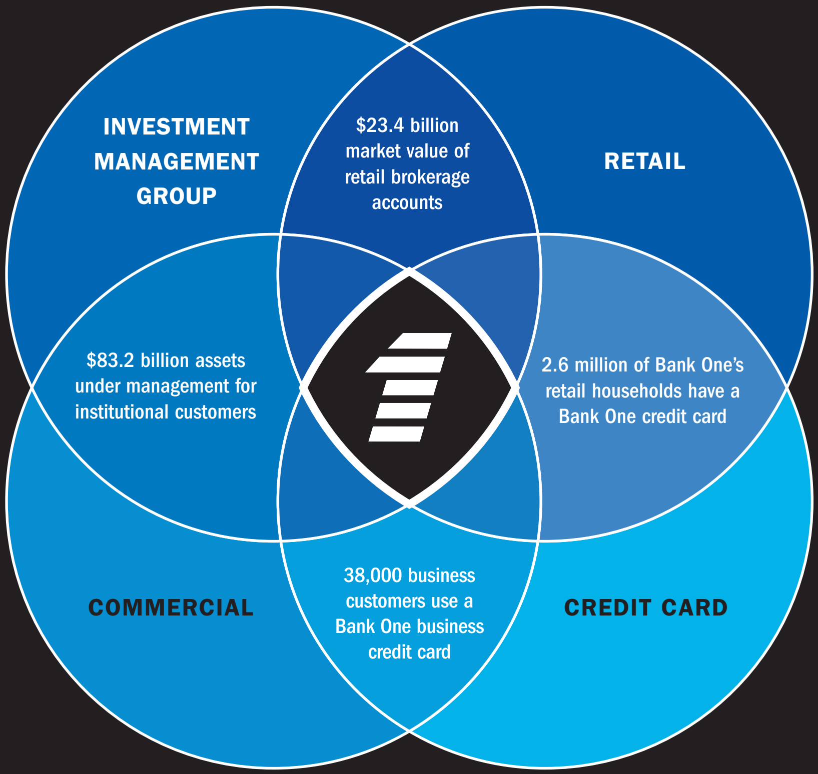
Growing through Mergers and Acquisitions. We believe all of our current businesses will continue to consolidate. A weak economy creates opportunities for strong companies. Based on the actions we are taking and the core disciplines we are developing, I believe we are in a position to take advantage of emerging opportunities.

IN CLOSING This hasn't been an easy year for our employees. Yet, despite conversions, cost cutting and a recession, we went full speed ahead building our core systems, financial discipline, balance sheet and management. Even though we are probably only two-thirds of the way through our "infrastructure building," the boot camp phase is over and we are devoting more resources to the future. We understand that fixing our infrastructure sometimes inhibits short-term growth, but you can't build something great and lasting on a weak foundation. We are committed to creating a company that delivers solid, profitable long-term growth. In fact, we are convinced that good profit growth is coming – initially from improved operations and margins, then increasingly from true "unit" growth.

We are aggressively engaged in building our company. We are now strong enough to move even faster. I am proud to work with such a talented, committed group and am more convinced than ever that together we will build Bank One into one of the best financial services companies in America.

James Dimon
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
FEBRUARY 20, 2002

Bank One is coming together as one team and one brand to deliver one great customer experience. We are integrating the best Bank One has to offer to serve consumers, governments, and businesses large and small. We're listening carefully, anticipating needs, advising customers and holding ourselves accountable for results. From our retail associates helping a banking customer get a credit card to our commercial bankers introducing a business owner to a Private Client Service advisor, we're doing business as one to help our customers achieve their financial goals.



Investment Management Group

- Portfolio Management
- Mutual Funds
- Financial Planning
- Brokerage
- Private Client Services
- Corporate and Personal Trust
- Alternative Asset Management
- Insurance
- Retirement Services
- Securities Lending
- Custody and Master Trust

Retail

- Checking & Savings Accounts
- Consumer Lending
- Small Business Banking
- Debit/ATM Cards
- Investment Accounts
- Credit Cards
- Insurance
- Auto Loans & Leases
- Online Banking
- Home Loans

Commercial

- Global Cash Management
- Commercial Lending
- Loan Syndications
- Commercial Cards
- Investment Management
- Asset-Backed Finance
- Investment Grade Securities
- Derivatives
- Foreign Exchange
- Global Trade

Credit Card

- Credit Cards
- Affinity Cards
- Rewards Cards
- Smart Cards
- Stored-Value Cards
- Business Cards

The success of our Commercial Banking division stems from our extensive knowledge of our customers, our superior products and services, and our experienced relationship managers.

CREATING MUTUALLY BENEFICIAL RELATIONSHIPS

In 2001, we took significant steps to position ourselves for growth.

In the Middle Market segment, which focuses on privately held companies, we strengthened our sales process and put in place systems to manage risk better.

In Corporate Banking, which focuses on Fortune 1000 customers, we redefined many of our relationships, expanding our work in fee-based services and reducing our emphasis on loan products. The result: better service for our best customers and a $38.5 billion reduction in risk exposure for us.

LEVERAGING OUR PRESENCE IN MIDDLE MARKET BANKING

Bank One is a proven leader in Middle Market banking, ranking first or second in 22 out of the 35 markets we serve. More than 70% of our 18,000 customers consider us their lead bank, creating an extraordinary franchise with solid potential for growth.

While returns among this segment were not where we wanted them in 2001, we have made good strides in improving relationship profitability and building the base for more stable, higher returns.

Our goals for the coming year are to continue improving our risk management processes and to expand delivery of capital markets, investment management, and treasury management solutions to this important and growing customer base.

REDEFINING RELATIONSHIPS WITH CORPORATE CUSTOMERS

By redefining our relationships with large corporate customers, we are now in a stronger position to deliver superior products and services to our best customers.

Consistently ranked in the top five in all treasury management product categories, our treasury management services division proved its leadership once again, producing revenues of more than $1.1 billion – 10% more than last year.

Our capital markets group also had a successful year. We positioned ourselves solidly in loan syndications, asset-backed securitization, investment grade securities, and derivatives, increasing our revenue from capital markets products by 41%.

As evidence of our success, we improved our league table standings from 17th to 8th in the asset-backed term market and from 15th to 12th in investment grade securities. In syndications, our $2.7 billion financing of Suiza Foods' acquisition of Dean Foods was named the "U.S. Leveraged Loan of the Year" for 2001 by the International Financing Review.

Working with our partners throughout Bank One, we have been able to help deepen customer relationships by providing tools like investment and liquidity management, as well as corporate trust, securities custody, and retirement plan services.

When organizations choose to work with Bank One, they get the personal attention and full resources of a national provider who is wholly committed to helping them meet their needs. The changes we made in 2001 position us well to operate as a single, efficient business focused on delivering competitive, world-class solutions to our customers.

Wade Reed, who started Hannon Hydraulics in his Dallas garage as a spunky 23-year-old, has learned plenty about finance by running the company for 26 years. But he needed post-graduate assistance after he bought his biggest competitor and revenues grew more than 50 percent over the next year. Banker Carlos Munguia (right) used capital markets capabilities to convert traditional debt to variable-rate bonds and used derivatives to hedge Reed's interest rate risk. "Carlos knew my business and got me financing I never knew existed – and he saved me money," Reed said. Hannon has also used treasury management, leasing, and investment products. "Carlos always tells me the truth, not just what I want to hear. He has made us a better company."


2.3
BILLION PAYMENT TRANSACTIONS PROCESSED PER YEAR FOR COMMERCIAL CUSTOMERS
41%
INCREASE IN REVENUE FROM SALES OF CAPITAL MARKETS PRODUCTS
$34.3
BILLION AVERAGE OUTSTANDING BALANCE IN MIDDLE MARKET LOANS

With more than 55 million cards in force and a card membership base that is spending $140 billion annually with us, we are a leader in offering payment products customized to the needs of an increasingly sophisticated consumer.

CUSTOMIZING PRODUCTS TO MEET CUSTOMER NEEDS

In an industry that is rapidly consolidating, we continue to lead by offering customers a broad range of credit and payment solutions.

Whether they are seeking cards with competitive interest rates, cards offering rewards, affinity cards, or pre-loaded spending cards, we've got the products to meet our customers' needs.

Frequently that means working with partners like United Airlines, providing mileage for travel, or General Mills, which contributes money to customers' local schools for every purchase.

POSITIONING FOR GROWTH

2001 was an important year for us. With a new management team in place, we reorganized to become more customer-centric, assigning profit and loss accountability at both the product and segment levels. We focused on becoming a more efficient, disciplined organization, which resulted in a reduction in operating expenses by 19% and a significant improvement in returns.

We also renewed key partnership agreements, including our agreement with United Airlines, while rebuilding the sales organization to establish additional strategic partner relationships with hotels, airlines, universities, other banks, and retailers. Additionally, we created a special team to employ state-of-the art analytics to help us manage decisions related to all stages of our customer relationships.

Another noteworthy achievement was the acquisition and successful integration of the Wachovia credit card portfolio, which added millions of new customers.

These and many other initiatives are setting the foundation for profitable growth.

ULTIMATELY, IT GETS PERSONAL

Intense competition for customers dictates one thing: our success tomorrow will be built on how well we treat customers today.

In this high-tech world, it's great to know there are people out there who really care about individual customers. They are people like Beverly Small, who helped a cardmember meet a very important deadline – her wedding in Italy.

When the bride's airline tickets were cancelled due to a reservation error, Beverly not only got the tickets reinstated but convinced the airline to issue them at the original price. (An important and difficult challenge, because the ticket price had more than doubled.)

Beverly is an example of the thousands of people on our team who know winning requires us to prove ourselves to each of our customers every day in all that we do.

And with technologies and commerce changing so rapidly, we know it's not about plastic, it's about the payment transaction and the value we add to it. We will continue to lead by giving consumers and commercial customers innovative products that provide convenient, beneficial, and satisfying ways to purchase the things they want and need.

When MSN® wanted to offer customers a credit card worthy of parent Microsoft's name, they came to us. Jennifer Osborn (right) and her team created the MSN Titanium Visa® credit card with a hip translucent look, excellent rates, and free Microsoft® Money software. "We know we can trust Bank One to take care of our customers," said Yusuf Mehdi, vice president of MSN Personal Services & Business at Microsoft Corporation. And like MSN's trademark butterfly, the Bank One/Microsoft relationship has spread its wings. Today, Bank One products are being integrated into Microsoft channels and we're working together to develop financial products and services for delivery to Bank One and Microsoft customers.


47.3
MILLION CALLS ANSWERED PER YEAR BY CARD-MEMBER SERVICES
528
THOUSAND ACCOUNT PAYMENTS MADE PER MONTH ON FIRSTUSA.COM
$65.4
BILLION AVERAGE OUTSTANDING BALANCES
261
MILLION STATEMENTS MAILED PER YEAR

Each day, more than 33,000 Bank One associates are deepening our relationships with customers by listening carefully, anticipating needs, providing solutions, and holding themselves accountable for results.

BUILDING RELATIONSHIPS ONE CUSTOMER AT A TIME

In retail banking, our focus is on helping consumers and small business owners achieve their financial goals. For the nearly 7.3 million households who bank with us, that might mean helping them take advantage of new tax laws to save for a child's education, plan for retirement, evaluate insurance needs, or weigh the benefits of a home equity loan.

For our network of 500,000 small business customers, it means going beyond just traditional banking to provide things like cash flow management tools, payroll services, employee health insurance, or succession planning services – products and services once used primarily by larger companies.

EMPOWERING OUR PEOPLE

We realize that our people perform best when backed by technology that gives them the information they need to make smart decisions. That's why we invested approximately $79 million this year alone to upgrade and convert to company-wide technology systems.

Even as we move toward common systems, customer service is our top priority. By taking the time to reach out to customers before our conversions in Texas, Utah, Arizona, and Louisiana, we smoothed the transition and enhanced our customer relationships. In fact, 14,500 customers we spoke with during the conversions took the time to open a new Premier One® account with us.

Our customer service and technology investments are paying off at the branch-level. Using enhanced e-business technology, for example, our banking center managers now have quick access to – and responsibility for – their own profit and loss statements.

These P&L's, accompanied by online management training and best practices tools, are helping our managers run their business as owners, giving them the information they need to work most effectively at the local level.

LEVERAGING OUR STRENGTHS

The geographic breadth of our retail franchise – 1,800 banking centers in 14 states – positions us well to balance a wide range of national trends – from expanding customer relationships in high-growth markets to serving an increasingly mobile customer base.

In addition to our geographic breadth, we are working harder than ever to help meet customer needs by bringing together the best Bank One has to offer.

Working with our partners in Bank One's commercial banking, credit card, and investment management units, we can now provide customers with access to virtually any financial product or service they may need.

But our work is just beginning. Technology and regulatory advances are changing what it means to be a retail bank. By listening to our customers and responding with solutions that meet their individual needs, we believe we're well positioned not just to win in this new world, but to help define it.

Two years ago, Bank One customer David Weaver felt like "just another number." In fact, he was moving his accounts to another bank when branch manager Kenyon Warren (right) interceded and asked for one more shot. "David had legitimate concerns," said Kenyon. "I simply took the time to listen and fix the service issues – not just for David, but for our other customers as well." Today, David has expanded his relationship with Bank One to include cash management services and installment loans that are helping him manage and grow his businesses. "My needs are unique and my team at Bank One understands that," says David, who clearly doesn't feel like a number anymore.


$12.3
BILLION IN SMALL BUSINESS LOANS
4.4
MILLION DEBIT CARDS ISSUED
236,600,000
TRANSACTIONS PER YEAR COMPLETED ON BANK ONE ATM'S
1.1
MILLION TRANSACTIONS PER DAY IN BANK ONE BANKING CENTERS
$4.87
BILLION IN RETAIL INVESTMENT SALES

Institutions and individuals look to us for help in accumulating, growing, protecting, and transferring wealth. With more than $142 billion in assets under management, we are a proven leader in our field.

FUELING GROWTH IN CHALLENGING TIMES

This was an exceptional year for the Investment Management Group: in a year that saw the value of market assets declining, we grew assets under management by 9% to $142.6 billion.

Our growth was driven by three factors: our continued ability to deliver solid risk-adjusted performance, our successful efforts to expand product availability, and a strengthened focus on teaming within Bank One.

At the heart of the Investment Management Group is Banc One Investment Advisors – our SEC-registered investment advisory group that ranks among the top 40 asset managers in the country.

Last year, more than half of our One Group® Mutual Funds were rated 4- or 5-stars by Morningstar, placing us among the best performers in the industry.

In a recent report rating our One Group® Mutual Funds "number one in the bank channel in 2001," *Mutual Fund Market News* wrote that investors like us for our "reasonable fees, adroit stock-picking ability and lack of style drift." (In other words, we do what we say we're going to do, we do it well and we price it right. Is there any other way to do business?)

EXPANDING OUR CUSTOMER BASE

This year we also stepped up our commitment to expand our customer base.

Within Bank One, our institutional customers accounted for $83.2 billion of our assets under management, up 30% from $63.8 billion in 2000.

We also reached out to Bank One retail banking customers, completing the year with four consecutive quarters of record retail investment sales and year-over-year-growth of 14%.

Our record of performance has also earned us the trust of numerous brokerage and financial advisory firms who sell our mutual funds. In 2001, third-party sales of One Group® funds were up 75%.

PARTNERING TO SERVE WEALTHY INDIVIDUALS

Realizing that high net worth individuals have special needs, our Private Client Services group helps qualified customers manage and grow wealth.

Using an advisory approach, we are able to draw upon the best minds in each element of financial planning to customize solutions. Our particular expertise in working with owners of privately held companies has allowed us to serve an increasing number of customers in Bank One's Middle Market banking segment.

PERFORMANCE-DRIVEN RESULTS

Our growth strategy for the coming year is to continue on the path set in 2001. As economic conditions continue to fluctuate, we are challenging ourselves to continue delivering solid risk-adjusted performance to a growing customer base. Ultimately, in our business, that's how all of us distinguish ourselves in the marketplace.

When Utilities, Inc. began the process of selling their company, investment specialist Sarah Norris (right) and several other members of the Private Client Services team provided guidance to company Chairman Jim Camaren and President/ CFO Larry Schumacher for transitioning their wealth.

"For years, 99% of our money has been tied up in the company and we've been there to watch and protect it," said Camaren, who has been working with Private Client Services for nearly a decade. "Once the sale of our company is finalized, we'll need a knowledgeable partner to help us out," said Schumacher. "Bank One has been Utilities, Inc.'s business bank for over 35 years. On both the business and the personal side, our bankers not only 'get it' but they make things so easy that working with them during this next stage in our lives is simply natural."

$83.5

BILLION ONE GROUP® MUTUAL FUND ASSETS

4,195

LICENSED INVESTMENT REPRESENTATIVES

394,000

RETAIL BROKERAGE ACCOUNTS

$988.6

BILLION CORPORATE TRUST SECURITIES UNDER ADMINISTRATION

$49.7

BILLION PRIVATE CLIENT SERVICES ASSETS UNDER MANAGEMENT

Pictured left to right, Back row: **Charles W. Scharf, William I. Campbell** *(Advisor)*, **David E. Donovan, Philip G. Heasley, James S. Boshart III** *Middle row:* **Christine A. Edwards, Austin A. Adams, Linda Bammann, R. Michael Welborn, David J. Kundert** *Front row:* **James Dimon, Sarah L. McClelland**

PLANNING GROUP

James Dimon
Chairman and
Chief Executive Officer

Austin A. Adams
Head of Technology and Operations

Linda Bammann
Chief Risk Management Officer

James S. Boshart III
President and CEO
Commercial Banking

William I. Campbell
Advisor

David E. Donovan
Head of Human Resources

Christine A. Edwards
Chief Legal Officer and Secretary

Philip G. Heasley
President and CEO
First USA

David J. Kundert
President and CEO
Investment Management

Sarah L. McClelland
Chief Auditor

Charles W. Scharf
Chief Financial Officer

R. Michael Welborn
President and CEO
Retail Banking

BOARD OF DIRECTORS

James Dimon [4]
Chairman and Chief Executive Officer
Bank One Corporation

John H. Bryan [1]
Retired Chairman
and Chief Executive Officer
Sara Lee Corporation
(CONSUMER PRODUCTS)

James S. Crown [2, 3]
General Partner
Henry Crown and Company
(Not Incorporated)
(DIVERSIFIED INVESTMENTS)

Dr. Maureen A. Fay, O.P. [2, 3, 4]
President
University of Detroit Mercy
(EDUCATION)

John R. Hall [2, 4]
Retired Chairman
and Chief Executive Officer
Ashland, Inc.
(CHEMICAL REFINER, MANUFACTURER AND DISTRIBUTOR)

Laban P. Jackson, Jr. [1]
Chairman and Chief Executive Officer
Clear Creek Properties, Inc.
(REAL ESTATE DEVELOPMENT)

John W. Kessler [2]
Owner
John W. Kessler Company
(REAL ESTATE DEVELOPMENT)

Richard A. Manoogian [2]
Chairman and Chief Executive Officer
Masco Corporation
(DIVERSIFIED MANUFACTURER)

William T. McCormick, Jr. [1]
Chairman and Chief Executive Officer
CMS Energy Corporation
(DIVERSIFIED ENERGY)

Heidi G. Miller [2]
Vice Chairman
Marsh, Inc.
(INSURANCE AND PROFESSIONAL SERVICES)

David C. Novak [1]
Chairman and Chief Executive Officer
Tricon Global Restaurants, Inc.
(RESTAURANT OPERATIONS)

John W. Rogers, Jr. [1, 3]
Chairman and Chief Executive Officer
Ariel Capital Management, Inc.
(INSTITUTIONAL MONEY MANAGEMENT)

Frederick P. Stratton, Jr. [1, 3]
Chairman of the Board
Briggs & Stratton Corporation
(ENGINE MANUFACTURER)

Robert D. Walter [1, 4] *(Retiring in 2002)*
Chairman and Chief Executive Officer
Cardinal Health, Inc.
(PHARMACEUTICAL SERVICES)

[1] *Member of the Audit and Risk Management Committee*
[2] *Member of the Organization, Compensation, and Nominating Committee*
[3] *Member of the Public Responsibility Committee*
[4] *Member of the Executive Committee*

We stand on the shoulders of those who came before us.
Bank One Corporation represents more than 140 financial institutions that have come together to form one great company. The following are just a few of the distinguished institutions that have served customers throughout our long history:

Bank One Corporation

Banc One Corporation

- Union Savings & Trust Company, founded 1812
- Winters National Corporation, founded 1815
- The Marine Corporation, founded 1839
- American Fletcher Corporation, founded 1839
- Barnitz Bank, founded 1850
- Marine Corporation of Springfield, founded 1851
- Liberty National Bancorp, founded 1854
- City National Bank & Trust Company, founded 1868
- The First Huntington National Bank, founded 1872
- Team Bank, founded 1873
- Affiliated Bankshares of Colorado, founded 1874
- Premier Bancorp, founded 1882
- Liberty Bancorp of Oklahoma, founded 1895
- Valley National Corporation, founded 1899
- MCorp Bank, founded 1916
- Firestone Bank, founded 1916
- First Commerce Corporation, founded 1933
- Valley Bank & Trust Company, founded 1948
- First USA, founded 1985

First Chicago NBD Corporation

- Wayne State Bank, founded 1854
- The First National Bank of Chicago, founded 1863
- INB Financial Corporation, founded 1863
- Gainer Corporation, founded 1865
- First National Bank of Plymouth, founded 1871
- Midwest Commerce Corporation, founded 1872
- Genesee Merchants Bank & Trust Company, founded 1872
- Gary-Wheaton Bank, founded 1874
- Metropolitan National Bank, founded 1884
- Wolverine State Bank, founded 1887
- Winnetka Trust & Savings Bank, founded 1894
- West Michigan Financial Corporation, founded 1895
- Roscommon State Bank, founded 1907
- Peoples State Bank of Belleville, founded 1913
- Union Bancorp, founded 1918
- American National Bank, founded 1928
- National Bank of Detroit, founded 1933
- Ravenswood Financial Corporation, founded 1933
- Lake Shore Bancorp, founded 1943

BANK ONE CORPORATION
INDEX TO FINANCIAL REVIEW

SELECTED FINANCIAL INFORMATION

BANK ONE CORPORATION and Subsidiaries

(In millions, except ratios and per share data)	**2001**	2000	1999	1998	1997
Income Statement Data:					
Total revenue, net of interest expense	**$ 15,861**	$ 13,926	$ 17,713	$ 17,418	$ 16,155
Net interest income–fully taxable-equivalent ("FTE") basis	**8,769**	8,974	9,142	9,469	9,619
Noninterest income	**7,223**	5,090	8,692	8,071	6,694
Provision for credit losses	**2,510**	3,398	1,249	1,408	1,988
Noninterest expense	**9,551**	11,608	11,490	11,545	9,740
Income (loss) before cumulative effect of change in accounting principle	**2,682**	(511)	3,479	3,108	2,960
Net income (loss)	**2,638**	(511)	3,479	3,108	2,960
Per Common Share Data:					
Income (loss) before cumulative effect of change in accounting principle:					
Basic	**$ 2.28**	$ (0.45)	$ 2.97	$ 2.65	$ 2.48
Diluted (1)	**2.28**	(0.45)	2.95	2.61	2.43
Net income (loss):					
Basic	**$ 2.25**	$ (0.45)	$ 2.97	$ 2.65	$ 2.48
Diluted (1)	**2.24**	(0.45)	2.95	2.61	2.43
Cash dividends declared	**0.84**	1.26	1.68	1.52	1.38
Book value	**17.33**	15.90	17.34	17.31	16.03
Balance Sheet Data–Ending Balances:					
Loans:					
Managed	**$218,102**	$236,492	$229,196	$216,391	$196,993
Reported	**156,733**	174,251	163,877	155,398	159,579
Deposits	**167,530**	167,077	162,278	161,542	153,726
Long-term debt (2)	**43,418**	40,911	35,435	22,298	21,546
Total assets:					
Managed	**306,304**	309,096	315,064	305,781	278,439
Reported	**268,954**	269,300	269,425	261,496	239,372
Common stockholders' equity	**20,226**	18,445	19,900	20,370	18,724
Total stockholders' equity	**20,226**	18,635	20,090	20,560	19,050
Credit Quality Ratios:					
Net charge-offs to average loans–managed (3)	**2.53%**	2.03%	2.13%	2.00%	2.07%
Allowance for credit losses to period-end loans	**2.89**	2.36	1.39	1.46	1.77
Nonperforming assets to related assets	**2.35**	1.48	1.02	0.83	0.68
Financial Performance Ratios:					
Return (loss) on average assets	**0.98%**	(0.19)%	1.36%	1.30%	1.29%
Return (loss) on average common equity	**13.4**	(2.7)	17.1	15.9	15.8
Net interest margin:					
Managed	**4.89**	4.76	5.37	5.56	5.50
Reported	**3.69**	3.72	4.09	4.52	4.75
Efficiency ratio:					
Managed	**49.2**	66.7	54.5	57.6	53.2
Reported	**59.7**	82.5	64.4	65.8	59.7
Capital Ratios:					
Risk-based capital:					
Tier 1	**8.6%**	7.3%	7.7%	7.9%	8.2%
Total	**12.2**	10.8	10.7	11.3	12.3
Tangible common equity/tangible managed assets	**5.9**	5.5	5.7	5.8	6.2
Common Stock Data:					
Average shares outstanding:					
Basic	**1,166**	1,154	1,168	1,170	1,176
Diluted (1)	**1,174**	1,154	1,178	1,189	1,213
Stock price, year-end	**$ 39.05**	$ 36.63	$ 32.00	$ 51.06	$ 49.37
Stock dividends	**–**	–	–	10%	–
Employees (4)	**73,519**	80,778	87,735	92,800	95,900

(1) Common equivalent shares and related income were excluded from the computation of diluted loss per share for the year-ended December 31, 2000 as the effect was antidilutive.

(2) Includes trust preferred capital securities.

(3) The year ended December 31, 2001 includes $92 million of charge-offs which are not classified as such in the Corporation's GAAP financial information because they are part of a portfolio which has been accounted for as loans held at a discount. The inclusion of this amount in charge-offs more accurately reflects the credit performance of the portfolio. In the Corporation's financial statements, this item results in a higher provision in excess of net charge-offs.

(4) Beginning in 2001, employees on long-term disability and employees of unconsolidated subsidiaries are excluded. Prior period data have not been reclassified for this change.

OTHER FINANCIAL DATA

The Corporation's consolidated operating financial results and ratios at December 31 are as follows:

(In millions, except ratios and per share data)	**2001**	2000	2000 Adjusted	1999
Operating income (loss)	**$2,904**	$ (409)	$1,751	$4,076
Operating earnings per share-diluted	**$ 2.47**	$ (0.35)	$ 1.52	$ 3.46
Return (loss) on average assets	**1.09%**	(0.15)%	0.63%	1.49%
Return (loss) on average common equity	**14.7**	(2.1)	8.8	18.9
Net interest margin:				
Managed	**4.89**	4.76	4.76	5.37
Reported	**3.69**	3.72	3.72	4.09
Efficiency ratio:				
Managed	**47.4**	65.8	54.7	51.8
Reported	**57.5**	81.4	66.4	61.3

These results and ratios exclude merger and restructuring-related charges and, change in accounting and the 2000 adjusted and 1999 ratios exclude items outlined in the Significant Items table on page 42.

DESCRIPTION OF BUSINESS

BANK ONE CORPORATION and subsidiaries ("Bank One" or the "Corporation") is a diversified financial holding company that offers a full range of financial services to consumers and commercial customers. Bank One is:

- A leader in retail and small business banking
- A premier provider of lending, treasury management, and capital markets products to commercial customers
- The third largest credit card issuer in the United States
- A leading investment management company

Basis of Presentation

The Corporation's financial statements are based on the application of generally accepted accounting principles, which are described in the notes to the consolidated financial statements starting on page 74. Certain accounting principles involve significant management judgment, including the use of assumptions and estimates. By their nature, changes in the assumptions and estimates potentially could significantly affect the Corporation's financial position and results of operations. The Corporation's accounting policies are discussed throughout this Financial Review section.

Management's discussion and analysis may contain forward-looking statements provided to assist in the understanding of anticipated future financial performance. However, such performance involves risks and uncertainties that may cause actual results to differ materially from those expressed in forward-looking statements. See page 69 for a discussion of these factors.

For funding and risk management purposes, the Corporation periodically securitizes loans, primarily in support of credit card activities. The accounting for securitizations complicates the understanding of underlying trends in net interest income, net interest margin and noninterest income, as well as the underlying growth rates of reported loans. For clarification, these trends are also reviewed on a "managed" basis, which adds data on securitized credit card loans to reported data on loans. Results on a managed basis, where presented, should be read in conjunction with reported results. See page 65 for the reconciliation of reported to managed results.

BUSINESS SEGMENTS

The Corporation is managed on a line of business basis. The business segments' financial results presented reflect the current organization of the Corporation. The following table summarizes certain financial information by line of business for the periods indicated.

	Operating/Net Income (Loss) (In millions)			Average Managed Assets (In billions)		
	2001 (1)	2000 (2)	1999	**2001**	2000	1999
Retail	**$1,272**	$ 414	$1,041	**$ 78.9**	$ 79.0	$ 72.5
Commercial Banking	**721**	(115)	906	**104.2**	114.5	109.7
First USA	**946**	3	1,135	**68.7**	70.0	74.9
Investment Management	**374**	322	317	**8.1**	7.6	7.1
Corporate	**(409)**	(1,033)	677	**47.5**	43.9	38.0
Total business segment operating income (loss), net of tax	**2,904**	(409)	4,076	**$307.4**	$315.0	$302.2
Accounting change, net of tax	**(44)**	–	–			
Merger and restructuring-related charges, net of tax	**(222)**	(102)	(351)			
Other significant items, net of tax	**–**	–	(246)			
Total Corporation net income (loss)	**$2,638**	$ (511)	$3,479			

(1) During 2001, the tax-oriented portfolio of Corporate Investments was transferred to Commercial Banking, while the principal investments and fixed income portfolios were transferred to Corporate. All results for prior periods conform to the current line of business organization.

(2) Beginning in the second quarter of 2000, the provision for credit losses was fully allocated to the appropriate lines of business. Prior to the second quarter of 2000, the business' provision was based upon standard credit costs, with any difference between the aggregate provision of the businesses and the Corporation's total reflected in Corporate.

Description of Methodology

The results of the business segments are intended to reflect each as if it were a stand-alone business. The management reporting process that derives these results allocates income and expenses using market-based methodologies. Funds transfer pricing is used to allocate interest income and expense to each line of business. A portion of the Corporation's interest rate risk position is currently included in Corporate.

Historically, the costs of certain support units were allocated to the lines of business based on factors other than usage, such as headcount and total assets. The methodology was changed in the third quarter of 2000 to better reflect the actual cost and usage of services provided and was consistently applied to all lines of business. Costs allocated to First USA decreased, while unallocated costs that are included in Corporate increased.

The lines of business are assigned capital that reflects the underlying risk in that business. See the "Capital Management" section on page 67 for a discussion of the economic capital framework.

For 1999, the effect of certain identified transactions were not attributed to any business segment since they were not considered a part of core business activities.

BUSINESS SEGMENT RESULTS AND OTHER DATA

The information provided in the line of business tables beginning with the caption entitled "Financial Performance" is included herein for analytical purposes only and is based on management information systems, assumptions and methodologies that are under continual review.

The financial information and supplemental data presented in the tables below for the respective lines of business are reported on an actual basis. However, to assist with the analysis of underlying trends, the discussion of business segment results excludes merger and restructuring-related charges and the impact of the 2000 and 1999 significant items noted in the "Significant Items" section on pages 41–42.

Retail

Retail provides a broad range of financial products and services, including deposits, investments, loans, insurance, and interactive banking to nearly 7.3 million households and 500,000 small business customers, over 1 million of whom are registered online users.

Products and services are delivered to customers through approximately 33,000 employees, 1,800 branches in 14 states, a large network of ATM's, bankone.com, and 24-hour telephone banking. THE ONE Card, issued by Retail, is one of the country's leading debit cards for individuals and small businesses, with 4.4 million cards issued.

Retail originates consumer credit nationwide through its banking centers, relationships with brokers, the Internet, and the telephone. Retail offers real estate-secured, education, tax refund, consumer installment loans, and auto loans and leases to individuals. Retail is also a leading lender to small businesses.

(Dollars in millions)	**2001**	2000	1999
Net interest income-FTE	**$ 5,025**	$ 4,895	$ 4,379
Banking fees and commissions (1)	**458**	473	N/A
Credit card revenue (2)	**164**	144	N/A
Service charges on deposits (3)	**795**	767	N/A
Fiduciary and investment management fees (4)	**–**	1	N/A
Other income (loss)	**25**	(767)	N/A
Noninterest income	**1,442**	618	1,541
Total revenue	**6,467**	5,513	5,920
Provision for credit losses	**1,010**	870	415
Salaries and employee benefits	**1,492**	1,552	N/A
Other expense	**1,985**	2,443	N/A
Noninterest expense	**3,477**	3,995	3,933
Operating pretax income-FTE	**1,980**	648	1,572
Tax expense and FTE adjustment	**708**	234	531
Operating income	**1,272**	414	1,041
Merger and restructuring-related charges, net of tax	**(66)**	(25)	–
Net income	**$ 1,206**	$ 389	$ 1,041
FINANCIAL PERFORMANCE:			
Return on equity (5)	**21%**	7%	23%
Efficiency ratio (5)	**54**	72	66
Headcount–full-time (6)	**33,155**	35,759	N/A
ENDING BALANCES (in billions):			
Small business commercial	**$ 12.3**	$ 12.1	N/A
Home equity	**30.3**	31.4	N/A
Vehicles:			
Loans	**13.5**	14.3	N/A
Leases	**6.1**	8.8	N/A
Other personal	**9.8**	10.7	N/A
Total loans	**72.0**	77.3	N/A
Assets	**76.2**	80.0	N/A
Demand deposits	**25.8**	24.9	N/A
Savings	**36.1**	32.0	N/A
Time	**25.6**	32.2	N/A
Total deposits	**87.5**	89.1	N/A
Equity	**6.3**	5.9	N/A

(Dollars in millions)	**2001**	2000	1999
AVERAGE BALANCES (in billions):			
Small business commercial	**$ 12.2**	$ 11.7	$ 11.0
Home equity	**30.8**	27.7	20.1
Vehicles:			
Loans	**13.9**	14.3	13.2
Leases	**7.3**	9.9	10.2
Other personal	**10.5**	11.0	11.6
Total loans	**74.7**	74.6	66.1
Assets	**78.9**	79.0	72.5
Demand deposits	**24.2**	24.6	N/A
Savings	**34.1**	33.4	N/A
Time	**29.4**	30.4	N/A
Total deposits	**87.7**	88.4	89.1
Equity	**6.2**	5.8	4.6
CREDIT QUALITY (in millions):			
Net charge-offs:			
Small business commercial	**$ 71**	$ 44	N/A
Home equity	**375**	181	N/A
Vehicles:			
Loans (7)	**246**	138	N/A
Leases	**99**	70	N/A
Other personal	**122**	109	N/A
Total consumer (7)	**842**	498	N/A
Total net charge-offs (7)	**913**	542	N/A
Net charge-off ratios:			
Small business commercial	**0.58%**	0.38%	N/A
Home equity	**1.22**	0.65	N/A
Vehicles:			
Loans (7)	**1.77**	0.97	N/A
Leases	**1.36**	0.70	N/A
Other personal	**1.16**	1.00	N/A
Total consumer (7)	**1.35**	0.79	N/A
Total net charge-offs (7)	**1.22**	0.73	N/A
Nonperforming assets:			
Small business commercial	**$ 329**	$ 215	N/A
Consumer (8)	**1,041**	697	N/A
Total nonperforming loans	**1,370**	912	N/A
Other, including Other Real Estate Owned ("OREO")	**104**	83	N/A
Total nonperforming assets	**1,474**	995	N/A
Allowance for credit losses	**$1,040**	$ 846	N/A
Allowance to period-end loans	**1.44%**	1.09%	N/A
Allowance to nonperforming loans	**76**	93	N/A
Nonperforming assets to related assets	**2.04**	1.29	N/A
DISTRIBUTION:			
Banking centers	**1,802**	1,810	1,854
ATMs	**5,141**	6,055	6,824
# On-line customers *(in thousands)*	**1,083**	918	488
# Households *(in thousands)*	**7,258**	7,679	N/A
# Business customers *(in thousands)*	**508**	519	N/A
# Debit cards issued *(in thousands)*	**4,414**	4,159	N/A
INVESTMENTS:			
Investment sales volume *(in millions)*	**$4,867**	$4,272	4,077

N/M–Not meaningful.

N/A–Not available due to changes in segment composition.

(1) Banking fees and commissions include insurance fees, documentary fees, loan servicing fees, commitment fees, mutual fund commissions, syndicated management fees, leasing fees, safe deposit fees, official checks fees, ATM interchange and miscellaneous other fee revenue.

(2) Credit card revenue includes credit card fees, merchant fees and interchange fees.

(3) Service charges on deposits include service charges on deposits, deficient balance fees, non-sufficient funds/overdraft fees and waived fees.

(4) Fiduciary and investment management fees include asset management fees, personal trust fees, other trust fees and advisory fees.

(5) Ratios are based on operating income.

(6) Beginning in 2001, employees on long-term disability and employees of unconsolidated subsidiaries are excluded. Prior period data has not been reclassified.

(7) The year ended December 31, 2001 includes $92 million of charge-offs which are not classified as such in the Corporation's GAAP financial information because they are part of a portfolio which has been accounted for as loans held at a discount. The inclusion of this amount in charge-offs more accurately reflects the credit performance of the portfolio. In the Corporation's financial statements, this item results in a higher provision in excess of net charge-offs.

(8) Includes consumer balances that are placed on nonaccrual status when the collection of contractual principal or interest becomes 90 days past due.

2001 compared to 2000

Retail reported operating income of $1.272 billion in 2001 compared to $870 million in 2000. The prior year's operating income reflected an adjustment for significant items totaling $456 million after tax. The $402 million, or 46%, year-over-year increase on an adjusted basis was principally driven by a $300 million after tax reduction in noninterest expense.

Net interest income was $5.025 billion for the year, up $116 million, or 2%, from the prior year due to lower rates, improved spreads on the indirect auto loan portfolio and 11% growth in average home equity outstandings. December loan balances were down $5.3 billion from the prior year as Retail managed reductions in certain segments of auto lease and brokered home equity loan portfolios while direct home equity loans grew.

Deposits generated a narrower margin compared to 2000, reflecting the lower rate environment and a decline in average balances. Favorable mix changes from time to savings helped mitigate the impact of lower rates and balances. More positive trends emerged late in 2001 as demand deposit balances posted 2% growth from the fourth quarter of 2000 to the fourth quarter of 2001. This growth was accompanied by a 5% increase in new accounts year over year.

Noninterest income was $1.442 billion, up $174 million, or 14%, compared to 2000. The absence of lease residual losses and higher fee revenue from deposit accounts and investment sales were partially offset by gains from the sale of miscellaneous assets in 2000. Sales of mutual funds and annuities totaled $4.9 billion in the year, up $595 million, or 14%, from the prior year.

The provision for credit losses was $1.010 billion, up $151 million, or 18%, from 2000. Managed net charge-offs were $913 million, up $371 million from the prior year. Charge-offs on brokered home equity loans and auto loans and leases were the primary drivers of Retail's year over year increase.

Nonperforming assets were $1.474 billion, up $479 million, or 48%, compared to 2000, driven primarily by an increase in brokered home equity nonperforming loans. Nonperforming assets were 2.04% of related assets in the year, up from 1.29% the previous year. The allowance for credit losses expressed as a percent of year-end loans increased to 1.44% compared to 1.09% a year ago.

Noninterest expense was $3.477 billion, down $473 million, or 12%, from the prior year driving an improvement in the efficiency ratio from 64% in 2000 to 54% in the current year. The consolidation of operating sites in 2000 and 2001 and better overall expense management in Retail, and throughout the Corporation, drove the efficiency improvement. In addition, staffing levels were down 2,600 year over year leading to a 4% decrease in salary and benefit expense.

2000 compared to 1999

Retail reported operating income of $870 million in 2000, down from $1.041 billion in 1999. The $171 million reduction was driven by lower noninterest income and higher provision expense partially offset by higher net interest income.

Net interest income increased $530 million, or 12%, from 1999, reflecting 13% growth in average loans, wider deposit spreads and improved pricing on indirect auto loans, partially offset by a shift in deposit mix toward higher rate certificates of deposit. Loan growth was driven by a 38% increase in average home equity loans, partially offset by a decline in other personal loans.

Noninterest income declined $273 million, or 18%, from 1999. Lease residual losses were $126 million higher in 2000 than 1999, while gains from the sale of miscellaneous assets were down $83 million.

Provision for credit losses increased $444 million in 2000. This principally reflected the significant growth in home equity loans, higher net charge-offs, and increases in home equity nonperforming loans.

Noninterest expense was $17 million higher in 2000 than 1999, principally related to investments in new internet capabilities, partially offset by positive impacts from waste reduction initiatives, reduced incentive compensation, and the sale of the consumer finance business.

Commercial Banking

Commercial Banking offers a broad array of products, including global cash management, capital markets, commercial cards, investment management, and lending to Corporate Banking and Middle Market customers.

Corporate Banking serves large corporations, financial institutions, municipalities, and not-for-profit entities. In addition to lending, Corporate Banking offers a wide range of financial products and develops, markets, and delivers cash management, capital markets, global treasury and trade, e-business and other noncredit products and services. Bank One's Capital Markets business is engaged in the origination, trading, and distribution of asset-backed securities, investment grade and high yield securities, derivatives, tax-exempt securities, and government bonds. Capital Markets is also actively engaged in loan syndications, market research, advisory services, and private placements.

Middle Market Banking serves approximately 18,000 customers with annual revenues from about $10 million up to $500 million. These customers use a wide variety of services, with nearly one third using Bank One exclusively. Since privately held companies comprise the vast majority of the Middle Market customer base, providing credit is fundamental to the success of this business. The loan portfolio is diversified across a broad range of industries and geographic locations. In addition to credit, this customer segment actively uses Bank One's cash management, international, capital markets, and investment management products and services.

(Dollars in millions)	**2001**	2000	1999
Net interest income–FTE	**$ 2,702**	$ 2,825	$ 2,655
Banking fees and commissions	**714**	605	N/A
Credit card revenue	**86**	75	N/A
Service charges on deposits	**614**	519	N/A
Fiduciary and investment management fees	**3**	3	N/A
Investment securities losses	**(12)**	–	N/A
Trading	**269**	183	N/A
Other income (loss)	**(100)**	(31)	N/A
Noninterest income	**1,574**	1,354	1,248
Total revenue	**4,276**	4,179	3,903
Provision for credit losses	**1,070**	2,217	436
Salaries and employee benefits	**1,073**	1,044	N/A
Other expense	**1,147**	1,228	N/A
Noninterest expense	**2,220**	2,272	2,208
Operating pretax income (loss)–FTE	**986**	(310)	1,259
Tax expense (benefit) and FTE adjustment	**265**	(195)	353
Operating income (loss)	**721**	(115)	906
Merger and restructuring-related charges, net of tax	**(46)**	1	–
Net income (loss)	**$ 675**	$ (114)	$ 906
Memo: Revenue by activity			
Lending-related revenue	**1,965**	2,173	N/A
Treasury management services (9)	**1,132**	1,029	N/A
Capital markets (10)	**681**	482	N/A
Other	**498**	495	N/A

(Dollars in millions)	**2001**	2000	1999
FINANCIAL PERFORMANCE:			
Return (loss) on equity (5)	**10%**	(2)%	15%
Efficiency ratio (5)	**52**	54	57
Headcount–full-time (6)			
Corporate Banking (including Capital Markets)	**4,341**	4,779	N/A
Middle Market	**3,911**	4,179	N/A
Treasury Management Services	**4,723**	5,016	N/A
Support and Other Administrative (11)	**29**	279	N/A
Total headcount–full-time	**13,004**	14,253	N/A
ENDING BALANCES (in billions):			
Loans	**$ 70.1**	$ 85.1	N/A
Assets	**98.1**	103.7	N/A
Demand deposits	**25.2**	21.2	N/A
Savings	**3.1**	N/A	N/A
Time (+ Savings in 2000)	**14.0**	8.0	N/A
Foreign offices	**8.6**	8.5	N/A
Total deposits	**50.9**	37.7	N/A
Equity	**7.2**	7.0	N/A
AVERAGE BALANCES (in billions):			
Loans	**$ 77.8**	$ 85.6	$ 77.5
Assets	**104.2**	114.5	109.7
Demand deposits	**21.1**	21.1	N/A
Savings	**2.7**	N/A	N/A
Time (+ Savings in 2000)	**8.9**	8.5	N/A
Foreign offices	**9.0**	9.8	N/A
Total deposits	**41.6**	39.4	37.7
Equity	**7.2**	6.8	5.9
CREDIT QUALITY (in millions):			
Net commercial charge-offs	**$ 1,041**	$ 562	N/A
Net commercial charge-off ratios	**1.34%**	0.66%	0.39%
Nonperforming assets:			
Commercial nonperforming loans	**$ 2,101**	$ 1,523	$ 871
Other, including OREO	**27**	13	N/A
Total nonperforming assets	**2,128**	1,536	N/A
Allowance for credit losses	**$ 3,066**	$ 3,044	N/A
Allowance to period-end loans	**4.37%**	3.58%	N/A
Allowance to nonperforming loans	**146**	200	N/A
Nonperforming assets to related assets	**3.03**	1.80	1.10%
CORPORATE BANKING (in billions):			
Loans–ending balance	**$ 36.6**	$ 51.7	N/A
–average balance	**43.5**	53.4	47.8
Deposits–ending balance	**$ 28.7**	$ 19.6	N/A
–average balance	**23.0**	21.4	19.1
Credit Quality *(in millions)*:			
Net charge-offs	**$ 638**	$ 435	N/A
Net charge-off ratio	**1.47%**	0.81%	0.53%
Nonperforming loans	**$ 1,154**	$ 1,065	$ 578
Nonperforming loans to total loans	**3.15%**	2.06%	1.12%

(Dollars in millions)	**2001**	2000	1999
SYNDICATIONS:			
Lead Arranger Deals:			
Volume *(in billions)*	**$ 53.9**	$ 59.3	$47.9
Number of transactions	**227**	210	190
League table standing–rank	**4**	4	4
League table standing–market share	**7%**	6%	7%
MIDDLE MARKET BANKING (in billions):			
Loans–ending balance	**$ 33.5**	$ 33.4	N/A
–average balance	**34.3**	32.1	29.7
Deposits–ending balance	**22.2**	18.1	N/A
–average balance	**18.6**	18.2	18.6
Credit Quality *(in millions)*:			
Net charge-offs	**$ 403**	$ 127	N/A
Net charge-off ratio	**1.17%**	0.40%	0.18%
Nonperforming loans	**$ 947**	$ 458	$ 293
Nonperforming loans to total loans	**2.83%**	1.37%	0.93%

For additional footnote detail see page 28.

(9) Treasury Management Services includes both fees and fee equivalents from compensating balances.

(10) Capital Markets includes trading revenues and underwriting, syndicated lending and advisory fees.

(11) Full-time headcount in 2000 has been reclassified to reflect the movement of Support and Other Administrative personnel into the respective business units reported.

2001 compared to 2000

Commercial Banking reported operating income of $721 million for 2001, up $836 million from 2000 primarily due to a significantly lower credit provision. After adjusting for the negative impact of $404 million after tax of significant items in 2000, operating income increased by $432 million, or 149%. The year's results reflected strategic efforts to reduce Corporate Banking credit exposure and improve the cross-sell of Capital Markets and Treasury Management products.

At December 31, 2001, loans were $70.1 billion, down $15.0 billion, or 18%, from the prior year. Corporate Banking loans were $36.6 billion at year-end, down $15.1 billion, or 29%, from a year ago. Middle Market loans were $33.5 billion, essentially flat from last year.

Revenue totaled $4.276 billion, up $53 million, or 1%, from 2000, with a decline in net interest income more than offset by growth in noninterest income, particularly in Treasury Management and Capital Markets.

Net interest income was $2.702 billion, down $116 million, or 4%, from the prior year reflecting the earnings impact of lower average loan balances resulting from efforts to reduce credit risk exposure.

Noninterest income was $1.574 billion, up $169 million, or 12%, from the prior year. Banking fees and commissions increased $109 million, or 18%, due to growth in the asset-backed and investment grade underwriting business and higher business sweep fees. Service charges on deposits increased $90 million, or 17%, reflecting improvement in Treasury Management volumes and pricing, as well as a shift in payment for services to fees from net interest income due to the lower value ascribed to customers' compensating deposit balances. Trading revenue increased $42 million, primarily reflecting improvement in fixed income trading activities. Other income decreased by $72 million mainly due to losses on the sale of loans.

The provision for credit losses was $1.070 billion, down $519 million, or 33%, from 2000. Net charge-offs were $1.041 billion, up $479 million, or 85%, from the prior year and represented 1.34% of average loans, up from 0.66% in 2000. Corporate Banking net charge-offs were $638 million, or 1.47% of average loans, up from 0.81% in 2000. 2001 charge-offs included $216 million related to nonperforming and other credit related loan sales. There were no losses on loan sales in 2000. Middle Market net charge-offs were $403 million, or 1.17% of average loans, up from 0.40% of average loans in the prior year. For additional detail on Commercial Banking net charge-offs see the table on page 57.

The allowance for credit losses at December 31, 2001 was $3.066 billion, up $22 million, or 1%, from the prior year. This represented 4.37% of year-end loans and 146% of nonperforming loans compared with 3.58% and 200%, respectively, at December 31, 2000. Nonperforming loans were $2.101 billion, up $578 million, or 38%, from year-end 2000. Corporate Banking nonperforming loans at year-end were $1.154 billion, up $89 million, or 8%, from the prior year. Before reflecting the sale of nonperforming loans, Corporate Banking nonperforming loans increased $671 million during the year. Middle Market nonperforming loans were $947 million at December 31, 2001, up $489 million, or 107%, from the prior year. For additional detail on Commercial Banking nonperforming assets and allowance for credit losses see the tables on page 56 and page 58, respectively.

Noninterest expense was $2.220 billion, down $87 million, or 4%, from 2000 reflecting the impact of waste-reduction efforts and lower headcount. The 2001 efficiency ratio improved to 52% from 55% in 2000.

2000 compared to 1999

Commercial Banking reported operating income of $289 million for 2000 on an adjusted basis, compared with $906 million in 1999. This $617 million decrease was primarily driven by an increase in the provision for credit losses of $1.153 billion.

Net interest income increased $163 million, or 6%, from the prior year, driven by 10% average loan growth partially offset by a modest decline in spread due to competitive pricing pressures and higher nonperforming loans.

The provision for credit losses increased $1.153 billion in 2000 from the prior year due to deterioration in the quality of loans and a higher reserve level established for the commercial loan portfolio. The deterioration in credit quality reflected the slowing of the economy as well as weakness in several industries and leveraged finance transactions.

Noninterest income of $1.405 billion increased $157 million, or 13%, from the prior year primarily due to growth in Treasury Management Service revenue of $71 million, or 12%, lending related fees of $60 million, or 41%, and Capital Markets revenue of $25 million, or 6%.

Noninterest expense increased $99 million, or 4%, from the prior year, principally related to Treasury Management Services investment spending.

First USA

First USA offers a wide variety of card products, including co-brand, affinity, rewards, business, general purpose, and smart credit cards, as well as stored-value cards. All of these cards carry the respective Visa® or MasterCard® brand names.

With more than 55 million cards in circulation, First USA is the third largest credit card provider in the United States and the largest Visa® credit card issuer in the world. First USA has $68 billion in managed credit card receivables, which includes a portfolio of approximately $6 billion in card receivables which was acquired from Wachovia Corporation (“Wachovia”) in 2001. FirstUSA.com is also a leader in online card marketing and customer service, with more than 1.9 million registered users of its website.

First USA offers credit cards for consumers and businesses under the First USA and Bank One names and on behalf of its 1,900 marketing partners. These partners include some of the leading corporations, universities, and affinity organizations in the United States.

(Dollars in millions-managed basis)	**2001**	2000	1999
Net interest income–FTE	**$6,090**	$5,835	$6,881
Banking fees and commissions	**96**	112	N/A
Credit card revenue	**1,146**	854	N/A
Investment securities gains	**–**	11	N/A
Trading	**–**	(1)	N/A
Other income (loss)	**120**	(230)	N/A
Noninterest income	**1,362**	746	1,632
Total revenue	**7,452**	6,581	8,513
Provision for credit losses	**3,823**	3,637	3,593
Salaries and employee benefits	**501**	517	N/A
Other expense	**1,618**	2,422	N/A
Noninterest expense	**2,119**	2,939	3,204
Operating pretax income–FTE	**1,510**	5	1,716
Tax expense and FTE adjustment	**564**	2	581
Operating income	**946**	3	1,135
Merger and restructuring-related charges, net of tax	**(39)**	(4)	–
Net income (loss)	**$ 907**	$ (1)	$1,135
Memo: Net securitization gains (amortization)	**(62)**	(116)	61
FINANCIAL PERFORMANCE:			
% of average outstandings:			
Net interest income–FTE	**9.31%**	8.81%	9.97%
Provision for credit losses	**5.85**	5.49	5.21
Noninterest income	**2.08**	1.13	2.37
Risk adjusted revenue	**5.54**	4.45	7.13
Noninterest expense	**3.24**	4.44	4.64
Pretax income–FTE	**2.31**	0.01	2.49
Operating income	**1.45**	–	1.64
Net income	**1.39**	–	1.64
Return on equity (5)	**15**	–	19
Efficiency ratio (5)	**28**	45	38
Headcount–full-time (6)	**9,871**	10,901	N/A
ENDING BALANCES (in billions):			
Owned	**$ 6.8**	$ 4.7	$ 4.0
Seller's interest	**24.0**	22.4	19.7
Loans on balance sheet	**30.8**	27.2	23.7
Securitized	**37.4**	39.8	45.7
Loans	**68.2**	67.0	69.4
Assets	**72.7**	70.5	N/A
Equity	**6.4**	6.2	N/A
AVERAGE BALANCES (in billions):			
Owned	**$ 6.8**	$ 4.8	N/A
Seller's interest	**18.8**	18.5	N/A
Loans on balance sheet	**25.6**	23.2	N/A
Securitized	**39.8**	43.0	N/A
Loans	**65.4**	66.2	69.0
Assets	**68.7**	70.0	74.9
Equity	**6.3**	6.1	6.0

(Dollars in millions)	**2001**	2000	1999
CREDIT QUALITY (in millions):			
Net charge-offs:			
Credit card–managed	**$ 3,823**	$ 3,584	$ 3,790
Net charge-off ratios:			
Credit card–managed	**5.84**%	5.42%	5.49%
12-month lagged (12)	**5.77**	5.19	N/A
Delinquency ratio:			
–30+ days	**4.46**	4.51	4.57
–90+ days	**1.93**	2.02	2.13
Allowance for credit losses	**$ 396**	$ 197	N/A
Allowance to period-end owned loans	**5.82**%	4.19%	N/A
OTHER DATA:			
Charge volume *(in billions)*	**$ 140.4**	$ 142.5	$ 142.7
New accounts opened *(in thousands)*	**3,925**	3,324	8,108
Cards issued *(in thousands)*	**55,554**	51,693	64,191
Number of FirstUSA.com customers *(in millions)* (13)	**1.9**	2.1	N/A

For additional footnote detail see page 28.

(12) 2001 ratio includes Wachovia net charge-offs but excludes Wachovia loans.

(13) Approximately 1 million registered users were purged in late 2001 due to inactivity.

2001 compared to 2000

First USA reported operating income of $946 million in 2001, up from $3 million in the prior year. Adjusted for $522 million after tax of significant items, 2000 operating income was $525 million. Increased reported operating income reflected lower expenses, the addition of the Wachovia portfolio and higher revenue, partially offset by increased credit costs. The Corporation expects the acquisition of the Wachovia portfolio to add approximately $100 million annually to after tax earnings. The pre-tax return on outstandings was 2.3% in 2001, up from 1.3% in 2000.

Net interest income totaled $6.090 billion, up $255 million, or 4%, from the prior year reflecting lower interest rates and the addition of the Wachovia portfolio, partially offset by lower average outstandings and loan fee income. Average managed outstandings were $65.4 billion, down $800 million, or 1%, from the prior year. End of period managed loans were $68.2 billion, up $1.2 billion from the prior year. First USA opened 3.9 million new accounts during the year, an 18% increase from the prior year. At December 31, 2001, 55.6 million cards were issued.

Noninterest income was $1.362 billion, a $149 million, or 12%, increase from the prior year reflecting the addition of the Wachovia portfolio and increased securitization activity.

The managed provision for credit losses was $3.823 billion, a $221 million, or 6%, increase from the prior year reflecting the addition of the Wachovia portfolio and increased net charge-offs.

Noninterest expense totaled $2.119 billion, a $499 million, or 19%, decrease from the prior year, reflecting lower fraud and operational losses, processing costs and a decrease in internally allocated costs related to a mid-year 2000 change in methodology. The decline from last year also reflected the sale of international operations in the second quarter of 2000. These reductions were partially offset by the addition of the Wachovia portfolio and higher marketing expense.

2000 compared to 1999

First USA reported operating income of $525 million for 2000, down $610 million, or 54%, from 1999. A decline in revenue was partially offset by lower expenses. The 2000 results represented a 1.3% return on outstandings, down from 2.5% in 1999.

Net interest income was $5.835 billion, down $1.046 billion, or 15%, from 1999, reflecting narrower spread, lower late fee revenue, and lower average outstandings. Average managed outstandings for 2000 were $66.2 billion, down 4% from 1999. End of period managed loans declined to $67.0 billion, or 3%. First USA opened 3.3 million accounts in 2000, down 59% from 1999.

Noninterest income was $1.213 billion, down $419 million, or 26%, from 1999, due to decreased securitization activity and higher revenue sharing payments to partnership and affinity groups reflecting the emphasis on these growing customer groups. In addition, lower revenue from fee-based products contributed to the decline as well as the prior year's inclusion of $126 million of nonrecurring items.

The provision for credit losses was $3.602 billion, relatively flat with 1999. The charge-off rate decreased slightly to 5.42% from 5.49% in 1999. The 1999 charge-offs included $183 million from the early adoption of the Federal Financial Institutions Examination Council's (FFIEC) revised consumer credit guidelines. At year-end, the managed 30-day and 90-day delinquency rates were 4.51% and 2.02%, respectively, down from 4.57% and 2.13% a year earlier.

Noninterest expense was $2.618 billion, down $586 million, or 18%, from 1999, reflecting a decline in marketing expenses, improved operating efficiencies, lower processing costs, the sale of the international operations, and a decrease in internally allocated costs related to a mid-year 2000 change in methodology. These positive impacts were partially offset by increased fraud and operational losses.

Investment Management

The Investment Management Group (IMG) provides investment, insurance, trust and private banking services to individuals. IMG also provides investment and investment related services, including retirement and custody services, securities lending and corporate trust to institutions.

IMG's registered investment advisory arm, Banc One Investment Advisors, ranks among the nation's top asset managers with more than $142 billion in assets under management. In addition, IMG manages One Group® Mutual Funds, one of the largest mutual fund complexes with 50 funds and more than $83 billion in assets under management. Performance of the funds continues to remain strong. 88% of the assets are in funds ranked 3 stars or better and 57% of the assets are in funds ranked 4 stars or better by Morningstar.

Private Client Services (PCS) helps manage and build wealth for high net worth clients. PCS provides integrated financial advice and services such as brokerage, investments and alternative asset management, personal trust, private banking, insurance and financial planning through over 600 client advisors.

The Retail Investment Services (RIS) business serves Bank One's retail customer base by delivering investment products and services through 1,800 banking centers in 14 states. RIS teams have more than 3,000 licensed bankers in Bank One retail banking centers to deliver high quality investment and insurance products.

The Global Corporate Trust business ranks among the three largest providers in the country for bond trustee services. These services are provided to governmental and municipal entities, as well as a broad range of middle market and large institutions.

(Dollars in millions)	**2001**	2000	1999
Net interest income–FTE	**$ 427**	$ 409	$ 376
Banking fees and commissions	**480**	354	N/A
Service charges on deposits	**17**	16	N/A
Fiduciary and investment management fees	**751**	780	N/A
Other income	**11**	11	N/A
Noninterest income	**1,259**	1,161	1,179
Total revenue	**1,686**	1,570	1,555
Provision for credit losses	**38**	13	2
Salaries and employee benefits	**564**	554	N/A
Other expense	**488**	495	N/A
Noninterest expense	**1,052**	1,049	1,075
Operating pretax income–FTE	**596**	508	478
Tax expense and FTE adjustment	**222**	186	161
Operating income	**374**	322	317
Merger and restructuring-related charges, net of tax	**(12)**	–	–
Net income	**$ 362**	$ 322	$ 317
Memo: Insurance revenues	**437.2**	357.2	N/A
FINANCIAL PERFORMANCE:			
Return on equity (5)	**37%**	36%	35%
Efficiency ratio (5)	**62**	67	69
Headcount–full-time (6)	**6,071**	6,562	N/A
ENDING BALANCES (in billions):			
Loans	**$ 7.2**	$ 7.0	N/A
Assets	**8.6**	8.1	N/A
Demand deposits	**2.8**	3.3	N/A
Savings	**3.3**	2.2	N/A
Time	**3.2**	4.0	N/A
Foreign offices	**0.2**	0.1	N/A
Total deposits	**9.5**	9.6	N/A
Equity	**1.1**	1.0	N/A

(Dollars in millions)	2001	2000	1999
AVERAGE BALANCES (in billions):			
Loans	**$ 6.9**	$ 6.6	$ 5.7
Assets	**8.1**	7.6	7.1
Demand deposits	**2.0**	2.5	N/A
Savings	**2.8**	1.9	N/A
Time	**3.3**	4.0	N/A
Foreign offices	**0.2**	0.2	N/A
Total deposits	**8.2**	8.5	8.8
Equity	**1.0**	0.9	0.9
CREDIT QUALITY (in millions):			
Net charge-offs:			
Commercial	**$ 27**	N/A	N/A
Consumer	**7**	N/A	N/A
Total net charge-offs	**34**	N/A	N/A
Net charge-off ratios:			
Commercial	**0.81%**	N/A	N/A
Consumer	**0.19**	N/A	N/A
Total net charge-off ratio	**0.49**	N/A	N/A
Nonperforming assets:			
Commercial	**$ 38**	$ 36	N/A
Consumer	**4**	4	N/A
Total nonperforming loans	**42**	40	N/A
Other including OREO	**1**	–	N/A
Total nonperforming assets	**43**	40	N/A
Allowance for credit losses	**$ 25**	$ 22	N/A
Allowance to period-end loans	**0.35%**	0.31%	N/A
Allowance to nonperforming loans	**60**	55	N/A
Nonperforming assets to related assets	**0.60**	0.57	N/A
ASSETS UNDER MANAGEMENT ENDING BALANCES (in billions):			
Mutual funds	**$ 83.5**	$ 70.4	$ 64.4
Other	**59.1**	60.8	64.5
Total	**142.6**	131.2	128.9
By type:			
Money market	**$ 58.5**	$ 43.1	N/A
Equity	**47.3**	53.5	N/A
Fixed income	**36.8**	34.6	N/A
Total	**142.6**	131.2	128.9
By channel:			
Private client services	**$ 49.7**	$ 58.3	N/A
Retail brokerage	**9.7**	9.1	N/A
Institutional	**61.2**	47.9	N/A
Commercial cash sweep	**9.8**	8.6	N/A
All other	**12.2**	7.3	N/A
Total	**142.6**	131.2	128.9
Morningstar Rankings:			
Percentage of customer assets in 4 and 5 ranked funds	**57%**	49%	54%
Percentage of customer assets in 3+ ranked funds	**88**	99	84
TRUST ASSETS ENDING BALANCES:			
Trust assets under administration *(in billions)*	**$352.5**	$319.4	N/A

(Dollars in millions)	**2001**	2000	1999
CORPORATE TRUST SECURITIES ENDING BALANCES:			
Corporate trust securities under administration *(in billions)*	**$988.6**	$751.1	N/A
RETAIL BROKERAGE:			
Mutual fund sales *(in millions)*	**$2,284**	$2,613	N/A
Annuity sales	**2,583**	1,659	N/A
Total sales	**4,867**	4,272	4,077
Number of accounts–end of period *(in thousands)*	**394**	384	349
Market value customer assets–end of period *(in billions)*	**$ 23.4**	$ 23.1	$ 23.4
Number of registered sales representatives	**724**	700	N/A
Number of licensed retail bankers	**3,042**	2,689	N/A
Annuity account value *(in billions)*	**$ 8.7**	$ 6.8	N/A
PRIVATE CLIENT SERVICES:			
Number of Private Client advisors	**641**	747	N/A
Number of Private Client offices	**105**	104	N/A
Client Assets:			
Assets under management *(in billions)*	**$ 49.7**	$ 58.3	N/A
Ending Balances *(in billions)*:			
Loans	**$ 7.0**	$ 6.7	N/A
Deposits	**7.6**	7.2	N/A
Average Balances *(in billions)*:			
Loans	**$ 6.9**	$ 6.4	$ 5.5
Deposits	**7.0**	7.0	7.2

For additional footnote detail see page 28.

2001 compared to 2000

IMG reported operating income of $374 million, up $52 million from the prior year.

Net interest income increased $18 million, or 4%, from the prior year, reflecting a 5% increase in average loans partially offset by narrower deposit spreads and a 4% decrease in average deposits.

Provision for credit losses increased $25 million, principally related to higher net charge-offs resulting from a difficult economic climate and loan growth.

Noninterest income, which is principally fiduciary and investment fees, increased $96 million, or 8%. Beginning in November 2000, fees associated with the administration of the One Group® mutual funds were recorded as revenue, with a corresponding increase in expense. Prior to that, a third-party administrator incurred such fees and expenses, which totaled $80 million in 2000. Excluding the impact of this change, noninterest income increased $16 million reflecting growth in retail brokerage sales offset by lower investment advisory fees on equity assets because of overall market conditions.

Noninterest expense increased $1 million, principally related to expenses of $80 million associated with the administration of the One Group® funds, offset by a decrease in expenses related to tighter cost control, lower headcount and reduced operating losses. Excluding the expenses associated with the administration of the One Group® funds, noninterest expenses declined 8%.

Assets under management totaled $142.6 billion, up 9% from the end of 2000. One Group® mutual fund assets under management increased 19% to $83.5 billion. One Group® fund performance continued to remain strong, with 88% of these funds rated three stars or higher by Morningstar. Average assets under management increased 3% compared with 2000, driven principally by a 12% increase in One Group® mutual funds.

2000 compared to 1999

IMG reported operating income of $322 million, up $5 million from the prior year.

Net interest income increased $33 million, or 9%, from the prior year, reflecting a 16% increase in average loans partially offset by narrower spreads related to the 3% decrease in average deposits.

Provision for credit losses increased $11 million, principally related to higher net charge-offs and loan growth.

Noninterest income, which is principally fiduciary and investment fees, decreased $16 million, or 1%, due to the sale of a subsidiary in the 1999 second quarter. Excluding the impact of this sale, noninterest income increased 2%, reflecting growth in retail brokerage and insurance volumes and moderate growth in assets under management.

Noninterest expense decreased $24 million, or 2%, also related to the 1999 second quarter sale of a subsidiary. Excluding the impact of this sale, expenses increased 2%, principally related to volume growth in retail brokerage and insurance activities.

Assets under management totaled $131.2 billion, up 2% from the end of 1999. One Group® mutual fund assets under management increased 9% to $70.4 billion. One Group® fund performance continued to remain strong, with 99% of these funds rated three stars or higher by Morningstar. Average assets under management increased 5% compared with 1999, driven principally by a 14% increase in One Group® mutual funds.

Corporate

Corporate includes Treasury, fixed income and principal investment portfolios, unallocated corporate expenses, and any gains or losses from corporate transactions.

(Dollars in millions)	**2001**	2000	1999
Net interest income (expense)–FTE (14)	**$ (664)**	$ (458)	$ 166
Banking fees and commissions	**(17)**	N/A	N/A
Credit card revenue	**(1)**	N/A	N/A
Service charges on deposits	**23**	N/A	N/A
Investment securities losses	**(54)**	N/A	N/A
Trading	**(49)**	N/A	N/A
Other income	**304**	N/A	N/A
Noninterest income (15)	**206**	16	873
Total revenue (loss)	**(458)**	(442)	1,039
Provision for credit losses	**–**	(2)	(108)
Salaries and employee benefits	**568**	N/A	N/A
Other expense	**(236)**	N/A	N/A
Noninterest expense (16)	**332**	1,192	198
Operating pretax income (loss)–FTE	**(790)**	(1,632)	949
Tax expense (benefit) and FTE adjustment	**(381)**	(599)	272
Operating income (loss)	**(409)**	(1,033)	677
Merger and restructuring-related charges, net of tax	**(59)**	(74)	–
Net income (loss)	**$ (468)**	$ (1,107)	$ 677
FINANCIAL PERFORMANCE:			
Headcount–full-time (6)	**11,418**	13,303	N/A
ENDING BALANCES (in billions):			
Loans	**$ 0.6**	$ 0.1	N/A
Assets	**50.7**	46.8	N/A
Deposits	**19.6**	30.7	N/A
Equity	**(0.8)**	(1.6)	N/A
AVERAGE BALANCES (in billions):			
Loans	**$ 0.7**	$ 0.4	N/A
Assets	**47.5**	43.9	$ 38.0
Deposits	**24.3**	26.2	18.6
Equity	**(1.1)**	(0.2)	2.9

For additional footnote detail see page 28.

(14) Net interest income primarily includes Treasury results and interest spread on investment related activities.

(15) Noninterest income primarily includes the gains and losses from investment activities and other corporate transactions.

(16) Noninterest expense primarily includes corporate expenses not allocated to the lines of business.

2001 compared to 2000

Corporate reported an operating loss of $409 million for 2001, compared with an operating loss of $1,033 million in 2000. Excluding significant items of $778 million after tax, the operating loss in 2000 was $255 million.

Net interest expense increased to $664 million for 2001 from $464 million in 2000. These results were principally due to changes in the Treasury investment portfolio and an increase in unallocated equity.

Investments, which includes Treasury, fixed income and principal investment portfolios, declined $143 million after tax from 2000 due to market conditions. These results are principally reflected in investment securities gains and losses.

Unallocated corporate expenses were $332 million in 2001 versus $473 million in 2000. The $141 million reduction from 2000 was principally due to increased allocations.

2000 compared to 1999

Corporate reported an operating loss of $255 million in 2000, compared with operating income of $677 million in 1999.

Treasury results worsened in 2000, driven by declining interest rates and the level of unallocated equity and assets. This change was principally reflected in net interest expense, which was $464 million in 2000, compared to net interest income of $166 million for 1999.

Investments results declined $141 million after tax from 1999 principally due to the weakening market for initial public offerings and financial restructurings, and lower gains in the Treasury portfolio.

Noninterest expense was $473 million for 2000, compared with $198 million in 1999. Expenses for 2000 included higher legal expenses, severance-related expenses and other operational losses. Additionally, unallocated corporate expenses increased in 2000 due to the change in allocation methodology.

Significant Items

Results in 2000 included the negative impact of $2.160 billion after tax ($3.329 billion pre-tax) of significant items. The following summarizes significant items recorded in 2000 by each business segment and income statement line, excluding merger and restructuring–related charges:

Business Segments–Table 1

(In millions)	Retail	Commercial	First USA	Investment Management	Corporate	Total
Pretax expense (income)						
Writedown of auto lease residuals	$532					$ 532
Provision for credit losses		$628				628
Repositioning of investment securities portfolio					$ 415	415
Operational and other [(1)]	2	(18)	$ 56		220	260
Writedown of interest-only strip			354			354
Occupancy and fixed asset related	9	6	11	$(4)	315	337
Writedown of purchased credit card relationship intangibles			275			275
Writedowns primarily related to planned loan sales [(2)]	167					167
Increase to legal accruals					190	190
Writedown of marketing partnership agreements			121			121
Severance related	10	21	6	4	9	50
Total	$720	$637	$823	$ –	$1,149	$3,329
After tax	$456	$404	$522	$ –	$ 778	$2,160

Income Statement Line–Table 2

(In millions)	Retail	Commercial	First USA	Investment Management	Corporate	Total
Net interest income	$ 14	$ (7)			$ (6)	$ 1
Noninterest income:						
Banking fees and commissions					(1)	(1)
Credit card revenue			$152			152
Service charges on deposits		5				5
Investment securities (gains) losses		(1)			426	425
Trading		44				44
Other income	650	3	315	$ 2	11	981
Total noninterest income	650	51	467	2	436	1,606
Provision for credit losses	11	628	35			674
Noninterest expense:						
Salaries and employee benefits [(1)]	12	(42)	(4)	(19)	145	92
Occupancy expense	9	6	11		72	98
Other intangible amortization			275	9	36	320
Other	24	1	39	8	466	538
Total noninterest expense	45	(35)	321	(2)	719	1,048
Pretax expense	$720	$637	$823	$ –	$1,149	$3,329

(1) Includes $75 million of incentive accruals reversed in the fourth quarter relating to the full year in which existing plans were adjusted to a pay for performance basis.

(2) At December 31, 2000, Management discontinued its plan to dispose of these loans, and as such, are now considered part of the general portfolio.

During 1999, significant items totaling $880 million pretax ($597 million after-tax) were not allocated to specific business segments. These items included charges of $722 million for merger and restructuring costs, $321 million for asset impairments, valuation adjustments and other charges, and $197 million for provision for credit losses primarily associated with the implementation of the FFIEC's revised consumer credit guidelines. These charges were partially offset by gains of $111 million and $249 million, respectively, from the sale of Concord and the Indiana divestitures.

Below is a reconciliation of managed 2000 actual results with results adjusted for significant items:

2000 Significant Items – Table 3 – Managed Basis

(In millions)	**2001 Actual**	2000 Actual	2000 Adjustments	2000 Adjusted	1999 Actual	2001 Actual vs. 2000 Adjusted		2000 Adjusted vs. 1999 Actual	
Consolidated									
Net interest income	**$13,580**	$13,506	$ (1)	$13,507	$14,457	$ 73	1%	$ (950)	(7)%
Noninterest income	**5,843**	3,895	(1,606)	5,501	6,642(1)	342	6	(1,141)	(17)
Provision for credit losses	**5,941**	6,735	674	6,061	4,514(1)	(120)	(2)	1,547	34
Noninterest expense	**9,200**	11,447	1,048	10,399	10,936(1)	(1,199)	(12)	(537)	(5)
Operating income (loss)	**2,904**	(409)	(2,160)	1,751	3,830(1)	1,153	66	(2,079)	(54)
Merger and restructuring-related, net of tax	**(222)**	(102)	–	(102)	(351)	(120)	N/M	249	71
Net income (loss)	**2,638**(2)	(511)	(2,160)	1,649	3,479	989	60	(1,830)	(53)
Retail									
Net interest income	**5,025**	4,895	(14)	4,909	4,379	116	2	530	12
Noninterest income	**1,442**	618	(650)	1,268	1,541	174	14	(273)	(18)
Provision for credit losses	**1,010**	870	11	859	415	151	18	444	N/M
Noninterest expense	**3,477**	3,995	45	3,950	3,933	(473)	(12)	17	–
Operating income (loss)	**1,272**	414	(456)	870	1,041	402	46	(171)	(16)
Merger and restructuring-related, net of tax	**(66)**	(25)	–	(25)	–	(41)	N/M	(25)	N/M
Net income	**1,206**	389	(456)	845	1,041	361	43	(196)	(19)
Commercial Banking									
Net interest income	**2,702**	2,825	7	2,818	2,655	(116)	(4)	163	6
Noninterest income	**1,574**	1,354	(51)	1,405	1,248	169	12	157	13
Provision for credit losses	**1,070**	2,217	628	1,589	436	(519)	(33)	1,153	N/M
Noninterest expense	**2,220**	2,272	(35)	2,307	2,208	(87)	(4)	99	4
Operating income (loss)	**721**	(115)	(404)	289	906	432	N/M	(617)	(68)
Merger and restructuring-related, net of tax	**(46)**	1	–	1	–	(47)	N/M	1	N/M
Net income (loss)	**675**	(114)	(404)	290	906	385	N/M	(618)	(68)
First USA									
Net interest income	**6,090**	5,835	–	5,835	6,881	255	4	(1,046)	(15)
Noninterest income	**1,362**	746	(467)	1,213	1,632	149	12	(419)	(26)
Provision for credit losses	**3,823**	3,637	35	3,602	3,593	221	6	9	–
Noninterest expense	**2,119**	2,939	321	2,618	3,204	(499)	(19)	(586)	(18)
Operating income (loss)	**946**	3	(522)	525	1,135	421	80	(610)	(54)
Merger and restructuring-related, net of tax	**(39)**	(4)	–	(4)	–	(35)	N/M	(4)	N/M
Net income (loss)	**907**	(1)	(522)	521	1,135	386	74	(614)	(54)
Investment Management									
Net interest income	**427**	409	–	409	376	18	4	33	9
Noninterest income	**1,259**	1,161	(2)	1,163	1,179	96	8	(16)	(1)
Provision for credit losses	**38**	13	–	13	2	25	N/M	11	N/M
Noninterest expense	**1,052**	1,049	(2)	1,051	1,075	1	–	(24)	(2)
Operating income (loss)	**374**	322	–	322	317	52	16	5	2
Merger and restructuring-related, net of tax	**(12)**	–	–	–	–	(12)	N/M	–	–
Net income	**362**	322	–	322	317	40	12	5	2
Corporate									
Net interest income (expense)	**(664)**	(458)	6	(464)	166	(200)	(43)	(630)	N/M
Noninterest income	**206**	16	(436)	452	873	(246)	(54)	(421)	(48)
Provision for credit losses	**–**	(2)	–	(2)	(108)	2	N/M	106	98
Noninterest expense	**332**	1,192	719	473	198	(141)	(30)	275	N/M
Operating income (loss)	**(409)**	(1,033)	(778)	(255)	677	(154)	(60)	(932)	N/M
Merger and restructuring-related, net of tax	**(59)**	(74)	–	(74)	–	15	20	(74)	N/M
Net income (loss)	**(468)**	(1,107)	(778)	(329)	677	(139)	(42)	(1,006)	N/M

N/M–Not meaningful.

(1) Consolidated noninterest income, provision for credit losses, and noninterest expense include $(169) million, $176 million, and $319 million, respectively, of significant items that were not allocated to specific business segments. Excluding these amounts segment operating income was $4,076 million.

(2) Consolidated results for 2001 include $44 million after tax of cumulative effect of change in accounting principle not allocated to specific business segments.

CONSOLIDATED RESULTS

Net Interest Income

Net interest income includes spreads on earning assets as well as items such as loan fees, cash interest collections on problem loans, dividend income, interest reversals, and income or expense on derivatives used to manage interest rate risk.

In order to understand fundamental trends in net interest income, average earning assets and net interest margins, it is useful to analyze financial performance on a managed portfolio basis, which adds data on securitized loans to reported data on loans as presented below:

YEAR ENDED DECEMBER 31	**2001**	2000	1999
(Dollars in millions)			
Managed:			
Net interest income– FTE basis	**$ 13,580**	$ 13,506	$ 14,457
Average earning assets	**277,672**	284,035	269,237
Net interest margin	**4.89%**	4.76%	5.37%
Reported:			
Net interest income– FTE basis	**$ 8,769**	$ 8,974	$ 9,142
Average earning assets	**237,869**	241,058	223,539
Net interest margin	**3.69%**	3.72%	4.09%

2001 compared to 2000

On a managed basis, net interest income increased modestly in 2001 relative to 2000. The earnings benefit derived from falling interest rates was partially offset by lower earning assets. The decline in average earning assets was largely due to efforts to reduce commercial credit exposure, brokered home equity loan and auto lease outstandings, and also reflected lower credit card receivables. As represented by the year-over-year improvement in net interest margin, overall balance sheet profitability improved. This reflected the reduction in low margin commercial credits, more disciplined pricing in the consumer loan sector, and increases in the percentage of funding provided by core retail deposits and net free funds.

On a reported basis, net interest income was slightly below that reported in 2000, largely due to lower earning assets as mentioned above.

2000 compared to 1999

Lower average credit card outstandings, lower fee revenues and narrower spread on credit card loans were the most significant causes of the decline in both the net interest income and related margin in 2000. Lower average credit card outstandings and fee revenues reflected customer attrition and reduced new account origination, while narrower spread reflected higher funding costs in 2000. Competitive pricing pressures in Corporate Banking and Middle Market Banking and higher nonperforming loans reduced margins slightly in the commercial loan portfolio.

During 2000, net interest income declined, reflecting a lower level of loans and the cost of carrying a higher level of nonperforming assets.

On a reported basis, net interest margin was 3.72% in 2000, compared with 4.09% in 1999. The decrease in net interest margin in 2000 was related to lower credit card spreads as well as a less favorable earning asset mix.

Noninterest Income

The components of noninterest income for the periods indicated are:

(Dollars in millions)				% Change	
YEAR ENDED DECEMBER 31	**2001**	2000	1999	2001-2000	2000-1999
Banking fees and commissions	**$1,731**	$1,537	$1,502	13%	2%
Credit card revenue	**1,395**	1,104	1,363	26	(19)
Service charges on deposits	**1,449**	1,310	1,283	11	2
Fiduciary and investment management fees	**754**	783	793	(4)	(1)
Investment securities gains (losses)	**(66)**	(235)	509	72	N/M
Trading	**220**	134	147	64	(9)
Other income (loss)	**360**	(738)	685	N/M	N/M
Gain on Indiana divestitures	**–**	–	249	N/M	N/M
Gain on sale of Concord	**–**	–	111	N/M	N/M
Managed noninterest income	**$5,843**	$3,895	$6,642	50%	(41)%

N/M–Not meaningful.

In order to provide more meaningful trend analysis, credit card revenue and total noninterest income in the above table are shown on a managed basis. Credit card fee revenue excludes the net interest revenue associated with securitized credit card receivables. Components of noninterest income that are primarily related to a single business segment are discussed within that business segment rather than the consolidated section.

2001 compared to 2000

Managed banking fees and commissions increased by $194 million, or 13%, compared to 2000 levels. This increase was primarily the result of increased annuity sales and fees associated with the in-house administration of the One Group® mutual funds, which the Corporation began recording as revenue in the 2000 fourth quarter. Additionally, this increase reflects growth in retail brokerage sales.

Managed credit card revenue increased $291 million, or 26%, in 2001 when compared to 2000. This improvement was due to the third quarter addition of the Wachovia portfolio and significant items recorded in 2000 (see table 2 on page 41).

Service charges on deposits increased $139 million, or 11%, in 2001 when compared to 2000. A lower rate environment produced a shift to the payment of fees from net interest income due to the lower value ascribed to customers' compensating deposit balances.

Fiduciary and investment management fees declined by $29 million, or 4%, in 2001 compared to levels maintained in 2000. This reduction was as a result of lower investment advisory fees on equity assets because of overall market conditions.

Investment securities losses were $66 million for 2001 due to principal investment losses and lower market valuations, partially offset by the gains on sale of fixed income securities. This was an improvement from 2000 when investment securities portfolios activity produced a loss of $235 million. This loss occurred when significant items were recorded in the second quarter of 2000 (see table 2 on page 41).

Trading produced gains of $220 million, an increase of $86 million, or 64%, when compared to 2000. This improvement was due to significant items recorded in 2000 (see table 2 on page 41) and market value gains.

Other income in 2001 was $360 million compared to a $738 million loss in 2000. This improvement over last year was predominately due to significant items recorded in 2000 (see table 2 on page 41).

2000 compared to 1999

Banking fees and commissions increased 2% in 2000, compared with the 1999 levels, as higher loan syndication fees were partially offset by lower leasing fees for auto loans.

Managed credit card revenue declined 19% to $1.104 billion in 2000 as compared to 1999, reflecting a decline in managed credit card receivables as well as writedowns for certain affinity partnership agreements included in the 2000 significant items (see table 2 on page 41).

Service charges on deposit accounts, which include deficient balance fees, increased 2% reflecting growth in cash management fees, due in part to the extensive cross selling of product offerings, which was supported by enhanced product features and functionality of the core treasury management services provided to customers on a national basis.

Fiduciary and investment management fees decreased slightly in 2000 as compared to 1999, as fee growth from traditional trust products and services, investment management activities and shareholder services was offset by the absence of revenues from certain unprofitable account relationships exited in 2000.

Investment securities portfolio activities produced a loss of $235 million in 2000 as compared to $509 million of net gains in 1999, primarily as the result of the repositioning of the Corporation's investment portfolio in the 2000 second quarter (see table 2 on page 41) and lower principal valuations.

Trading results declined slightly to $134 million in 2000 compared with $147 million in 1999 as improved foreign exchange trading was offset by a decline in revenue generated from interest rate derivatives.

Other activities generated losses of $738 million in 2000, compared with $685 million of income in 1999. Net securitization amortization in 2000 totaled $116 million, compared with net gains of $61 million in 1999. Asset impairment writedowns associated with credit card interest-only strip securities were $432 million for 2000 compared to $40 million for 1999. These writedowns were driven by the narrower margin and increased attrition based on the earnings decline in the credit card business. Auto residual losses totaled $757 million for 2000, compared with $167 million for 1999. Included in these losses were charges of $552 million ($532 million significant items) and $100 million in 2000 and 1999, respectively, for asset valuation adjustments.

Noninterest Expense

The components of noninterest expense for the periods indicated are:

(Dollars in millions)

YEAR ENDED DECEMBER 31	**2001**	2000	1999	% Change 2001-2000	% Change 2000-1999
Salaries and employee benefits:					
Salaries	**$ 3,638**	$ 3,949	$ 3,925	(8)%	1%
Employee benefits	**560**	653	603	(14)	8
Total salaries and employee benefits	**4,198**	4,602	4,528	(9)	2
Occupancy expense	**686**	872	703	(21)	24
Equipment expense	**457**	593	667	(23)	(11)
Outside service fees and processing	**1,178**	1,537	1,771	(23)	(13)
Marketing and development	**862**	900	1,235	(4)	(27)
Telecommunication	**407**	411	334	(1)	23
Other intangible amortization	**97**	410	168	(76)	N/M
Goodwill amortization	**69**	70	69	(1)	1
Other	**1,246**	2,052	1,461	(39)	40
Total noninterest expense before merger- and restructuring-related charges	**9,200**	11,447	10,936	(20)	5
Merger and restructuring-related charges	**351**	161	554	N/M	(71)
Total noninterest expense (1)	**$ 9,551**	$11,608	$11,490	(18)	1
Employees	**73,519**	80,778	87,735	(9)	(8)
Efficiency ratio–managed basis	**49.2%**	66.7%	54.5%		

N/M–Not meaningful.

(1) Certain expenses have been reclassified from salaries to other expenses in all periods.

Components of noninterest expense that are primarily related to a single business segment are discussed within that business segment rather than the consolidated section.

2001 compared to 2000

Salary and benefit costs were $4.198 billion in 2001, down 9% from $4.602 billion in 2000. This decline was attributed to expense savings from reduced headcount and cost reductions associated with the modification of the Corporation's benefit plans.

Occupancy expense declined in 2001 by $186 million, or 21%, from 2000 levels. The decrease in 2001 was the result of less occupied space.

Equipment expense in 2001 decreased $136 million compared to the previous year. Reduced furniture and equipment rental along with lower maintenance and depreciation expense was primarily the reason for the 23% decline.

Outside service fees and processing expense also declined in 2001 compared to a year ago. The majority of the 23% decline was attributed to a reduction in consulting expense and the benefits from contract renegotiations and other waste-reduction initiatives.

For 2001, marketing and development expense decreased $38 million, or 4%, compared to 2000 as continued expense reductions in the Retail line of business more than offset increased expenditures for First USA.

Other intangible amortization expense decreased by $313 million, or 76%, from a year ago, predominately due to significant items recorded in 2000 (see table 2 on page 41).

Other expense was reduced by $806 million, or 39%, when compared to the year 2000. This decrease was primarily due to significant items recorded in 2000 (see table 2 on page 41). This reduction also reflects the continuation of the Corporation's waste-reduction initiatives to lower expenses for such items as travel, entertainment and other miscellaneous items, which was partially offset by system conversion costs. The Corporation successfully converted the Texas/Louisiana deposit system during the 2001 third quarter and the Arizona/Utah deposit system in the 2001 fourth quarter and is working to complete the remaining system conversions around year-end 2002.

The Corporation recorded a $354 million pre-tax restructuring-related charge in the 2001 fourth quarter for additional real estate and severance costs to accomplish more rapid expense reductions, accelerated systems conversions and other consolidations.

2000 compared to 1999

Salary and benefit costs were $4.602 billion in 2000, up 2% from $4.528 billion in 1999. The increase was due to higher salary levels, partially offset by reduced headcount and lower incentive compensation in 2000.

Occupancy expense in 2000 was up $169 million, or 24%, from 1999 levels. This increase included $98 million of the $337 million significant item (see table 2 on page 41) related to writedowns concerning vacant space and other occupancy-related matters.

Equipment expense decreased 11% in 2000 from 1999, primarily due to reduced furniture and equipment rental and lower maintenance and depreciation expense.

Outside service fees and processing expense decreased 13% compared to 1999. A portion of the decrease in 2000 reflected consulting and implementation costs incurred to support Year 2000 readiness, as well as other development, technology and reengineering initiatives in various businesses in 1999. The 2000 decrease also included benefits from the Corporation's waste-reduction initiatives.

Marketing and development expense decreased 27% in 2000 from 1999. Credit card marketing efforts accounted for much of the fluctuations in this period.

Other intangible amortization expense included $288 million and $21 million of additional writedowns in purchased credit card relationships in 2000 and 1999, respectively. In 2000, $275 million of these writedowns is included in table 1 on page 41.

Other expense increased $591 million in 2000 compared with 1999, primarily relating to $538 million of significant items recorded in 2000 (see table 2 on page 41). These charges included $190 million increase to the legal reserve to cover increased corporate and business litigation exposure, approximately $85 million of fixed assets and software write-offs, as well as miscellaneous and operational errors.

Applicable Income Taxes

The Corporation's income (loss) before income taxes and cumulative effect of change in accounting principle, as well as applicable income tax expense (benefit) and effective tax rate for each of the past three years follows:

(Dollars in millions)	**2001**	2000	1999
Income (loss) before income taxes and the cumulative effect of change in accounting principle	**$3,800**	$(1,080)	$4,974
Applicable income taxes (benefits)	**1,118**	(569)	1,495
Effective tax rate	**29.4%**	52.7%	30.1%

Applicable income tax expense (benefit) for all three years included benefits for tax-exempt income, tax-advantaged investments and general business tax credits offset by the effect of nondeductible expenses, including goodwill. In the case of a loss before income taxes and the cumulative effect of change in accounting principle, the effect of the net tax benefits described above is to increase, rather than decrease, the effective rate of tax. This is the primary reason for the difference in effective tax rates between 2000 and the other years presented. More detail on income taxes can be found in Note 20 to the consolidated financial statements beginning on page 90.

RISK MANAGEMENT

Risk is an inherent part of the Corporation's businesses and activities. The Corporation's ability to properly and effectively identify, assess, monitor and manage risk in its business activities is critical to its soundness and profitability. The diversity of the Corporation's lines of business helps reduce the impact that volatility in any particular area has on its operating results as a whole.

The risk management process of the Corporation is dynamic and requires effective communication between lines of business and corporate-level departments, as well as judgment and knowledge of specialized products and markets. The Corporation's risk management activities consider both on- and off-balance sheet exposure. The Corporation's Senior Management takes an active role in the risk management process and has developed policies and procedures that require specific functions to assist in the identification, assessment and control of various risks. In recognition of the nature of Bank One's business activities, the Corporation's risk management policies, procedures and methodologies are subject to ongoing review and modification.

Overall risk management policies for the Corporation are established by the Corporate Risk and Capital Committee, which reviews the Corporation's performance relative to these policies. The Corporate Risk and Capital Committee has responsibility for various risk committees of the Corporation's lines of business and assists the Audit and Risk Management Committee of the Board of Directors in monitoring Bank One's policies and guidelines for risk management. The Audit and Risk Management Committee reviews risk management policies and procedures, and receives regular updates regarding the Corporation's compliance with these policies and procedures, including credit, market, liquidity, and operational risks. Individual line of business committees monitor and review their respective line of business compliance with the Corporation's risk management practices. These committees manage specific risks, sales practices, pricing, allowance adequacy, legal enforceability, and operational and systems risks.

Corporate Risk Management, Finance, Law, Compliance and Government Relations also assist Senior Management and the Corporate Risk and Capital Committee in monitoring and controlling the Corporation's risk profile. Corporate Risk Management is responsible for risk policy development and overseeing implementation, risk analysis, and risk reporting to Senior Management. The Corporate Risk and Capital Committee has responsibility for monitoring aggregate market and credit risk. The Corporation's Asset/Liability Committee ("ALCO") has direct oversight responsibility for the Corporation's liquidity position and periodically updates the Audit and Risk Management Committee. Corporate Audit periodically examines and evaluates the Corporation's operations and control environment. The Corporation remains committed to employing qualified personnel with appropriate expertise to implement effectively the Corporation's risk management and monitoring systems.

The Corporation's business activities generate liquidity, market, credit and operational risks:

- Liquidity risk is the risk that the Corporation is unable to meet all current and future financial obligations in a timely manner.
- Market risk is the risk that changes in future market rates or prices will make the Corporation's positions less valuable.
- Credit risk is the risk of loss from borrowers and counterparties' failure to perform according to the terms of a transaction.
- Operational risk, among other things, includes the risk of loss due to errors in product and service delivery, failure of internal controls over information systems and accounting records, and internal and external fraud.

LIQUIDITY RISK MANAGEMENT

Liquidity is managed to preserve stable, reliable and cost-effective sources of cash to meet all current and future financial obligations. At Bank One, strong liquidity is provided by a variety of sources including:

- A portfolio of liquid assets, comprised of federal funds sold, deposit placements and marketable securities.
- A large customer deposit base arising through the Corporation's Commercial Banking and Retail business activities.
- A diversified mix of short- and long-term funding sources from the wholesale financial markets.
- Significant borrowing capacity at the Federal Reserve Discount Window.

Bank One is an active participant in the global financial markets through which it obtains a significant amount of funding. These markets serve as a cost-effective source of funds and are a critical component of the Corporation's liquidity management. Decisions to access these markets are based upon relative costs, prospective views of balance sheet growth, and a targeted liquidity profile. A disruption in the financial markets could limit access to liquidity for the Corporation.

The Corporation's ability to maintain regular access to competitively priced wholesale funds is fostered by strong debt ratings from the major credit rating agencies. Management views the following factors as critical to retaining high credit ratings:

- Strong capital ratios and credit quality
- A stable, diverse earnings stream
- Diversity of liquidity sources
- Strong liquidity monitoring procedures

At December 31, 2001, the Corporation and its principal banks had the following long- and short-term debt ratings:

	Short-Term Debt		Senior Long-Term Debt	
	S & P	Moody's	S & P	Moody's
The Corporation (Parent)	A-1	P-1	A	Aa3
Principal Banks	A-1	P-1	A+	Aa2

Treasury is responsible for measuring and managing the liquidity profile with oversight from ALCO. A combination of daily, weekly and monthly reports provided to Senior Management detail the following:

- Internal liquidity risk metrics
- Composition and level of the liquid asset portfolio
- Timing differences in short-term cash flow obligations
- Available pricing and market access to the financial markets for capital, term-debt and securitization transactions
- Exposure to contingent draws on the Corporation's liquidity

The Corporation monitors and manages liquidity considering both on- and off-balance sheet exposures. On-balance sheet liquidity is impacted by balance sheet growth, level and mix of customer deposits, and access to wholesale funding. In the normal course of business, the Corporation enters into certain forms of off-balance sheet transactions, including credit card securitizations, unfunded loan commitments and letters of credit. These transactions are managed through the Corporation's various risk management processes. Liquidity facilities provided to Bank One administered and third party administered specialized financing entities might require funding if the Corporation's short-term rating were to fall to A-2 or P-2. Credit card securitizations would be subject to early amortization if certain performance measures of the issuing trust are not maintained. Either event would result in additional funding requirements for the Corporation.

MARKET RISK MANAGEMENT

Overview

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. The portfolio effect of diverse trading activities helps reduce market risk. Through its trading activities, the Corporation strives to take advantage of profit opportunities available in interest and exchange rate movements. In asset and liability management activities, policies are in place to closely manage structural interest rate and foreign exchange rate risk. Disclosures about the fair value of financial instruments, which reflect changes in market prices and rates, can be found in Note 23 to the consolidated financial statements beginning on page 93.

Trading Activities

The Corporation's trading activities are primarily customer-oriented. Cash instruments are bought and sold to satisfy customers' investment needs. Derivative contracts are initially entered into to meet the risk management needs of customers. The Corporation enters into subsequent transactions to manage the level of risk in accordance with approved limits. In order to accommodate customers, an inventory of capital markets instruments is carried, and access to market liquidity is maintained by making bid-offer prices to other market makers. The Corporation may also take proprietary trading positions in various capital markets cash instruments and derivatives, and these positions are designed to profit from anticipated changes in market factors.

Many trading positions are kept open for brief periods of time, often less than one day. Other positions may be held for longer periods. Trading positions are carried at estimated fair value. Realized and unrealized gains and losses on these positions are included in noninterest income as trading.

Value-At-Risk

The Corporation has developed policies and procedures to manage market risk in its trading activities through a value-at-risk measurement and control system, a stress testing process and dollar trading limits. The objective of this process is to quantify and manage market risk in order to limit single and aggregate exposures. Dollar trading limits are subject to varying levels of approval by senior line of business management, with review by Corporate Market Risk Management. Corporate Market Risk Management works with various line of business personnel in refining and monitoring market risk policies and procedures, and is the primary oversight unit for market risk arising from line of business activities creating market risk for the Corporation.

For trading portfolios, value-at-risk measures the maximum fair value the Corporation could lose on a trading position, given a specified confidence level and time horizon. Value-at-risk limits and exposures are monitored daily for each significant trading portfolio. Stress testing is similar to value-at-risk except that the confidence level is geared to capture more extreme, less frequent market events.

The Corporation's value-at-risk calculation measures potential losses in fair value using a 99% confidence level and a one-day time horizon. This equates to 2.33 standard deviations from the mean under a normal distribution. This means that, on average, daily profits and losses are expected to exceed value-at-risk one out of every 100 overnight trading days. Value-at-risk is calculated using a statistical model applicable to cash and derivative positions, including options.

Average, high and low of the value-at-risk measurements for 2001 and 2000, along with value-at-risk amounts at December 31, 2001 and December 31, 2000 are:

	2001			
(In millions)	Average	High	Low	Dec. 31
Risk type				
Interest rate	**$11**	**$15**	**$8**	**$11**
Currency exchange rate	**1**	**4**	**–**	**–**
Equity	**1**	**4**	**–**	**1**
Aggregate trading portfolio market risk				**$12**

	2000			
(In millions)	Average	High	Low	Dec. 31
Risk type				
Interest rate	$11	$15	$7	$7
Currency exchange rate	1	1	–	1
Equity	1	2	1	1
Aggregate trading portfolio market risk				$9

Interest rate risk was the predominant type of market risk incurred during 2001. At December 31, 2001, approximately 90% of primary market risk exposures were related to interest rate risk. Currency exchange rate, equity and commodity risks accounted for 3%, 6% and 1%, respectively, of primary market risk exposures.

U.S. Treasury, corporate, asset-backed, municipal, and mortgage-backed securities generated 75% of interest rate risk. Interest rate derivatives accounted for 22% of interest rate risk, while the remaining 3% was derived primarily from money market and foreign exchange trading activities.

Foreign exchange spot, forward and option trading generated 100% of the currency exchange rate risk. Of the currency exchange rate risk arising from these activities, 55% related to major currency exposures and 45% to minor currencies.

Equity derivatives trading and off-setting cash positions generated 100% of equity price risk.

At December 31, 2001, aggregate portfolio market risk exposures were 33% higher than at year-end 2000. The majority of this increase was due to increased market risk in various trading books.

Structural Interest Rate Risk Management

Interest rate risk exposure in the Corporation's core non-trading business activities, i.e., asset/liability management ("ALM") position, is a result of reprice, option, and basis risks associated with on- and off-balance sheet positions. Reprice risk represents timing mismatches in the Corporation's ability to alter contractual rates earned on financial assets or paid on liabilities in response to changes in market interest rates. Basis risk refers to the potential for changes in the underlying relationship between market rates or indices, which subsequently result in a narrowing of the spread earned on a loan or investment relative to its cost of funds. Option risk arises from "embedded options" present in many financial instruments such as interest rate options, loan prepayment options and deposit early withdrawal options. These provide customers and investors opportunities to take advantage of directional changes in rates, which could have an adverse impact on the Corporation's margin performance. Embedded options are complex risk positions that are difficult to predict and offset, and are a large component of the interest rate risk exposure to the Corporation.

The Corporation has established risk measures, limits, policy guidelines and internal control mechanisms (collectively referred to as the Interest Rate Risk Policy) for managing the overall ALM position, including both on- and off-balance sheet positions. Responsibility for the management of interest rate risk resides with Treasury with oversight by the Corporation's ALCO. Business unit management is responsible for understanding their interest rate risk, while the Corporation controls and monitors this risk centrally.

The ALM position is measured using sophisticated risk management tools, including earnings simulation modeling and economic value of equity sensitivity analysis, to capture near-term and longer-term interest rate risk exposures. Senior Management is regularly apprised of the risks associated with the ALM position, with exposures tested under multiple rate and yield curve scenarios. The Corporation balances the return potential of the ALM position against the desire to limit volatility in earnings and/or economic value.

Earnings simulation analysis, or earnings-at-risk, measures the sensitivity of pretax earnings to various interest rate movements. The base-case scenario is established using current interest rates. The comparative scenarios assume an immediate parallel shock in increments of ± 100 basis point rate movements. Numerous other scenarios are analyzed, including more gradual rising or declining rate changes and non-parallel rate shifts. Estimated earnings for each scenario are calculated over multiple years. The interest rate scenarios are used for analytical purposes and do not necessarily represent Management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings and economic value of the Corporation.

The Corporation's 12-month pretax earnings sensitivity profile as of year-end 2001 and 2000 is as follows:

	Immediate Change in Rates	
(In millions)	-100 bp	+100 bp
December 31, 2001	**$174**	**$(341)**
December 31, 2000	$ 29	$ 5

The increase in earnings sensitivity during the year reflects an increase in the duration of the Corporation's earning assets, in part driven by management actions taken in anticipation of declining short-term interest rates.

Modeling the sensitivity of earnings to interest rate risk is highly dependent on numerous assumptions embedded in the model. While the earnings sensitivity analysis incorporates Management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. For mortgage-related assets, the earnings simulation model captures the expected prepayment behavior under changing interest rate environments. Additionally, the model measures the impact of interest rate caps and floors on adjustable-rate loan products. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity products, e.g., credit card receivables, savings, money market, NOW and demand deposits reflect Management's best estimate of expected future behavior. Sensitivity of service fee income to market interest rate levels, such as those related to cash management products, is included as well. The earnings sensitivity profile does not reflect potential differences in the timing of income recognition on transactions that were designed to have an offsetting economic effect. For example, the interest-only strip recorded in conjunction with a credit card securitization may be subsequently subject to the accounting recognition of impairment due to adverse changes in market interest and payment rates while the income or expense on offsetting asset and liability positions are recorded on an accrual basis.

In addition to the earnings sensitivity analysis described above, Management uses an economic value of equity sensitivity technique to capture the risk in both short- and long-term positions. This analysis involves calculating future cash flows over the full life of all current assets, liabilities and off-balance sheet positions under different rate scenarios. The discounted present value of all cash flows represents the Corporation's economic value of equity. The sensitivity of this value to shifts in the yield curve allows Management to measure longer-term repricing and option risk in the portfolio. Interest rate risk in trading activities and other activities, including certain overseas balance sheet positions, is managed principally as trading risk.

Foreign Exchange Risk Management

Whenever possible, foreign currency-denominated assets are funded with liability instruments denominated in the same currency. If a liability denominated in the same currency is not immediately available or desired, a forward foreign exchange or cross-currency swap contract is used to hedge the risk due to cross-currency funding.

To minimize the capital impact of translation gains or losses measured on an after-tax basis, the Corporation uses forward foreign exchange contracts to hedge the exposure created by non-U.S. dollar investments in overseas branches and subsidiaries.

CREDIT RISK MANAGEMENT

The Corporation is exposed to the risk that borrowers or counterparties may default on their obligations to the Corporation. These transactions create credit exposure that is reported both on- and off- balance sheet. On-balance sheet credit exposure includes such items as loans. Off-balance sheet credit exposure includes unfunded credit commitments and other credit-related financial instruments. Credit exposures resulting from derivative financial instruments are discussed in the "Derivative Financial Instruments" section beginning on page 61.

The Corporation's Risk and Capital Committee has developed policies to manage the level and composition of risk in its credit portfolio, and reviews the Corporation's performance relative to those policies. The objective of this credit risk management process is to quantify and manage credit risk on an aggregate portfolio basis as well as to reduce the risk of loss resulting from an individual customer default. Corporate Risk Management works with lending officers and line of business personnel involved in credit decision making and is involved in the implementation, refinement, and monitoring of the Corporation's credit policies and procedures. Credit limits are subject to varying levels of approval by senior line of business management and Corporate Risk Management.

In order to meet its credit risk management objectives, the Corporation maintains a risk profile that is diverse in terms of borrower concentrations, product-type, and industry and geographic concentrations. Additional diversification of the Corporation's exposure is accomplished through syndication of credits, participations, loan sales, securitizations, credit derivatives and other risk-reduction measures.

Consumer Credit Risk Management (Including Credit Card and Retail)

The Corporation's consumer risk management process utilizes sophisticated risk assessment tools, including credit scoring, across the life cycle of each type of loan product, including credit cards, loans secured by real estate, vehicle loans and leases, and other unsecured loans. These tools are used to target product and price offerings to best match the consumer risk profile to identify consumers whose risk profile has deteriorated for proactive risk mitigation efforts, and to initiate portfolio-wide risk management strategies to ensure that the portfolios remain within Management-defined risk tolerance levels.

Management of consumer lines of business continues to proactively manage the risk/reward relationship of each consumer loan portfolio segment such that these businesses are positioned to achieve profitability targets and required rates of return on investment.

Commercial Credit Risk Management

The Corporation's commercial risk management process utilizes enterprise policies focused on origination, portfolio management and managed asset related activities. This risk management framework establishes approval authorities and related processes, risk rating methodologies, portfolio review parameters and management of problem loans. Line of business Senior Management and Corporate Risk Management are actively engaged in these activities as well as continuously exploring methods to improve commercial risk management.

Management of the Commercial Banking line of business continues to proactively manage the risk/reward relationship of each commercial relationship and portfolio segment such that these businesses are positioned to achieve profitability targets and required rates of return.

Within the Commercial Banking portfolio, borrowers/transactions are assigned specific obligor risk ratings (on a scale from 1–20, and facility rating 1-8 based upon collateral supporting the transaction) by the originating credit officer based upon an established underwriting and approval process. Approvals are made based upon the amount of credit exposure inherent in the credit extension and are reviewed by senior line of business management and Corporate Risk Management, as appropriate. Risk ratings are reviewed periodically by senior line of business personnel and Corporate Risk Management and revised, if needed, to reflect the borrowers'/transactions' current risk profile. The lower categories of credit risk are equivalent to the four bank regulatory classifications: Special Mention, Substandard, Doubtful and Loss.

The Corporation occasionally enters into credit derivatives as one method of credit protection against the deterioration of identified credit risk on loans and loan commitments. At December 31, 2001, credit derivatives were in place to cover approximately $3.3 billion in notional commercial credit exposure. Realized and unrealized gains and lossses on credit derivatures are recorded in noninterest income as trading.

OPERATIONAL RISK MANAGEMENT

The Corporation is exposed to numerous types of operational risk. Operational risk generally refers to the risk of loss resulting from the Corporation's operations, including, but not limited to, the risk of fraud by employees or persons outside the Corporation, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

The Corporation operates in many different businesses in diverse markets and places reliance on the ability of its employees and systems to process a high number of transactions. In the event of a breakdown in the internal control systems, improper operation of systems or improper employee actions, the Corporation could suffer financial loss, face regulatory action and suffer damage to its reputation. In order to address this risk, Management maintains a system of internal controls with the objective of providing proper transaction authorization and execution, safeguarding of assets from misuse or theft, and ensuring the reliability of financial and other data.

The Corporation maintains systems of controls that provide Management with timely and accurate information about the operations of Bank One. These systems have been designed to manage operational risk at appropriate levels given the Corporation's financial strength, the environment in which it operates, and considering factors such as competition and regulation. Bank One has also established procedures that are designed to ensure that policies relating to conduct, ethics and business practices are followed on a uniform basis. In certain cases, the Corporation has experienced losses from operational risk. Such losses have included the effects of operational errors that the Corporation has discovered and taken charges in the income statement. While there can be no assurance the Corporation will not suffer such losses in the future, Management continually monitors and improves its internal controls, systems and corporate-wide processes and procedures. Furthermore, Management believes the plans to streamline the organization through charter consolidations and further systems integration and policies enacted to push down reporting accountabilities further in the organization, have improved the Corporation's ability to identify and limit operational risk.

CREDIT PORTFOLIO COMPOSITION

Selected Statistical Information

The significant components of credit risk and the related ratios, presented on a reported basis, for the years indicated are as follows:

DECEMBER 31,	2001	2000	1999	1998	1997
(Dollars in millions)					
Loans outstanding	**$156,733**	$174,251	$163,877	$155,398	$159,579
Average loans	**167,054**	171,768	156,855	154,952	155,926
Nonperforming loans	**3,551**	2,475	1,559	1,207	1,025
Other, including other real estate owned	**137**	98	106	90	61
Nonperforming assets	**3,688**	2,573	1,665	1,297	1,086
Allowance for credit losses	**4,528**	4,110	2,285	2,271	2,817
Net charge-offs	**2,288**	1,391	1,206[1]	1,498	1,887
Nonperforming assets to related assets	**2.35%**	1.48%	1.02%	0.83%	0.68%
Allowance for credit losses/loans outstanding	**2.89**	2.36	1.39	1.46	1.77
Allowance for credit losses/nonperforming loans	**128**	166	147	188	275
Net charge-offs/average loans	**1.37**	0.81	0.77	0.97	1.21
Allowance for credit losses/net charge-offs	**198**	295	189[1]	152	149

(1) Includes $143 million of charges required to bring the consumer portfolio into compliance with FFIEC guidelines. Excluding these incremental charge-offs, the adjusted coverage ratio would have been 215%.

Loan Composition

In 2001, the Corporation changed its loan composition methodology to a line of business approach, dividing the loan portfolio into Retail, Commercial Banking, First USA, and other lines of business. The Corporation has presented 2000 information under both the "old" and "new" compositions, but has not presented 1999, 1998 and 1997 under the "new" composition as it would be impractical to reclassify those periods using the new methodologies.

The Corporation's loan portfolio at December 31 are as follows:

	2001		2000	
(Dollars in millions)	Amount	% [1]	Amount	% [1]
Retail:				
Small business commercial	**$ 12,347**	6	$ 12,103	5
Home equity	**30,268**	14	31,361	13
Vehicles:				
Loans	**13,481**	6	14,300	6
Leases	**6,155**	3	8,840	4
Other personal	**9,779**	4	10,697	5
Total Retail	**72,030**	33	77,301	33
Commercial Banking:				
Corporate Banking:				
Commercial and industrial	**22,268**	10	N/A	
Commercial real estate	**8,975**	4	N/A	
Lease financing	**4,669**	2	N/A	
Other	**731**	–	N/A	
Total Corporate Banking	**36,643**	16	51,700	22
Middle Market:				
Commercial and industrial	**28,676**	13	N/A	
Commercial real estate	**3,472**	2	N/A	
Lease financing	**1,053**	1	N/A	
Other	**294**	–	N/A	
Total Middle Market	**33,495**	16	33,400	14
Total Commercial Banking	**70,138**	32	85,100	36
Other lines of business	**7,779**	4	7,106	3
First USA:				
On balance sheet	**6,786**	3	4,744	2
Securitized [2]	**61,369**	28	62,241	26
Managed credit card	**68,155**	31	66,985	28
Total managed	**$218,102**	100%	$236,492	100%
Total reported	**$156,733**		$174,251	

N/A–Not available.

(1) Percentages shown above for loan type are determined as a percentage of total managed loans.

(2) Includes seller's interest in credit card loans and securities sold to investors and removed from the balance sheet.

Prior to 2001, the Corporation's loan portfolio was divided into commercial, consumer and credit card loan categories as of December 31:

	2000		1999		1998		1997	
(Dollars in millions)	Amount	% (1)	Amount	% (1)	Amount	% (1)	Amount	% (1)
Commercial:								
Domestic:								
Commercial	$ 65,270	28%	$ 59,070	26%	$ 53,362	25%	$ 48,458	25%
Real estate:								
Construction	5,757	2	5,836	3	5,108	2	4,639	2
Other	16,778	7	18,817	8	17,787	8	16,545	8
Lease financing	5,818	3	5,562	2	6,236	3	4,537	2
Foreign	6,837	3	7,067	3	5,945	3	5,127	3
Total commercial	100,460	43	96,352	42	88,438	41	79,306	40
Consumer:								
Residential real estate	40,596	17	32,313	14	25,804	12	28,088	14
Automotive–loans/leases	20,741	9	23,567	11	20,634	10	17,998	9
Other	7,710	3	7,608	3	11,488	5	11,522	6
Total consumer	69,047	29	63,488	28	57,926	27	57,608	29
Credit card:								
On balance sheet	4,744	2	4,037	2	9,034	4	22,665	12
Securitized (2)	62,241	26	65,319	28	60,993	28	37,414	19
Managed credit card	66,985	28	69,356	30	70,027	32	60,079	31
Total managed	$236,492	100%	$229,196	100%	$216,391	100%	$196,993	100%
Total reported	$174,251		$163,877		$155,398		$159,579	

(1) Percentages shown above for loan type are determined as a percentage of total managed loans.

(2) Includes seller's interest in credit card loans and securities sold to investors and removed from the balance sheet.

Managed Credit Card Receivables

For analytical purposes, the Corporation reports credit card receivables on both a reported basis and a managed basis. Reported credit card receivables include those receivables held in the portfolio and reported on the balance sheet. Managed credit card receivables include reported credit card receivables and those sold to investors through securitization (see page 64 for discussion of Loan Securitizations).

The following table shows the average managed credit card receivables and the related charge-off and delinquency rates for the years ended:

DECEMBER 31,	**2001**	2000	1999
(Dollars in millions)			
Average balances:			
Credit card loans	**$ 6,884**	$ 4,754	$ 7,233
Securitized credit card receivables	**58,563**	61,424	61,747
Total average managed credit card receivables	**65,447**	66,178	68,980
Total net charge-offs (including securitizations)	**$ 3,823**	$ 3,584	$ 3,790
Net charge-offs/average total receivables (1)	**5.84%**	5.42%	5.49%
Credit card delinquency rate at period-end:			
30 or more days	**4.46%**	4.51%	4.57%
90 or more days	**1.93%**	2.02%	2.13%

(1) Ratios include $143 million of securitized charge-offs taken in the fourth quarter of 1999 related to the early adoption of certain of the FFIEC's consumer charge-off guidelines.

The increase in the managed credit card charge-off rate to 5.84% in 2001 from 5.42% in 2000 reflected the general weakness in the United States economy during 2001. Consumer credit markets generally saw increased levels of delinquency and loss through 2001. Nationally, consumers filed for bankruptcy in 2001 in much higher numbers than in any prior year. Credit management tools used to manage the level and volatility of losses for credit card accounts have been continually updated and where appropriate these tools were adjusted to reduce credit risk in 2001. Management believes the quality of new credit card accounts opened in 2001 is superior to the quality of accounts opened in preceding years. Management of risk in the existing accounts also improved in 2001.

The benefit of these actions is seen in a modest level of volatility experienced in losses on credit card accounts despite the weakness in the economy. The Corporation currently expects that credit losses will increase modestly in 2002. Future charge-offs in the credit card portfolio and credit quality are subject to uncertainties which may cause actual results to differ widely from that forecasted, including the direction and level of loan delinquencies, changes in consumer behavior, bankruptcy trends, portfolio seasoning, interest rate movements, and portfolio mix, among other things. While current economic and credit data suggests that credit quality will not significantly deteriorate, material deterioration in the general economy could materially change these expectations.

Retail

The retail loan portfolio primarily consists of loans secured by real estate as well as vehicle loans and leases, and provides broad diversification of risk from both a product and geographic perspective. Average receivable balances for 2001 were $74.7 billion. Even though average receivables were flat compared to the prior year, the Corporation continues to effectively enhance the composition of loans in the portfolio by emphasizing high quality prime credit lending reflecting the organization's desire for profitability. During 2001, the Corporation continued to de-emphasize vehicle leasing and significantly refocused its indirect real estate lending involving loans sourced through brokers. New loans originated in 2001 on average reflect higher credit quality consistent with management's focus on the prime credit market segment. The net charge-off rate for retail loans in 2001 was 1.10%, up 37 basis points from the prior year. The increase from 2000 reflected the impact of general weakness in economic conditions including higher consumer bankruptcies and higher losses on brokered home equity loans. Given the current state of the economy, Management expects consumer loan losses to rise modestly for the foreseeable future. Future retail portfolio charge-offs and credit quality are subject to uncertainties which may cause actual results to differ widely from that forecasted, including the direction and level of loan delinquencies, changes in consumer behavior, bankruptcy trends, portfolio seasoning, interest rate movements and portfolio mix among other things.

The Corporation continues to proactively manage its retail credit operation to ensure profitability even in difficult economic conditions. Ongoing efforts include continual review and enhancement of credit underwriting criteria, rationalization of the number and quality of third-party loan originators (i.e., brokers and correspondents) and refinement of pricing and risk management models.

Commercial Banking

Commercial Banking loans decreased by $15.0 billion, or 18%, between December 31, 2000 and December 31, 2001, primarily due to a planned and managed reduction of the Corporate Banking portfolio. Nonperforming Commercial Banking loans increased by $578 million, or 38%, to $2.1 billion at December 31, 2001, as compared to $1.5 billion at December 31, 2000, primarily due to continued portfolio deterioration across a number of industry segments. Commercial Banking's net charge-offs in 2001 were $1.041 billion, or 1.34% of average loans, compared with $562 million of net charge-offs, or 0.66% of average loans, in 2000. Given the current state of the economy, the Corporation expects Middle Market nonperforming loans to increase, with charge-offs rising modestly for the foreseeable future. Future charge-offs and credit quality in the Commercial Banking portfolio are subject to uncertainties that may cause actual results to differ from that forecasted, including the state of the economy and its impact on individual industries, commercial real estate values, interest rate movements and portfolio mix, among other things. While credit losses expected for the foreseeable future would be considered higher than normal, a deepening of the recession would cause higher credit losses than currently anticipated.

Commercial and Industrial Loans

Commercial and industrial loans represent commercial loans other than commercial real estate. At December 31, 2001, commercial and industrial loans totaled $50.9 billion, which represents 73% of the Commercial Banking portfolio.

The more significant borrower industry concentrations of the Commercial Banking commercial and industrial portfolio as of December 31, 2001 are:

(Dollars in millions)	Outstanding	Percent of Total Commercial and Industrial Loans
Wholesale trade	$ 4,409	8.7%
Industrial materials	3,355	6.6
Oil and gas	3,219	6.3
Consumer staples	3,008	5.9
Metals and products	2,749	5.4

Commercial Real Estate

Commercial real estate loans represent credit extended for real-estate related purposes to borrowers or counterparties who are primarily in the real estate development or investment business and for which the ultimate repayment of the loan is dependent on the sale, lease, rental or refinancing of the property.

Commercial real estate lending is conducted in several lines of business with the majority of these loans originated by Corporate Banking primarily through its specialized National Commercial Real Estate Group. This group's focus is lending to targeted regional and national real estate developers, homebuilders and REITs/REOCs. As of December 31, 2001, National Commercial Real Estate Group's loan outstandings totaled $8.8 billion or 70% of the commercial real estate portfolio.

At December 31, 2001, commercial real estate loans totaled $12.4 billion, or 18% of Commercial Banking loans. During 2001, net charge-offs in the commercial real estate portfolio segment were $14 million. Nonperforming commercial real estate assets, including other real estate owned, totaled $199 million, or 1.6% of related assets, at December 31, 2001.

The commercial real estate loan portfolio by both collateral location and property type as of December 31, 2001 are as follows:

(Dollars in millions)	Outstanding	
By Collateral Location:	Amount	% of Portfolio
Illinois	$ 1,682	14%
Michigan	1,348	11
Texas	1,004	8
California	960	8
Arizona	958	8
Ohio	839	7
Indiana	504	4
Louisiana	487	4
Colorado	356	3
Kentucky	326	3
Other areas	1,806	13
Unsecured	1,670	13
Secured by other than real estate	507	4
Total	$12,447	100%
By Property Type:		
Retail	$ 1,913	15%
Office	1,804	15
Apartment	1,770	14
REIT/diversified	1,297	10
Single family residential development	1,273	10
Industrial/warehouse	1,230	10
Hotels	625	5
Residential lots	472	4
Miscellaneous commercial income producing	1,864	15
Miscellaneous residential developments	199	2
Total	$12,447	100%

ASSET QUALITY

In 2001, the Corporation changed its loan composition methodology to a line of business approach, dividing the loan portfolio into Retail, Commercial Banking, First USA, and other lines of business. The Corporation has presented 2000 information under both the "old" and "new" compositions, but has not presented 1999, 1998 and 1997 under the "new" composition as it would be impractical to reclassify those periods using the new methodologies.

Nonperforming Assets

The Corporation places loans on nonaccrual status as follows:

- Retail consumer loans are placed on nonaccrual status when the collection of contractual principal or interest becomes 90 days past due. Accrued but uncollected interest and fee income are reversed and charged against interest income when the consumer loan is placed on nonaccrual status. Subsequent cash collections are recognized as interest income unless the consumer loan is subsequently charged-off, in which case cash collections are recognized as recoveries.
- Commercial Banking and Retail small business commercial loans are placed on nonaccrual status when the collection of contractual principal or interest is deemed doubtful, or it becomes 90 days or more past due and is both not well-secured and in the process of collection. Accrued but uncollected interest and fee income are reversed and charged against interest income when placed on nonaccrual status. Cash interest payments received are recognized either as interest income or as a reduction of principal when collection of principal is doubtful. The loan is returned to accrual status only when all of the principal and interest amounts contractually due are reasonably assured within a reasonable time frame and when the borrower has demonstrated payment performance.
- Credit card receivables are charged-off rather than placed on nonaccrual status.

The Corporation's nonperforming loans by line of business and total nonperforming assets for the periods indicated are as follows:

DECEMBER 31,	**2001**	2000
(Dollars in millions)		
Nonperforming Loans:		
Retail	**$1,370**	$ 912
Commercial Banking:		
Corporate Banking	**1,154**	1,065
Middle Market Banking	**947**	458
Other lines of business	**80**	40
Total (1)	**3,551**	2,475
Other, primarily other real estate owned	**137**	98
Total nonperforming assets	**$3,688**	$2,573
Nonperforming assets/related assets	**2.35%**	1.48%
Loans 90-days or more past due and accruing interest:		
Credit Card	**$ 96**	$ 57
Other	**1**	5
Total	**$ 97**	$ 62

(1) The amount of interest on nonperforming loans that was contractually due in 2001 totaled $202 million. Of this amount, $34 million was actually recorded in 2001.

Prior to 2001, the Corporation's nonperforming assets as of December 31 are:

(Dollars in millions)	2000	1999	1998	1997
Nonperforming Loans:				
Commercial	$1,761	$1,053	$ 729	$ 609
Consumer	714	506	478	416
Total	2,475	1,559	1,207	1,025
Other, primarily other real estate owned	98	106	90	61
Total nonperforming assets	$2,573	$1,665	$1,297	$1,086
Nonperforming assets/related assets	1.48%	1.02%	0.83%	0.68%
Loans 90 days or more past due and accruing interest:				
Credit Card	$ 57	$ 76	$ 161	$ 438
Other	5	50	78	140
Total	$ 62	$ 126	$ 239	$ 578

The Corporation has experienced credit quality deterioration in a number of distinct Commercial Banking market segments. The Corporation has established processes for identifying potential problem areas of the portfolio, which currently include exposure to leveraged lending and acquisition finance activities, healthcare, automotive parts and manufacturing, business finance and leasing, professional services, miscellaneous transportation services, telecommunications and selected utilities. The Corporation will continue to monitor and manage these potential risks.

Nonperforming loans within Retail, which includes all consumer balances more than 90-days past due, increased by $458 million in 2001 to $1.4 billion reflecting deterioration in credit performance consistent with general economic conditions. These increases primarily reflect loans secured by residential real estate where the Corporation maintains a loss recognition policy including the writing down of assets to net realizable value at 120-days past due. Retail nonperforming assets are likely to continue to increase modestly for the foreseeable future and will be influenced in part by the future direction of economic conditions including residential real estate valuation trends.

Charge-off Policies

The Corporation records charge-offs as follows:

- Commercial loans are charged-off in the reporting period in which either an event occurs that confirms the existence of a loss or it is determined that a loan or a portion of a loan is uncollectible.
- A credit card loan is charged-off in the month it becomes contractually 180 days past due and remains unpaid at the end of that month or in the event of bankruptcy notification, specifically, 60 days after receipt of notification. Interest on credit card loans is accrued until the loan is charged-off. At the time of charge-off, accrued but uncollected finance charges and fee income are reversed and charged against interest income and credit card revenue, respectively. Subsequent cash collections are recorded as recoveries.
- Retail loans are generally charged-off following a delinquency period of 120 days, or within 60 days after receipt of notification in case of bankruptcy. Closed-end consumer loans, such as auto loans and leases and home mortgage loans, are typically written down to the extent of loss after considering the net realizable value of the collateral.

The timing and amount of the charge-off on consumer loans will depend on the type of loan, giving consideration to available collateral, as well as the circumstances giving rise to the delinquency. The Corporation adheres to uniform guidelines published by the FFIEC in charging off consumer loans.

The following table shows the Corporation's net charge-offs by line of business for the years ended December 31:

	2001			2000		
(Dollars in millions)	**Net charge-offs**	**Average balance**	**Net charge-off rate**	Net charge-offs	Average balance	Net charge-off rate
Retail (1)	**$ 821**	**$ 74,749**	**1.10%**	$ 542	$ 74,632	0.73%
Commercial banking:						
Corporate Banking	**638**	**43,495**	**1.47**	435	53,343	0.81
Middle Market Banking	**403**	**34,310**	**1.17**	127	32,178	0.40
First USA	**3,823**	**65,447**	**5.84**	3,584	66,178	5.42
Other lines of business	**34**	**7,616**		40	6,861	
Total–Managed (1)	**5,719**	**$225,617**	**2.53%**	4,728	$233,192	2.03%
Securitized	**(3,431)**			(3,337)		
Total–Reported	**$2,288**	**$167,054**	**1.37%**	$ 1,391	$171,768	0.81%

(1) 2001 amounts exclude $92 million of charge-offs relating to part of a portfolio that has been accounted for as loans held at a discount, but viewed for management purposes as charge-offs.

Prior to 2001, net charge-offs by portfolio for the years ended December 31 are:

	2000			1999		
(Dollars in millions)	Net charge-offs	Average balance	Net charge-off rate	Net charge-offs	Average balance	Net charge-off rate
Commercial	$ 597	$100,202	0.60%	$ 306	$ 90,182	0.34%
Consumer (1)	547	66,812	0.82	558	59,440	0.94
Credit card (1)	3,584	66,178	5.42	3,790	68,980	5.49
Total–Managed (1)	4,728	$233,192	2.03%	4,654	$218,602	2.13%
Securitized	(3,337)			(3,448)		
Total–Reported	$ 1,391	$171,768	0.81%	$1,206	$156,855	0.77%

(1) Includes $143 million of consumer charge-offs and $183 million of securitized charge-offs taken in the fourth quarter of 1999 related to the early adoption of certain of the FFIEC's new consumer charge-off guidelines.

Charge-offs

Managed net charge-offs increased 21% during 2001 to $5.719 billion, reflecting higher charge-offs in all lines of business. The managed net charge-off rate increased to 2.53% in 2001 versus 2.03% in 2000.

Retail net charge-offs for 2001 totaled $821 million, up from $542 million in 2000. Increases in credit losses across all consumer portfolios including small business were recorded. Several factors contributing to these increased losses include: increased consumer bankruptcies; increased severity per default involving auto loans and leases tied to weaker market prices for repossessed vehicles; and overall weakening of consumer economic fundamentals associated with an economy in recession.

Loan Sales

A summary of the Corporation's Corporate Banking loan sales in 2001 follows:

(In millions)	Loans Sold	Charge-offs	Loss on Sales
Nonperforming loans	$ 582	$124	$ –
Other credit related loans sold	487	92	1
Other loans sold	1,148	–	43
Total	$2,217	$216	$44

The Corporation sells Corporate Banking loans in the normal course of its business activities. These loans are subject to the Corporation's overall risk management practices and are one alternative the Corporation uses to manage credit risk. Decisions to sell particular loans are made after taking into account various alternatives to manage credit exposure. Sales transactions are initiated when Management determines its sales intent. When a loan is sold, the gain or loss is evaluated to determine whether it resulted from credit deterioration or other conditions. Based upon this evaluation, the losses on other loans sold in 2001 were deemed to be caused by other than credit deterioration. The sale of nonperforming and other credit related loans were primarily recorded as charge-offs as the losses on sale were attributable to credit deterioration.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level that in Management's judgment is adequate to provide for estimated probable credit losses inherent in various on- and off-balance sheet financial instruments. This process includes deriving probable loss estimates that are based on historical loss ratios and portfolio stress testing and Management's judgment. The allowance is based on ranges of estimates and is intended to be adequate but not excessive. Each quarter, an allowance level is formally estimated by each line of business and reviewed by Corporate Risk and Senior Management. The allowance for credit losses also includes provisions for losses on loans considered impaired and measured pursuant to Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan" (see Note 8 to the consolidated financial statements on page 80). Securitized and loans held for sale, including credit card receivables, are not subject to this process.

Corporate Risk Management recommends an allowance and provision for credit losses that result in adequate coverage of inherent losses within the Corporation's credit portfolios. Corporate Risk Management's assessment is based on line of business tests, portfolio-level econometric modeling and stress testing, as well as Management's judgment. Corporate Risk Management also utilizes third-party analysis to validate internal measures of inherent loss, credit quality and allowance adequacy.

The change in the Corporation's allowance for credit losses for the years ended December 31 are as follows:

(In millions)	**2001**	2000
Balance, beginning of period	**$4,110**	$2,285
Charge-offs:		
Retail:		
Small business commercial	**93**	66
Home equity	**402**	196
Vehicles:		
Loans	**220**	201
Leases	**127**	91
Other personal	**151**	149
Total Retail	**993**	703
Commercial Banking:		
Corporate Banking:		
Commercial and industrial	**689**	N/A
Commercial real estate	**15**	N/A
Lease financing	**16**	N/A
Total Corporate Banking	**720**	469
Middle Market:		
Commercial and industrial	**417**	N/A
Commercial real estate	**8**	N/A
Lease financing	**36**	N/A
Total Middle Market	**461**	157
Total Commercial Banking	**1,181**	626
First USA	**415**	261
Other lines of business	**41**	77
Total charge-offs	**$2,630**	$1,667
Recoveries:		
Retail:		
Small business commercial	**$ 22**	$ 22
Home equity	**27**	15
Vehicles:		
Loans	**66**	63
Leases	**28**	21
Other personal	**29**	40
Total Retail	**172**	161
Commercial Banking:		
Corporate Banking:		
Commercial and industrial	**74**	N/A
Commercial real estate	**8**	N/A
Lease financing	**–**	N/A
Total Corporate Banking	**82**	36
Middle Market:		
Commercial and industrial	**49**	N/A
Commercial real estate	**1**	N/A
Lease financing	**8**	N/A
Total Middle Market	**58**	28
Total Commercial Banking	**140**	64
First USA	**23**	14
Other lines of business	**7**	37
Total recoveries	**342**	276
Net charge-offs:		
Retail	**821**	542
Commercial Banking	**1,041**	562
First USA	**392**	247
Other lines of business	**34**	40
Total net charge-off	**2,288**	1,391
Provision for credit losses	**2,510**	3,398
Transfers [(1)]	**196**	(182)
Balance, end of year	**$4,528**	$4,110

N/A–Not available.

(1) Transfers to the allowance for credit losses as of December 31, 2001 primarily represent the addition of the Wachovia credit card portfolio. All periods reflect transfers of allocable credit allowances associated with loan sale transactions, including securitization transactions.

For analytical purposes, summarized below are the changes in the allowance for credit loss for the years ended December 31:

(In millions)	2000	1999	1998	1997
Balance, beginning of year	$2,285	$2,271	$2,817	$2,687
Charge-offs:				
Commercial:				
Domestic:				
Commercial	618	325	222	200
Real estate:				
Construction	8	5	3	3
Other	11	27	25	19
Lease financing	7	12	20	12
Foreign	64	41	52	–
Total commercial	708	410	322	234
Consumer:				
Residential real estate	230	189	74	52
Automotive:				
Loans	215	256	220	260
Leases	91	87	61	51
Other	162	203	246	256
Total consumer	698	735	601	619
Credit card	261	386	1,022	1,544
Total charge-offs	1,667	1,531	1,945	2,397
Recoveries:				
Commercial:				
Domestic:				
Commercial	98	70	68	97
Real estate:				
Construction	1	6	3	6
Other	4	25	23	29
Lease financing	1	2	5	3
Foreign	7	1	1	12
Total commercial	111	104	100	147
Consumer:				
Residential real estate	17	12	11	14
Automotive:				
Loans	69	82	92	105
Leases	21	23	21	17
Other	44	60	64	63
Total consumer	151	177	188	199
Credit card	14	44	159	164
Total recoveries	276	325	447	510
Net charge-offs:				
Commercial	597	306	222	87
Consumer	547	558	413	420
Credit Card	247	342	863	1,380
Total net charge-off	1,391	1,206	1,498	1,887
Provision for credit losses	3,398	1,249	1,408	1,988
Transfers	(182)	(29)	(456)	29
Balance, end of year	$4,110	$2,285	$2,271	$2,817

Transfers from the allowance for credit losses primarily represent allocable credit allowances associated with consumer loan sale transactions, including securitization transactions.

Composition of Allowance for Credit Losses

While the allowance for credit losses is available to absorb credit losses in the entire portfolio, presented below is an allocation of the allowance for credit losses by line of business as of December 31:

	2001		2000	
(Dollars in millions)	**Amount**	**%**	Amount	%
Retail	**$1,040**	**23%**	$ 846	20%
Commercial Banking				
Corporate Banking	**1,714**	**38**	1,699	41
Middle Market	**1,352**	**30**	1,345	33
First USA	**396**	**8**	197	5
Other lines of business	**26**	**1**	23	1
Total	**$4,528**	**100%**	$4,110	100%

For analytical purposes, an allocation of the allowance for credit losses by loan type as of December 31 follows:

	2000		1999		1998		1997	
(Dollars in millions)	Amount	%	Amount	%	Amount	%	Amount	%
Commercial [(1)]	$3,199	78%	$ 972	43%	$ 834	37%	$ 660	23%
Consumer	714	17	486	21	440	19	484	17
Credit Card	197	5	148	6	199	9	813	29
Unallocated	—	—	679	30	798	35	860	31
Total	$4,110	100%	$2,285	100%	$2,271	100%	$2,817	100%

(1) Includes allowance related to Business and Community Banking loans, which are included in the Retail business segment results.

At December 31, 2001, the allowance for credit losses was 198% of current year net charge-offs (on a reported basis) as compared to a reserve coverage ratio of 295% at December 31, 2000. This decrease reflects deterioration in certain components of the Commercial Banking and brokered home equity portfolios. The allowance for credit losses at December 31, 2001, represented 2.89% of period-end loans and 128% of nonperforming loans, compared to 2.36% and 166%, respectively, at December 31, 2000. The allowance for credit losses established for specifically identified off-balance sheet lending exposures was not material at December 31, 2001.

Reserve Determination

The Corporation determines allowance levels based upon the probable loss in the credit portfolios. The allowance is based on ranges of estimates and is intended to be adequate but not excessive. The estimation process includes deriving probable loss estimates that are based on historical loss rates, portfolio stress testing of probable loss estimates and Management's judgment.

During 2000, the Corporation reviewed its practice of maintaining unallocated reserves in light of continuing refinement in loss estimation processes, including improvements in portfolio level stress testing techniques. It was concluded that the use of unallocated reserves would be discontinued. These reserves were aligned with their respective portfolios.

Probable Loss Estimation

The Corporation employs several methodologies for estimating probable losses. Methodologies are determined based on a number of factors, including type of asset (e.g., consumer installment versus commercial loan), risk measurement parameters (e.g., delinquency status and bureau score versus commercial risk rating), and risk management and collection processes (e.g., retail collection center versus centrally managed workout units).

For the Retail and Credit Card portfolios, the allowance is based on a statistical analysis of inherent losses over discrete periods of time. The analysis reviews historical losses, vintage performance, delinquencies and other risk characteristics of the various products to estimate probable losses. Other risk characteristics evaluated may include: recent loss experience in the portfolios, changes in origination sources, portfolio seasoning and underlying credit practices, including charge-off policies. These factors and analysis are updated on a quarterly basis.

For the Commercial Banking portfolio, the Corporation conducts a two-part test. First, significant credits that have a risk rating equivalent to the bank regulatory classifications of Substandard, Doubtful and Loss are formally reviewed periodically and at least quarterly and asset-specific reserves are established as appropriate. Second, inherent losses for the remaining Commercial Banking portfolio are estimated by assigning an expected loss factor to each risk category of the portfolio based on a statistical analysis of historical loss experience over a discrete period of time. During the second quarter of 2001, the Corporation refined its measurement process for estimating probable losses inherent in the Commercial Banking portfolio. To refine the process, the Corporation analyzed historical credit loss, risk-rating migration and loss given default data and assigned probability of default and loss given default factors to each exposure in the portfolio.

Portfolio Stress-Testing

Stress testing is performed on all significant portfolios to simulate the effect of economic deterioration on credit performance. Stress testing the portfolios provides Management with a range of loss estimates that incorporates the Corporation's historical loss experience and the reserve impact of events that have occurred, or might possibly occur, but that have not been reflected in either the historical expected loss factors or the currently assigned risk ratings.

Stress testing of the commercial portfolio is accomplished using a framework developed to test expected default factors and loss given default estimates and to test the effect of downgrades to exposures in identified high-risk industries. This process includes, establishing a base case scenario using three alternative market probability sets and an estimated loss given default probability to measure the impact on reserves; determining the effect of applying a higher loss given default probability to the base case to take into consideration the variability of historical loss rates over the business cycle; and estimating trend-based reserves in high-risk industries that may not be fully reflected in the historically based loss factors, using market-based tools and information as well as sanctioned macroeconomic forecasts.

Stress testing the consumer portfolios, including credit card, is accomplished by applying the results of econometric modeling to each of the portfolio segments. The purpose of this analysis is to quantify the impact of economic deterioration on existing weaknesses in the portfolios, whose effects are not yet incorporated into the historically based reserve rates. The stress test models employ a regression methodology that incorporates the latest national trends for each consumer credit product segment. Economic variables used include consumer debt, unemployment rates, consumer debt burdens, consumer confidence, bankruptcies, and interest rates, among other statistics. Additionally, a series of portfolio specific stress tests are performed to simulate individual economic events. These include such events as declining residential real estate prices, weakening used car prices, rising interest rates, spikes in personal bankruptcies, and economic recession scenarios. The results of the stress testing are used by Management to support the adequacy of the allowance established.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses a variety of derivative financial instruments in its trading, asset and liability management, as well as to manage certain currency translation exposures of foreign operations. These instruments include interest rate, currency, equity and commodity swaps, forwards, spot, futures, options, caps, floors, forward rate agreements, and other conditional or exchange contracts, and include both exchange-traded and over-the-counter contracts.

Accounting for Derivative Financial Instruments

Effective January 1, 2001, the Corporation adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended. The new standard significantly changed the accounting treatment for interest rate and foreign exchange derivatives the Corporation uses in its derivative activity accounted for as a hedge. The new accounting treatment for derivatives is described below.

Trading Derivative Instruments

Derivative financial instruments used in trading activities are carried at fair value. Such instruments include swaps, forwards, spot, futures, options, caps, floors and forward rate agreements and other conditional or exchange contracts in the interest rate, foreign exchange, equity and commodity markets. The estimated fair values are based on quoted market prices or pricing and valuation models on a present value basis using current market information. Realized and unrealized gains and losses, including any interest income or expense, are recorded in noninterest income as trading. Where appropriate, compensation for credit risk and ongoing servicing is deferred and recorded as income over the life of the derivative financial instruments.

Purchased option, cap and floor contracts are reported in derivative product assets, and written option, cap and floor contracts are reported in derivative product liabilities. For other derivative financial instruments, unrealized gains are reported in derivative product assets, and unrealized losses are reported in derivative product liabilities. However, fair value amounts recognized for derivative financial instruments executed with the same counterparty under a legally enforceable master netting arrangement are reported on a net basis. Cash flows from derivative financial instruments are reported net as operating activities.

Credit derivatives are accounted for as derivative instruments under SFAS No. 133. As a result, the change in fair value of credit derivative instruments is included in trading results in the Corporation's financial statements while any credit assessment change in the identified commercial credit exposure is reflected as a change in the allocated credit reserves.

Hedging Derivative Instruments

Derivative financial instruments used in hedging activities are designated as fair value hedges, cash flow hedges, or hedges of net investments in foreign operations, and are required to meet specific criteria. The instruments used in fair value hedges and cash flow hedges are principally interest rate swaps. Such interest rate swaps are linked to and adjust effectively the interest rate sensitivity of specific assets and liabilities. Interest rate swaps not designated and qualified as a hedge are treated as trading derivative instruments.

Fair Value Hedges (primarily hedges of fixed rate interest-bearing instruments)–The change in fair value of both the hedging derivative and hedged item is recorded in current earnings. If a hedge is dedesignated prior to maturity, previous adjustments to the carrying value of the hedged item are recognized in earnings to match the earnings recognition pattern of the hedged item (e.g., level yield amortization if hedging an interest-bearing instrument).

Cash Flow Hedges (primarily hedges of variable rate interest-bearing instruments)–The effective portion of the change in fair value of the hedging derivative is recorded in Accumulated Other Adjustments to Stockholders' Equity ("AOASE") and the ineffective portion directly in earnings. Amounts in AOASE are reclassified into earnings in a manner consistent with the earnings pattern of the underlying hedged item (generally, reflected in interest expense). The total amount of such reclassification into earnings is projected to be charges of $105 million after tax ($163 million pre-tax) over the next twelve months. The maximum length of time exposure to the variability of future cash flows for forecasted transactions hedged is 12 months. If a hedge is dedesignated prior to maturity, previous adjustments to AOASE are recognized in earnings to match the earnings recognition pattern of the hedged item (e.g., level yield amortization if hedging an interest-bearing instrument). The effect on earnings from the discontinuance of cash flow hedges due to the determination that a forecasted transaction is no longer likely to occur was immaterial.

Interest income or expense on most hedging derivatives used to manage interest rate exposure is recorded on an accrual basis, as an adjustment to the yield of the linked exposures over the periods covered by the contracts. This matches the income recognition treatment of that exposure, generally assets or liabilities carried at historical cost, with interest recorded on an accrual basis. If all or part of a linked position is terminated, e.g., a linked asset is sold or prepaid, or if the amount of an anticipated transaction is likely to be less than originally expected, then the related pro rata portion of any unrecognized gain or loss on the derivative is recognized in earnings at that time, and the related pro rata portion of the derivative is subsequently accounted for as a trading instrument.

Hedges of non-U.S Dollar Net Investment in Foreign Operations–In order to minimize the capital impact of translation gains or losses measured on an after-tax basis, the Corporation uses forward foreign exchange contracts to hedge the exposure relating to non-U.S. dollar net investments in foreign operations. The effective portion of the change in fair value of the hedging derivatives is recorded in AOASE as part of the cumulative translation adjustment. The amount of after-tax gains included in the cumulative translation adjustment during the year ended December 31, 2001, related to hedges of the foreign currency exposures of net investments in foreign operations, totaled $6 million.

Income Resulting from Derivative Financial Instruments

The Corporation uses interest rate derivative financial instruments to reduce structural interest rate risk and the volatility of net interest margin. Net interest margin reflects the effective use of these derivatives. Without their use, net interest income would have been lower by $68 million in 2001, $52 million in 2000, and $181 million in 1999.

The amount of hedge ineffectiveness recognized for cash flow and fair value hedges in the year ended December 31, 2001 was insignificant. No component of a hedging derivative instrument's gain or loss is excluded from the assessment of hedge effectiveness.

Credit Exposure Resulting from Derivative Financial Instruments

The credit risk associated with exchange-traded derivative financial instruments is limited to the relevant clearinghouse. Options written do not expose the Corporation to credit risk, except to the extent of the underlying risk in a financial instrument that the Corporation may be obligated to acquire under certain written put options. Caps and floors written do not expose the Corporation to credit risk.

Credit exposure from derivative financial instruments arises from the risk of a counterparty default on the derivative contract. The amount of loss created by the default is the replacement cost or current positive fair value of the defaulted contract. The Corporation utilizes master netting agreements whenever possible to reduce its credit exposure from counterparty defaults. These agreements allow the netting of contracts with unrealized losses against contracts with unrealized gains to the same counterparty, in the event of a counterparty default.

The impact of these master netting agreements for the year ended December 31 follows:

(In millions)	**2001**	2000
Gross replacement cost	**$12,262**	$ 9,769
Less: Adjustment due to master netting agreements	**(9,037)**	(7,222)
Current credit exposure	**3,225**	2,547
Unrecognized net gains due to nontrading activity (1)	**–**	(225)
Balance sheet credit exposure	**$ 3,225**	$ 2,322

(1) At December 31, 2001, exposure amount is zero due to the January 1, 2001 adoption of SFAS No. 133.

Asset and Liability Management Derivatives

Access to the derivatives market is an important element in maintaining the Corporation's desired interest rate risk position. In general, the assets and liabilities generated through ordinary business activities do not naturally create offsetting positions with respect to repricing, basis or maturity characteristics. Using derivative instruments, principally plain vanilla interest rate swaps (ALM swaps), interest rate sensitivity is adjusted to maintain the desired interest rate risk profile.

At December 31, 2001, the notional value of ALM interest rate swaps linked to specific assets or liabilities totaled $12.5 billion as follows:

	Receive Fixed Pay Floating	Pay Fixed Receive Floating		
(In millions)	Fair Value Hedge	Fair Value Hedge	Cash Flow Hedge	Total Swaps
Interest rate swaps associated with:				
Investment securities	$ –	$50	$ –	$ 50
Funds borrowed (including long-term debt)	7,939	–	4,522	12,461
Total	$7,939	$50	$4,522	$12,511

Interest rate swaps used to adjust the interest rate sensitivity of securities and funds borrowed will not need to be replaced at maturity, since the corresponding asset or liability will mature along with the swap. Interest rate swaps designated as an interest rate related hedge of an existing fixed rate asset or liability are fair value type hedges. Conversely, interest rate swaps designated as an interest rate hedge of an existing variable rate asset or liability are cash flow type hedges. Management designates interest rate swaps as hedges of both fixed and variable rate assets and liabilities interchangeably. The type of hedge for accounting purposes is not a strategic consideration. The Corporation has an insignificant amount of hedges involving forecasted transactions and no non-derivative instruments are designated as a hedge.

Asset and Liability Management Swaps–Maturities and Rates

The notional amounts, maturity, and weighted-average pay and receive rates for the ALM swap position at December 31, 2001 are summarized as follows:

(Dollars in millions)	2002	2003	2004	2005	2006	Thereafter	Total
Receive fixed/pay floating swaps:							
Notional amount	$1,664	$25	$–	$2,000	$ –	$4,250	$ 7,939
Weighted average:							
Receive rate	4.31%	7.61%	–%	7.12%	–%	6.51%	6.21%
Pay rate	2.20	2.35	–	2.26	–	2.38	2.31
Pay fixed/receive floating swaps:							
Notional amount	$2,787	$1,250	$–	$ 250	$235	$50	$ 4,572
Weighted average:							
Receive rate	2.22%	2.13%	–%	2.35%	2.30%	2.46%	2.21%
Pay rate	6.90	7.18	–	7.67	6.74	7.70	7.02
Total notional amount	$4,451	$1,275	$–	$2,250	$235	$4,300	$12,511

Variable interest rates–which generally are the one-month, three-month and six-month London interbank offered rates ("LIBOR") in effect on the date of repricing–are assumed to remain constant. However, interest rates will change and consequently will affect the related weighted-average information presented.

LOAN SECURITIZATIONS AND OFF-BALANCE SHEET ACTIVITIES

Loan Securitizations

The Corporation transforms loans into securities, which are sold to investors–a process referred to as securitization. The Corporation primarily securitizes credit card receivables but also securitizes home equity loans and consumer assets to a limited extent. In a credit card securitization, a designated pool of credit card receivables is removed from the balance sheet and transferred to a third-party special purpose entity ("SPE" or "Trust"), that in turn sells securities to investors entitling them to receive specified cash flows during the life of the security. The proceeds from the issuance are then distributed by the SPE to the Corporation as consideration for the loans transferred. Following a securitization, the Corporation receives: fees for servicing the receivables and any excess finance charges, yield-related fees, and interchange revenue on the receivables over and above the interest paid to the investors, net credit losses and servicing fees (termed "the excess spread").

The Corporation's continuing involvement in the securitized assets includes the process of managing and servicing the transferred receivables, as well as maintaining an undivided, pro rata interest in all credit card receivables that have been securitized, referred to as seller's interest, which is generally equal to the pool of assets included in the securitization less the investor's portion of those assets. The Corporation's seller's interest ranks pari-passu with the investors' interests in the Trusts. As the amount of the loans in the securitized pool fluctuates due to customer payments, purchases, cash advances, and credit losses, the carrying amount of the seller's interest will vary. However, the seller's interest is required to be maintained at a minimum level to ensure receivables are available for allocation to the investor interest. This minimum level is generally between 4% and 7% of the SPE's principal receivables.

Investors in the beneficial interests of the securitized loans have no recourse against the Corporation if cash flows generated from the securitized loans are inadequate to service the obligations of the SPE. To help ensure that adequate funds are available in the event of a shortfall, the Corporation is required to deposit funds into cash spread accounts if excess spread falls below certain minimum levels. Spread accounts are funded from excess spread that would normally be returned to the Corporation. In addition, various forms of other credit enhancements are provided to protect more senior investor interests from loss. Credit enhancements associated with credit card securitizations, such as cash collateral or spread accounts, totaled $165 million and $311 million at December 31, 2001 and 2000, respectively, and are classified on the balance sheet as other assets.

The following comprised the Corporation's managed credit card loans at December 31:

(In millions)	**2001**	2000
Owned credit card loans – held in portfolio	**$ 5,040**	$ 2,835
Owned credit card loans – held for future securitization	**1,746**	1,909
Seller's interest in credit card loans (investment securities)	**24,019**	22,446
Total credit card loans reflected on balance sheet	**30,805**	27,190
Securities sold to investors and removed from balance sheet	**37,350**	39,795
Managed credit card loans	**$68,155**	$66,985

For analytical purposes only, income statement line items are adjusted for the net impact of securitization of credit card receivables for the years ended December 31:

	2001			2000			1999		
(Dollars in millions)	**Reported**	**Credit Card Securi-tizations**	**Managed**	Reported	Credit Card Securi-tizations	Managed	Reported	Credit Card Securi-tizations	Managed
Net interest income– FTE basis	**$ 8,769**	**$ 4,811**	**$ 13,580**	$ 8,974	$ 4,532	$ 13,506	$ 9,142	$ 5,315	$ 14,457
Provision for credit losses	**2,510**	**3,431**	**5,941**	3,398	3,337	6,735	1,249	3,265	4,514
Noninterest income	**7,223**	**(1,380)**	**5,843**	5,090	(1,195)	3,895	8,692	(2,050)	6,642
Noninterest expense	**9,551**	**–**	**9,551**	11,608	–	11,608	11,490	–	11,490
Net income (loss)	**2,638**	**–**	**2,638**	(511)	–	(511)	3,479	–	3,479
Total average loans	**167,054**	**58,563**	**225,617**	171,768	61,424	233,192	156,855	61,747	218,602
Total average earning assets	**237,869**	**39,803**	**277,672**	241,058	42,977	284,035	223,539	45,698	269,237
Total average assets	**267,581**	**39,803**	**307,384**	271,984	42,977	314,961	256,491	45,698	302,189
Net interest margin	**3.69%**	**12.09%**	**4.89%**	3.72%	10.55%	4.76%	4.09%	11.63%	5.37%
Credit Card delinquency ratios:									
30+ days	**3.00**	**4.84**	**4.46**	2.74	4.64	4.51	4.06	4.60	4.57
90+ days	**1.41**	**2.08**	**1.93**	1.20	2.08	2.02	1.87	2.15	2.13
Net credit card charge-off ratio	**5.69**	**5.86**	**5.84**	5.20	5.43	5.42	4.73	5.58	5.49

Other Off-Balance Sheet Activities

In the normal course of business, the Corporation is a party to a number of activities that contain credit, market and operational risk that are not reflected in whole or in part in the Corporation's consolidated financial statements. Such activities include: traditional off-balance sheet credit-related financial instruments; commitments under capital and operating leases and long term debt; credit enhancement associated with asset-backed securities business; and joint venture activities.

The Corporation provides customers with off-balance sheet credit support through loan commitments, standby letters of credit and guarantees, as well as commercial letters of credit. Summarized credit-related financial instruments, including both commitments to extend credit and letters of credit, at December 31, 2001 are as follows:

		Amount of Commitment Expiration Per Period			
(In billions)	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	Over 5 Years
Unused credit card lines	$299.3	$299.3	$ –	$ –	$ –
Unused loan commitments	148.2	109.0	23.7	14.7	0.8
Standby letters of credit and foreign office guarantees	19.4	10.1	6.0	2.7	0.6
Commercial letters of credit	0.6	0.6	–	–	–

Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

In addition to owned banking facilities, the Corporation has entered into a number of long-term leasing arrangements to support the ongoing activities of the Corporation. The required payments under such commitments and long-term debt at December 31, 2001 are as follows:

(In millions)	2002	2003	2004	2005	2006	2007 and After	Total
Operating leases	$ 264	$ 249	$ 214	$ 169	$ 152	$ 890	$ 1,938
Trust preferred capital securities	–	–	–	–	–	3,315	3,315
Long-term debt, including capital leases	8,512	7,910	5,575	3,932	6,935	7,239	40,103
Total	$8,776	$8,159	$5,789	$4,101	$7,087	$11,444	$45,356

The Corporation is an active participant in the asset-backed securities business where it helps meet customers' financing needs by providing access to commercial paper markets in conjunction with specialized financing entities. Customers benefit from such structured financing transactions as such transactions provide an ongoing source of asset liquidity and a potentially favorable financing alternative.

The Corporation, in its role as administrator of these independently rated specialized financing entities, structures financing transactions for customers such that the receivables financed through the specialized financing entities are appropriately diversified and credit enhanced to support the issuance of asset-backed commercial paper. The Corporation does not service these assets and does not transfer its own receivables into these specialized financing entities. Credit enhancement facilities, in the form of either loan or asset purchase commitments, support each transaction in the specialized financing entities. At December 31, 2001, credit enhancement facilities for these entities approximated $52.1 billion, of which the Corporation provided $38.3 billion. At December 31, 2000, credit enhancement facilities for these entities approximated $42.0 billion, of which the Corporation provided $29.7 billion. Assets in the trust are principally trade receivables, auto loans and leases, credit card and a variety of other receivables.

In addition to customer financing transactions, these specialized financing entities fund, through the issuance of asset-backed commercial paper, other selected portfolios of marketable investment securities that are not reflected on the Corporation's balance sheet. Such transactions are structured in a similar fashion to the customer transactions. Off-balance sheet liquidity lines provided by the Corporation associated with these transactions were $4.0 billion at December 31, 2001 and $3.0 billion at December 31, 2000.

The Corporation also provides credit enhancement facilities to other than Bank One administered specialized financing entities. These credit enhancements approximated $2.1 billion and $1.5 billion at December 31, 2001 and 2000, respectively.

The Corporation provides program-wide credit enhancement, in the form of subordinated debt, for certain specialized financing entities it administers. The Corporation provided $1.1 billion in subordinated debt at December 31, 2001 and $845 million at December 31, 2000. In addition, the Corporation provides to customers transaction specific credit enhancement in the form of subordinated interests and off-balance sheet purchase commitments. At December 31, 2001 and 2000, the Corporation provided credit enhancements through subordinated interest positions of $59 million and $72 million, respectively, and off-balance sheet purchase commitments totaling $297 million and $123 million, respectively.

The risk associated with the credit enhancement provided in these transactions is managed as part of the Corporation's risk management practices.

The Corporation is a participant in several operating joint venture initiatives where the Corporation has a majority equity interest in the entity; however, based on the terms of the joint venture arrangement, the ventures are jointly controlled and managed. As a result, such investments are currently accounted for under the equity method of accounting rather than being consolidated on a line-by-line basis in the Corporation's financial statements. In 2002, Management has exerted additional influence over two of these joint ventures. As a result, the Corporation consolidated these two joint ventures beginning in the first quarter of 2002. Total assets of these two joint ventures are $1.2 billion as of December 31, 2001 and this consolidation will have no net impact to the Corporation's consolidated net income. The Corporation's investment in the remaining joint ventures totaled $302 million at December 31, 2001.

CAPITAL MANAGEMENT

Economic Capital

An important aspect of risk management and performance measurement is the ability to evaluate the risk and return of a business unit, product or customer consistently across all lines of business. The Corporation's economic capital framework facilitates this standard measure of risk and return. Business units are assigned capital consistent with the underlying risks of their product set, customer base and delivery channels. The following principles are inherent in the capital allocation methodology employed:

- An equal amount of capital is assigned for each measured unit of risk.
- Risk is defined in terms of "unexpected" losses over the life of the exposure, measured at a confidence interval consistent with that level of capitalization necessary to achieve a targeted AA debt rating. Unexpected losses are in excess of those normally incurred and for which reserves are maintained.
- Business units are assessed a uniform charge against allotted capital, representing a target hurdle rate on equity investments. Returns on capital in excess of the hurdle rate contribute to increases in shareholder value.

Four forms of risk are measured–credit, market, operational and lease residual. Credit risk capital is determined through an analysis of both historical loss experience and market expectations. Market risk capital is set consistent with value-at-risk limits established by the Corporation's risk oversight committees. Operational risk capital incorporates event and technology risks. The operational risk evaluation process involves an examination of various risk factors that contribute to a greater likelihood of loss due to such things as fraud or processing error. Finally, lease residual risk capital covers the potential for losses arising from the disposition of assets returned at the end of lease contracts. This price risk is analyzed based upon historical loss experiences and market factors, as well as by reviewing event-specific scenarios.

The economic capital process provides a valuable analytical tool that is critical to the understanding of business segment performance trends. The methodologies employed are subject to ongoing development and review. Over time, the Corporation's view of individual risks and associated capital will likely change given improvements in the Corporation's ability to quantify risks inherent in various business activities.

Selected Capital Ratios

The Corporation aims to maintain regulatory capital ratios, including those of the principal banking subsidiaries, in excess of the well-capitalized guidelines under federal banking regulations. The Corporation maintains a well-capitalized regulatory position.

The tangible common equity to tangible managed assets ratio is also monitored. This ratio adds securitized credit card loans to reported total assets and is calculated net of total intangible assets.

The Corporation's capital ratios follow:

DECEMBER 31,	2001	2000	1999	1998	1997	Well-Capitalized Regulatory Guidelines
Regulatory leverage	**8.2%**	7.3%	7.7%	8.0%	7.8%	3.0%
Risk-based capital ratios						
Tier 1	**8.6**	7.3	7.7	7.9	8.2	6.0
Total	**12.2**	10.8	10.7	11.3	12.3	10.0
Common equity/managed assets	**6.6**	6.0	6.3	6.7	6.7	–
Tangible common equity/tangible managed assets	**5.9**	5.5	5.7	5.8	6.2	–
Double leverage ratio	**103**	108	112	108	107	–
Dividend payout ratio	**38**	N/M	57	58	61	–

N/M–Not meaningful.

The components of the Corporation's regulatory risk-based capital and risk-weighted assets are as follows at December 31:

(In millions)	2001	2000	1999	1998	1997
Regulatory risk-based capital:					
Tier 1 capital	**$ 21,749**	$ 19,824	$ 20,247	$ 19,495	$ 17,958
Tier 2 capital	**9,091**	9,316	7,967	8,295	9,000
Total capital	**$ 30,840**	$ 29,140	$ 28,214	$ 27,790	$ 26,958
Total risk-weighted assets	**$253,330**	$270,182	$263,169	$244,473	$219,557

In deriving Tier 1 and total capital, goodwill and other nonqualifying intangible assets are deducted as indicated for the period ended December 31:

(In millions)	2001	2000	1999	1998	1997
Goodwill	**$1,560**	$ 858	$ 934	$1,075	$1,120
Other nonqualifying intangibles	**207**	375	669	637	109
Subtotal	**1,767**	1,233	1,603	1,712	1,229
Qualifying intangibles	**414**	214	583	984	473
Total intangibles	**$2,181**	$1,447	$2,186	$2,696	$1,702

In November 2001, the U.S. banking regulators revised the risk based capital rules for the treatment of recourse arrangements, direct credit substitutes, asset and mortgage backed securities, and residual interests in securitization structures. Additionally, in January 2002, the U.S. banking regulators announced changes in the risk based capital rules, related to the treatment of certain equity investments made in nonfinancial companies. Both of the new rules become effective during 2002, and the risk capital ratios presented above do not reflect these changes. It is anticipated that the revised rules will not have a material impact on the Corporation's risk based capital ratios.

Dividend Policy

The Corporation's common stock dividend policy reflects its earnings outlook, desired payout ratios, the need to maintain an adequate capital level and alternative investment opportunities. The common stock dividend payout ratio is currently targeted in the range of 25% - 30% of earnings over time. Common stock dividends declared for 2001 were $0.84 per share compared with $1.26 per share for 2000. This reflects a 50% reduction of the quarterly dividend rate from 42 cents per share to 21 cents per share in the third quarter of 2000. On January 15, 2002, the Corporation declared its quarterly common cash dividend of 21 cents per share, payable on April 1, 2002.

On January 18, 2000, the Corporation announced the discontinuation of the biannual 10% stock dividend.

Double Leverage

Double leverage is the extent to which the Corporation's resources are used to finance investments in subsidiaries. Double leverage was 103% at December 31, 2001 and 108% at December 31, 2000. Trust Preferred Capital Securities of $3.315 billion in 2001 and $2.483 billion in 2000 were included in capital for purposes of this calculation.

Stock Repurchase Program and Other Capital Activities

On November 1, 2001, the Corporation redeemed all outstanding preferred stock with cumulative and adjustable dividends, Series B and C, totaling $190 million. The redemption price for both of the Series B and C preferred stock was $100.00 per share, plus accrued and unpaid dividends totaling $1.00 per share and $1.083 per share, respectively.

On September 17, 2001, the Corporation's Board of Directors approved the repurchase of up to $500 million of the Corporation's common stock. This buyback is part of the remaining 28.4 million share buyback program authorized in May 1999. The timing of the purchases and the exact number of shares to be repurchased will depend on market conditions. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. In 2001, the Corporation purchased 2.6 million shares of common stock at an average price of $29.62 per share, leaving 25.8 million shares available for repurchase under the buyback program.

During 2001, the Corporation added to its Tier 1 capital through the sponsorship of two trusts that issued $825 million in aggregate principal amount of trust preferred securities. During 2000, the Corporation added to its Tier 1 capital through the sponsorship of three trusts that issued $915 million in aggregate principal amount of trust preferred securities. These preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment. See Note 13 to the consolidated financial statements on page 85 for more detail.

During 2001 and 2000, the Corporation strengthened its capital position through the issuance of $750 million and $1 billion of subordinated debt, respectively.

On December 1, 2000, the Corporation converted all outstanding 12 3/4% First Commerce Convertible Debenture Bonds, Series A and B. The conversion rate was 18.9473. All of the debentures were converted to shares of the Corporation's common stock.

FORWARD-LOOKING STATEMENTS

This discussion of financial results contains forward-looking statements about the Corporation, including descriptions of plans or objectives of its management for future operations, products or services, and forecasts of its revenues, earnings or other measures of economic performance. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believe," "expect," "anticipate," "intend," "plan," "estimate" or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could" or "may."

Forward-looking statements, by their nature, are subject to risks and uncertainties. A number of factors—many of which are beyond the Corporation's control—could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements. Some of these factors include certain credit, market, operational, liquidity and interest rate risks associated with the Corporation's business and operations. Other factors described in the Corporation's Form 10-K include changes in business and economic conditions, competition, fiscal and monetary policies and legislation.

Forward-looking statements speak only as of the date they are made. The Corporation does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events, such as further market deterioration that adversely affects credit quality, auto lease residuals and credit card asset values.

CONSOLIDATED BALANCE SHEETS

BANK ONE CORPORATION and Subsidiaries

FOR THE YEAR ENDED DECEMBER 31,	2001	2000
(Dollars in millions)		
Assets		
Cash and due from banks	**$ 17,383**	$ 17,291
Interest-bearing due from banks	**1,030**	5,210
Federal funds sold and securities under resale agreements	**9,347**	4,737
Trading assets	**6,167**	2,788
Derivative product assets	**3,225**	2,322
Investment securities	**60,883**	50,561
Loans	**156,733**	174,251
Allowance for credit losses	**(4,528)**	(4,110)
Loans, net	**152,205**	170,141
Premises and equipment, net	**2,534**	2,894
Customers' acceptance liability	**257**	402
Other assets	**15,923**	12,954
Total assets	**$268,954**	$269,300
Liabilities		
Deposits:		
Demand	**$ 32,179**	$ 30,738
Savings	**80,599**	63,414
Time:		
Under $100,000	**20,106**	25,302
$100,000 and over	**18,071**	22,656
Foreign offices	**16,575**	24,967
Total deposits	**167,530**	167,077
Federal funds purchased and securities sold under repurchase agreements	**13,728**	12,120
Other short-term borrowings	**10,255**	18,003
Long-term debt	**40,103**	38,428
Guaranteed preferred beneficial interest in the Corporation's junior subordinated debt	**3,315**	2,483
Acceptances outstanding	**257**	402
Derivative product liabilities	**2,574**	2,212
Other liabilities	**10,966**	9,940
Total liabilities	**248,728**	250,665
Stockholders' Equity		
Preferred stock	**–**	190
Common stock ($0.01 par value; authorized 4,000,000,000 in 2001 and 2,500,000,000 in 2000; issued 1,181,382,304 in 2001 and 1,181,385,876 in 2000)	**12**	12
Surplus	**10,311**	10,487
Retained earnings	**10,707**	9,060
Accumulated other adjustments to stockholders' equity	**(65)**	(5)
Deferred compensation	**(121)**	(121)
Treasury stock, at cost (14,415,873 shares in 2001 and 21,557,073 shares in 2000)	**(618)**	(988)
Total stockholders' equity	**20,226**	18,635
Total liabilities and stockholders' equity	**$268,954**	$269,300

The accompanying notes are an integral part of this statement.

CONSOLIDATED INCOME STATEMENTS

BANK ONE CORPORATION and Subsidiaries

FOR THE YEAR ENDED DECEMBER 31, *(In millions, except per share data)*	2001	2000	1999
Net Interest Income:			
Interest income	**$17,304**	$20,078	$17,294
Interest expense	**8,666**	11,242	8,273
Total net interest income	**8,638**	8,836	9,021
Noninterest Income:			
Banking fees and commissions	**1,731**	1,537	1,502
Credit card revenue	**2,775**	2,299	3,413
Service charges on deposits	**1,449**	1,310	1,283
Fiduciary and investment management fees	**754**	783	793
Investment securities gains (losses)	**(66)**	(235)	509
Trading	**220**	134	147
Other income (losses)	**360**	(738)	1,045
Total noninterest income	**7,223**	5,090	8,692
Total revenue, net of interest expense	**15,861**	13,926	17,713
Provision for credit losses	**2,510**	3,398	1,249
Noninterest Expense:			
Salaries and employee benefits	**4,198**	4,602	4,528
Occupancy expense	**686**	872	703
Equipment expense	**457**	593	667
Outside service fees and processing	**1,178**	1,537	1,771
Marketing and development	**862**	900	1,235
Telecommunication	**407**	411	334
Other intangible amortization	**97**	410	168
Goodwill amortization	**69**	70	69
Other	**1,246**	2,052	1,461
Total noninterest expense before merger and restructuring-related charges	**9,200**	11,447	10,936
Merger and restructuring-related charges	**351**	161	554
Total noninterest expense	**9,551**	11,608	11,490
Income (loss) before income taxes and cumulative effect of change in accounting principle	**3,800**	(1,080)	4,974
Applicable income taxes (benefit)	**1,118**	(569)	1,495
Income (loss) before cumulative effect of change in accounting principle	**2,682**	(511)	3,479
Cumulative effect of change in accounting principle, net of taxes of $25	**(44)**	–	–
Net income (loss)	**$ 2,638**	$ (511)	$ 3,479
Net income (loss) attributable to common stockholders' equity	**$ 2,628**	$ (523)	$ 3,467
Earnings (loss) per share before cumulative effect of change in accounting principle:			
Basic	**$ 2.28**	$ (0.45)	$ 2.97
Diluted	**$ 2.28**	$ (0.45)	$ 2.95
Earnings (loss) per share:			
Basic	**$ 2.25**	$ (0.45)	$ 2.97
Diluted	**$ 2.24**	$ (0.45)	$ 2.95

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

BANK ONE CORPORATION and Subsidiaries

(In millions)	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Adjustments to Stockholders' Equity	Deferred Compensation	Treasury Stock	Total Stockholders' Equity
Balance–December 31, 1998	$ 190	$ 12	$10,769	$ 9,528	$ 239	$ (94)	$ (84)	$20,560
Net income				3,479				3,479
Change in fair value, investment securities–available for sale, net of taxes					(489)			(489)
Translation loss, net of hedge results and taxes					(13)			(13)
Net income and changes in accumulated other adjustments to stockholders' equity								2,977
Cash dividends declared:								
Common stock				(1,958)				(1,958)
Preferred stock				(12)				(12)
Issuance of stock			(14)				175	161
Purchase of common stock							(1,677)	(1,677)
Awards granted, net of forfeitures and amortization						(24)		(24)
Other			44				19	63
Balance–December 31, 1999	190	12	10,799	11,037	(263)	(118)	(1,567)	20,090
Net loss				(511)				(511)
Change in fair value, investment securities–available for sale, net of taxes					256			256
Translation gain, net of hedge results and taxes					2			2
Net loss and changes in accumulated other adjustments to stockholders' equity								(253)
Cash dividends declared:								
Common stock				(1,454)				(1,454)
Preferred stock				(12)				(12)
Issuance of stock			(302)				615	313
Purchase of common stock							(17)	(17)
Awards granted, net of forfeitures and amortization						(34)		(34)
Other			(10)			31	(19)	2
Balance–December 31, 2000	190	12	10,487	9,060	(5)	(121)	(988)	18,635
Net income				2,638				2,638
Change in fair value, investment securities–available for sale, net of taxes					93			93
Change in fair value of cash-flow type hedge derivative instruments, net of taxes					(146)			(146)
Translation loss, net of hedge results and taxes					(7)			(7)
Net income and changes in accumulated other adjustments to stockholders' equity								2,578
Cash dividends declared:								
Common stock				(981)				(981)
Preferred stock				(10)				(10)
Issuance of stock			(179)				448	269
Redemption of stock	(190)							(190)
Purchase of common stock							(78)	(78)
Other			3					3
Balance–December 31, 2001	$ –	$ 12	$10,311	$10,707	$ (65)	$ (121)	$ (618)	$20,226

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF CASH FLOWS

BANK ONE CORPORATION and Subsidiaries

FOR THE YEAR ENDED DECEMBER 31, *(In millions)*	2001	2000	1999
Cash Flows from Operating Activities:			
Net income (loss)	**$ 2,638**	$ (511)	$ 3,479
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**571**	934	697
Cumulative effect of accounting change	**69**	–	–
Provision for credit losses	**2,510**	3,398	1,249
Investment securities (gains) losses	**66**	236	(509)
Net decrease in net derivative product assets	**(198)**	(71)	(233)
Net (increase) decrease in trading assets	**(3,456)**	11,691	(292)
Net (increase) decrease in other assets	**213**	(655)	245
Net increase (decrease) in other liabilities	**375**	1,502	(830)
Gain on sale of banks and branch offices	–	–	(348)
Merger and restructuring-related charges	**351**	161	276
Other operating adjustments	**(764)**	139	(100)
Net cash provided by operating activities	**2,375**	16,824	3,634
Cash Flows from Investing Activities:			
Net (increase) decrease in federal funds sold and securities under resale agreements	**(4,610)**	5,045	80
Securities available for sale:			
Purchases	**(56,088)**	(72,098)	(56,564)
Maturities	**23,579**	17,882	16,150
Sales	**23,393**	48,960	38,361
Credit card receivables securitized	**3,845**	–	7,279
Net decrease (increase) in loans	**13,425**	(14,903)	(21,377)
Purchase of Wachovia credit card business	**(5,776)**	–	–
Loan recoveries	**342**	276	325
Net cash and cash equivalents due to mergers, acquisitions and dispositions	**–**	–	(1,669)
Additions to premises and equipment	**(169)**	(533)	(593)
Proceeds from sales of premises and equipment	**55**	–	–
All other investing activities, net	**383**	(1,194)	41
Net cash used in investing activities	**(1,621)**	(16,565)	(17,967)
Cash Flows from Financing Activities:			
Net increase in deposits	**373**	4,681	3,907
Net increase (decrease) in federal funds purchased and securities under repurchase agreements	**1,607**	(6,599)	(4,444)
Net increase (decrease) in other short-term borrowings	**(7,757)**	(3,208)	4,274
Proceeds from issuance of long-term debt	**12,466**	13,914	28,736
Repayment of long-term debt	**(11,341)**	(9,237)	(16,245)
Cash dividends paid	**(991)**	(1,222)	(2,420)
Proceeds from issuance of trust preferred capital securities	**825**	915	575
Proceeds from issuance of common and treasury stock	**191**	152	61
Redemption of preferred stock	**(190)**	–	–
Purchase of common stock for treasury	**(78)**	(3)	(1,647)
All other financing activities, net	**19**	(19)	(238)
Net cash provided by (used in) financing activities	**(4,876)**	(626)	12,559
Effect of exchange rate changes on cash and cash equivalents	**34**	147	(25)
Net Decrease in Cash and Cash Equivalents	**(4,088)**	(220)	(1,799)
Cash and Cash Equivalents at Beginning of Year	**22,501**	22,721	24,520
Cash and Cash Equivalents at End of Year	**$ 18,413**	$ 22,501	$ 22,721
Other Cash Flow Disclosures:			
Interest paid	**$ 9,221**	$ 10,777	$ 8,082
Income taxes paid	**506**	371	701

The accompanying notes are an integral part of this statement.

Note 1–Summary of Significant Accounting Policies

BANK ONE CORPORATION and subsidiaries ("Bank One" or the "Corporation") is a financial holding company that offers a full range of financial services to commercial and business customers and consumers. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles, and certain prior-year financial statement information has been reclassified to conform to the current year's presentation. The preparation of the consolidated financial statements require Management to make estimates and assumptions that affect the amounts reported and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

(a) Principles of Consolidation

The Corporation's consolidated financial statements include all accounts of BANK ONE CORPORATION (the "Parent Company") and all significant majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Results of operations of acquired entities are included from the acquisition date, and assets and liabilities are stated at their estimated fair values at the acquisition date.

(b) Resale and Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are treated as collateralized financing transactions and carried at the amount at which the securities will be subsequently resold or repurchased, plus accrued interest. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis.

(c) Trading Activities

Trading assets and liabilities are carried at fair value. Trading profits include realized and unrealized gains and losses from both cash and derivative financial instruments used in trading activities. Trading activities involve instruments with interest rate, exchange rate, equity price, credit and commodity price market risk.

(d) Investment Securities

Debt and equity investment securities designated as available-for-sale are carried at fair value, with unrealized gains and losses, net of taxes, included in accumulated other adjustments to stockholders' equity. The estimated fair value of a security is determined based on market quotations when available or, if not available, by using a discounted cash flow approach. Realized gains and losses, including other than temporary impairments, are included in noninterest income as investment securities gains (losses). The specific identification method is used to calculate realized gains or losses.

Effective April 1, 2001, the Corporation adopted Emerging Issues Task Force (EITF) Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" ("EITF No. 99-20"). Under EITF No. 99-20, impairment on certain securitized financial assets must be recognized when the asset's fair value is below its carrying value and there has been an adverse change in estimated cash flows. Prior to EITF No. 99-20, the Corporation judged declines as other than temporary based on the underlying facts and circumstances surrounding the investment, such as the length of time the market value had been below cost or based on the creditworthiness of the issuer. Under EITF No. 99-20, the Corporation recognizes interest income based on the amount of the excess of estimated cash flows over the recorded investment in the securitized financial asset. Changes in estimated cash flows are recognized on a prospective basis. The effect of adopting EITF No. 99-20 was a one-time, non-cash charge to earnings of $44 million after-tax ($69 million pre-tax) or $0.04 per diluted share. This charge has been presented as a cumulative effect of a change in accounting principle in the consolidated income statement.

Principal investments are carried at fair value, with unrealized and realized gains and losses included in noninterest income as investment securities gains (losses). The fair value of a publicly traded principal investment is determined using quoted market prices when the investment is unrestricted; otherwise fair value is estimated using quoted market prices adjusted for market liquidity and sale restrictions. The fair value for principal investments that are not publicly traded is estimated based on the investees' financial results, conditions and prospects, values of comparable public companies, market liquidity and sales restrictions.

(e) Loans, including lease finance receivables

Loans are carried at the principal amount outstanding, net of unearned income and amounts charged off. Unearned income, which includes deferred loan origination fees reduced by loan origination costs, for loans, excluding credit cards, is amortized to interest income over the life of the related loan using the straight-line method that approximates the effective interest rate method. Fees received for providing loan commitments and letters of credit that result in loans are typically deferred and amortized to interest income over the life of the related loan, beginning with the initial borrowing. Fees on commitments and letters of credit that are not expected to be funded are amortized to noninterest income as banking fees and commissions over the commitment period. Other credit-related fees, including syndication management fees, are recorded to noninterest income as banking fees and commissions when received or over time to match the earnings process.

The carrying amount of credit card loans also includes unpaid interest and fees. Loan origination fees and costs on credit card loans are typically deferred and amortized over one year using a straight-line method to noninterest income as credit card revenue.

The Corporation typically provides lease financing to its customers through direct financing leases. Leveraged leases, which represent direct financing leases involving nonrecourse debt, also are provided to customers. Unearned income on a direct financing lease is amortized to income over the lease term so as to yield a constant rate of return on the net investment in the lease. Periodic recognition of lease income on leveraged leases is based on an analysis of cash flows using the original investment less deferred taxes arising from the difference between the pretax financial accounting income and taxable income. Residual values for leased automobiles are reviewed at least annually with periodic reviews performed as warranted by the underlying circumstances. Valuations are based upon various assumptions and estimates including the probability of the automobile being returned to the Corporation, estimated costs incurred to reduce the number of returned automobiles from the customer, estimated collectable fees for mileage and other wear and tear, reconditioning costs, and estimated used car sales prices. Declines in estimated residual value that are other than temporary are recognized in the period such determination is made in other noninterest income.

(f) Loan Sales

When a commercial loan is sold, the loan's carrying value is compared to the net sales proceeds. Any shortfall in value that is presumed to be credit related is recorded as a charge-off reducing the allowance for credit losses. Any shortfall in value not presumed to be credit related is recorded as a charge to other noninterest income.

With consumer loan portfolio sales, the allocable portion of the allowance for credit losses adjusts the carrying value of the loan portfolio and is treated as a transfer out of the allowance for credit losses. The difference between the portfolio's carrying value adjusted for the allocable credit reserves and the net sales proceeds is recorded as a component of other noninterest income.

(g) Nonperforming Loans

A loan is considered nonperforming when placed on nonaccrual status, or when renegotiated at terms that represent an economic concession to the borrower because of a decline in the borrower's financial condition. For a more detailed discussion, see the "Nonperforming Assets" section beginning on page 56. The Corporation's charge-off policies are presented on page 57.

(h) Allowance for Credit Losses

Management maintains the allowance for credit losses at a level it believes is adequate to provide for estimated probable credit losses inherent in on- and off-balance sheet credit exposure. For a more detailed discussion, see the "Allowance for Credit Losses" section beginning on page 58.

(i) Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful life of the owned asset and, for leasehold improvements, over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. For owned and capitalized assets, estimated useful lives range from three to 30 years. Maintenance and repairs are charged to expense as incurred, while major improvements are capitalized and amortized to operating expense over their identified useful life.

(j) Other Real Estate Owned ("OREO")

OREO includes real estate assets that have been received in satisfaction of debt. OREO is initially recorded and subsequently carried at the lower of cost or fair value less estimated selling costs. Any valuation adjustments required at the date of transfer are charged to the allowance for credit losses. Subsequently, unrealized losses and realized gains and losses on sale are included in other noninterest income. Operating results from OREO are recorded in other noninterest expense.

(k) Intangible Assets

Intangible assets include goodwill resulting from acquisitions and identifiable intangible assets, such as customer lists, core deposits and credit card relationships. Goodwill is equal to an acquired company's acquisition cost less the value of net tangible and intangible assets.

Intangible assets are reported in other assets and are amortized into other noninterest expense on an accelerated or straight-line basis over the period the Corporation expects to benefit from such assets. Goodwill is amortized over estimated periods ranging from five to 40 years. Intangible assets are periodically reviewed for other than temporary impairment with any such declines in value included in other noninterest expense.

(l) Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are in effect. The effect on deferred tax assets and liabilities of a change in rates is recognized as income or expense in the period that includes the enactment date.

(m) Cash Flow Reporting

Cash and cash equivalents consist of cash and due from banks, whether interest-bearing or not. Net reporting of cash transactions has been used when the balance sheet items consist predominantly of maturities of three months or less, or where otherwise permitted. Other items are reported on a gross basis.

(n) Stock-Based Compensation

The Corporation accounts for stock awards pursuant to the methods prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." As stock options are granted at fair value, there are no charges to earnings associated with stock options granted. Compensation expense related to restricted stock awards is recorded as earned over the restriction period.

(o) New and Pending Accounting Pronouncements

The Corporation adopted in 2001 the following new accounting pronouncements and will adopt in 2002 the following pending accounting pronouncements. In general, the effect of those adopted in 2001 were not significant to the Corporation's consolidated financial statements. Upon adoption of SFAS No. 142. "Goodwill and Other Intangible Assets" ("SFAS No. 142"), the Corporation does not currently anticipate significant goodwill impairment based upon the current analysis of facts and circumstances.

Accounting for Transfers and Servicing of Financial Assets and Liabilities

Effective April 1, 2001, the Corporation adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Liabilities" ("SFAS No. 140"). On July 23, 2001, the Financial Accounting Standards Board ("FASB") issued a Technical Bulletin that delayed the effective date of certain provisions of SFAS No. 140 relating to isolation in bankruptcy for banks subject to FDIC receivership and for certain other financial institutions. For these entities, the isolation provisions are effective for transfers of financial assets occurring after December 31, 2001, except for transfers involving revolving credits such as credit card securitizations. An additional transition period was granted for securitizations involving revolving credits that ends three months after the earliest date at which sufficient approvals can be obtained to permit the necessary changes to existing master trusts to meet the isolation provisions, but in no event extend later than June 30, 2006. The Corporation is analyzing the effect of SFAS No. 140 on its current securitization structures. The new standard also provides revised guidance for an entity to be considered a qualifying special purpose entity and requires additional disclosures concerning securitization activities and collateral.

Accounting for Derivative Instruments and Hedging Activities

Effective January 1, 2001, the Corporation adopted SFAS No. 133, as amended. The new standard significantly changed the accounting treatment for interest rate and foreign exchange derivatives the Corporation uses in its asset and liability management activities. The Corporation's accounting for derivatives used in trading activities has not changed as the result of SFAS No. 133. Hedging derivatives are now recognized on the balance sheet at fair value as either assets or liabilities. Hedge ineffectiveness, if any, is calculated and recorded in current earnings. The accounting for the effective portion of the change in value of a hedging derivative is based on the nature of the hedge. See "Derivative Financial Instruments" beginning on page 61 for detailed information on the Corporation's strategy in using derivative instruments in its asset and liability management and trading activities, as well as the accounting principles and disclosures for these instruments.

Business Combinations and Goodwill and Other Intangible Assets

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS No. 141") and SFAS No. 142. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and establishes the specific criteria for the recognition of intangible assets separately from goodwill. Under SFAS No. 142, goodwill will no longer be amortized, but will be subject to impairment tests at least annually. SFAS No. 142 will be effective for the Corporation on January 1, 2002. However, any acquired goodwill or intangible assets recorded in transactions closed subsequent to June 30, 2001 were immediately subject to the amortization provisions of SFAS No. 142. Upon adoption of SFAS No. 142, the Corporation estimates the elimination of goodwill amortization will positively impact net income by approximately $69 million annually.

Note 2–Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the average number of common shares outstanding for the period. Except when the effect would be antidilutive, the diluted EPS calculation includes shares that could be issued under outstanding stock options and the employee stock purchase plans, and common shares that would result from the conversion of convertible preferred stock and convertible debentures. In addition, interest on convertible debentures (net of tax) is added to net income, since this interest would not be paid if the debentures were converted to common stock.

The computation of basic and diluted earnings per share follows:

YEAR ENDED DECEMBER 31,	2001	2000	1999
(In millions, except per share data)			
Income (loss) before cumulative effect of accounting change	**$2,682**	$ (511)	$3,479
Cumulative effect of accounting change, net of tax	**(44)**	–	–
Net income (loss)	**2,638**	(511)	3,479
Preferred stock dividends	**(10)**	(12)	(12)
Net income (loss) available to common stockholders for basic EPS	**2,628**	(523)	3,467
Interest on convertible debentures, net of tax (1)	**–**	–	6
Diluted income (loss) available to common stockholders (1)	**$2,628**	$ (523)	$3,473
Average shares outstanding	**1,166**	1,154	1,168
Stock options (1)	**8**	–	6
Convertible debentures (1)	**–**	–	4
Average shares outstanding assuming full dilution	**1,174**	1,154	1,178
Earnings (loss) per share before cumulative effect of change in accounting principle:			
Basic	**$ 2.28**	$ (0.45)	$ 2.97
Diluted (1)	**2.28**	(0.45)	2.95
Earnings (loss) per share:			
Basic	**$ 2.25**	$ (0.45)	$ 2.97
Diluted (1)	**2.24**	(0.45)	2.95

(1) Common equivalent shares and related income have been excluded from the computation of diluted loss per share for the year ended December 31, 2000, as the effect would be antidilutive.

Note 3–Acquisitions

On July 27, 2001, the Corporation completed its acquisition of the Wachovia credit card business, including a credit card portfolio of approximately $7.5 billion consumer credit card receivables. The acquisition was accounted for under the provisions of SFAS No. 141 and SFAS No. 142. The first component of the transaction was the primary portfolio of $6.2 billion in receivables of credit card holders who are not customers of Wachovia's retail bank. The second component was the agent bank portfolio of $1.3 billion.

On September 7, 2001, the Corporation announced its agreement with Wachovia to end the agent bank relationship and sell back to Wachovia the approximately $1.3 billion of consumer credit card receivables of customers who also have a Wachovia retail banking relationship. Under the terms of the agreement, Wachovia paid a $350 million termination fee and will reimburse the Corporation for the premium paid for the repurchased receivables and conversion costs related to the repurchase.

Note 4–Restructuring-Related Charges

a) Fourth Quarter 2001 Restructuring-Related Charges

The Corporation recorded restructuring-related charges in the fourth quarter of 2001 for additional real estate and severance costs to accomplish more rapid expense reductions, accelerated systems conversions and other consolidations. Summarized below are the details of these restructuring-related charges:

DECEMBER 31, 2001 *(In millions)*	Personnel-Related Costs	Contractual Obligations and Asset Writedowns	Total
Restructuring-related charges	**$ 76**	**$278**	**$354**

Personnel-related items consist primarily of severance costs related to identified staff reductions in the lines of business totaling approximately 6,900 positions. Contractual obligations included the estimated costs associated with lease and other contract termination costs incorporated in the business restructuring plans. Asset write-downs included leasehold write-offs related to leased properties following the decision to abandon such facilities, as well as in the case of fixed assets and capitalized software for which similar decisions were made. Actions under this overall restructuring plan are expected to be completed within a 12-month period. Certain contractual payments associated with these actions, as required, will extend beyond this 12-month time-frame.

b) Second Quarter 2000 Restructuring-Related Charges

Actions under this restructuring plan have been completed, with only payments of identified obligations remaining, which consist primarily of lease obligations. Unpaid amounts totaled $58 million as of December 31, 2001, and will be paid as required over the remaining contractual periods.

Note 5–Business Segments

In the third quarter of 2001, certain organizational changes were made involving Corporate Investments and Commercial Banking business. The tax-oriented portfolio of Corporate Investments was transferred to Commercial Banking, while the principal investments and fixed income portfolios were transferred to Corporate. Additionally, certain expenses were reclassified from salaries to other expenses. Results for prior periods have been adjusted to reflect these and other insignificant changes and to conform to the current line of business structure.

The information presented on page 26 is consistent with the content of business segment data provided to the Corporation's management which does not use product group revenues to assess consolidated results. Aside from investment management and insurance products, product offerings are tailored to specific customer segments. As a result, the aggregation of product revenues and related profit measures across lines of business is not available.

Aside from the United States, no single country or geographic region generates a significant portion of the Corporation's revenues or assets. In addition, there are no single customer concentrations of revenue or profitability.

See the following "Business Segments" sections for additional disclosure regarding the Corporation's operating segments:

- "Business Segments" on page 26.
- Data presented in tables up until the section entitled "Financial Performance" included in the "Business Segment Results and Other Data" section beginning with "Retail" through "Corporate" on pages 27–40.

Note 6–Interest Income and Interest Expense

Details of interest income and expense are as follows:

FOR THE YEAR ENDED DECEMBER 31, *(In millions)*	2001	2000	1999
Interest Income			
Loans, including fees	**$13,213**	$15,214	$13,051
Bank balances	**145**	503	233
Federal funds sold and securities under resale agreements	**418**	577	445
Trading assets	**309**	440	330
Investment securities	**3,219**	3,344	3,235
Total	**17,304**	20,078	17,294
Interest Expense			
Deposits	**4,895**	6,137	4,651
Federal funds purchased and securities sold under repurchase agreements	**633**	1,142	935
Other short-term borrowings	**659**	1,216	942
Long-term debt	**2,479**	2,747	1,745
Total	**8,666**	11,242	8,273
Net Interest Income	**8,638**	8,836	9,021
Provision for credit losses	**2,510**	3,398	1,249
Net Interest Income After Provision for Credit Losses	**$ 6,128**	$ 5,438	$ 7,772

Note 7–Investment Securities

A summary of the Corporation's investment portfolio follows:

FOR THE YEAR ENDED DECEMBER 31, 2001	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Book Value)
(In millions)				
U.S. Treasury	$ 1,424	$ 30	$ 4	$ 1,450
U.S. government agencies	25,265	113	132	25,246
States and political subdivisions	1,310	28	8	1,330
Interests in credit card securitized receivables	23,998	107	–	24,105
Other debt securities	4,397	24	18	4,403
Equity securities (1)	2,775	10	15	2,770
Total available for sale securities	$ 59,169	$ 312	$ 177	59,304
Principal and other investments (2)				1,579
Total investment securities				$ 60,883
FOR THE YEAR ENDED DECEMBER 31, 2000				
(In millions)				
U.S. Treasury	$ 2,587	$ 2	$ 34	$ 2,555
U.S. government agencies	14,415	18	47	14,386
States and political subdivisions	1,276	24	8	1,292
Interests in credit card securitized receivables	22,447	116	–	22,563
Other debt securities	5,237	18	57	5,198
Equity securities (1)	2,730	15	40	2,705
Total available for sale securities	$ 48,692	$ 193	$ 186	48,699
Principal and other investments (2)				1,862
Total investment securities				$ 50,561
FOR THE YEAR ENDED DECEMBER 31, 1999				
(In millions)				
U.S. Treasury	$ 2,569	$ 1	$ 101	$ 2,469
U.S. government agencies	12,919	3	412	12,510
States and political subdivisions	1,599	20	38	1,581
Interests in credit card securitized receivables	20,176	279	–	20,455
Other debt securities	7,611	5	172	7,444
Equity securities (1)	2,002	11	5	2,008
Total available for sale securities	$ 46,876	$ 319	$ 728	46,467
Principal and other investments (2)				1,445
Total investment securities				$47,912

(1) The fair values of certain securities for which market quotations were not available were estimated.
(2) The fair values of certain securities reflect liquidity and other market-related factors, and includes investments accounted for at fair value consistent with specialized industry practice.

For the year ended December 31, 2001, gross recognized gains and losses on the sale of investment securities were $537 million and $603 million, respectively.

As of December 31, 2001, debt investment securities had the following maturity and yield characteristics:

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield
(Dollars in millions)										
U.S. Treasury	$ 190	3.36%	$ 1,151	4.28%	$ 59	5.89%	$ 24	7.06%	$ 1,424	4.27%
U.S. government agencies	630	4.89	2,132	4.77	1,010	4.93	21,493	5.86	25,265	5.71
States and political subdivisions	169	5.02	387	5.05	338	5.02	416	5.24	1,310	7.78
Other debt securities	22,223	7.94	4,385	5.74	1,330	4.96	457	8.46	28,395	7.47
Total debt securities –at amortized cost	$23,212	7.80%	$ 8,055	5.24%	$ 2,737	4.97%	$22,390	5.91%	$56,394	6.61%
Total debt securities– –at fair value	$23,316		$ 8,132		$ 2,741		$22,345		$56,534	

The distribution of mortgage-backed securities and collateralized mortgage obligations is based on average expected maturities. Actual maturities might differ because issuers may have the right to call or prepay obligations.

Note 8–Loans

Loan composition by line of business is as follows:

FOR THE YEAR ENDED DECEMBER 31,	2001	2000
(In millions)		
Retail:		
Small business commercial	$ 12,347	$ 12,103
Home equity	30,268	31,361
Vehicles:		
Loans	13,481	14,300
Leases	6,155	8,840
Other personal	9,779	10,697
Total Retail	72,030	77,301
Commercial Banking:		
Corporate Banking:		
Commercial and industrial	22,268	N/A
Commercial real estate	8,975	N/A
Lease financing	4,669	N/A
Other	731	N/A
Middle Market:		
Commercial and industrial	28,676	N/A
Commercial real estate	3,472	N/A
Lease financing	1,053	N/A
Other	294	N/A
Total Commercial Banking	70,138	85,100
Other lines of business	7,779	7,106
First USA	6,786	4,744
Total loans	156,733	174,251
Less: Allowance for credit losses	4,528	4,110
Total loans, net	$152,205	$170,141

N/A–Not available.

Loans are net of unearned income of $2.749 billion and $3.467 billion as of December 31, 2001 and 2000, respectively. Loans held for sale, which are carried at the lower of cost or fair value, totaled $3.000 billion and $2.964 billion at December 31, 2001 and 2000, respectively.

The Corporation's primary goal in managing credit risk is to minimize the impact of default by an individual borrower or group of borrowers. As a result, the Corporation strives to maintain a loan portfolio that is diverse in terms of loan type, industry, borrower and geographic concentrations. As of December 31, 2001 and 2000, there were no significant loan concentrations with any single borrower, industry or geographic segment (see "Credit Portfolio Composition" on pages 52–55).

A loan is considered impaired when it is probable that all principal and interest amounts due will not be collected in accordance with the loan's contractual terms. Certain loans, such as loans carried at the lower of cost or fair value or small-balance homogeneous loans (e.g., credit card, home mortgages and installment credit) are exempt from impairment determinations for disclosure purposes. Impaired loans, accordingly, exclude consumer loans classified as nonaccrual. Such consumer loans totaled $1.064 billion and $714 million at December 31, 2001 and 2000, respectively.

Impairment is recognized to the extent that the recorded investment of an impaired loan or pool of loans exceeds its value either based on the loan's underlying collateral or the calculated present value of projected cash flows discounted at the contractual interest rate. Loans having a significant recorded investment are measured on an individual basis, while loans not having a significant recorded investment are grouped and measured on a pool basis.

The Corporation's impaired loan information is as follows:

FOR THE YEAR ENDED DECEMBER 31,	2001	2000
(In millions)		
Impaired loans with related allowance	$2,487	$1,748
Impaired loans with no related allowance(1)	–	13
Total impaired loans	$2,487	$1,761
Allowance on impaired loans (2)	$ 731	$ 407

FOR THE YEAR ENDED DECEMBER 31,	2001	2000	1999
(In millions)			
Average balance of impaired loans	$2,047	$1,335	$ 972
Interest income recognized on impaired loans	46	31	46

(1) Impaired loans for which the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan do not require an allowance under SFAS No. 114.

(2) The allowance for impaired loans is included in the Corporation's overall allowance for credit losses.

Maturity Distribution and Interest Rate Sensitivity of Loans

A distribution of the maturity of loans by line of business and, for those loans due after one year, a breakdown between those loans that have floating interest rates and those that have predetermined interest rates at December 31, 2001 follows:

(In millions)	One Year or Less	One to Five Years	Over Five Years	Total
Retail:				
Small business commercial	$ 3,290	$ 6,159	$ 2,898	$ 12,347
Home equity	628	1,279	28,361	30,268
Vehicles:				
Loans	549	9,784	3,148	13,481
Leases	1,655	4,500	–	6,155
Other personal	1,765	807	7,207	9,779
Total Retail	7,887	22,529	41,614	72,030
Commercial Banking:				
Corporate Banking:				
Commercial and industrial	5,953	15,009	1,306	22,268
Commercial real estate	4,324	4,319	332	8,975
Lease financing	80	588	4,001	4,669
Other	731	–	–	731
Middle Market:				
Commercial and industrial	12,276	13,554	2,846	28,676
Commercial real estate	1,048	1,994	430	3,472
Lease financing	72	708	273	1,053
Other	294	–	–	294
Total Commercial Banking (1)	24,778	36,172	9,188	70,138
Total reported (1)	$ 32,665	$ 58,701	$ 50,802	$142,168
Loans with floating interest rates		$ 27,451	$ 13,186	$ 40,637
Loans with predetermined interest rates		31,250	37,616	68,866
Total		$ 58,701	$ 50,802	$109,503

(1) Excludes Commercial Banking lease financing receivables, credit card, and other lines of business.

Foreign Outstandings

Foreign outstandings include loans, balances with banks, acceptances, securities, equity investments, accrued interest, other monetary assets and current credit exposure on derivative contracts. At year-end 2001 and 2000, there were no countries for which cross-border and net local country claims exceeded 1.0% of total assets. At December 31, 1999, Germany was the only country with cross-border claims exceeding 1.0% of total assets. The oustandings amounted to $3.118 billion.

At December 31, 2001 and 1999 there were no countries for which cross-border claims totaled between 0.75% and 1.0% of total assets. At December 31, 2000, Germany was the only country for which cross-border and net local country claims totaled between 0.75% and 1.0% of total assets. These outstandings amounted to $2.512 billion.

Note 9–Credit Card Securitizations

The Corporation transforms credit card receivables into securities, which are sold to investors–a process referred to as securitization. Gain or loss on the sale of the credit card receivable depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. During 2001, the Corporation securitized approximately $3.8 billion in credit card receivables. Maturities of credit card securitizations during 2001 totaled $9.2 billion, with an additional $10.3 billion scheduled for 2002. During 2001 and 2000, the Corporation recognized $62 million and $116 million, respectively, in net securitization amortization in the consolidated income statement, including amortization of transaction costs, as the gain on securitization from new transactions was offset by amortization as investors in individual series were repaid.

A servicing asset or liability is not generally recognized in a credit card securitization (and thus not considered in the gain or loss computation) since the Corporation receives adequate compensation relative to current market servicing prices to service the receivables sold. Transaction costs in credit card securitizations are typically deferred and amortized over the life of the security as a reduction of noninterest income.

At December 31, 2001 and 2000, the estimated fair value of the interest-only strip associated with credit card securitizations was $219 million and $221 million, respectively, while the estimated fair value of the seller's interest was $23.9 billion and $22.4 billion, respectively. The interest-only strip and seller's interest are both recorded as investment securities.

Certain estimates are used in determining the fair value of the interest-only strip at both the date of securitization and the balance sheet date, including the excess spread, receivable lives and the discount rate. The components of excess spread, which are estimated, include finance charge and fee revenue (excluding interchange income) generated by the securitized loans in excess of interest paid to investors, related net credit losses and servicing fees. The resulting expected cash flows over the lives of the receivables are discounted at a rate commensurate with the risk of the cash flows to determine the fair value. Such estimates and assumptions are subject to change, and accordingly, the Corporation may not recover all of the recorded investment of the interest-only strip (and thus be measured for impairment). The receivables in each trust have unique attributes and therefore the interest-only strip related to each trust is evaluated separately. The seller's interest resulting from credit card securitizations is recorded at fair value using a present value approach, with assumptions that are consistent with the valuation of the interest-only strip.

The following represents the Corporation's key weighted-average assumptions used to estimate the fair value of the retained interests relating to credit card securitizations at December 31, 2001, and the pretax sensitivity of the fair values to immediate 10 and 20 percent adverse changes in these assumptions are as follows:

(Dollars in millions)	Interest-Only Strip (1)	Sellers Interest (2)	Total Retained Interests
Receivable Lives:			**0.5 years**
10% Adverse Change	$ 23.4	$ 11.6	35.0
20% Adverse Change	47.0	23.1	70.1
Excess Spread:			**1.24%**
10% Adverse Change	24.0	11.8	35.8
20% Adverse Change	48.0	23.7	71.7
Expected Net Credit Losses (3):			**7.11%**
10% Adverse Change	120.4	67.4	187.8
20% Adverse Change	204.6	116.4	321.0
Discount Rate:			**10.00%**
10% Adverse Change	0.7	0.3	1.0
20% Adverse Change	1.5	0.7	2.2

(1) The effect of adverse changes in key assumptions on the fair value of the interest-only strip would be recorded in noninterest income.

(2) The effect of adverse changes in key assumptions on the value of the sellers interest is recorded in accumulated other adjustments to stockholders' equity, unless the decline in value is deemed to be other than temporary, which would result in a charge to noninterest income upon recognition.

(3) Certain Trust legal documents include finance charge and fee revenue reversals in the definition of net credit losses, resulting in a higher net credit loss rate for Trust purposes.

The sensitivity analysis illustrates the potential magnitude of significant adverse changes in key assumptions used in valuing the retained interests, and thus the potential impact to the Corporation's financial position and results of operations. However, the sensitivities of the fair values of the retained interests to changes in each key assumption may not be linear. Furthermore, the sensitivities for each key variable are calculated independently of changes in the other key variables. Therefore, the sensitivity analysis does not purport to present the maximum impairment loss that would result from 10 and 20 percent adverse changes in these assumptions. Actual experience observed may result in changes in multiple key assumptions concurrently, the magnitude of which on the fair value of the retained interests would be dependent on the relative change and the direction of change. In addition, the sensitivity analysis does not give effect to corrective action that Management could and would take to mitigate the impact of adverse changes in key assumptions. The asset values of the retained interests are periodically reviewed for other-than-temporary impairment.

The key weighted-average economic assumptions and ranges of assumptions used to estimate the fair value of retained interests at the date of securitization (including transfer of new balances under revolving structures) for credit card securitizations occurring during 2001 were approximately the same as the assumptions used to value the retained interests at December 31, 2001.

Cash flows received from (paid to) credit card securitization master trusts (i.e., SPEs) during the year ended December 31, 2001 and 2000 are as follows:

(In millions)	**2001**	2000
Proceeds from reinvestment in revolving securitizations	**$72,206**	$83,469
Proceeds from new securitizations	**3,845**	–
Servicing fees received	**598**	649
Cash flows received on retained interests (1)	**2,577**	2,224
Cash released from (used to fund) spread accounts	**146**	(32)

(1) Includes cash flows from interest-only strips as well as interchange fees received from securitized accounts.

For a detailed discussion of the Corporation's loan securitization process for credit card loans, see the "Loan Securitizations" section beginning on page 64.

Note 10–Allowance for Credit Losses

Changes in the allowance for credit losses for the years ended December 31 were as follows:

(In millions)	**2001**	2000	1999
Balance, beginning of year	**$ 4,110**	$ 2,285	$ 2,271
Additions (deductions):			
Charge-offs	**(2,630)**	(1,667)	(1,531)
Recoveries	**342**	276	325
Net charge-offs	**(2,288)**	(1,391)	(1,206)
Provision for credit losses	**2,510**	3,398	1,249
Transfers [(1)]	**196**	(182)	(29)
Balance, end of year	**$ 4,528**	$ 4,110	$ 2,285

(1) Transfers to the allowance for credit losses in 2001 primarily represent the addition of the Wachovia credit card portfolio. Transfers from the allowance for credit losses for prior years primarily represent allocable credit allowances associated with consumer loan sale transactions, including securitization transactions.

Note 11–Long-Term Debt

Long-term debt consists of borrowings having an original maturity of greater than one year. Original issue discount and deferred issuance costs are amortized into interest expense over the terms of the related notes. Long-term debt at December 31, 2001 and 2000 was as follows:

(Dollars in millions)	Interest Rate	Maturities	**2001**	2000
Parent Company				
Senior debt:				
Medium-term notes	1.98–7.63%	2002–2008	**$14,387**	$14,360
Other	–	–	**8**	14
Subordinated debt:				
Notes	5.90–10.00	2002–2027	**6,920**	6,204
Floating rate notes	Various	2003	**150**	246
Subsidiaries				
Bank notes	1.76–7.93	2002–2006	**12,933**	13,375
Subordinated notes	6.00–8.25	2002–2008	**1,729**	1,695
Capital leases	5.50–11.07	2002–2019	**66**	71
Other	1.85–11.14	2002–2028	**3,910**	2,463
Total long-term debt			**$40,103**	$38,428

Aggregate annual scheduled repayments of long-term debt at December 31, 2001 are as follows:

(In millions)	Total
2002	$ 8,512
2003	7,910
2004	5,575
2005	3,932
2006	6,935
Thereafter	7,239
Total	$40,103

Note 12–Deposits and Short-Term Borrowings

Deposits

The maturity distribution of domestic time certificates of deposit of $100,000 and over and deposits in foreign offices, predominantly in amounts in excess of $100,000, at December 31, 2001 is as follows:

(Dollars in millions)	Amount	Percent
Domestic Time Certificates of Deposit of $100,000 and Over:		
Three months or less	$ 4,934	28%
Over three months to six months	2,040	11
Over six months to twelve months	2,446	14
Over twelve months	8,445	47
Total	$17,865	100%
Foreign Offices:		
Three months or less	16,057	97%
Over three months to six months	278	2
Over six months to twelve months	208	1
Over twelve months	32	–
Total	$16,575	100%

The Corporation has an aggregate amount of domestic other time deposits of $100,000 and over of $206 million at December 31, 2001, which primarily mature within three months.

Short-Term Borrowings

Borrowings with original maturities of one year or less are classified as short-term. The following is a summary of short-term borrowings for each of the three years ended December 31:

	At Year-End		For the Year		
(Dollars in millions)	Outstandings	Weighted-Average rate	Daily Average Outstandings	Weighted-Average Rate	Highest Outstandings at Month End
2001:					
Federal funds purchased	**$ 3,171**	**1.62%**	**$ 5,121**	**4.32%**	**$ 6,353**
Securities sold under repurchase agreements	**10,557**	**1.43**	**11,543**	**3.57**	**13,386**
Bank notes	**4,529**	**3.07**	**8,267**	**5.48**	**13,047**
Commercial paper	**828**	**1.58**	**1,968**	**4.75**	**2,634**
Other short-term borrowings	**4,898**	**1.60**	**3,273**	**3.43**	**4,629**
Total short-term borrowings	**$23,983**	**1.83%**	**$30,172**	**4.28%**	
2000:					
Federal funds purchased	$ 5,253	5.89%	$ 6,281	6.14%	$ 9,663
Securities sold under repurchase agreements	6,867	6.01	12,680	5.96	17,609
Bank notes	12,426	6.71	12,298	6.50	13,327
Commercial paper	3,048	6.62	3,137	5.94	3,303
Other short-term borrowings	2,529	6.22	3,543	6.50	6,861
Total short-term borrowings	$30,123	6.36%	$37,939	6.26%	
1999:					
Federal funds purchased	$ 5,483	4.54%	$ 7,060	4.96%	$ 8,806
Securities sold under repurchase agreements	13,237	4.08	12,651	4.62	16,102
Bank notes	12,707	5.60	11,112	5.57	12,947
Commercial paper	3,184	6.09	3,006	5.23	3,595
Other short-term borrowings	5,320	4.46	3,739	4.98	5,475
Total short-term borrowings	$39,931	4.86%	$37,568	5.00%	

Note 13–Guaranteed Preferred Beneficial Interest in the Corporation's Junior Subordinated Debt

The Corporation has sponsored ten trusts with a total aggregate issuance outstanding of $3.315 billion at December 31, 2001 in trust preferred securities as follows.

	Trust Preferred			Junior Subordinated Debt Owned by Trust		
(Dollars in millions)	Issuance Date	Initial Liquidation Value	Distribution Rate	Initial Principal Amount	Maturity	Redeemable Beginning
Capital VI	September 28, 2001	$525	7.20%	$541.2	October 15, 2031	October 15, 2006
Capital V	January 30, 2001	300	8.00%	309.3	January 30, 2031	January 30, 2006
Capital IV	August 30, 2000	160	3-mo LIBOR plus 1.50%	164.9	September 1, 2030	September 1, 2005
Capital III	August 30, 2000	475	8.75%	489.7	September 1, 2030	See (1) below.
Capital II	August 8, 2000	280	8.50%	288.7	August 15, 2030	August 15, 2005
Capital I	September 20, 1999	575	8.00%	593.0	September 15, 2029	September 20,2004
First Chicago NBD Capital 1	January 31, 1997	250	3-mo LIBOR plus 0.55%	258.0	February 1, 2027	February 1, 2007
First USA Capital Trust I (2)	December 20, 1996	200	9.33%	206.2	January 15, 2027	January 15, 2007
First Chicago NBD Institutional Capital A	December 3, 1996	500	7.95%	515.0	December 1, 2026	December 1, 2006
First Chicago NBD Institutional Capital B	December 5, 1996	250	7.75%	258.0	December 1, 2026	December 1, 2006

(1) Redeemable at any time subject to approval by the Federal Reserve Board.

(2) The Corporation paid a premium of $36 million to repurchase $193 million of these securities in 1997.

These trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment. Distributions on these securities are included in interest expense on long-term debt. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds thereof in junior subordinated debentures of the Corporation, the sole asset of each trust. The preferred trust securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly-owned by the Corporation. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Corporation making payment on the related junior subordinated debentures. The Corporation's obligations under the junior subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Corporation of each respective trust's obligations under the trust securities issued by such trust. See Note 15 to the consolidated financial statements on page 85 for discussion of the restrictions on the ability of the Corporation to obtain funds from its subsidiaries.

Note 14–Stock Dividends and Preferred Stock

The Corporation is authorized to issue 50 million shares of preferred stock with a par value of $0.01 per share. On November 1, 2001 the Corporation redeemed all outstanding preferred stock with cumulative and adjustable dividends, Series B and C, totaling $190 million. The redemption price for both the Series B and C preferred stock was $100 per share, plus accrued and unpaid dividends totaling $1.00 per share and $1.083 per share, respectively. At December 31, 2000 the Corporation had outstanding 1,191,000 and 713,800 shares of Series B and C preferred stock with a stated value of $100 per share and a carrying value of $119 million and $71 million, respectively. The dividend rate on each of the cumulative adjustable rate series was based on a stated value and adjusted quarterly, based on a formula that considers the interest rates for selected short- and long-term U.S. Treasury securities prevailing at the time the rate is set.

Note 15–Dividends and Capital Restrictions

The Corporation's national bank subsidiaries are subject to statutory limitations on their ability to pay dividends. Dividends cannot exceed the level of undivided profits. In addition, a national bank cannot declare a dividend, without regulatory approval, in an amount in excess of its net income for the current year combined with the combined net profits for the preceding two years. State bank subsidiaries may also be subject to limitations on dividend payments.

Based on these statutory requirements, the bank affiliates could have declared aggregate additional dividends of up to approximately $620 million without regulatory approval at January 1,

2002. The payment of dividends by any bank may also be affected by other factors, such as the maintenance of adequate capital.

The bank affiliates are subject to various regulatory capital requirements that require them to maintain minimum ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Failure to meet minimum capital requirements results in certain regulatory actions that could have a direct material effect on the bank affiliates' financial statements. As of December 31, 2001, Management believed that each of the bank affiliates met all applicable capital adequacy requirements and are correctly categorized as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that categorization that Management believes have changed the institution's category.

The actual and required capital amounts and ratios for the Corporation and its principal banking subsidiaries are presented as follows:

	Actual		To Be Categorized Adequately Capitalized	
(Dollars in millions)	Capital Amount	Capital Ratio	Capital Amount	Capital Ratio
At December 31, 2001				
Risk-adjusted capital (to risk-weighted assets):				
The Corporation (consolidated)	**$30,840**	**12.2%**	**$20,266**	**8.0%**
Bank One, N.A. (Chicago)	**16,112**	**12.6%**	**10,191**	**8.0**
Bank One, N.A. (Columbus)	**4,594**	**10.9**	**3,373**	**8.0**
Bank One, Michigan	**2,115**	**11.9**	**1,420**	**8.0**
First USA Bank, N.A.	**2,253**	**16.5**	**1,092**	**8.0**
Tier 1 capital (to risk-weighted assets):				
The Corporation (consolidated)	**$21,749**	**8.6%**	**$10,133**	**4.0%**
Bank One, N.A. (Chicago)	**10,595**	**8.3**	**5,096**	**4.0**
Bank One, N.A. (Columbus)	**2,915**	**6.9**	**1,687**	**4.0**
Bank One, Michigan	**1,576**	**8.9**	**710**	**4.0**
First USA Bank, N.A.	**2,099**	**15.4**	**546**	**4.0**
Tier 1 leverage (to average assets):				
The Corporation (consolidated)	**$21,749**	**8.2%**	**$ 7,942**	**3.0%**
Bank One, N.A. (Chicago)	**10,595**	**6.6**	**6,469**	**4.0**
Bank One, N.A. (Columbus)	**2,915**	**6.4**	**1,811**	**4.0**
Bank One, Michigan	**1,576**	**7.3**	**867**	**4.0**
First USA Bank, N.A.	**2,099**	**14.2**	**589**	**4.0**
At December 31, 2000				
Risk-adjusted capital (to risk-weighted assets):				
The Corporation (consolidated)	$29,140	10.8%	$21,615	8.0%
Bank One, N.A. (Chicago) (1)	16,007	11.3	11,378	8.0
Bank One, N.A. (Columbus)	4,283	12.0	2,862	8.0
Bank One, Michigan	2,406	10.9	1,759	8.0
First USA Bank, N.A.	2,230	15.8	1,126	8.0
Tier 1 capital (to risk-weighted assets):				
The Corporation (consolidated)	$19,824	7.3%	$10,807	4.0%
Bank One, N.A. (Chicago) (1)	9,689	6.8	5,689	4.0
Bank One, N.A. (Columbus)	2,867	8.0	1,431	4.0
Bank One, Michigan	1,582	7.2	879	4.0
First USA Bank, N.A.	2,110	15.0	563	4.0
Tier 1 leverage (to average assets):				
The Corporation (consolidated)	$19,824	7.3%	$ 8,167	3.0%
Bank One, N.A. (Chicago) (1)	9,689	6.4	6,078	4.0
Bank One, N.A. (Columbus)	2,867	7.8	1,471	4.0
Bank One, Michigan	1,582	7.2	878	4.0
First USA Bank, N.A.	2,110	11.8	718	4.0

(1) Reclassified to show the effect of the 2001 mergers with Bank One, Texas, N.A., Bank One, Louisiana, N.A., Bank One, Florida, Bank One, Arizona, N.A., and Bank One, Utah, N.A.

Federal banking law restricts each bank subsidiary from extending credit to the Corporation in excess of 10% of the subsidiary's capital stock and surplus, as defined. Any such extensions of credit are subject to strict collateral requirements.

Note 16–Supplemental Disclosures for Statements of Cash Flows

During 2000 and 1999, the Corporation transferred $6.5 billion and $2.3 billion, respectively, of investment securities available for sale to trading securities. These transfers were for capital management purposes.

Loans transferred to other real estate owned totaled $162 million, $131 million, and $113 million in 2001, 2000, and 1999, respectively.

During 2000 and 1999, the Corporation recognized several non-cash charges to earnings for significant items. Several of these items will not result in future cash outflows while other items represent future uses of cash. See tables 1 and 2 on page 41 for a detailed listing of significant items.

Note 17–Supplemental Disclosures for Accumulated Other Adjustments to Stockholders' Equity

Accumulated other adjustments to stockholders' equity are as follows:

(In millions)	**2001**	2000	1999
Fair value adjustment on investment securities–available for sale:			
Balance, beginning of period	**$ (15)**	$ (271)	$ 218
Change in fair value, net of taxes of $86 in 2001, $(6) in 2000 and $(180) in 1999	**158**	(5)	(391)
Reclassification adjustment, net of taxes of $(38) in 2001, $151 in 2000 and $(56) in 1999	**(65)**	261	(98)
Balance, end-of-period	**78**	(15)	(271)
Fair value adjustment on derivative instruments–cash flow type hedges:			
Balance, beginning of period	**–**	–	–
Transition adjustment at January 1, 2001, net of taxes of $(56) (1)	**(98)**	–	–
Net change in fair value associated with current period hedging activities, net of taxes of $(70) in 2001	**(139)**	–	–
Net reclassification into earnings, net of taxes of $49 in 2001 (1)	**91**	–	–
Balance, end-of-period	**(146)**	–	–
Accumulated translation adjustment:			
Balance, beginning of period	**10**	8	21
Translation gain (loss), net of hedge results and taxes	**(7)**	2	(13)
Balance, end of period	**3**	10	8
Total accumulated other adjustments to stockholders' equity	**$ (65)**	$ (5)	$ (263)

(1) During 2001, $89 million after-tax of the transition adjustment recorded at January 1, 2001 was reclassified into earnings.

Note 18–Employee Benefits

(a) Pension Plans

Prior to 2000, the Corporation had various noncontributory defined benefit pension plans covering substantially all salaried employees. Effective December 31, 1999, all noncontributory defined benefit pension plans were combined into one plan. Effective December 31, 2000, the supplemental executive retirement plan was discontinued.

The Corporation's qualified plans' change in benefit obligation, change in plan assets and funded status are as follows:

(In millions)	**2001**	2000
Change in benefit obligation:		
Benefit obligation, January 1	**$2,248**	$2,250
Service cost	**92**	103
Interest cost	**168**	182
EGTRRA adjustment (1)	**7**	–
Actuarial loss	**108**	128
Benefits paid	**(326)**	(415)
Benefit obligation, December 31	**$2,297**	$2,248
Change in plan assets:		
Fair value of plan assets, January 1	**$3,134**	$3,400
Actual return (loss) on plan assets	**(114)**	146
Corporation contribution	**53**	3
Benefits paid	**(326)**	(415)
Fair value of plan assets, December 31	**$2,747**	$3,134
Funded status	**$ 450**	886
Unrecognized net actuarial loss (gain)	**156**	(357)
Unrecognized prior service cost	**24**	28
Unrecognized net transition assets	**–**	(7)
Prepaid pension costs, December 31	**$ 630**	$ 550

(1) The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) contained various provisions relating to the operations of qualified pension plans. Increases to the benefit limits and the limit on pensionable earnings caused a shift in pension obligation from the non-qualified to the qualified plan.

Plan assets include approximately 1.0 million shares of the Corporation's common stock with a fair value of approximately $40 million and $37 million at December 31, 2001 and 2000, respectively.

The net periodic pension benefit for 2001, 2000 and 1999 for the Corporation's qualified and nonqualified pension plans are as follows:

(In millions)	**2001**	2000	1999
Service cost–benefits earned during the period	**$ 96**	$ 110	$ 123
Interest cost on benefit obligation	**177**	194	175
Expected return on plan assets	**(287)**	(300)	(293)
Amortization of prior service cost	**8**	9	(1)
Recognized actuarial (gain)	**(1)**	(11)	(1)
Amortization of transition assets	**(7)**	(13)	(13)
Curtailment gain	**–**	–	(13)
Net periodic pension benefit	**$ (14)**	$ (11)	$ (23)

The accrued pension cost for the Corporation's nonqualified supplemental pension plans was $39 million and $77 million at December 31, 2001 and 2000, respectively. Such plans are unfunded.

The assumptions used in determining the Corporation's benefit obligation and net periodic pension cost for both qualified and nonqualified supplemental pension plans are as follows:

FOR THE YEAR ENDED DECEMBER 31,	2002	2001	2000	1999
Actuarial assumptions:				
Weighted-average discount rate for benefit obligation	7.00%(1)	**7.00%**	7.50%	8.00%
Weighted-average rate of compensation increase	4.25%	**4.25%**	4.25%	5.00%
Expected long-term rate of return on plan assets	8.50%	**9.50%**	9.50%	9.50%

(1) Rate currently expected at December 31, 2002.

(b) Postretirement Benefits Other Than Pensions

The Corporation sponsors postretirement life insurance plans and provides health care benefits for certain retirees and grandfathered employees when they retire. The postretirement life insurance benefit is noncontributory, while the health care benefits are contributory.

The Corporation's postretirement benefit plans' change in benefit obligation and funded status at December 31, 2001 and 2000 are as follows:

(In millions)	2001	2000
Change in benefit obligation:		
Benefit obligation, January 1	**$ 195**	$ 164
Service cost	**–**	–
Interest cost	**14**	13
Actuarial loss	**48**	37
Benefits paid	**(24)**	(17)
Curtailment	**–**	(2)
Benefit obligation, December 31	**233**	195
Change in plan assets:		
Fair value of plan assets, January 1	**–**	–
Employer contribution	**24**	17
Benefits paid	**(24)**	(17)
Fair value of plan assets, December 31	**–**	–
Funded status	**(233)**	(195)
Unrecognized net actuarial loss	**67**	20
Unrecognized prior service cost	**(25)**	(38)
Accrued postretirement costs, December 31	**$(191)**	$(213)

Net periodic cost for postretirement health care and life insurance benefits during 2001, 2000 and 1999 includes the following:

(In millions)	2001	2000	1999
Service cost–benefits earned during the period	**$ –**	$ –	$ 1
Interest cost on accumulated postretirement benefit obligation	**14**	13	13
Amortization of prior service cost	**(12)**	(12)	(12)
Adjustment for acquisitions	**–**	–	2
Curtailment	**–**	1	–
Net periodic postretirement cost	**$ 2**	$ 2	$ 4

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.00% at December 31, 2001, and 7.50% at December 31, 2000.

For measurement purposes, an annual rate of increase of 10.00% was assumed for 2001 in the cost of covered health care benefits; this range was assumed to decrease to 5.00% in the years 2009 and thereafter. These assumptions have a significant effect on the amounts reported. Accordingly, the effect of a 1.00% change in the assumed health care cost trend rates is as follows:

(In millions)	1% increase	1% decrease
Effect on 2001 service and interest cost components	$ 0.9	$ 0.8
Effect on December 31, 2001, accumulated postretirement benefit obligation	$14.3	$12.6

(c) 401(k) Plans

The Corporation sponsored various 401(k) plans that together covered substantially all of its employees. Up until 2000, the Corporation was required to make contributions to the plans in varying amounts. The expense related to these plans was $95 million in 2001, $137 million in 2000 and $81 million in 1999. Effective December 31, 1999, all new contributions are being made to one Corporation-sponsored 401(k) plan, thereby establishing uniform contribution requirements for the entire Corporation.

Note 19–Stock-Based Compensation

The Corporation utilizes several types of stock-based awards as part of its overall compensation program. In addition, the Corporation provides employees the opportunity to purchase its shares through its Employee Stock Purchase Plan. The Corporation's stock-based compensation plans provide for the granting of awards to purchase or receive common shares and include limits as to the aggregate number of shares available for grants and the total number of shares available for grants of stock awards in any one year. The compensation cost that has been charged against income for the Corporation's stock-based compensation plans was $70 million for

2001, $59 million for 2000 and $38 million for 1999. As a result of the 1999 fourth-quarter restructuring plan, $4 million was recorded as a restructuring charge related to the immediate vesting of restricted shares for certain executives.

(a) Restricted Shares

Restricted shares granted to key officers of the Corporation require them to continue employment for a stated number of years from the grant date before restrictions on the shares lapse. The market value of the restricted shares as of the date of grant is amortized to compensation expense as earned over the restriction period. Holders of restricted stock receive dividends and have the right to vote the shares.

(b) Stock Options

The Corporation's stock option plans generally provide that the exercise price of any stock option may not be less than the closing price of the common stock on the trading day preceding the date of grant of the common stock.

Options granted under the Corporation's stock-based compensation program generally vest ratably over a five-year period and have a term of ten years. Certain option grants include the right to receive additional option grants ("reload" or "restorative" options) in an amount equal to the number of common shares used to satisfy the exercise price and applicable withholding taxes. Upon grant, reload options assume the same remaining term as the related original option and vest six months from the date of grant.

Summarized stock option activity for 2001, 2000 and 1999, respectively, and details of the Corporation's stock options outstanding at December 31, 2001 follows:

	2001		2000		1999	
(Shares in thousands)	**Shares**	**Wtd. Avg. Exercise Price**	**Shares**	**Wtd. Avg. Exercise Price**	**Shares**	**Wtd. Avg. Exercise Price**
Outstanding at January 1	**77,315**	**$34.17**	44,630	$40.88	38,247	$34.34
Granted	**23,573**	**37.73**	42,659	27.25	15,556	50.35
Exercised	**(7,262)**	**25.09**	(2,089)	19.66	(6,473)	24.34
Forfeited	**(3,144)**	**36.72**	(7,885)	38.56	(2,700)	36.56
Outstanding at December 31	**90,482**	**$35.72**	77,315	$34.17	44,630	$40.88
Exercisable at December 31	**45,525**	**$36.30**	25,503	$36.41	19,847	$32.86

	Options Outstanding			**Options Exercisable**	
(Shares in thousands) **Range of Exercise Prices**	**Number Outstanding Dec. 31, 2001**	**Wtd. Avg. Exercise Price**	**Wtd. Avg. Remaining Contractual Life**	**Number Exercisable Dec. 31, 2001**	**Wtd. Avg. Exercise Price**
Less than $20.00	**2,084**	$16.21	1.8 years	**2,084**	$16.21
$20.01 - $25.00	**3,261**	24.47	3.8 years	**3,261**	24.47
$25.01 - $30.00	**31,640**	26.61	14.5 years	**16,139**	26.46
$30.01 - $35.00	**5,632**	32.70	7.2 years	**3,137**	32.33
$35.01 - $45.00	**27,623**	38.04	8.5 years	**5,211**	38.80
$45.01 - $55.00	**16,166**	49.53	10.7 years	**12,190**	49.34
Greater than $55.00	**4,076**	59.13	6.8 years	**3,503**	59.09
Total	**90,482**	$35.72	10.5 years	**45,525**	$36.30

(c) Employee Stock Purchase Plan

The Corporation sponsors an Employee Stock Purchase Plan designed to encourage employee stock ownership. This plan generally allows eligible employees to purchase shares of the Corporation's common stock at a 15% discount from the market price at the beginning of an offering or the market price at the end of such offering, whichever is lower. During the current 18-month offering period, an employee is allowed to make deposits of up to 20% of his/her earnings (up to a designated maximum) on an annual basis to an interest-bearing savings account to purchase the number of shares permissible under the plan. The maximum number of shares each participant may purchase cannot exceed the contribution limit divided by the applicable purchase price on the offering date. Shares purchased by the participant are subject to a one year holding period and cannot be sold or transferred for one year after the purchase date. The Corporation does not recognize any compensation expense with respect to this plan.

(d) Pro Forma Costs of Stock-Based Compensation

The grant date fair values of stock options granted under the Corporation's various stock option plans and the Employee Stock Purchase Plan were estimated using the Black-Scholes option-pricing model. This model was developed to estimate the fair value of traded options, which have different characteristics than employee stock options. In addition, changes to the subjective input assumptions can result in materially different fair market value estimates. Therefore, the Black-Scholes model may not necessarily provide a reliable single measure of the fair value of employee stock options and purchase rights.

Summarized stock-based compensation grants and their related weighted-average grant-date fair values for the years ended December 31 follows:

	2001		2000		1999	
(Shares in thousands)	Number of Shares	Wtd. Avg. Grant Date Fair Value	Number of Shares	Wtd. Avg. Grant Date Fair Value	Number of Shares	Wtd. Avg. Grant Date Fair Value
Stock option plans	**23,573**	**$ 13.34**	42,659	$ 9.80	15,556	$ 12.28
Restricted shares	**2,065**	**37.68**	4,517	27.85	1,728	51.13
Employee Stock Purchase Plan (1)	**2,483**	**9.68**	2,122	3.27	2,974	7.28

(1) Estimated number of shares that employees would purchase under the 2001, 2000 and 1999 plans.

The following assumptions were used to determine the Black-Scholes weighted-average grant date fair value of stock option awards and conversions in 2001, 2000 and 1999: (1) expected dividend yields ranged from 2.29% - 4.86%, (2) expected volatility ranged from 19.11% - 42.29%, (3) risk-free interest rates ranged from 4.85% - 6.43% and (4) expected lives ranged from 2 to 13 years.

The following assumptions were used to determine the Black-Scholes weighted-average grant-date fair value of employees' purchase rights under the employee stock purchase plans in 2001, 2000 and 1999, respectively: (1) expected dividend yields of 2.30%, 2.58% and 2.86%, (2) expected volatility of 33.80%, 39.63% and 34.68%, (3) risk-free interest rate of 2.61%, 6.22% and 5.07% and (4) expected lives of 1.5, 0.5 and 1.0 years.

Had the compensation cost for the Corporation's stock-based compensation plans been determined in accordance with the fair-value-based accounting method provided by SFAS No. 123 "Accounting for Stock-Based Compensation," the net income and earnings per share implications for the years ended December 31, 2001, 2000 and 1999 would have been as follows:

	2001		2000		1999	
(In millions, except per share data)	Pro Forma(1)	As Reported	Pro Forma(1)	As Reported	Pro Forma(1)	As Reported
Net income (loss)	**$2,452**	**$2,638**	$ (646)	$ (511)	$3,413	$3,479
Net income (loss) per common share, basic	**2.09**	**2.25**	(0.57)	(0.45)	2.91	2.97
Net income (loss) per common share, diluted	**2.08**	**2.24**	(0.57)	(0.45)	2.89	2.95

(1) The above pro forma information may not be representative of the pro forma impact in future years.

Note 20–Income Taxes

The components of total applicable income tax expense (benefit) in the consolidated income statement for the years ended December 31, 2001, 2000 and 1999 are as follows:

(In millions)	2001	2000	1999
Income tax expense:			
Current:			
Federal	**$ 797**	$ 571	$ 735
Foreign	**11**	32	2
State	**115**	26	97
Total	**923**	629	834
Deferred:			
Federal	**194**	(1,151)	624
Foreign	**5**	(7)	–
State	**(4)**	(40)	37
Total	**195**	(1,198)	661
Applicable income taxes (benefit)	**$ 1,118**	$ (569)	$ 1,495

The tax effects of fair value adjustments on securities available for sale, derivative instruments in cash flow type hedges, foreign currency translation adjustments and certain tax benefits related to stock options are recorded directly to stockholders' equity. The net tax (benefit) charge recorded directly to stockholders' equity amounted to $(47) million in 2001, $107 million in 2000 and $(259) million in 1999.

A reconciliation of expected income tax expense at the federal statutory rate of 35% to the Corporation's applicable income tax expense and effective tax rate follows:

(Dollars in millions)	**2001**		2000		1999	
Statutory tax rate	**$1,330**	**35.0%**	$ (378)	35.0%	$1,741	35.0%
Increase (decrease) resulting from:						
State income taxes,						
net of federal income tax benefit	**72**	**1.9**	(4)	0.3	87	1.8
Tax-exempt interest	**(56)**	**(1.5)**	(57)	5.3	(66)	(1.3)
Tax credits	**(231)**	**(6.1)**	(179)	16.6	(133)	(2.7)
Goodwill	**23**	**0.6**	25	(2.3)	23	0.5
Cash surrender value of life insurance	**(57)**	**(1.5)**	(56)	5.2	(48)	(1.0)
Other, net	**37**	**1.0**	80	(7.4)	(109)	(2.2)
Applicable income taxes (benefit)	**$1,118**	**29.4%**	$ (569)	52.7%	$1,495	30.1%

A net deferred tax liability is included in other liabilities in the consolidated balance sheet as a result of temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their related tax bases. The components of the net deferred tax liability as of December 31, 2001 and 2000 are as follows:

(In millions)	**2001**	2000
Deferred tax liabilities:		
Deferred income on lease financing	**$4,242**	$3,895
Prepaid pension costs	**216**	165
Securitizations of credit card receivables	**121**	155
Deferred fee income	**333**	336
Other	**77**	200
Gross deferred tax liabilities	**4,989**	4,751
Deferred tax assets:		
Allowance for credit losses	**1,744**	1,667
Restructure reserves	**177**	127
Incentive compensation	**302**	257
Other	**862**	933
Gross deferred tax assets	**3,085**	2,984
Net deferred tax liability	**$1,904**	$1,767

The Corporation has an alternative minimum tax (AMT) credit carryforward for tax purposes of $87 million at December 31, 2001. The Corporation also has carryforwards of foreign tax credits ("FTC") in the amounts of $38 million. The FTC's will expire after 2005.

Note 21–Lease Commitments

The Corporation has entered into a number of operating lease agreements for premises and equipment. The minimum annual rental commitments under these leases are shown below:

(In millions)	
2002	$ 264
2003	249
2004	214
2005	169
2006	152
2007 and thereafter	890
Total	$1,938

Rental income from premises leased to others in the amount of $77 million in 2001, $80 million in 2000, and $87 million in 1999 has reduced occupancy expense. Rental expense under operating leases approximated $332 million in 2001, $384 million in 2000, and $414 million in 1999.

Note 22–Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Corporation is a party to financial instruments containing credit and/or market risks that are not required to be reflected in the balance sheet. These financial instruments are primarily credit-related instruments. The Corporation has risk management policies to identify, monitor and limit exposure to credit, liquidity and market risks.

The following disclosures represent the Corporation's credit exposure, assuming that every counterparty to financial instruments with off-balance sheet credit risk fails to perform completely according to the terms of the contracts, and that the collateral and other security, if any, proves to be of no value to the Corporation.

This note does not address the amount of market losses the Corporation would incur if future changes in market prices make financial instruments with off-balance sheet market risk less valuable or more onerous. For a more detailed discussion of off-balance sheet activities see the "Other Off-Balance Sheet Activities" section beginning on page 66.

(a) Collateral and Other Security Arrangements

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, the Corporation generally determines the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness. The Corporation may also receive comfort letters and oral assurances. The amount and type of collateral held to reduce credit risk varies but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in the Corporation's possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is requested when appropriate.

(b) Credit-Related Financial Instruments

Summarized credit-related financial instruments, including both commitments to extend credit and letters of credit are as follows:

FOR THE YEAR ENDED DECEMBER 31,	2001	2000
(In billions)		
Unused credit card lines	**$299.3**	$272.7
Unused loan commitments	**148.2**	162.9
Standby letters of credit and foreign office guarantees	**19.4**	19.0
Commercial letters of credit	**0.6**	0.7

Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

Credit card lines allow customers to use a credit card to buy goods or services and to obtain cash advances. However, the Corporation has the right to change or terminate any terms or conditions of a customer's credit card account, upon notification to the customer. Loan commitments are agreements to make or acquire a loan or lease as long as the agreed-upon terms (e.g., expiry, covenants or notice) are met. The Corporation's commitments to purchase or extend loans help its customers meet their liquidity needs.

Standby letters of credit and foreign office guarantees are issued in connection with agreements made by customers to counterparties. If the customer fails to comply with the agreement, the counterparty may enforce the standby letter of credit or foreign office guarantee as a remedy. Credit risk arises from the possibility that the customer may not be able to repay the Corporation for standby letters of credit or foreign office guarantees. At December 31, 2001 and 2000, standby letters of credit and foreign office guarantees had been issued for the following purposes:

FOR THE YEAR ENDED DECEMBER 31,	2001	2000
(In millions)		
Financial	**$15,611**	$15,705
Performance	**3,786**	3,305
Total (1)	**$19,397**	$19,010

(1) Includes $3.4 billion at December 31, 2001, and $2.7 billion at December 31, 2000, participated to other institutions.

Commercial letters of credit are issued or confirmed to ensure payment of customers' payables or receivables in short-term international trade transactions. Generally, drafts will be drawn when the underlying transaction is consummated as intended. However, the short-term nature of this instrument serves to mitigate the risk associated with these contracts.

Note 23–Fair Value of Financial Instruments

The Corporation is required to disclose the estimated fair value of its financial instruments in accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." These disclosures do not attempt to estimate or represent the Corporation's fair value as a whole. The disclosure excludes assets and liabilities that are not financial instruments as well as the significant unrecognized value associated with core deposits and credit card relationships.

Fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Estimated fair value amounts in theory represent the amounts at which financial instruments could be exchanged or settled in a current transaction between willing parties. In practice, however, this may not be the case due to inherent limitations in the methodologies and assumptions used to estimate fair value. For example, quoted market prices may not be realized because the financial instrument may be traded in a market that lacks liquidity; or a fair value derived using a discounted cash flow approach may not be the amount realized because of the subjectivity involved in selecting underlying assumptions, such as projecting cash flows or selecting a discount rate. The fair value amount also may not be realized because it ignores transaction costs and does not include potential tax effects. The Corporation does not plan to dispose of, either through sale or settlement, the majority of its financial instruments at these estimated fair values.

Summarized carrying values and estimated fair values of financial instruments as of December 31, 2001 and 2000 follows:

	2001		2000	
(In millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and other short-term financial instruments (a)	**$ 28,017**	**$ 28,017**	$ 27,640	$ 27,640
Trading assets (a)	**6,167**	**6,167**	2,788	2,788
Investment securities (b)	**60,883**	**60,883**	50,561	50,561
Loans (c)	**156,733**	**154,619**	174,251	171,633
Allowance for credit losses	**(4,528)**	**–**	(4,110)	–
Loans, net	**152,205**	**154,619**	170,141	171,633
Derivative product assets (f)	**3,225**	**3,225**	2,322	2,461
Financial instruments in other assets (a)	**1,459**	**1,459**	2,220	2,220
Financial liabilities:				
Deposits (d)	**167,530**	**168,414**	167,077	167,882
Securities sold not yet purchased (a)	**1,237**	**1,237**	285	285
Other short-term financial instruments (a)	**23,003**	**23,003**	30,240	30,240
Long-term debt (1)(e)	**43,418**	**44,521**	40,911	40,867
Derivative product liabilities (f)	**2,574**	**2,574**	2,212	2,251
Financial instruments in other liabilities (a)	**1,273**	**1,273**	1,828	1,828

(1) Includes trust preferred capital securities.

Estimated fair values are determined as follows:

(a) Financial Instruments Whose Carrying Value Approximates Fair Value

A financial instrument's carrying value approximates its fair value when the financial instrument has an immediate or short-term maturity (generally one year or less), or is carried at fair value.

Quoted market prices or dealer quotes typically are used to estimate fair values of trading securities and securities sold under repurchase agreements.

Commitments to extend credit and letters of credit typically result in loans with a market interest rate when funded. The recorded book value of deferred fee income approximates the fair value.

(b) Investment Securities

Quoted market prices typically are used to estimate the fair value of debt investment securities. Quoted market prices for similar securities are used to estimate fair value when a quoted market price is not available for a specific debt investment security. See Note 1(d) to the consolidated financial statements on page 74 for the methodologies used to determine the fair value of equity investment securities.

(c) Loans

The loan portfolio was segmented based on loan type, credit quality and repricing characteristics. Carrying values are used to estimate fair values of certain variable rate loans with no significant credit concerns and frequent repricing. A discounted cash flow method was used to estimate the fair value of other loans. Discounting was based on the contractual cash flows, and discount rates typically are based on the year-end yield curve plus a spread that reflects pricing on loans with similar characteristics. If applicable, prepayment assumptions are factored into the fair value determination based on historical experience and current economic and lending conditions.

(d) Deposits

The amount payable on demand at the report date is used to estimate fair value of demand and savings deposits with no defined maturity. A discounted cash flow method is used to estimate the fair value of fixed-rate time deposits. Discounting was based on the contractual cash flows and the current rates at which similar deposits with similar remaining maturities would be issued, adjusted for servicing costs. Carrying value typically is used to estimate the fair value of floating-rate time deposits.

(e) Long-Term Debt

Quoted market prices or the discounted cash flow method was used to estimate the fair value of the Corporation's fixed-rate long-term debt. Discounting was based on the contractual cash flows and the current rates at which debt with similar terms could be issued. Carrying value typically is used to estimate the fair value of floating-rate long-term debt.

(f) Derivative Product Assets and Liabilities

For December 2001, the carrying value equals the estimated fair value due to the adoption of SFAS No. 133 during 2001. For the year 2000, quoted market prices or pricing and valuation models were used to estimate the fair value of derivative product assets and liabilities. Assumptions input into models were based on current market information.

Note 24–Related Party Transactions

Certain executive officers, directors and their related interests are loan customers of the Corporation. These loans in the aggregate were less than 5% of stockholders' equity at December 31, 2001 and 2000.

Note 25–Pledged Assets

Assets having a book value of $70.3 billion as of December 31, 2001, and $44.2 billion as of December 31, 2000, were pledged as collateral for repurchase agreements, certain derivative instrument transactions, and governmental and trust department deposits in accordance with federal and state requirements, and for other purposes required by law. The assets pledged generally were comprised of commercial mortgage loans and investment securities. Of the total collateral pledged as of December 31, 2001, $3.1 billion of collateral, which was comprised of securities posted as collateral for repurchase agreements, was permitted to be sold or repledged by the secured party. The Corporation does not issue equity puts.

The Corporation's bank affiliates are required to maintain average noninterest-bearing cash balances, in accordance with Federal Reserve Board regulations. The average required reserve balances were $2.3 billion in 2001 and $2.5 billion in 2000.

Note 26–Collateral Policy Related to Certain Asset Transfer Activity

It is the Corporation's policy to take possession of securities purchased under agreements to resell in order to secure the risk of counterparty nonperformance on the transaction. The Corporation monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest, and adjusts the level of collateral as necessary. With respect to securities lent, the Corporation receives collateral to secure the risk of counterparty nonperformance in the form of cash or other collateral, in an amount generally in excess of the fair value of the lent securities. The Corporation monitors the fair value of the securities lent on a daily basis, and additional cash or securities are obtained as necessary.

At December 31, 2001 and 2000, the fair value of collateral accepted by the Corporation in connection with these activities was $6.3 billion and $4.1 billion, respectively, of which, $5.9 billion and $3.8 billion, respectively, had been sold or repledged as of the balance sheet date.

Note 27–Contingent Liabilities

The Corporation and certain of its subsidiaries have been named as defendants in various legal proceedings, including certain class actions, arising out of the normal course of business or operations. In certain of these proceedings, which are based on alleged violations of consumer protection, securities, banking, insurance and other laws, rules or principles, substantial money damages are asserted against the Corporation and its subsidiaries. Since the Corporation and certain of its subsidiaries, which are regulated by one or more federal and state regulatory authorities, are the subject of numerous examinations and reviews by such authorities, the Corporation also is and will be, from time to time, normally engaged in various disagreements with regulators, related primarily to its financial services businesses. The Corporation has also received certain tax deficiency assessments. In view of the inherent difficulty of predicting the outcome of such matters, the Corporation cannot state what the eventual outcome of pending matters will be; however, based on current knowledge and after consultation with counsel, Management does not believe that liabilities arising from these matters, if any, will have a material adverse effect on the consolidated financial position of the Corporation.

Note 28–Parent Company Only Condensed Financial Statements

Condensed Balance Sheets

FOR THE YEAR ENDED DECEMBER 31,	2001	2000
(In millions)		
Assets		
Cash and due from banks:		
Bank subsidiaries	**$ 2**	$ 14
Interest-bearing due from banks:		
Bank subsidiaries	**7,345**	7,247
Securities under resale agreement	**30**	–
Trading assets	**5**	13
Investment securities	**17**	135
Loans and receivables–subsidiaries:		
Bank subsidiaries	**6,171**	7,044
Nonbank subsidiaries	**7,940**	6,934
Investment in subsidiaries:		
Bank subsidiaries	**22,670**	21,166
Nonbank subsidiaries	**1,630**	1,663
Other assets	**1,179**	424
Total assets	**$46,989**	$44,640
Liabilities and Stockholders' Equity		
Short-term borrowings:		
Nonbank subsidiaries	**$ 68**	$ 73
Other	**546**	1,166
Long-term debt:		
Nonbank subsidiaries	**3,419**	2,560
Other	**21,465**	20,824
Other liabilities	**1,265**	1,382
Total liabilities	**26,763**	26,005
Stockholders' equity	**20,226**	18,635
Total liabilities and stockholders' equity	**$46,989**	$44,640

Condensed Income Statements

FOR THE YEAR ENDED DECEMBER 31,	2001	2000	1999
(In millions)			
Operating Income			
Dividends:			
Bank subsidiaries	**$1,645**	$ 1,775	$2,367
Nonbank subsidiaries	**209**	762	373
Interest income:			
Bank subsidiaries	**655**	822	534
Nonbank subsidiaries	**381**	513	438
Other	**3**	22	11
Other income:			
Bank subsidiaries	**5**	7	7
Other	**(2)**	19	190
Total	**2,896**	3,920	3,920
Operating Expense			
Interest expense:			
Nonbank subsidiaries	**234**	161	93
Other	**1,308**	1,556	1,132
Merger and restructuring-related charges	**(12)**	140	287
Salaries and employee benefits	**(1)**	52	9
Professional fees and services	**2**	4	3
Other expense	**34**	255	97
Total	**1,565**	2,168	1,621
Income before income taxes and cumulative effect of change in accounting principle and equity in undistributed net income of subsidiaries	**1,331**	1,752	2,299
Applicable income tax benefit	**(202)**	(197)	(198)
Income before cumulative effect of change in accounting principle and equity in undistributed net income of subsidiaries	**1,533**	1,949	2,497
Equity in undistributed net income (loss) of subsidiaries:			
Bank subsidiaries	**1,300**	(1,835)	797
Nonbank subsidiaries	**(151)**	(625)	185
Income (loss) before cumulative effect of change of accounting principle	**2,682**	(511)	3,479
Cumulative effect of change of accounting principle, net of taxes	**(44)**	–	–
Net Income (Loss)	**$2,638**	$ (511)	$3,479

Note 28 Continued–Parent Company Only Condensed Financial Statements

Condensed Statements of Cash Flows

FOR THE YEAR ENDED DECEMBER 31, *(In millions)*	2001	2000	1999
Cash Flows from Operating Activities:			
Net income (loss)	**$ 2,638**	$ (511)	$ 3,479
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in net income of subsidiaries	**(3,003)**	(77)	(3,722)
Cumulative effect of accounting change of subsidiaries	**69**	–	–
Dividends received from subsidiaries	**1,854**	2,537	2,740
Other operating adjustments	**68**	83	417
Net cash provided by operating activities	**1,626**	2,032	2,914
Cash Flows from Investing Activities:			
Net (increase) decrease in loans to subsidiaries	**(435)**	2,296	(3,226)
Net increase in capital investments in subsidiaries	**(412)**	(668)	(1,277)
Purchase of investment securities–available for sale	**(79)**	(1,095)	(805)
Proceeds from sales and maturities of investment securities–available for sale	**189**	1,321	729
Other, net	**(30)**	29	(29)
Net cash provided by (used in) investing activities	**(767)**	1,883	(4,608)
Cash Flows from Financing Activities:			
Net increase (decrease) in commercial paper and short-term borrowings	**(624)**	(181)	37
Proceeds from issuance of long-term debt	**6,414**	3,964	9,524
Redemption and repayment of long-term debt	**(5,495)**	(2,216)	(2,843)
Dividends paid	**(991)**	(1,222)	(2,420)
Proceeds from issuance of common and treasury stock	**191**	152	61
Purchase of treasury stock	**(78)**	(3)	(1,647)
Payment for redemption of preferred stock	**(190)**	–	–
Net cash provided by (used in) financing activities	**(773)**	494	2,712
Net Increase in Cash and Cash Equivalents	**86**	4,409	1,018
Cash and Cash Equivalents at Beginning of Year	**7,261**	2,852	1,834
Cash and Cash Equivalents at End of Year	**$7,347**	$ 7,261	$ 2,852
Other Cash-Flow Disclosures			
Interest paid	**$1,501**	$ 1,620	$ 1,113
Income tax receipt	**(374)**	(139)	(335)

Overnight money market loans, short-term investments and other sources of liquid assets exceeded the amount of commercial paper issued at December 31, 2001.

Note 29–Quarterly Financial Data (Unaudited)

	2001				2000			
(In millions, except ratios and per share data)	Fourth	Third	Second	First	Fourth	Third	Second	First
Income Statement Data:								
Total revenue, net of interest expense	$ 4,207	$ 4,016	$ 3,846	$ 3,792	$ 3,461	$ 3,942	$ 2,509	$ 4,014
Net interest income–FTE	2,273	2,193	2,085	2,218	2,247	2,242	2,257	2,228
Noninterest income	1,972	1,853	1,791	1,607	1,247	1,734	288	1,821
Provision for credit losses	765	620	540	585	1,507	516	1,013	362
Noninterest expense	2,706	2,303	2,306	2,236	2,847	2,593	3,507	2,661
Income (loss) before cumulative effect of change in accounting principle	541	754	708	679	(512)	581	(1,269)	689
Net income (loss)	541	754	664	679	(512)	581	(1,269)	689
Per Common Share Data:								
Income (loss) before cumulative effect of change in accounting principle:								
Basic	$ 0.46	$ 0.64	$ 0.60	$ 0.58	$ (0.44)	$ 0.50	$ (1.11)	$ 0.60
Diluted [1]	0.46	0.64	0.60	0.58	(0.44)	0.50	(1.11)	0.60
Net income (loss):								
Basic	0.46	0.64	0.57	0.58	(0.44)	0.50	(1.11)	0.60
Diluted [1]	0.46	0.64	0.56	0.58	(0.44)	0.50	(1.11)	0.60
Cash dividends declared	0.21	0.21	0.21	0.21	0.21	0.21	0.42	0.42
Book value	17.33	17.30	16.49	16.20	15.90	16.47	16.12	17.43
Balance Sheet Data–Ending Balances:								
Loans:								
Managed	$218,102	$222,604	$223,390	$229,942	$236,492	$237,505	$234,412	$229,673
Reported	156,733	164,251	166,576	171,427	174,251	176,419	172,591	168,078
Deposits	167,530	162,385	164,299	163,555	167,077	164,130	163,169	164,643
Long-term debt [2]	43,418	44,361	41,693	42,197	40,911	42,641	39,093	38,753
Total assets:								
Managed	306,304	310,207	312,244	315,104	309,096	324,780	316,011	317,176
Reported	268,954	270,252	272,412	274,352	269,300	283,373	272,709	273,008
Common stockholders' equity	20,226	20,192	19,261	18,876	18,445	19,042	18,630	20,081
Total stockholders' equity	20,226	20,382	19,451	19,066	18,635	19,232	18,820	20,271
Credit Quality Ratios:								
Net charge-offs to average loans–managed [3]	2.84%	2.58%	2.50%	2.40%	2.22%	1.86%	1.99%	2.04%
Allowance for credit losses to period end loans	2.89	2.73	2.54	2.45	2.36	1.75	1.73	1.39
Nonperforming assets to related assets	2.35	1.96	1.77	1.55	1.48	1.21	1.03	0.99
Financial Performance Ratios:								
Return (loss) on average assets	0.80%	1.13%	0.99%	1.02%	(0.75)%	0.85	(1.87)%	1.03%
Return (loss) on average common equity	10.5	15.0	13.9	14.6	(10.7)	12.2	(26.0)	13.9
Net interest margin:								
Managed	5.20	4.95	4.65	4.76	4.65	4.66	4.80	4.91
Reported	3.84	3.70	3.50	3.71	3.67	3.68	3.77	3.78
Efficiency ratio:								
Managed	53.5	46.9	48.5	47.6	66.0	54.6	103.8	53.7
Reported	63.7	56.9	59.5	58.5	81.5	65.2	137.8	65.7

Note 29–Quarterly Financial Data (Unaudited)—continued

	2001				2000			
(In millions, except ratios and per share data)	**Fourth**	**Third**	**Second**	**First**	Fourth	Third	Second	First
Capital Ratios:								
Risk-based capital:								
Tier 1	**8.6%**	**8.4%**	**8.2%**	**7.8%**	7.3%	7.5%	7.2%	7.7%
Total	**12.2**	**11.7**	**11.6**	**11.2**	10.8	10.9	10.3	10.6
Tangible common equity/tangible managed assets	**5.9**	**5.8**	**5.8**	**5.6**	5.5	5.4	5.4	5.7
Common Stock Data:								
Average shares outstanding:								
Basic	**1,166**	**1,168**	**1,166**	**1,163**	1,158	1,156	1,153	1,149
Diluted (1)	**1,174**	**1,176**	**1,176**	**1,173**	1,158	1,167	1,153	1,155
Stock price:								
High	**$39.85**	**$38.95**	**$39.60**	**$39.85**	$ 37.69	$ 38.81	$ 36.88	$34.75
Low	**28.00**	**28.00**	**33.61**	**33.49**	31.88	28.44	26.56	24.25
Close	**39.05**	**31.47**	**35.80**	**36.18**	36.63	38.06	26.56	34.38
Employees (4)	**73,519**	**75,801**	**78,491**	**79,157**	80,778	81,291	82,443	N/A

N/A–Not available.

(1) Common equivalent shares and related income were excluded from the computation of diluted loss per share for the three months ended December 31, 2000 and June 30, 2000 as the effect would be antidilutive.

(2) Includes trust preferred capital securities.

(3) Fourth quarter, third quarter, second quarter and first quarter 2001 amounts include $14 million, $14 million, $24 million and $40 million, respectively, of charge-offs which are not classified as such in the Corporation's GAAP financial information because they are part of a portfolio which has been accounted for as loans held at a discount. The inclusion of these amounts in charge-offs more accurately reflects the credit performance of the portfolio. In the Corporation's financial statements, these items result in a higher provision in excess of net charge-offs.

(4) Beginning in the first quarter of 2001, employees on long-term disability and employees of unconsolidated subsidiaries are excluded. Prior period data have not been restated for this change.

REPORT OF MANAGEMENT

Management of BANK ONE CORPORATION and its subsidiaries (the "Corporation") is responsible for the preparation, integrity and fair presentation of its published financial reports. These reports include consolidated financial statements that have been prepared in accordance with generally accepted accounting principles, using Management's best judgment and all information available.

The consolidated financial statements of the Corporation have been audited by KPMG LLP, independent public accountants. Their accompanying report is based upon an audit conducted in accordance with generally accepted auditing standards, including the related review of internal accounting controls and financial reporting matters. The Audit and Risk Management Committee of the Board of Directors, which consists solely of outside directors, meets at least quarterly with the independent auditors, Corporate Audit and representatives of Management to discuss, among other things, accounting and financial reporting matters.

Management of the Corporation is responsible for establishing and maintaining an effective internal control structure over financial reporting, including the safeguarding of assets against unauthorized acquisition, use or disposition. The Corporation maintains systems of controls that it believes are reasonably designed to provide Management with timely and accurate information about the operations of the Corporation. This process is supported by an internal audit function along with the ongoing appraisal of internal controls by the Audit and Risk Management Committee. Both the Corporation's independent auditors and the internal audit function directly provide reports on significant matters to the Audit and Risk Management Committee. The Corporation's independent auditors, the internal audit function and the Audit and Risk Management Committee have free access to each other. Internal controls, systems and corporate-wide processes and procedures are continually enhanced.

The Corporation is dedicated to maintaining a culture that reflects the highest standards of integrity and ethical conduct when engaging in its business activities. Management of the Corporation is responsible for compliance with various federal and state laws and regulations, and the Corporation has established procedures that are designed to ensure that Management's policies relating to conduct, ethics and business practices are followed on a uniform basis.

BANK ONE CORPORATION

James Dimon
Chairman and Chief Executive Officer

Charles W. Scharf
Executive Vice President and Chief Financial Officer

Chicago, Illinois
January 15, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
BANK ONE CORPORATION

We have audited the accompanying consolidated balance sheet of BANK ONE CORPORATION and subsidiaries as of December 31, 2001 and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated balance sheet of BANK ONE CORPORATION and subsidiaries as of December 31, 2000 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2000 were audited by other auditors whose report thereon dated January 17, 2001, expressed an unqualified opinion on those statements.

We conducted our audit 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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BANK ONE CORPORATION and subsidiaries as of December 31, 2001 and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
January 15, 2002

Common Stock and Stockholder Data: (1)(2)	**2001**	2000	1999	1998	1997
Market price:					
High for the year	**$39.85**	$38.81	$63.13	$64.78	$54.37
Low for the year	**28.00**	24.25	29.98	37.58	35.57
At year-end	**39.05**	36.63	32.00	51.06	49.37
Book value (at year-end)	**17.33**	15.90	17.34	17.31	16.03
Dividend payout ratio	**38%**	N/M	57%	58%	61%
Financial Ratios:					
Net income (loss) as a percentage of: (3)					
Average stockholders' equity	**13.5%**	(2.6)%	17.0%	15.8%	15.6%
Average common stockholders' equity	**13.4**	(2.6)	17.2	15.9	16.0
Average total assets	**1.0**	(0.2)	1.4	1.3	1.3
Average earning assets	**1.1**	(0.2)	1.6	1.5	1.5
Stockholders' equity at year-end as a percentage of:					
Total assets at year-end	**7.5**	6.9	7.5	7.9	8.0
Total loans at year-end	**12.9**	10.7	12.3	13.2	11.9
Total deposits at year-end	**12.1**	11.2	12.4	12.7	12.4
Average stockholders' equity as a percentage of:					
Average total assets	**7.4**	7.2	8.0	8.2	8.2
Average loans	**11.8**	11.4	13.0	12.7	12.2
Average deposits	**12.2**	12.0	13.2	13.1	12.9
Income to fixed charges: (4)					
Excluding interest on deposits	**2.0x**	0.8x	2.3x	2.3x	2.4x
Including interest on deposits	**1.4x**	0.9x	1.6x	1.5x	1.5x

N/M–Not meaningful.

(1) There were 108,242 common stockholders of record as of December 31, 2001.

(2) The principal market for the Corporation's common stock is the New York Stock Exchange. The Corporation's common stock also is listed on the Chicago Stock Exchange.

(3) Does not include deduction for preferred dividends.

(4) Results for the year ended December 31, 2000, were insufficient to cover fixed charges. The coverage deficiency was approximately $1.2 billion.

Corporate Headquarters

Bank One Corporation
1 Bank One Plaza
Chicago, IL 60670
(312) 732-4000

Company Information

Information on Bank One products and services is available on the Internet at the following websites:

www.bankone.com
Bank One's primary website

www.onegroup.com
Bank One's proprietary family of mutual funds

www.oneinvest.com
Bank One's online investment services and securities trading

www.firstusa.com
Bank One's credit card company

Financial Information

Bank One annual reports, earnings and news releases, 10-K and 10-Q reports, and other financial information can be obtained by visiting the "About Bank One" section of our website at www.bankone.com.

You can also obtain the most recent financial information on Bank One by phoning our toll-free Corporate News and Shareholder Information Service at 877-ONE-FACT (877-663-3228).

Investor Relations

Analysts, portfolio managers, and other investors seeking additional financial information are welcome to contact:

Investor Relations
Bank One Corporation
1 Bank One Plaza
Mail Code IL1-0738
Chicago, IL 60670-0738
(312) 732-4812

Stockholder Relations and Information

Stockholders with questions regarding their stockholder account, dividends, stock transfer, lost certificates, or changes of address should contact the transfer agent at the address and applicable phone number below.

EquiServe Trust Company, N.A.
P.O. Box 2500
Jersey City, NJ 07303-2500
Telephone:
Inside the United States: (888) 764-5592
Outside the United States: (201) 324-0498
TDD/TTY (for the hearing impaired):
(800) 952-9245
Internet: www.equiserve.com

Stock Listing

The common stock is listed on the New York and Chicago stock exchanges and trades under the ticker symbol ONE.

Dividend Information

Dividends on the common stock, if declared by the Board of Directors, customarily are paid on January 1, April 1, July 1, and October 1.

Annual Meeting of Stockholders

The Annual Meeting of Stockholders will be held on Tuesday, April 16, 2002, at 9:30 a.m. (Chicago Time) in the Bank One Auditorium, located in the Plaza area of the corporate headquarters at 1 Bank One Plaza in Chicago.

Independent Public Accountants

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601

Bank One will send its Annual Report on Form 10-K for 2001 filed with the Securities and Exchange Commission without charge to any stockholder who requests a copy in writing. Please send requests to: Bank One Corporation, Attn: Investor Relations, 1 Bank One Plaza, Mail Code IL1-0738, Chicago, IL 60670-0738.

Printed in the U.S.A. on recycled paper.


BANK ONE
one
2002 ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, *(Dollars in millions, except per share and headcount data)*	2002	2001	% change
SEGMENT RESULTS			
Retail Banking	**$ 1,390**	$ 1,181	18
Commercial Banking	**617**	700	(12)
Card Services	**1,166**	907	29
Investment Management	**411**	362	14
Corporate	**(289)**	(468)	(38)
Cummulative effect of change in accounting principle, net of taxes of ($25)	**—**	(44)	N/M
Total Corporation net income (loss)	**$ 3,295**	$ 2,638	25
FINANCIAL PERFORMANCE			
Return on average assets	**1.25%**	0.98%	
Return on average common equity	**15.2%**	13.4%	
Net interest margin	**3.8%**	3.7%	
Efficiency ratio	**56.4%**	59.7%	
CONSOLIDATED RESULTS			
Total revenue, net of interest expense	**$ 16,831**	$ 15,861	6
Net interest income – fully taxable-equivalent ("FTE") basis	**8,740**	8,769	—
Noninterest income	**8,236**	7,223	14
Provision for credit losses	**2,487**	2,510	(1)
Noninterest expense	**9,581**	9,551	—
Net income	**3,295**	2,638	25
AT YEAR-END			
Loans	**$ 148,125**	$ 156,733	(5)
Assets	**277,383**	268,954	3
Deposits	**170,008**	167,530	1
Common stockholders' equity	**22,440**	20,226	11
Headcount	**73,685**	73,519	—
Cash dividends declared	**0.84**	0.84	—
Book value	**19.28**	17.33	11
Market price	**36.55**	39.05	(6)
CAPITAL RATIOS			
Risk-based capital:			
Tier 1	**9.9%**	8.6%	
Total	**13.7%**	12.2%	
Leverage	**8.9%**	8.2%	

N/M=Not meaningful

Bank One made very good progress in 2002. We earned $3.3 billion – or approximately 15% return on equity (ROE) – versus $2.6 billion in 2001. In many ways 2002 ended the "fix-it" chapter for Bank One. I can now say that we are appropriately and responsibly investing in all parts of our business. This clearly wasn't true in the past. In 2003 we will continue to make substantial investments in all areas, including people, technology, marketing, products, branches, and branding.

Today Bank One is positioned to grow properly and profitably. Our discipline and investments will drive revenue growth. Efficiency will gradually improve operating margins and pay for our investments. Credit will improve due to our pruning and better management of exposures and the eventual economic recovery.

In this letter I will review our accomplishments of 2002 and share how we will build on this progress in 2003 and beyond. I will also discuss some critical subjects in the news.

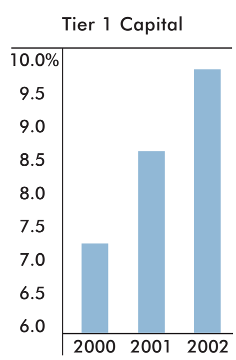
This year I've asked the heads of our four main lines of business, as well as our Chief Information Officer and our Chief Risk Management Officer, to add to this letter with their own shareholder letters. Each area is facing specific business opportunities and challenges, and each leader does an outstanding job of assessing and addressing them.

You will note some consistent themes across our lines of business. First, we are not in any business where we can't effectively compete. Second, each of our businesses is beginning to perform and demonstrate signs of growth. Third, each is realizing its competitive advantages and becoming an efficient, best-in-class provider.

As you read our letters, I hope you feel – as I do every day – the growing energy and competitive spirit at Bank One.

I. THE IMPORTANCE OF 2002 ACCOMPLISHMENTS

By the end of 2002 we had significantly cut expenses, run off large, unprofitable, and risky books of business, consolidated and upgraded massively complex systems and operations, strengthened our management teams, and implemented highly structured risk controls. I am extremely pleased that during a time of dramatic change we were also able to show growth.



Building our fortress balance sheet. We ended the year with Tier 1 capital of 9.9% and a loan-loss reserve ratio of 3.2% – both among the highest of all major banks. Even if new accounting rules require us to move certain off-balance-sheet exposures, such as asset-backed conduits, onto our balance sheet, our capital ratios will continue to be among the strongest in the industry.

Our pension obligations are fully funded. This year we expanded our authorized share buyback program from $500 million to $2 billion and to date have purchased more than $600 million of stock.

In the event of continued economic weakness, we are extremely well capitalized and well reserved. We are also well protected against rising interest rates, which I will talk about later in this letter.

Building a foundation for growth while sustaining strong and expanding margins. In 2003 expenses will increase approximately $300 million, to $9.9 billion. A large portion of this increase is related to the expensing of options and higher medical, pension, and insurance costs. Your company is also dramatically increasing investments in key areas such as new products, marketing, systems, and branch upgrades. This spending is what I would call good spending. While these investments increase expenses in the short run, they fortify and drive growth in the long run.

Realizing the benefits of a risk management culture. Today we are more disciplined in assessing and pricing risk than ever before. Moving to a more rigorous and disciplined risk management process has been difficult for both our people and our customers, but in 2002 we began to see the fruits of our labor. Credit costs were down in middle market in every quarter of the year, and nonperforming loans in both corporate banking and middle market were down in the third and fourth quarters. In the last cycle our losses were worse than those of our competitors. In the next cycle our goal is to do better than our competitors and I am confident we can achieve it.

Anticipating a decline in credit costs. Although we don't know when the economic recovery will begin, we do know that we are in very good shape, regardless of whether the economy improves slowly or even gets worse for a while. It is unlikely that we will need to increase reserves, raise capital, or modify our investment spending. When the recovery does take hold, as it inevitably will, credit losses in both the consumer and commercial businesses should trend down to more normal levels.

The one issue to keep in mind is the lumpiness of the large corporate credit losses. There are still some industries showing weaknesses, such as airlines and merchant energy, which could keep the losses in corporate banking fairly high for the next several quarters.

I will talk later about how we intend to manage the credit cycle, but clearly any continued reduction in loss rates will add to earnings. Eventually, we may find ourselves in a situation where we have a clear need for lower loss provisioning. That's a problem that we can't wait to have!

Some thoughts on United Airlines. In the fourth quarter Bank One provided $600 million of debtor-in-possession (DIP) financing to United Airlines. This is an extremely large loan to a troubled company. We insisted that the DIP financing stand on its own two feet. As such, we believe the protections built into the financing provide us with good collateral coverage. Even in the worst possible case (liquidation of the company), we could expect to get our money back on our DIP financing.

One factor in our decision to make this loan was our credit card relationship with United. Reward programs are extremely important for the future of the credit card business and this particular program would be very hard to replace. It is in our interest that United return to full health.

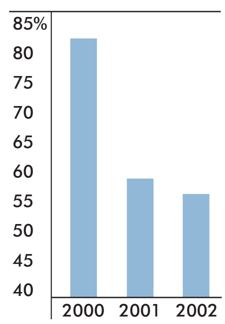
While we are hoping for a positive outcome, and are doing whatever is in our power to make that happen, we need to take into consideration the worst-case scenario.

In the event the worst case does happen, we would expect to write off several hundred million dollars not related to the DIP financing, but to the various costs associated with discontinuing and trying to replace the United rewards program.

It is a complicated calculation of probabilities that brought us to this position. If the worst case does occur, we are prepared to work as hard as it takes to make up for it.

Converting and upgrading systems. This year we completed the virtually flawless conversion of our two most complex systems, Michigan and Illinois. We did not spend the past two years simply converting many poor systems into one. That alone would have been a tremendous accomplishment, but we also massively upgraded major systems, including check processing, deposit systems, loan systems, cash management systems, and banker workstations. In the process we became one of the first financial institutions to launch online check imaging, which is available free of charge to all customers. Our plans for 2003 are equally impressive.

Efficiency Ratio



In-sourcing our systems capabilities. We don't believe our technology accomplishments would have been possible if we had continued to rely on outsourced systems. During the past 18 months we have in-sourced most of our systems, hiring more than 1,700 new technology professionals. These people are patriots – not mercenaries – who are allowing us to take control of our destiny. They are developing a deep understanding of our customers and they share our passion for winning by improving service, expanding capabilities, and reducing costs.

We are also in-sourcing and upgrading our data processing capabilities by building two state-of-the-art, secure, fully mirrored facilities that offer real-time backup.

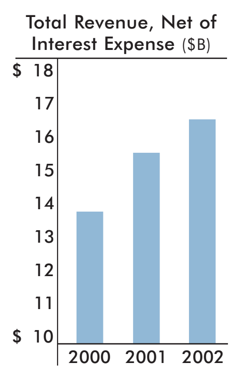
With our volume of business and the quality of our people, we do not believe we are sacrificing any economies of scale or capability by managing the technology ourselves. In fact, we are seeing evidence to the contrary.

Strengthening and broadening management disciplines. Our success depends upon our ability to develop great business strategies, improve products and customer service, execute well, and pay attention to every asset, every branch, every employee, every detail.

To that end we are setting the highest expectations and standards for ourselves. We are not there yet, but given our rate of progress, we will be there soon.

Ensuring "good" growth. Profitable, sustainable, properly underwritten growth is not a vision; it is the result of excellent management discipline, an unrelenting focus on execution, consistent management of risk, a competitive product set, and outstanding customer service.

In 2002 we began to see signs of good growth. Debit cards, credit cards, home equity loans, assets under management, and capital market revenues are all growing. And for the first time in five years, we are beginning to see growth in retail transaction accounts. While we aren't where we want to be, we are clearly seeing signs that we're moving in the right direction.



In addition, we are nearing the completion of the deliberate runoff of business (and unfortunate nondeliberate runoff due to the many changes made in the last three years) in both our commercial and consumer businesses.

Furthermore, we're making all the investments necessary to drive future growth, from enhanced technology to new products and marketing.

Most important, because of the tough work we have done, we can now begin to grow our businesses responsibly and more aggressively, knowing that the growth is profitable, sustainable, and properly underwritten – not the kind of growth that we might regret later in the business cycle.

We expect 2003 to be a decent year (weaker in the beginning and stronger as the year goes on) and, assuming a reasonable level of economic recovery, 2004 could be a very good year.

II. THOUGHTS ON QUALITY OF EARNINGS AND MANAGING GROWTH, THE BALANCE SHEET, AND WALL STREET

The first thing people talk about when discussing company results is earnings, but earnings tell just a small part of the story and sometimes not even the most important part. Decisions that can positively or negatively affect earnings one year can easily have the opposite effect in future years. Each decision must be evaluated by how it will affect not just the short term but also the long-term health of the company.

Measuring results through a complete and balanced scorecard. Any financial company can improve earnings in the short run by taking on additional risk and cutting back on investments in people, products, service, and brand. Such decisions, however, may not be in the company's best interest long-term. Those companies may report short-term growth, but it may be the kind of growth one comes to regret. Good companies fight for profitable, sustainable growth that builds over time. They don't make shortsighted decisions to achieve it and they don't offer excuses when they don't achieve it.

The real trick is in managing the risk/reward trade-off – while still being prepared for different economic environments and investing in the future. We seek good growth – profitable, sustainable, well-underwritten growth that builds over time. Getting there requires the use of a complete and balanced scorecard – one that goes beyond earnings to address many questions, such as:

– Are we recruiting and developing great people?
– Are we investing wisely for the future?
– Are we innovating better products?
– Are we relentlessly improving our core processes?
– Are we making good returns on capital?
– Are we properly underwriting and managing our risk?

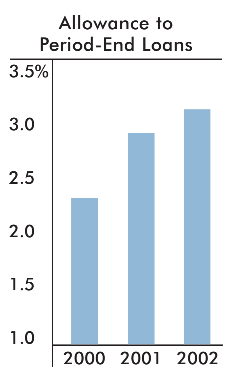
Business leaders are frequently asked to identify their "three big areas of focus." It's a frustrating question. If you want to build a great company, you must focus on many issues – and balancing them is an art.

Managing through cycles and recessions. We must be able to manage our business through difficult cycles and recessions.

A lot of people have referred to our current economic environment as "a perfect storm," but the reality is that our country has experienced and survived many storms. In the past 20 years alone, we have been involved in numerous military conflicts, some countries have defaulted multiple times, and we have experienced at least three significant recessions. It's hard to predict when a storm will happen, but one thing is inevitable: it will happen.

We cannot control these events; we can barely predict them. But we can, and must, be prepared for them. Risk is not symmetrical. You can make a lot of money in the good times, but if you aren't careful, you'll go bankrupt in the bad.

The most cyclical part of *our* business is the credit cycle. We must risk rate and price exposures to get a good return through the cycle – not just during the good times.



Last year I told you we had moved to a more granular risk rating system (a 20-grade system versus a 12-grade system) that helps us more accurately rate credits and allows for direct comparisons to public ratings and, where applicable, to market prices. If we properly rate credits and manage our risk, credit losses through the cycle can be fairly predictable.

For example, in corporate banking, we believe that if we properly rate our credits, average losses will be approximately 60 to 80 basis points through the cycle – or as low as 20 to 30 basis points in the good times and as high as 150 to 175 basis points in the bad. We would like to run the business to achieve a 15% average ROE. This means in the good times we should earn in excess of 20%, and in the bad, we must be prepared to earn as low as 5% to 10%.

In middle market, we believe our losses could be as low as 20 to 30 basis points in the good times and as high as 100 basis points in the bad. As such, we should achieve an average ROE of approximately 20% through the cycle.

Clearly we will always try to mitigate the downside, but at the same time we must rationally plan for it.

Managing interest rate exposure. Interest rate exposure is another area in which financial services companies can assume excess risk – often at great peril. As with underwriting credit, good analysis of interest rate exposure is rooted in facts and evaluations based on a variety of realistic assumptions and scenarios. This analysis should be a never-ending process.

Although we analyze hundreds of variables, only a few can dramatically change results. For example, three of the biggest assumptions in our interest rate models are:

– How competitive pricing of new credit cards will change with interest rates;
– How consumer deposits will act in various interest rate environments;
– How interest rate changes will affect the values of mortgages.

It is often natural for a financial services company to maintain some interest rate risk since short-term funding rates are usually lower than long-term rates. In the past, it was better for companies to fund short and lend long. Recently, however, we have positioned ourselves to benefit modestly from various rising interest rate scenarios. The decision cost us approximately $400 million in revenue in 2002 and thus impacted revenue growth. We based our decision on a strong belief that rates are near historic lows and, while they could go a little lower, they could clearly go a lot higher during the next several years. Given that risk is not symmetrical, we are willing to pay the price to protect ourselves against a significant rise in interest rates.

Creating flexibility with a fortress balance sheet. As discussed earlier, companies can also increase earnings fairly easily by increasing their leverage. In 2002 we could have increased earnings by 25 to 30 cents a share simply by buying back $5 billion in stock, which would have reduced our Tier 1 capital from 9.9% to a still healthy 7.8%. However, by not doing this, we haven't lost these earnings. Instead, we think of them as "earnings-in-store" that will become evident as we deploy our capital. Our current capital position reduces our risk and provides us with greater flexibility.

Analyzing quality of earnings. There is an active debate about whether GAAP earnings properly reflect results or whether results are better reflected through "operating," "core," or "pro forma" numbers. These differences are, at best, confusing and, at worst, artificial and misleading. However, it is critical that shareholders understand the quality and *type* of earnings. Certain earnings are, in fact, nonrecurring, and we are committed to fully disclosing and distinguishing between those results we view as recurring and those that are not.

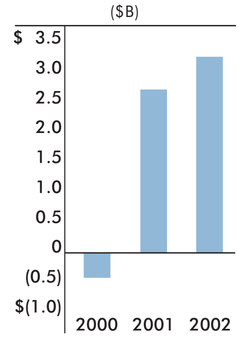
For example, we have a $31.6 billion corporate banking loan book, which we hold reserves against and *don't* mark-to-market. We hedge approximately 20% with credit derivatives, which we *do* mark-to-market through the income statement. We believe we are making the right economic decisions to manage and hedge our risk (usually to reduce individual credit exposures to levels with which we are comfortable). Although we expect the credit derivatives position to go up or down every quarter, we do not consider the mark-to-market impact to be real earnings. That's why we have separately disclosed the credit derivatives notional amount and the quarterly mark-to-market impact.

Similarly, we don't expect all gains on investments to be recurring. For example, we have $2 billion in equity investments, from which we anticipate an adequate return (although we haven't made much lately). It is reasonable for shareholders to expect an average return of 10%, even though we think we will do much better. We certainly don't anticipate a high valuation on peak-year investment earnings. We make every effort to give you the numbers as clearly as possible and then let you decide.

Managing Wall Street. CEOs often feel enormous pressure from Wall Street to deliver quarterly and annual earnings, but I would venture to say that most of our investors don't really care about 1 or 2 cents of quarterly earnings. They do, however, want to understand the dynamics of our business, to be assured that we are looking at our business with brutal honesty, and to feel confident that we are taking the right actions, however difficult, to ensure long-term success.

That's why we strive to tell our whole story – the good, the bad, and the ugly. In doing so, we know we may earn the respect of some, lose the respect of others, but ultimately attract the kind of shareholders who seek balanced tough decision making that is in the company's best, long-term interest.

Net Income (Loss)
($B)



Growing organically versus through acquisitions. Our first objective in each of our businesses is to achieve good returns. To that end we must first demonstrate the capacity to grow organically without relying upon acquisitions. We believe this is possible in all of our businesses. If we can't run our own businesses well, then we have not earned the right to run someone else's. In 2002 we made tremendous progress toward earning that right.

Banks have been consolidating for a long time, and I believe this trend will continue. The industry is still highly fragmented and there are still tremendous economies of scale to be achieved in systems, branding, product innovation, and diversification.

To be attractive, a potential acquisition must meet our criteria with regard to three critical factors:

- Price
- Business logic
- Ability to execute

We know these are extremely complex transactions and that many brilliantly conceived acquisitions have failed because of their inability to overcome crippling bureaucracies, culture clashes, or office politics. Yet companies that acquire well have been enormously successful.

Bank One is in a fortunate position. We can – and will – continue to grow on our own. We do not have to acquire to be successful. However, if the right acquisition opportunity presents itself, we are now ready and able to pursue it. But the rationale must be compelling.

III. COMMENTS ON RECENT NEWS EVENTS

The root cause of many of the recent problems in corporate America (at least in my opinion) was a complete lack of business ethics. Weak corporate governance practices, poor accounting standards, and bubble markets simply created additional opportunities for people to abuse the system. While we can't legislate ethics, we can strengthen governance practices, reduce flexibility in interpreting accounting guidelines, and improve disclosure requirements.

Strengthening corporate governance. Extreme examples of corporate fraud and deceit prompted a rigorous, but appropriate, focus on corporate governance issues in 2002. Many of the changes now being adopted will have little effect on the vast majority of companies – they had the right principles, although practices varied. Conversely, some of the corporate governance actions will have a material impact on the small number of companies that had the wrong principles *and* practices.

One of the wonderful attributes of this country and American business, however, is that we are constantly reforming and striving to improve.

Governance has been a focus at Bank One for several years. When I joined the company in 2000, one of our first actions was to dramatically reduce the size of the Board. It is hard to have a candid dialogue or make meaningful decisions in a group of 22 people. (As one of my friends says, "The bigger the crowd, the better the news.") We also limited the number of inside directors to one – me.

In addition, we directly tied executive compensation to company performance. You may remember that we paid no bonuses to our senior management team in 2000, even though many of us were new to the company.

In 2001 I asked the Board to meet without me to review my performance. We have since formalized our governance policies to require twice-yearly board sessions without the CEO. We also stipulated that senior management must maintain ownership of 75% of all stock they obtain through options or restricted stock. In addition, we eliminated the Supplemental Executive Retirement Plan and 401(k) match for senior executives.

This year we modified every Board committee charter to reflect the highest standards of governance. In the second quarter we began expensing stock options and in the fourth quarter we created a Board Governance Committee to ensure that we maintain the best practices and principles. We also eliminated split-dollar life insurance. (We should have done that sooner.) Shareholders can continue to feel confident that we are striving to manage according to the highest standards of governance and that senior management will be the first to pay the price for inadequate company performance.

The need for tougher accounting standards. While the current debate has centered on whether we need a rules-based or principles-based accounting system, I believe we need both stricter rules and better principles in accounting. The enormous flexibility that currently exists in accounting has made it extremely difficult for investors to properly assess a company's results. While progress has been made in these areas, we must continue to be vigilant, particularly with regard to:

1. *Improved application of principles.* The goal in reporting should be to clarify – not obfuscate – results. Technical accounting rules should never be used as an excuse for nondisclosure of material information. For example, just because an exposure is off-balance-sheet doesn't mean it doesn't exist and that it shouldn't be talked about if it might have a material effect on results.

2. *Better disclosure of assumptions.* When accounting rules are sensitive to assumptions, those assumptions should be fully disclosed, including a discussion of what would happen if those assumptions changed. This should be done consistently across companies in like industries so investors can make valid comparisons.

3. *Stricter and consistent application of rules (i.e., those not based on assumptions).* For example, in the credit card business, regulators should tell us exactly how to account for credit card charge-offs and recoveries. Right now companies have multiple choices, and an investor would have to be a detective to figure out the impact of these differences. Create one strict set of rules to allow for direct comparison across companies.

Until accounting rules and principles are applied rigorously and consistently, it will be difficult to compare and analyze results across like companies, and the unethical will continue to have opportunities to abuse the system.

We are continuously striving to the best of our ability to improve our reporting and enhance our disclosures.

IV. REALIZING THE POWER OF THE FRANCHISE WHILE FOCUSING ON WHAT REALLY MATTERS

Our customers are our top priority, but we can't meet their needs without the full backing and support of our employees. That's why I consider our 74,000 employees to be our most important asset. They know all about their businesses and are the ones who should be making the vast majority of decisions.

Getting the best from our people. "Empowerment" may be an overused and misunderstood word, but we simply can't win without it. We must constantly seek to improve our products, invent new ones, and give our customers better, faster service – preferably at a lower cost. Innovation doesn't come from one department or one individual. It comes when everyone participates, and people participate when they feel respected as full members of the team. (Wouldn't each of us advise friends to look for a new job if their company didn't treat them this way?) We will never stop trying to foster the spirit of partnership among all our employees at Bank One.

We also believe our employees should share in the company's success. That's why we've built stock ownership into our culture. Today more than 90% of our employees who have been with us a year or more own Bank One stock. And although we will continue to reward people with options, we are considering changes in the programs to make them less capricious and more effective. We will also continue to put stock into the 401(k) accounts of all employees who earn less than $40,000 a year, regardless of whether they buy stock on their own.

Giving people a stake in the company, however, goes well beyond financial rewards. Incentives must be done right, but they aren't what matters most. Our employees are not here just for the money. They are here because they want to be part of a winning team.

Creating a winning team takes hard work and there is no substitute for it. Teams do not win because they have a new stadium or the best uniforms. Some of the best teams don't even have the best individual athletes. Teams win because they are disciplined, they work well together, they execute consistently, and they have a passion to win.

Building a self-sustaining culture. We are working to build a culture based on truth, knowledge, constructive debate, a passion to win, and the courage to face and fix mistakes.

We encourage people with diverse styles to work together. We recognize that there are legitimate differences in style, and that's OK. However, we do not confuse poor behavior with "style differences." For example, if a manager doesn't foster active and honest communication, that's not a "style difference." That's bad management.

Our commitment is to create a self-sustaining culture that will ensure the health of this company for decades to come.

Leadership is key to creating a healthy culture. It's management's job to see things for what they are – and, just as important – for what they aren't. My experience is that if you ask people to tell you the truth about what needs to be done, they'll tell you. Our responsibility is to create a company that promotes this kind of constructive exchange. Then – and I believe this is the hardest part of leadership – we must have the fortitude and courage to take action and do the right things, however difficult.

Problems don't age well. Addressing them early may be hard, but in the long run it's far less painful.

Giving back. Our success has enabled us to give back to our communities. In 2002 we donated $40 million in cash to local nonprofit organizations. Our greatest source of pride, however, is in our employees, who have contributed tremendous time and talent to worthwhile causes throughout the country.

We are also proud of our commitment to pay the full salary differential for the entire tour of duty of all Bank One employees called to serve our country. These individuals are willing to make the ultimate sacrifice. Their lives – and the lives of their families – should not be made more stressful by financial hardship.

In closing. I am thrilled to report that Bob Lipp, chairman and CEO of Travelers Property Casualty Corporation, and Steve Burke, president of Comcast Cable Communications, have accepted our invitations to join our Board of Directors. Both bring to Bank One tremendous management experience and the highest standards of ethics and integrity. I am honored that they have chosen to commit their energies to our company.

Bank One exits 2002 financially stronger than it has been in years, with sharpened disciplines and signs of growth. We end the year as one company, operating as one team, with one brand.

There is one thing we strive for above all else: to build one of the best financial services companies in America – a company that stands the test of time. All of us want to feel proud when it's time to pass this company along to the next generation. Building a vibrant, healthy company is in the best interests of everyone – our shareholders, customers, employees, and, ultimately, our country. And we intend to do it.

James Dimon
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
FEBRUARY 14, 2003

one commitment : 60 million customers

Implicit in our strategy is the commitment to serve those who put their trust and their confidence in Bank One. How we serve them speaks to a deeper commitment to understand, appreciate and respond to individual needs.


PERSONAL CHECKING
OVERDRAFT PROTECTION
CERTIFICATE OF DEPOSIT
PAYROLL PROCESSING
CREDIT/DEBIT CARD PROCESSING
BUSINESS TERM LOANS
BUSINESS LINE OF CREDIT
LETTER OF CREDIT
BUSINESS CHECKING
CASH MANAGEMENT

KATRINA MARKOFF

ENTREPRENEUR AND CHOCOLATIER

CUSTOMER SINCE 1997

Sweet sensation

Katrina Markoff is a daring soul. An Indiana native with Macedonian roots, she's that rare combination of artist and entrepreneur who's able to take unlikely ingredients and turn them into gold. Her grandmother, who taught her that love can start in a kitchen, wasn't surprised when Katrina started selling chocolates in a hatbox, but truffle lovers were blown away. And they weren't the only ones to sit up and ask for more.

As the owner and creative force behind Vosges Haut-Chocolat, Katrina doesn't lack for confidence. Her bold moves and uncanny combinations are grounded in training from Le Cordon Bleu and a relentless desire to get things right. What began in her basement is now generating annual sales of $2 million. She's got two boutiques, strong sales through the Internet, and plans to open a shop in New York. She's also got a bank that appreciates how a little Japanese wasabi root or Indian curry powder can turn a bonbon into a bonanza.

"They've been much more than a bank to me," says Katrina, as she juggles two phones and three mixing bowls. "The people at Bank One act like consultants and partners. They brought me a recipe for growth, and with their help I've been able to bring my 'haut-chocolat' experience to the world."

That's one sweet relationship.

With nearly $10 billion in loans outstanding, Bank One is the country's 5th leading lender to small businesses.

In 2002 the Retail Investment Sales group sold $5.4 billion in investment products, an increase of $540 million from 2001.

PERSONAL CHECKING, MORTGAGE, & CREDIT CARD

INTERNATIONAL TRADE & TREASURY SERVICES

INFORMATION REPORTING & CHECK IMAGING

RECONCILEMENT & DISBURSEMENT SERVICES

LOCKBOX & SAFEKEEPING SERVICES

FOUNDATION CHECKING ACCOUNT

CREDIT/DEBIT CARD PROCESSING

LINE OF CREDIT & TERM LOAN

MONEY MARKET INVESTMENTS

FOREIGN EXCHANGE SERVICES

FOREIGN CHECK COLLECTION

INDUSTRIAL REVENUE BONDS

ACH & EDI TRANSACTIONS

PAYROLL PROCESSING

EDWARD KAPLAN

ENGINEER AND VISIONARY

CUSTOMER SINCE 1992

Earning its stripes

Zebra Technologies is one of America's fastest-growing companies. Since 1992 the company has increased annual sales from $58 million to $450 million, and now has a market cap near $2 billion. Ed Kaplan, Zebra's leader and cofounder, says the company's growth trajectory is based on meeting customer needs. "To keep Zebra on track, our team delivers operational excellence and innovative products," he remarks. "Our employees meet these demands, and we expect the same from our bank. They must be as fast and nimble as we are."

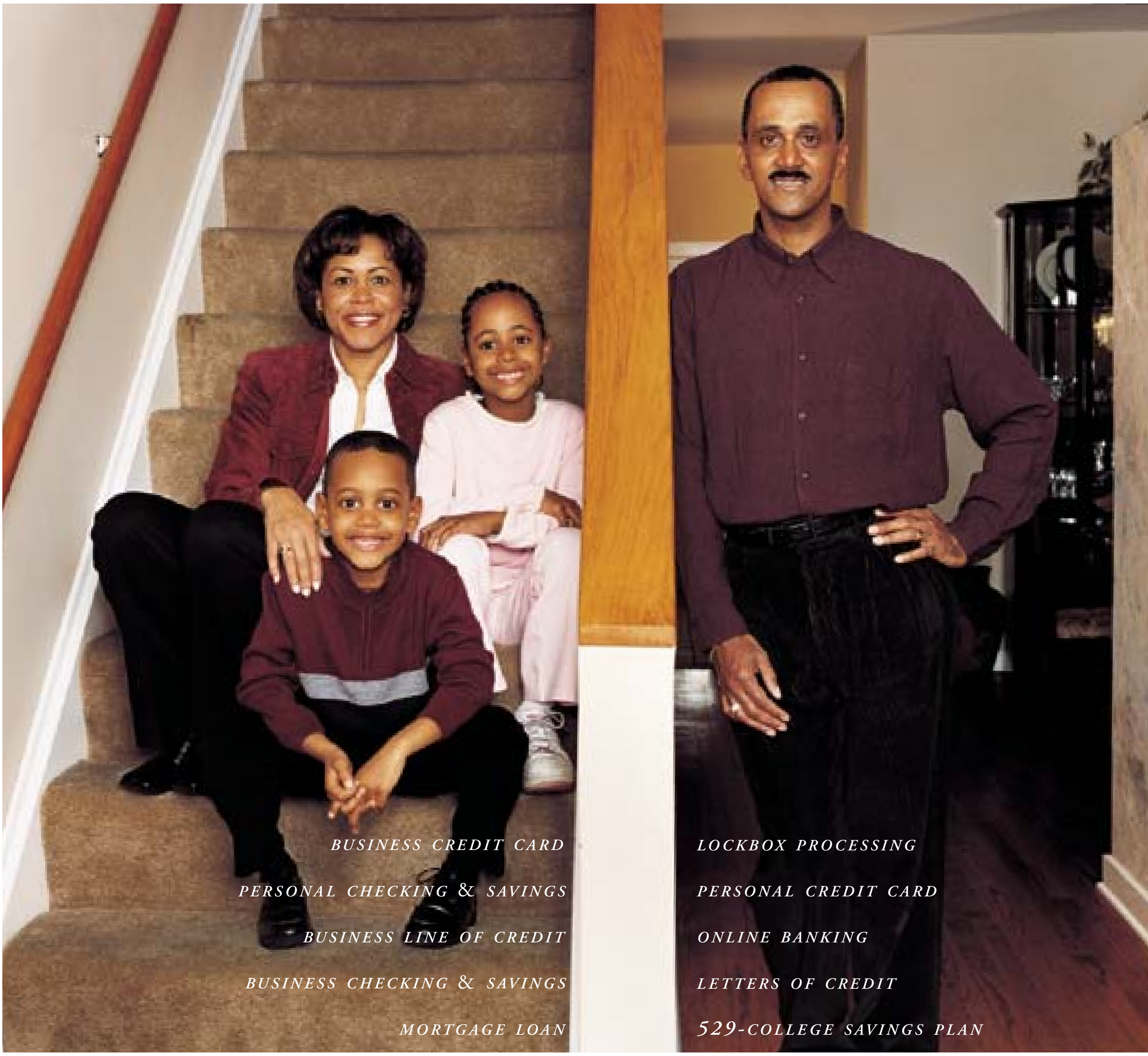
Bank One helps Zebra by providing a variety of domestic and international services that improve efficiency and speed productivity. "We're a technology company, so we're always looking to technology to make things work better, and Bank One has definitely come through in that area," states Ed. "They've provided us with a host of Web-based applications and technological solutions that have made our lives easier. They anticipate our needs. That's the best type of financial partnership you can have."

When it comes to meeting Ed's financial needs, it's not all black and white. That's why today, Bank One's relationship with Ed Kaplan extends beyond his business to include helping him manage his personal wealth and his foundation.

Could there be a new king of the jungle out there?

Bank One ranks as one of the top 3 bank issuers of commercial cards to large corporate and middle market customers.

In 2002 Bank One maintained its strong 4th place league table position in syndicated loans, gaining both in absolute and relative volume.


BUSINESS CREDIT CARD
PERSONAL CHECKING & SAVINGS
BUSINESS LINE OF CREDIT
BUSINESS CHECKING & SAVINGS
MORTGAGE LOAN
LOCKBOX PROCESSING
PERSONAL CREDIT CARD
ONLINE BANKING
LETTERS OF CREDIT
529-COLLEGE SAVINGS PLAN

PAUL AND ADRIENNE FREGIA WITH DANIELLE AND PRESTON

ENTREPRENEURS, PARENTS AND FIRST-TIME INVESTORS

CUSTOMERS SINCE 1984

How one thing leads to another

Paul Fregia didn't think much about it when he first opened his checking account at Bank One. His office was located in the Bank One headquarters' building, so it made sense. Today, however, location has nothing to do with it.

"What started as a relationship of convenience has turned into a solid partnership based on trust," says Paul, who has since started his own business. Beginning with a simple checking and savings account, Paul went on to work with Bank One to secure a home loan, start-up capital for his own company and ongoing business financing. Recently Paul's wife got into the act as well, establishing Bank One business banking accounts to support her newly opened medical practice.

"Relationships are the building blocks of any successful business," says Paul, owner of Grandma Maud's DownHome Cookin'®. "What we appreciate most is the ability of our banker to learn about our goals and then pull together the full range of services we'll need to achieve them."

With the businesses now established and growing, the Fregias' focus is on their growing family as well. Today they are working with Bank One to prepare a financial plan that will ensure college educations and – yes, they're already thinking about it – weddings for the kids.

That's definitely another trip to the bank.

Each hour $17.7 million in purchases are made with Bank One credit cards.

Customers can choose from more than 1,200 co-branded, affinity and other cards issued by Bank One in association with many of America's favorite brands.


TRUSTEE BANK • CUSTODIAN SERVICES • INVESTMENT MANAGEMENT • DONOR ADVISED FUND

CAROL CRENSHAW

FINANCIAL MASTERMIND – THE CHICAGO COMMUNITY TRUST

CUSTOMER SINCE 1929

Trusted ally

"Our needs may appear simple, but that doesn't mean they're easy," says Carol Crenshaw, chief financial officer of The Chicago Community Trust, the nation's second-oldest community foundation. "We require outstanding investment assistance and risk management along with a steady stream of workable solutions for challenges as varied as Chicago itself."

So where does Carol turn for such assistance? An often-called number connects her to Bank One's institutional investment group, which manages $110 million of the Trust's endowment funds.

Proper management of that money means a world of difference to thousands of not-for-profit groups. Each year the Trust extends more than $40 million in grants to organizations that care for the homeless, protect battered women and educate the youth. Continued success like that requires strong partners.

Bank One has been an active and committed trustee of The Chicago Community Trust since 1929. It's a lasting relationship that continues to grow and evolve. In 2002 the bank developed, through the Trust's corporate affiliate, The Chicago Community Foundation, a donor advised fund program that enables contributors to establish named funds and recommend grants to eligible charitable groups. "It's a great idea," says Carol, "one that will further our mission of identifying and assisting worthy groups throughout the region."

Here's to a 74-year relationship that's still going strong.

Institutional investment sales increased by 26% from 2001, resulting in $78 billion in institutional assets with Banc One Investment Advisors.

Bank One's CollegeChoice 529 Investment Plan℠, featuring numerous investment portfolios, was introduced in 2002 and grew to $100 million in assets.

RETAIL BANKING

REVENUE: **$6,285 MM**
NET INCOME: **$1,390 MM**
ASSETS: **$71.4 B**

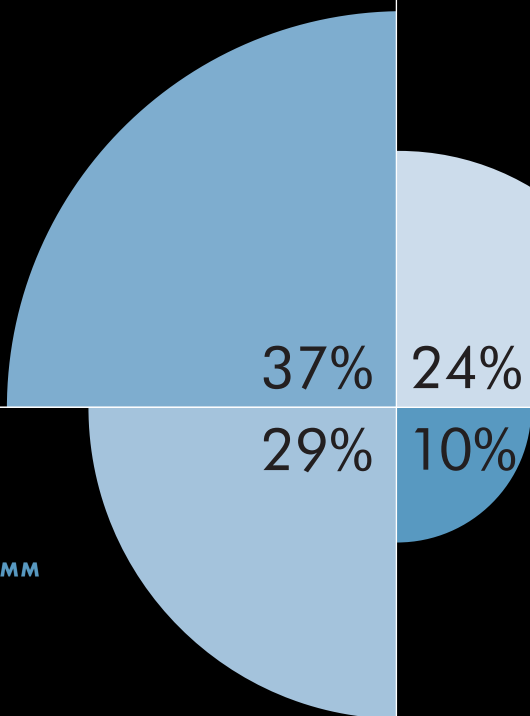
Checking and Savings Accounts
Consumer Lending
Small Business Banking
Debit/ATM Cards
Investment Accounts
Insurance
Online Banking and Bill Pay
Home Loans

COMMERCIAL BANKING

REVENUE: **$4,111 MM**
NET INCOME: **$617 MM**
ASSETS: **$93.7 B**

Global Cash Management
Commercial Lending
Loan Syndications
Commercial Cards
Investment Management
Asset-Backed Finance
Investment Grade Securities
Derivatives
Foreign Exchange
Global Trade

Percentage of total revenue



CARD SERVICES

REVENUE: **$4,864 MM**
NET INCOME: **$1,166 MM**
ASSETS: **$45.3 B**

Credit Cards
Affinity Cards
Rewards Cards
Smart Cards
Stored-Value Cards
Business Cards
Hybrid Cards
Merchant Processing

INVESTMENT MANAGEMENT

REVENUE: **$1,718 MM**
NET INCOME: **$411 MM**
ASSETS: **$8.7 B**

Portfolio Management
Mutual Funds
Financial Planning
Brokerage
Private Client Services
Corporate and Personal Trust
Alternative Asset Management
Insurance
Retirement Services
Securities Lending
Custody and Master Trust

74,000 employees : one goal

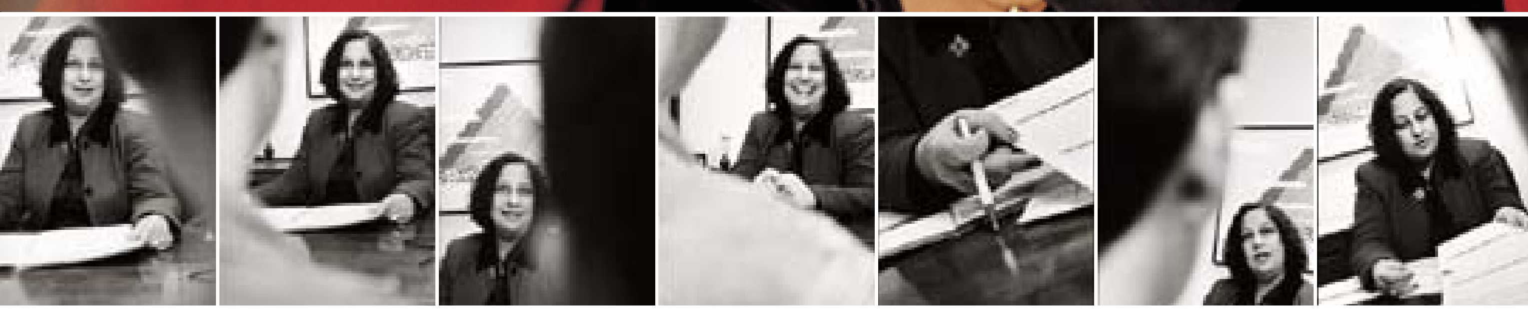
Success is measured in many ways, but for us the ultimate success is to connect with our customers and advance their best interests. Each and every day, in thousands of places and in countless ways, Bank One reaches its customers with specific solutions and individual answers.

Dream catcher

"People don't simply want a bank account. What they want is a relationship with someone they trust who can help them achieve their goals. The account is simply a means to an end. Whenever I meet with new customers, it's my job to connect with them and get a sense of their goals and dreams – whether it's buying a first home, preparing for a new baby, planning for retirement or sending a child off to college. The way I see it, if a customer leaves my desk without that conversation, then I haven't done my job."

Clearly, Gita Chopra is doing her job. Today she's the leading relationship banker in the country. "The people I work with aren't simply customers. They have truly become friends. I take an active interest in where their lives are going, and am proud of the role we at Bank One can play to help them get there."

GITA CHOPRA
RELATIONSHIP BANKER
EMPLOYEE SINCE 1994



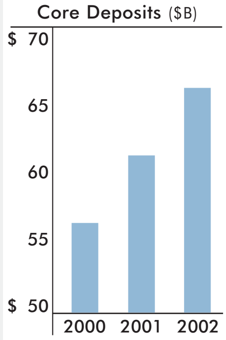
2,839 relationship bankers provide solutions for 6.9 million retail households across 14 states.

1.4 million customers use bankone.com for their online banking, an increase of 30% from 2001.

DEAR SHAREHOLDER:

Retail Banking produced strong financial results in 2002. Net income increased 18% from the prior year and ROE was 22%. We grew our core businesses while aggressively downsizing several under-performing portfolios. The liquidation of our under-performing portfolios reduced assets by almost $4.5 billion, revenues by $198 million, and negatively impacted 2002 earnings. While these actions hurt our short-term financial performance, they will improve our long-term returns.

We are extremely focused on growing our core businesses – retail branch banking, small business banking, and consumer lending. These businesses are very attractive, with ROEs in excess of 25% excluding our liquidating portfolios. We intend to grow by leveraging our existing network of 1,795 branches, by opening new branches and, eventually, through acquisition.



End of Period Retail Core Deposits ($B)

Our success depends on growing our core deposit franchise and then cross-selling our other products through financial profiles that uncover customer needs. This past year marked the first time since 1998 that we opened more accounts than we closed. While we are glad that we reversed the trend, we will not be satisfied until we have achieved meaningful and consistent growth in this account base accompanied by robust cross-selling.

MARKETING AND PRODUCT FOCUS We have increased both the effectiveness and the amount we spend on marketing and are committed to having the best products in the market. This past year we rolled out several new product initiatives including free checking and free online imaged statements, and we eliminated the assisted teller fee. We will constantly look for ways to make our products more attractive to our customers.

STRENGTHENING OUR SALES FOCUS We have dramatically improved our internal sales effort, growing our sales force from 2,296 to 2,839 at year-end. We have moved our salespeople to production-based compensation and our internal sales campaigns are now tightly coordinated with our external marketing efforts.

IMPROVING THE CUSTOMER EXPERIENCE To be successful, we must decrease the level of account attrition. Our research indicates most of our customers leave us within the first year because they aren't put into an account appropriate for their needs. In response, we have changed our procedures to ensure a qualified salesperson takes a comprehensive look at a customer's financial needs when opening an account. Additionally, our focus is on opening all new accounts with convenience items such as debit cards, direct deposit and bill pay to increase customer satisfaction and retention.

We are confident these actions will decrease attrition and ultimately result in increased sales. Using our financial profiles, we are in a stronger position to assess other customer needs that create opportunities to cross-sell a loan, credit card, investment product, CD, or savings account.

We are also making our branches and ATMs more convenient and attractive places to conduct business. We are extending hours in 85% of our branches by 10 hours per week, or an increase of 20%, and we are upgrading branch interiors, exterior signage and ATMs. While extending hours provides a greater convenience for our customers, it also provides us more time to meet with customers, which will increase sales.

STRENGTHENING MANAGEMENT DISCIPLINE We are running our branch system with far greater discipline. We have set clear expectations for our people and we communicate with them constantly. Equally important is our rigorous process of reviewing progress against these expectations as we coach our people toward success.

GOING FORWARD Our 1,795 branches provide a tremendous advantage as we seek to grow our franchise. In our communities, Bank One is well recognized as a market leader. We are the number one or two bank in nearly half of our markets, which translates to strong name recognition. The convenience of our branches and ATMs makes us an attractive choice for customers in need of banking products. Our size and strength allow us to attract and retain the best people as well as deliver the most relevant product set at the most competitive prices. Our goal is to leverage all these advantages to provide a trusted, consistent customer experience in every branch, every day.

We believe our future is extremely bright. We have a qualified and dedicated team of people serving our customers. We have a passion for winning in the marketplace. The business has outstanding returns, and we are confident in our ability to grow it profitably.

Charles W. Scharf
President and CEO, Retail Banking

In the cards

Pauline Trusiak was born to be a banker, or at least she thinks so. Her father, who also works for Bank One, first brought her to work when she was six. Now, several years and a few degrees later, Pauline manages a $400 million commercial card portfolio that includes two of Bank One's largest commercial card customers, ChevronTexaco and the University of California.

"There's nothing I like better than delivering an innovative, out-of-the-box solution for my customers," explains Pauline between phone calls. "On second thought," she adds, "maybe there's one thing that's better – I love winning business away from a competitor."

PAULINE TRUSIAK

COMMERCIAL CARD CONSULTANT

EMPLOYEE SINCE 1990

With nearly 20% of the market share, Bank One is the #1 originator of debit ACH transactions for commercial customers.

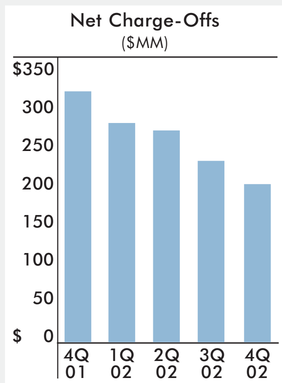
Charge volume on Bank One commercial card products increased more than $1.0 billion, or 21%, in 2002.

DEAR SHAREHOLDER:

Commercial Banking successfully tackled several ambitious and difficult tasks in 2002 that strengthened our business and positioned us for the future. We created one integrated line of business with one set of common systems and moved an important part of our franchise, American National Bank, to the Bank One brand. Along the way we proved to ourselves and to the public that we have the leadership and teamwork it takes to successfully identify and execute complex changes when they are right for our business.

FINANCIAL RESULTS Overall, our full-year ROE for the large corporate business was 9% and 13% for the middle market. This is below our expectations and was negatively impacted by our efforts to further reduce credit exposure and the ongoing challenge of the current economic environment.

However, in the fourth quarter of 2002 we realized an improvement in our net charge-offs. Credit losses for the large corporate business were at 1.03%, an improvement of 99 basis points from fourth quarter 2001, and 0.70% for middle market, an improvement of 105 basis points from the prior-year quarter. These improved credit losses drove ROE increases, with large corporate at 15% and middle market at 17%.



OUR BUSINESS IS POISED FOR GROWTH In addition to moving to one set of common systems, we simultaneously upgraded many of our systems and products. We continued to improve existing processes to further increase revenue in core products and decrease our operating costs, while simplifying our operating environment. The result is a solid foundation of systems, products and services that allows us to be more flexible and respond quickly to market demands.

Our product groups, global treasury services and capital markets, remain leaders in their fields. Our cash management products continue to be ranked in the top five of all cash management categories, and our emerging product areas, including commercial card and electronic products, realized strong growth. Fee-based cash management revenue did decline due to the reduction of our loan exposure and lower interest rates as well as companies migrating from paper to electronic transactions.

Despite very turbulent market conditions in many of the product segments in which capital markets competes, 2002 finished on a high note, with profitability up 10% from a record 2001 performance. Additionally, we maintained or improved our capital markets product rankings, including placing third for credit card and seventh for automotive in the term asset-backed markets and maintaining a fourth-place position in loan syndications, while increasing market share.

In addition to investing in our systems, we also invested in state-of-the-art workstation tools to enhance our understanding of our customers and help manage those relationships. Upon the complete deployment of these tools in the first quarter of 2003, we will have an unprecedented view of our customers, not to mention a standardized methodology for tracking profitability.

What we learned about ourselves in 2002 may prove to be our most significant accomplishment. We are moving forward with a confidence that can only be gained from setting aggressive goals and executing them successfully. The leadership, teamwork and tenacity displayed by our people are unmatched by anything I have witnessed in my career.

LOOKING AHEAD In 2003 we will focus our energy on doing what we do best – building relationships with our customers, listening carefully to their needs, ensuring that our products and services meet those needs and providing high-quality execution. Many new products and product enhancements are under development, and there will be a significant investment in service. We will also continue to communicate with our clients early and often, a strategy that gave us an advantage last year.

I began by explaining how our activities in 2002 have positioned us for growth. I'll conclude by saying how confident I am in our future. We certainly have new challenges ahead of us. You can be assured, however, that we will apply the same discipline to growing our business this year as we did to laying a solid foundation in 2002.

James S. Boshart III
President and CEO, Commercial Banking

Problem = Opportunity + Opportunity + Opportunity

After spending more than 30 years in customer service, there aren't many things Richard Jackson hasn't seen or heard before. He manages each situation as if it's his first, but a single philosophy drives each interaction. "In every problem, there's an opportunity," he says. "The secret is in listening carefully to each person. No two situations are alike. The moment you think you have the answer before hearing the problem is the moment you're in trouble."

"There's a reason people pull one credit card out of their wallet and not another," Richard explains. "Most of the time it's a decision based on trust – trust that if there's a problem it will be solved without hassle or delay." Today Bank One Card Services meets the needs of 50 million credit card customers and maintains one of the highest customer satisfaction ratings in the industry.

Looks like these cardmember service advisors aren't missing many opportunities at all.

RICHARD JACKSON
CARDMEMBER SERVICE ADVISOR/
MARKETING COORDINATOR
EMPLOYEE SINCE 1999

Each week Card Services advisors answer about 923,000 phone calls from customers across the world.

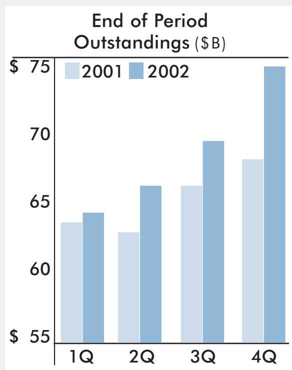
The Bank One Card Services business card portfolio grew by 23% in 2002.

DEAR SHAREHOLDER:

At Card Services we made solid progress on our growth initiatives in 2002 as we benefited from a focus on control and profitability in the previous year. We took the lead in quality, credit and co-branding, and we significantly closed the gap in our drive to become the lowest-cost provider.

We have reengineered many processes around the customer, allowing us to deliver industry-leading service. Better product pricing and more feature choice for our cardmembers helped reinforce customer loyalty, while our six Card Services operating centers provided high levels of customer service. This positive performance allows us to focus our resources on enhancing our 50 million credit card relationships as well as acquiring more profitable and stable accounts.

We also rebalanced our credit card loan portfolio, employing improved credit cycle skills and more intelligent asset management. Our risk-based, customer-driven strategies allowed us to take these actions. As a result, in 2002 we saw excellent credit performance, an 11% increase in charge volume, an 8.7% growth in outstandings, and strong evidence of a more loyal customer base.



LEADING BRANDS HELP DRIVE GROWTH Our new business development effort, guided by our strategy to become the preferred partner of America's leading brands, was successfully restarted in 2002. With the addition of large new co-brand partners such as Amazon.com, BJ's Wholesale Club®, The Walt Disney Company, UPS® and many others, we now have triple the co-brand relationships of our nearest competitor and anticipate growth from these additions beginning in 2003. As more and more consumers switch to rewards-based payment products, our partnerships give us a powerful competitive advantage.

The Mileage Plus segment did well throughout 2002 despite the financial difficulties experienced by United Airlines. Cardmembers responded to our expanded suite of products and rewards promotions, and we expect to continue rewarding customer loyalty with aggressive promotions this year. As I write this letter, we remain cautiously optimistic about the future of this portfolio, although the successful reorganization of United Airlines is necessary for the program to remain viable.

Our brand awareness work began in 2002 and included the successful conversion of millions of First USA cards to the Bank One brand. At the same time we launched our first-ever national television advertising campaign to build awareness of our extensive credit card product line, our partnerships with well-known American icons, and our new name.

FOCUS ON LOWER COSTS AND BETTER RESPONSE RATES
We've worked hard to drive down costs as we aspire to become the industry's lowest-cost provider. None of us will be satisfied until we reach that goal. We pushed down our average cost per active statement and expect further benefits from our focus on quality and infrastructure. The improvements are not ends in themselves, but rather point to our efforts to better the customer experience at every touch point. The resulting lower costs and higher customer satisfaction are evidence of a quality dividend we will continue to enjoy.

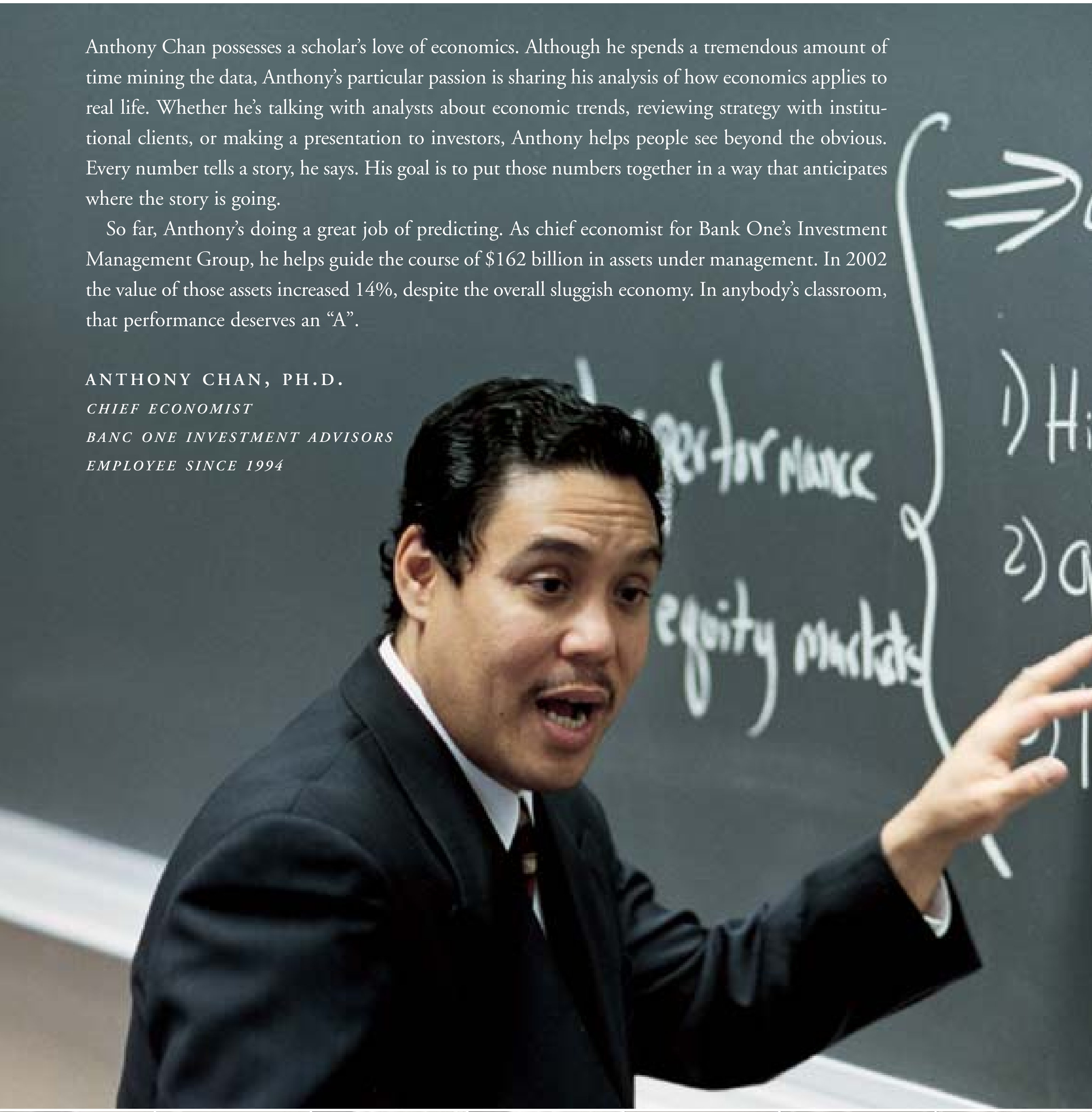
Net response rates to our direct mail campaigns were relatively flat in 2002. We did not perform as well as some of our peers for most of the year; however, we are tackling this concern. Our new analytical models, which help us increase our response rates, show a lot of promise. We are dedicated to improving this capability, as it is critical for our growth projections.

MOVING FORWARD For 2003, we look to our customers for steady growth and improved profitability. We also expect our partners and prospective partners to continue to rely on our expertise. We are committed to maintaining our credit improvements and strengthening our share of the payments business. Several major co-brand and new product launches take center stage in the first half of the year, and we will continue to keep service levels high and costs low. Know that you have a management team committed to building a strong cards and payments business for Bank One, and we appreciate your support.

Phil Heasley

Philip G. Heasley
President and CEO, Card Services

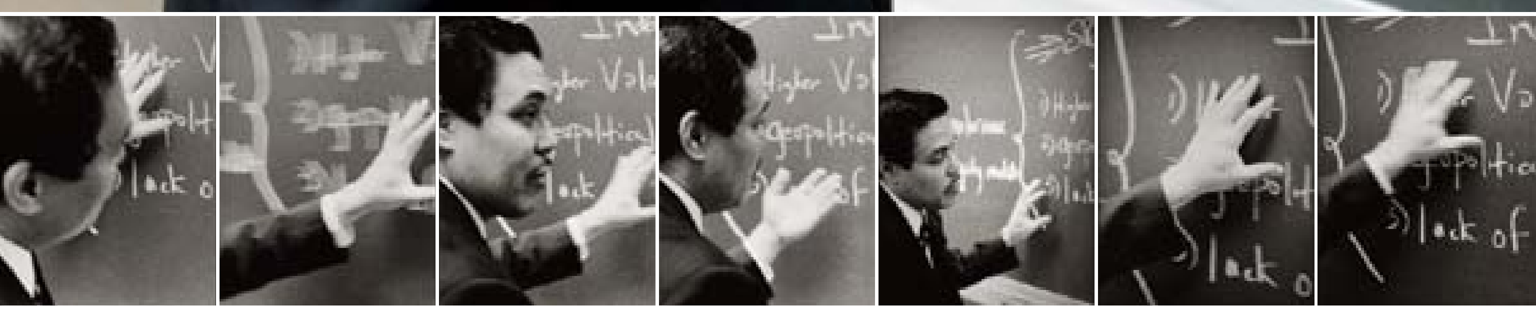
Numbers guy



Anthony Chan possesses a scholar's love of economics. Although he spends a tremendous amount of time mining the data, Anthony's particular passion is sharing his analysis of how economics applies to real life. Whether he's talking with analysts about economic trends, reviewing strategy with institutional clients, or making a presentation to investors, Anthony helps people see beyond the obvious. Every number tells a story, he says. His goal is to put those numbers together in a way that anticipates where the story is going.

So far, Anthony's doing a great job of predicting. As chief economist for Bank One's Investment Management Group, he helps guide the course of $162 billion in assets under management. In 2002 the value of those assets increased 14%, despite the overall sluggish economy. In anybody's classroom, that performance deserves an "A".

ANTHONY CHAN, PH.D.
CHIEF ECONOMIST
BANC ONE INVESTMENT ADVISORS
EMPLOYEE SINCE 1994



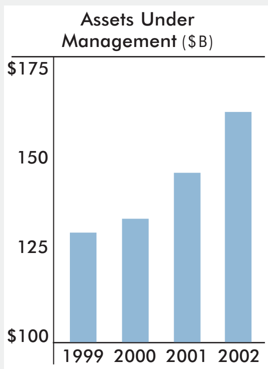
In 2002 One Group® mutual fund assets grew 21% versus an industry average of -8%.

The 118 investment professionals at Banc One Investment Advisors have an average investment experience of more than 13 years.

DEAR SHAREHOLDER:

In 2002 the Investment Management Group had another year of challenging market conditions and nervous investors. It was the third consecutive year of volatile and unfavorable securities markets, but it was our third consecutive year of double-digit asset and earnings growth. On a year-to-year basis, assets under management grew 14%; earnings grew 14%; and expenses decreased 4%, including restructuring-related charges and reversals.

Assets under management, a key driver of our earnings, grew from $143 billion to $162 billion in 2002, while mutual fund assets industry-wide experienced an 8% decline. In the 2002 year-end edition of *Barron's*, Banc One Investment Advisors ranked better than two-thirds of its peers in its ability to protect equity investors and shareholders during difficult markets. We also ranked second in our ability to retain equity assets.



DISCIPLINED RESULTS By adhering to a disciplined asset management philosophy, our money managers keep delivering competitive investment returns – avoiding fads and short-term trends. We are forever conscious of the risk inherent in the investment markets. We cannot eliminate that risk, but we can attempt to manage it for our clients. In 2002 our equity returns, although at negative levels, stood up well against peer averages, as the equity markets reeled from geopolitical, corporate integrity and economic concerns. Our fixed income team excelled in one of the most difficult bond markets we've ever seen. Our fixed income Lipper rankings are top-tier for one-, three- and five-year time periods.

Another key to our financial performance is the same principle we espouse for our clients – diversification. We are not overly dependent on any single client segment, asset style or product category. This breadth of product and distribution helped produce record investment sales in 2002. In retail brokerage, sales of mutual funds and annuities reached $5.4 billion, 11% above sales in 2001. In our institutional business, investment sales hit a new record, $30 million as measured by annualized revenue, 66% above last year. Neither of these achievements would have happened without the strong support of our Retail and Commercial Banking partners. In our third-party distribution business, sales of One Group® through external channels reached $3 billion, 94% above 2001 levels.

GROWTH INITIATIVES Our private client services business continued to develop an integrated platform to serve the needs of high net worth individuals. We added 73 new private client services advisors and made real progress leveraging Bank One's commercial relationships. During 2002 average deposits increased by $1.3 billion, 19% more than 2001. However, the market value of customer assets declined 15%. This is an attractive, high-growth business in which Bank One has tremendous potential to be a major player.

Going forward, another area of growth for us will be insurance services. In 2002 we brought in an experienced executive management team that launched several successful products and developed a solid game plan to grow on multiple levels. One of our priorities will be to acquire life and annuity insurance manufacturing capabilities.

We realize we can only reach our long-term goals with both organic growth and acquisitions. Throughout the year we looked hard at a number of companies to extend our manufacturing and distribution capabilities; however, we didn't find the right target at the right price. We'll keep looking, but we're not willing to make an acquisition just for the sake of doing so. As the securities markets continue to struggle, we believe there will be attractive opportunities to consider.

Finally, at year-end we announced a realignment of our companies to further accelerate growth. Retail investment services has become part of Retail Banking. Private client services has become a stand-alone business. The Investment Management Group will now focus exclusively on our asset management, corporate trust and insurance capabilities. This new structure recognizes the value of each of these businesses to the future of Bank One and positions the corporation to maximize their earnings in the years ahead.

David J. Kundert
President and CEO, Investment Management

On guard

Dan Casey knows that everything in life is a risk. The trick is in knowing which ones are worth taking, understanding how to price the risk and realizing that the nature of risk is constantly changing.

"It's an interesting and challenging business because you have to react quickly to both opportunities and threats," says Dan, who's spent most of his career working on risk- and credit-related issues for Fortune 500 clients. "The events of this past year clearly demonstrate that you have to be vigilant and on top of every situation. You can never let your guard down if you're going to manage risk and not be managed by it."

At Bank One, everyone's a risk manager. Dan's just got it in his title.

DANIEL CASEY
SENIOR UNDERWRITER/RISK MANAGEMENT
EMPLOYEE SINCE 2002

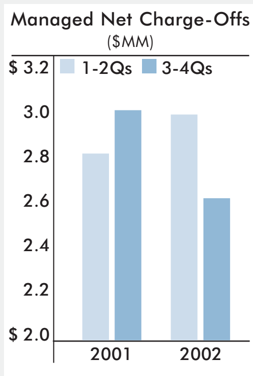
Bank One's 3.2% ratio of reserves to loans stands among the best in the industry.

Bank One's nonperforming loans decreased by $275 million, or 8%, from 2001.

DEAR SHAREHOLDER:

Being the Chief Risk Officer for a leading financial institution presented significant challenges in 2002. With a market characterized by significant corporate misbehavior and fraud, continued decline in stock values, a soft economy, high consumer debt, rising personal bankruptcies, and a lack of market growth, solid risk management discipline was more important than ever.

The good news is that Bank One was prepared for these difficult times. We began restructuring risk management disciplines in late 2000, with continuing improvements through 2002. This enabled us to improve our risk profile and react quickly to a rapidly changing economic environment. Our balance sheet is strong and our risk profile is healthy. Compared with 2001, we have lower charge-offs (managed basis) and nonperforming loans that reduce earnings volatility.



RISK MANAGEMENT IS A STATE OF MIND Risk management is the responsibility of every Bank One employee, not just the corporate risk staff. Each of our 74,000 employees owns the risk issues of his or her specific daily activities. Our basic principles of risk management include:

- Know your business and customer.
- Think outside the box.
- Raise red flags immediately.
- Be forward looking as to where risk might lurk.
- Get paid for risk.
- Manage risk dynamically.

Incorporating these principles into employees' mindsets and activities is a cultural shift we emphasize throughout the organization.

Risk management governance approach and infrastructure changes were put into place in 2002 to support this cultural shift. Each line of business head and chief risk officer chairs a risk committee overseeing changes in policy, business initiatives, current risk profiles and market conditions. Weekly risk reports highlight key changes in business trends and serve to identify risk issues and create mitigation plans. We're developing new processes and systems to improve risk measurement and reporting. Our focus includes credit, market and operational risk, as they all contribute to our overall risk profile.

UPGRADING RISK MANAGEMENT PEOPLE, PROCESS AND SYSTEMS Although we run Card Services and Retail units as separate lines of business, we integrated those risk management activities under one Consumer Chief Risk Officer to better manage the credit relationships of our consumer customers across all products. To support this growing portfolio, we added depth to the risk management team, revamped underwriting systems/models, and improved data quality and reporting.

Commercial Banking risk management practices continue to become more sophisticated. We aggressively manage credit risk to our corporate, middle market, global treasury and capital markets customers through active portfolio management; a focus on risk/reward; forward-looking, externally focused risk measurement; risk-based limit setting and monitoring; expanded loan risk distribution (sales and credit derivatives); an evolution to more sophisticated portfolio management tools; and routine testing of probability of default and loss given default assumptions.

We applied risk management philosophies and committee structures consistent with the Commercial Banking governance structure to private client services to have consistent methods of risk assessment across all lines of business. Within Investment Management, we identified issues that created operational and reputational risk and developed new processes to minimize those risks.

PROFITING FROM SMART RISK DECISIONS Much has been printed about Bank One's participation in the financing of two separate United Airlines Debtor-In-Possession (DIP) credit facilities. Due to our credit card relationship with United, we clearly have a vested interest in a healthy, prosperous United Airlines franchise. However, we did not compromise our risk principles; the transactions stand on their own merits. They are well structured, well priced and clearly within our credit competence of execution.

MAKING A NAME FOR OURSELVES Aggressive portfolio management techniques and proactive risk management disciplines allowed us to manage and prosper in a challenging year. We're confident that we'll be known for our core competency in risk management disciplines. With strong risk disciplines in place, we are poised to support growth – focused on balancing risk and reward to build a stronger future for Bank One.

Linda Bammann
Chief Risk Management Officer

One system won

DEAR SHAREHOLDER:

In today's financial services marketplace, technology is a critical component for success. We believe that when technology is developed in a cooperative and synergistic way throughout the enterprise, it can become a competitive advantage.

Two years ago Bank One launched strategic initiatives to standardize computer systems and streamline operations nationwide. The objectives of both were to improve customer service, simplify our employees' work and reduce costs.

A "HERCULEAN EFFORT" In the last 18 months we have successfully completed four major system conversions, essentially tripling the number of customer accounts on the standard deposit platform from four million to 12 million. When plans were announced to accomplish statewide system conversions for Michigan and Illinois in 2002, the media and industry analysts viewed the commitment with skepticism, saying it would take a "Herculean effort."

Charter and System Reductions

JANUARY 2001	JANUARY 2002	JANUARY 2004
20 Bank Charters	15 Bank Charters	5 Bank Charters
9 Deposit Systems	6 Deposit Systems	1 Deposit System
11 Lending Systems	10 Lending Systems	3 Lending Systems

It was with tremendous pride that we deemed completion of the last major state conversion – Illinois in November 2002 – an unqualified success. It was the largest conversion of any type in Bank One history, and in my 30-year banking career I have never seen a more seamless, large conversion with virtually no significant customer impacts.

In addition to the enormous effort put forth for conversion activities, we continued to streamline our operations and enhance our systems.

– We realized an annual savings of $53.2 million as a result of credit card and operating site consolidations and improved productivity.
– We developed a desktop system that allows frontline employees to provide tailored financial solutions for customers.
– We built a check image archive and retrieval system that now provides all Bank One customers with access to digital images of their checks on bankone.com.
– We upgraded our national telecommunications network for faster information retrieval and improved customer service.
– We brought a number of functions in-house to build internal expertise and enable greater control of our technical support.

During the past 18 months we have invested heavily in time, dollars and people to create competitive parity. We hired more than 1,750 top-notch technology professionals, significantly increasing our workforce both in quantity and quality, while competitors and other businesses were reducing their headcount.

LOOKING FORWARD Completion of the major system conversions in 2002 allows us to redirect $200 million into the development of new technology. These investments will strengthen and expand our business and product offerings to better compete in the marketplace. We are also targeting an additional $100 million in savings in 2004 as we continue to better leverage our operating systems and infrastructure across the enterprise.

Moving into 2003, we will continue to consolidate and standardize our systems, but on a much smaller scale. We will work toward our three-year goal of reducing the total number of systems from 1,277 to less than 700. With much of the foundational work complete, we will align our energy and resources to focus on significantly improving our systems' availability for our customers, and on developing systems that provide products to increase corporate revenue.

We will develop new technology to support our business lines in delivering quality products and services. Priorities include:

– A state-of-the-art teller banking system
– A new suite of Internet tools for commercial clients
– A relationship management system to provide better customer information
– New systems to better manage our financial planning and risk management
– An expanded ability to service customers across broad geographic areas

IN CLOSING We have an incredible sense of accomplishment when we review 2002. Our focus, our commitment, our productivity, and our pride – for what no one really thought could be accomplished in one year – have energized our team. We look forward to building on this foundation in 2003 to fully differentiate ourselves in the marketplace and improve Bank One's financial performance.

Austin A. Adams

Austin A. Adams
Chief Information Officer

PLANNING GROUP

James Dimon
Chairman and
Chief Executive Officer

Austin A. Adams
Chief Information Officer

Linda Bammann
Chief Risk Management
Officer

James S. Boshart III
President and CEO
Commercial Banking

William I. Campbell
Advisor

David E. Donovan
President and CEO
Private Client Services

Christine A. Edwards
Chief Legal Officer
and Secretary

Philip G. Heasley
President and CEO
Card Services

Larry L. Helm
President and CEO
Middle Market Banking

David J. Kundert
President and CEO
Investment Management

Jay Mandelbaum
Strategy and Business
Development

Sarah L. McClelland
Chief Auditor

Heidi Miller
Chief Financial Officer

Tyree B. Miller
President and CEO
Global Treasury Services

Charles W. Scharf
President and CEO
Retail Banking

Planning Group, Standing: **Philip G. Heasley; David E. Donovan; Sarah L. McClelland; Larry L. Helm; James S. Boshart III; Christine A. Edwards; Charles W. Scharf; Tyree B. Miller; David J. Kundert; William I. Campbell** *(Advisor). Seated:* **Jay Mandelbaum; Linda Bammann; James Dimon; Austin A. Adams; Heidi Miller**

BOARD OF DIRECTORS

James Dimon [5]
Chairman and
Chief Executive Officer
Bank One Corporation

John H. Bryan [1,4]
Retired Chairman
and Chief Executive Officer
Sara Lee Corporation
(CONSUMER PRODUCTS)

Stephen B. Burke
(Beginning February 2003)
President
Comcast Cable
Communications, Inc.
(CABLE COMMUNICATIONS)

James S. Crown [2,3]
General Partner
Henry Crown and Company
(Not Incorporated)
(DIVERSIFIED INVESTMENTS)

Dr. Maureen A. Fay, O.P. [2,3,5]
President
University of Detroit Mercy
(EDUCATION)

John R. Hall [2,4,5]
Retired Chairman
and Chief Executive Officer
Ashland, Inc.
(CHEMICAL REFINER, MANUFACTURER AND DISTRIBUTOR)

Laban P. Jackson, Jr. [1,5]
Chairman and
Chief Executive Officer
Clear Creek Properties, Inc.
(REAL ESTATE DEVELOPMENT)

John W. Kessler [2]
Owner
John W. Kessler Company
(REAL ESTATE DEVELOPMENT)

Robert I. Lipp
(Beginning February 2003)
Chairman and
Chief Executive Officer
Travelers Property Casualty
Corp.
(PROPERTY AND CASUALTY INSURANCE)

Richard A. Manoogian [2]
Chairman and
Chief Executive Officer
Masco Corporation
(DIVERSIFIED MANUFACTURER)

David C. Novak [1,4]
Chairman and
Chief Executive Officer
Yum! Brands, Inc.
(RESTAURANT OPERATIONS)

John W. Rogers, Jr. [1,3]
Chairman and
Chief Executive Officer
Ariel Capital Management, Inc.
(INSTITUTIONAL MONEY MANAGEMENT)

Frederick P. Stratton, Jr. [1,3]
Chairman Emeritus
Briggs & Stratton
Corporation
(ENGINE MANUFACTURER)

[1] *Member of the Audit and Risk Management Committee*

[2] *Member of the Compensation and Organization Committee*

[3] *Member of the Public Responsibility Committee*

[4] *Member of the Corporate Governance and Nominating Committee*

[5] *Member of the Executive Committee*

BANK ONE CORPORATION
INDEX TO FINANCIAL REVIEW

SELECTED FINANCIAL INFORMATION
BANK ONE CORPORATION and Subsidiaries

(In millions, except per share data, ratios, and headcount)	**2002**[5]	2001	2000	1999	1998
Income Statement Data:					
Total revenue, net of interest expense	**$ 16,831**	$ 15,861	$ 13,926	$ 17,713	$ 17,418
Net interest income – fully taxable-equivalent (FTE) basis [1]	**8,740**	8,769	8,974	9,142	9,469
Noninterest income	**8,236**	7,223	5,090	8,692	8,071
Provision for credit losses	**2,487**	2,510	3,398	1,249	1,408
Noninterest expense	**9,581**	9,551	11,608	11,490	11,545
Income (loss) before cumulative effect of change in accounting principle	**3,295**	2,682	(511)	3,479	3,108
Net income (loss)	**3,295**	2,638	(511)	3,479	3,108
Per Common Share Data:					
Income (loss) before cumulative effect of change in accounting principle:					
Basic	**$ 2.83**	$ 2.28	$ (0.45)	$ 2.97	$ 2.65
Diluted [2]	**2.80**	2.28	(0.45)	2.95	2.61
Net income (loss):					
Basic	**$ 2.83**	$ 2.25	$ (0.45)	$ 2.97	$ 2.65
Diluted [2]	**2.80**	2.24	(0.45)	2.95	2.61
Cash dividends declared	**0.84**	0.84	1.26	1.68	1.52
Book value	**19.28**	17.33	15.90	17.34	17.31
Balance Sheet Data – Ending Balances:					
Loans	**$148,125**	$156,733	$174,251	$163,877	$155,398
Total assets	**277,383**	268,954	269,300	269,425	261,496
Deposits	**170,008**	167,530	167,077	162,278	161,542
Long-term debt [3]	**43,234**	43,418	40,911	35,435	22,298
Common stockholders' equity	**22,440**	20,226	18,445	19,900	20,370
Total stockholders' equity	**22,440**	20,226	18,635	20,090	20,560
Credit Quality Ratios:					
Net charge-offs to average loans	**1.63%**	1.37%	0.81%	0.77%	0.97%
Allowance to period end loans	**3.20**	2.97	2.42	1.42	1.51
Nonperforming assets to related assets [4]	**2.38**	2.35	1.48	1.02	0.83
Financial Performance Ratios:					
Return (loss) on average assets	**1.25%**	0.98%	(0.19)%	1.36%	1.30%
Return (loss) on average common equity	**15.2**	13.4	(2.7)	17.1	15.9
Net interest margin	**3.78**	3.69	3.72	4.09	4.52
Efficiency ratio	**56.4**	59.7	82.5	64.4	65.8
Capital Ratios:					
Risk-based capital:					
Tier 1	**9.9%**	8.6%	7.3%	7.7%	7.9%
Total	**13.7**	12.2	10.8	10.7	11.3
Leverage	**8.9**	8.2	7.3	7.7	8.0
Common Stock Data:					
Average shares outstanding:					
Basic	**1,162**	1,166	1,154	1,168	1,170
Diluted [2]	**1,172**	1,174	1,154	1,178	1,189
Stock price, year-end	**$ 36.55**	$ 39.05	$ 36.63	$ 32.00	$ 51.06
Stock dividends	**—**	—	—	—	10%
Headcount	**73,685**	73,519[6]	80,778	87,735	92,800

(1) Net interest income-FTE includes taxable equivalent adjustments of $145 million, $131 million, $138 million, $121 million and $122 million for the years ended December 31, 2002, 2001, 2000, 1999 and 1998, respectively.

(2) Common equivalent shares and related income were excluded from the computation of diluted loss per share for the year-ended December 31, 2000 as the effect was antidilutive.

(3) Includes trust preferred capital securities.

(4) Related assets consist of loans outstanding, including loans held for sale and other real estate owned.

(5) Results include the effects of the consolidation of Paymentech, Inc. and Anexsys, LLC.

(6) Beginning in 2001, employees on long-term disability and employees of unconsolidated subsidiaries are excluded. Prior period data have not been reclassified for this change.

DESCRIPTION OF BUSINESS

BANK ONE CORPORATION and subsidiaries ("Bank One" or the "Corporation") is a diversified financial holding company that offers a full range of financial services to consumers and commercial customers. The Corporation is:

- A leader in retail and small business banking
- A premier provider of lending, treasury management, and capital markets products to commercial customers
- The third largest credit card issuer in the United States and the largest Visa® issuer in the world
- A leading investment management company

For a description of each business segment refer to "Business Segment Results and Other Data" beginning on page 38.

Basis of Presentation

The Corporation's financial statements are based on the application of accounting principles generally accepted in the United States of America, which are described in the notes to the consolidated financial statements starting on page 84. The Corporation's financial statements are highly dependent upon certain judgments, assumptions and estimates made by the Corporation. Those that are most critical to the overall financial statements are described below.

Management's discussion and analysis may contain forward-looking statements provided to assist in the understanding of anticipated future financial performance. However, such performance involves risks and uncertainties that may cause actual results to differ materially from those expressed in forward-looking statements. See page 79 for a discussion of these factors.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Generally accepted accounting principles are complex and require management to apply significant judgment to various accounting, reporting and disclosure matters. Management must use assumptions and estimates to apply these principles where actual measurement is not possible or practical.

For a complete discussion of the Corporation's significant accounting policies, see the footnotes to the Consolidated Financial Statements (pages 84-108) and discussion throughout this financial review document. Below is a plain-English discussion of the Corporation's critical accounting policies. These policies are critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. Management has reviewed the application of these policies with the Audit and Risk Management Committee of the Corporation's Board of Directors.

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of probable losses inherent in the Corporation's credit portfolios. In determining an adequate allowance, management makes numerous assumptions, estimates and assessments. At the end of 2002, the allowance for credit losses was $4.5 billion, representing 3.20% of loans at year end.

The Corporation's allowance consists of three components: asset specific, expected loss and stress. The Corporation's methodology for determining each component is more fully described on pages 57-58 and 71-72.

The asset specific component applies to loans evaluated individually for impairment and is based upon management's best estimate of discounted cash repayments and proceeds from liquidating collateral. The actual timing and amount of repayments and the ultimate realizable value of the collateral may differ from management's estimates.

The expected loss component for commercial credits is based upon internal risk ratings that are applied to individual credits based upon the probability and amount of loss in the event of a default. These expected loss estimates are sensitive to changes in the risk profile of a customer, realizable value of collateral, other risk factors and actual loss experience.

The expected loss component of consumer credits is generally determined by applying statistical loss factors and other risk indicators to pools of loans by asset type. These expected loss estimates are sensitive to changes in delinquency status, credit bureau scores, the realizable value of collateral, and other risk factors.

The stress component represents the effect of probable economic deterioration above and beyond what is reflected in the asset specific and expected loss components. This amount is determined based upon the results of a series of tests that stress the credit portfolios. The Corporation's stress testing methodology is more fully described on pages 71 – 72.

The underlying assumptions, estimates and assessments used by management to determine these components are continually evaluated and updated to reflect management's current view of overall economic conditions and relevant factors impacting credit quality and inherent losses. Changes in such estimates could significantly impact the allowance and provision for credit losses in each business segment. The Corporation could experience credit losses that are different from the current estimates made by management.

Securitizations

The Corporation packages primarily credit card loans into securities that are sold to investors or retained on the balance sheet through the process of securitization. By applying detailed accounting guidelines, the Corporation determines if a securitization transaction results in a sale (as opposed to a secured borrowing), the amount of any gain or loss on such sale, and the value of retained interests in the securitized assets. During 2002, Card Services recognized $55 million in gains from the securitization of $6.8 billion in credit card receivables. The retained interest was approximately $28 billion at the end of 2002.

Management utilizes a discounted cash flow model to estimate the value of retained interests. Projected cash flows are generally based upon estimates of finance charges and fees related to the securitized assets, net credit losses, average life, the contractual fee to service the loans, and also contractual interest paid to third party investors. See page 94 for a pretax sensitivity analysis of the assumptions used to determine the fair values assigned to the Corporation's retained interests.

Changes in the cash flow estimates used may have a significant impact on Card Services' valuation of retained interests and the initial gain or loss on sale. See the "Loan Securitizations" on page 74 and Note 9 "Credit Card Securitizations" on pages 94-95 for further information on the Corporation's securitization activities.

Valuation of Certain Financial Instruments

The majority of the Corporation's financial instruments that require fair value measurements are determined based on quoted market prices. The Corporation must estimate the fair value of certain financial instruments, such as some principal investments and credit derivatives, which are not publicly traded or are traded in limited markets. These amounts represent the estimated values at which financial instruments could be currently exchanged or settled between willing parties.

While the fair value of a publicly traded investment is determined using quoted market prices, the fair value of some investments must be estimated based upon the investees' financial results, conditions and prospects, values of comparable public companies, market liquidity, and sale restrictions. Other investments require the use of a discounted cash flow model or other modeling techniques utilizing the limited market information to estimate fair value. These fair value estimates are most sensitive to the timing and amount of actual cash flows and market liquidity.

Changes in these estimates may have a significant impact on the carrying amount and the related valuation gains and losses on these financial instruments in the Commercial Banking and Corporate lines of business.

Stock Option Compensation

Prior to 2002, the Corporation did not record compensation expense for stock option awards. In 2002, the Corporation began recognizing the expense associated with stock options granted during 2002 using the fair value method. Compensation cost is calculated based on the fair value of the award at the grant date, and is recognized as an expense over the vesting period of the grant. The Corporation uses the Black-Scholes option pricing model to estimate the value of granted options. This model takes into account the option exercise price, the expected life, expected forfeitures, the current price of the underlying stock, the expected volatility of the Corporation's stock, expected dividends on the stock and a discount rate.

Since compensation cost is measured at the grant date, the only variable whose change would impact expected compensation expense recognized in future periods for 2002 grants is actual forfeitures. If the Corporation experiences a 50% lower forfeiture rate than estimated, compensation expense in the period of change would increase by $4 million. See Note 19 "Stock-Based Compensation" on page 100 for the specific assumptions used to calculate the fair value of options granted.

Pension

The Corporation provides pension benefits to its employees. In accordance with applicable accounting rules, the Corporation does not consolidate the assets and liabilities associated with the pension plan. (At the end of 2002, the fair value of pension plan assets was $2.5 billion and the plan was overfunded). Instead, the Corporation recognizes a prepaid asset for contributions the Corporation has made to the pension plan in excess of pension expense. The measurement of the prepaid asset and the annual pension expense involves actuarial and economic assumptions.

The assumptions used in pension accounting relate to the expected rate of return on plan assets, the rate of increase in salaries, the interest-crediting rate, the discount rate, and other assumptions. See Note 18 "Employee Benefits" on page 98 for the specific assumptions used by the Corporation.

The annual pension expense for the Corporation is currently most sensitive to the return on asset assumption. For example, each 25 basis point reduction in the 2003 expected rate of return of 7.5% would increase the Corporation's 2003 pension expense by approximately $8 million. In addition, each 25 basis point reduction in the 2003 discount rate of 6.5% would impact the Corporation's 2003 pension expense by approximately $1 million.

SUMMARY OF RESULTS

(All comparisons are to the prior year unless otherwise specified)

Net income was $3.3 billion, or $2.80 per diluted share. This is compared to net income of $2.6 billion, or $2.24 per diluted share.

Net interest income remained relatively unchanged at $8.6 billion. Decreases resulting from the intentional reduction of certain segments of the loan portfolio were offset by increases in Retail core deposits and the benefit of lower interest rates.

Noninterest income of $8.2 billion increased $1.0 billion, and as a percentage of total revenue increased to 48.9% from 45.5%. This increase was primarily due to growth in credit card revenue resulting from the acquisition of the Wachovia credit card business in the third quarter of 2001, and the consolidation of Paymentech, Inc. beginning January 1, 2002.

Noninterest income included numerous offsetting items, including net investment security gains of $165 million compared to losses of $66 million. The gain included a $261 million gain on sale of the interest in the GE Monogram joint venture, partially offset by net losses in the investment portfolios. Also included in the change in noninterest income were the $129 million increase in service charges on deposits, increases in asset-backed finance and underwriting fees in capital markets of $48 million, and $42 million in fee income related to increased annuity and mutual fund sales. In addition, noninterest income included $42 million of mark-to-market adjustments on the credit derivatives portfolio used to hedge exposure to specific credits in the loan portfolio, compared to $6 million in the prior year. Partially offsetting these increases were various asset writedowns. In addition, 2001 included $73 million of gains on the sales of the Corporation's interests in EquiServe Limited Partnership and Star Systems, an ATM network.

Total noninterest expenses of $9.6 billion increased by $30 million including a $414 million reduction in restructuring related charges. Excluding restructuring related charges and reversals, the change is a result of increased marketing expenditures of $192 million, $118 million for the consolidation of Paymentech and Anexsys, $89 million for terminating and renegotiating certain vendor contracts, and increased compensation expense for incentives and stock options.

Provision for credit losses was $2.5 billion for the year ended December 31, 2002, a decrease of $23 million. The allowance for credit losses was $4.5 billion as of December 31, 2002, unchanged from December 31, 2001. As a percentage of period end loans, the allowance increased to 3.20% from 2.97%. This is due to the reduction of the overall loan portfolio from $156.7 billion to $148.1 billion.

BALANCE SHEET ANALYSIS

In 2002, the Corporation took actions relating to both the asset and liability sides of the balance sheet in order to defensively position itself for a higher rate environment. On the asset side, the treasury investment portfolio was repositioned for rising rates, and the Corporation adjusted the funding of the balance sheet to selectively lengthen maturities and fix rates.

The Corporation's loan portfolio was $148.1 billion compared with $156.7 billion, a decrease of $8.6 billion, or 5%. Commercial Banking loans totaled $61.9 billion compared to $72.5 billion, a decrease of $10.6 billion, or 15%. Reductions of $8.5 billion and $1.8 billion in commercial and industrial and commercial real estate loans, respectively, reflected the impact of risk management initiatives to reduce aggregate risk, risk in specific credits and to be properly compensated for risks taken. Card Services loans totaled $11.6 billion compared to $6.8 billion, an increase of $4.8 billion, or 71%, reflecting lower attrition and higher utilization. During the year, 4.9 million credit card accounts were opened, an increase of 25%. Retail loans totaled $67.7 billion compared with $69.6 billion, a decrease of $1.9 billion, due primarily to the intentional reduction of the discontinued brokered home equity portfolios and auto lease offset by growth in the on-going home equity portfolio.

Investment securities totaled $67.6 billion compared with $60.9 billion. This increase of $6.7 billion, or 11%, was driven by an increase of $4.2 billion, or 18%, in retained interests in securitized credit card receivables, a $1.8 billion, or 7%, increase in U.S. government agencies, an increase of $639 million, or 23%, in equity securities, and an increase of $342 million, or 8%, in other debt securities. Partially offsetting these increases were the previously mentioned asset writedowns.

Total deposits were $170.0 billion compared to $167.5 billion, an increase of $2.5 billion, or 1%. Savings deposits totaled $88.9 billion compared to $80.6 billion, an increase of $8.3 billion, or 10%. Demand deposits totaled $34.3 billion compared to $32.2 billion, an increase of $2.1 billion, or 7%. Offsetting these increases was a decrease in time deposits of $7.7 billion, or 20%, to $30.5 billion from $38.2 billion.

BUSINESS SEGMENT RESULTS

The Corporation is managed on a line of business basis. The business segments' financial results presented reflect the current organization of the Corporation. The following table summarizes net income (loss) by line of business for the periods indicated.

For the Year Ended December 31,	**2002**[1]	2001[2]	2000
(In millions)			
Retail	**$1,390**	$1,181	$367
Commercial Banking	**617**	700	(92)
Card Services	**1,166**	907	(1)
Investment Management	**411**	362	322
Corporate	**(289)**	(468)	(1,107)
Income (loss) before cumulative effect of change in accounting principle	**3,295**	2,682	(511)
Cumulative effect of change in accounting principle, net of taxes of ($25)	**—**	(44)	—
Net income (loss)[3]	**$3,295**	$2,638	$(511)

(1) During 2002, the dealer commercial services business was transferred from Retail to Commercial Banking. All results for prior periods conform to the current line of business organization.

(2) During 2001, the tax-oriented portfolio of corporate investments was transferred to Commercial Banking, while the principal investments and fixed income portfolios were transferred to Corporate. All results for prior periods conform to the current line of business organization.

(3) Net income includes restructuring-related charges (reversals) net of tax expense (benefit) of $(40) million, $222 million and $102 million for 2002, 2001, and 2000, respectively

Description of Methodology

The results of the business segments are intended to reflect each segment as if it were a stand-alone business. The management reporting process that derives these results allocates income and expenses using market-based methodologies. Funds transfer pricing is used to allocate interest income and expense to each line of business. A portion of the Corporation's interest rate risk position is currently included in Corporate. The lines of business are assigned economic capital that reflects the underlying risk in that business. See the "Capital Management" section on page 77 for a discussion of the economic capital framework.

Historically, the costs of certain support units were allocated to the lines of business based on factors other than usage, such as headcount and total assets. The methodology was changed in the third quarter of 2000 to better reflect the actual cost and usage of services provided and was consistently applied to all lines of business. As a result of this methodology change, costs allocated to Card Services decreased, while unallocated costs that are included in Corporate increased.

BUSINESS SEGMENT RESULTS AND OTHER DATA

The information provided in the line of business tables beginning with the caption entitled "Financial Performance" is included herein for analytical purposes only and is based on management information systems, assumptions and methodologies that are under continual review by management.

The financial information and supplemental data presented in the tables below for the respective lines of business are reported on an actual basis. To assist with the analysis of underlying trends, a discussion of merger and restructuring-related charges and their impact on business segment results is included for 2000 on pages 52–53.

Retail

Retail provides a broad range of financial products and services, including deposits, investments, loans, insurance, and on-line banking to nearly 6.9 million households including 489,000 small business customers. 1.4 million of total households are registered on-line users.

Products and services are delivered to customers through approximately 32,000 employees, 1,795 banking centers in 14 states, a large network of ATM's, bankone.com, and 24-hour telephone banking. THE ONE® Card, issued by Retail, is one of the country's leading debit cards for individuals and small businesses, with 4.6 million cards issued.

Retail originates consumer credit nationwide through its banking centers, relationships with brokers, the Internet, and the telephone. Retail offers real estate-secured, education, tax refund, consumer installment and auto loans and leases to individuals. Retail is also a leading lender to small businesses.

(Dollars in millions)	**2002**	2001	2000
Income Statement Data:			
Net interest income-FTE [1] [2]	**$ 4,871**	$ 4,961	$ 4,834
Banking fees and commissions [3]	**430**	455	470
Credit card revenue [4]	**177**	164	144
Service charges on deposits [5]	**834**	791	763
Other income (loss)	**(27)**	25	(766)
Total noninterest income	**1,414**	1,435	611
Total revenue, net of interest expense	**6,285**	6,396	5,445
Provision for credit losses	**910**	1,007	865
Salaries and employee benefits	**1,449**	1,476	1,536
Other expense	**1,800**	1,971	2,431
Total noninterest expense before merger and restructuring-related charges (reversals)	**3,249**	3,447	3,967
Merger and restructuring-related charges (reversals) [6]	**(18)**	104	39
Total noninterest expense	**3,231**	3,551	4,006
Income before income taxes	**2,144**	1,838	574
Applicable income taxes	**754**	657	207
Net income	**$ 1,390**	$ 1,181	$ 367
Memo – Revenue by source:			
Brokered core businesses	**$ 5,925**	$ 5,838	N/A
Home equity discontinued/vehicle leases	**360**	558	N/A
Financial Performance:			
Return on equity	**22%**	19%	6%
Efficiency ratio	**51**	56	74
Headcount–full-time [7]	**32,244**	32,904	35,514
Ending Balances *(in billions):*			
Small business commercial	**$ 9.9**	$ 9.9	$ 9.3
Home equity	**28.5**	25.1	31.4
Vehicle	**14.0**	13.5	14.3
Other personal	**8.5**	9.8	10.7
Core businesses	**60.9**	58.3	65.7
Brokered home equity discontinued	**3.2**	5.1	N/A
Vehicle leases	**3.6**	6.2	8.8
Brokered home equity discontinued/vehicle leases	**6.8**	11.3	8.8
Total loans [8]	**67.7**	69.6	74.5
Assets	**71.4**	73.6	77.1
Demand deposits	**27.7**	25.5	24.6
Savings	**38.8**	36.1	32.0
Time	**21.8**	25.6	32.2
Total deposits	**88.3**	87.2	88.8
Equity	**6.2**	6.2	5.8
Average Balances *(in billions):*			
Small business commercial	**$ 10.0**	$ 9.6	$ 9.4
Home equity	**26.2**	24.1	27.7
Vehicle	**13.8**	13.9	14.3
Other personal	**8.8**	10.5	11.0
Core businesses	**58.8**	58.1	62.4
Brokered home equity discontinued	**4.1**	6.7	N/A
Vehicle leases	**4.8**	7.3	9.9
Brokered home equity discontinued/vehicle leases	**8.9**	14.0	9.9
Total loans	**67.7**	72.1	72.3
Assets	**71.2**	76.2	76.4
Demand deposits	**26.1**	23.9	24.3
Savings	**37.9**	34.1	33.4
Time	**24.1**	29.4	30.4
Total deposits	**88.1**	87.4	88.1
Equity	**6.2**	6.1	5.7

(Dollars in millions)	2002	2001	2000
Credit Quality			
Net charge-offs:			
Small business commercial	**$ 85**	$ 70	$ 44
Home equity	**260**	210	181
Vehicle	**228**	154	138
Other personal	**109**	122	109
Core businesses	**682**	556	472
Brokered home equity discontinued	**158**	165	N/A
Vehicle leases	**79**	99	70
Home equity discontinued/vehicle leases	**237**	264	70
Total consumer	**834**	750	498
Total net charge-offs	**919**	820	542
Net charge-off ratios:			
Small business commercial	**0.85%**	0.73%	0.47%
Home equity	**0.99**	0.87	0.65
Vehicle	**1.65**	1.11	0.97
Other personal	**1.24**	1.16	0.99
Core businesses	**1.16**	0.96	0.76
Brokered home equity discontinued	**3.85**	2.46	N/A
Vehicle leases	**1.65**	1.36	0.71
Home equity discontinued/vehicle leases	**2.66**	1.89	0.71
Total consumer	**1.45**	1.20	0.79
Total net charge-offs	**1.36**	1.14	0.75
Nonperforming assets:			
Commercial	**$ 293**	$ 303	$ 214
Consumer (9)	**1,038**	1,041	697
Total nonperforming loans (10)	**1,331**	1,344	911
Other, including other real estate owned (OREO)	**223**	104	83
Total nonperforming assets	**1,554**	1,448	994
Allowance for credit losses	**1,018**	1,027	836
Allowance to period end loans (8)	**1.57%**	1.53%	1.15%
Allowance to nonperforming loans (10)	**77**	76	92
Nonperforming assets to related assets	**2.29**	2.08	1.33
Distribution:			
Number of:			
Banking centers	**1,795**	1,802	1,810
ATMs	**3,960**	5,141	6,055
On-line customers *(in thousands)*	**1,404**	1,083	918
Households *(in thousands)*	**6,942**	7,258	7,679
Business customers *(in thousands)*	**489**	508	519
Debit cards issued *(in thousands)*	**4,647**	4,414	4,159
Investments:			
Investment sales volume *(in millions)*	**$ 5,407**	$ 4,867	$ 4,272

N/A Not available due to changes in segment composition.

N/M Not meaningful.

(1) Net interest income-FTE includes tax equivalent adjustments of $22 million, $21 million and $25 million for the years ended December 31, 2002, 2001 and 2000, respectively.

(2) Net interest income is presented rather than gross interest income and gross interest expense because the Corporation relies primarily on net interest revenue to assess the performance of the segment and make resource allocations.

(3) Banking fees and commissions include insurance fees, documentary fees, commitment fees, mutual fund commissions, leasing fees, safe deposit fees, official checks fees, ATM interchange and miscellaneous other fee revenue.

(4) Credit card revenue includes credit card fees, debit card fees, merchant fees and interchange fees.

(5) Service charges on deposits include deficient balance fees, non-sufficient funds/overdraft fees and other service related fees.

(6) Restructuring-related charges (reversals) are allocated to each line of business for management reporting purposes. Restructuring-related charges (reversals) are discussed on pages 52–53 and in Note 4 "Restructuring-Related Activity" on page 89. Income before restructuring-related charges (reversals) for Retail, net of $(7) million, $38 million and $14 million of income taxes (benefit) was $1.4 billion, $1.2 billion and $392 million, for the years ended December 31, 2002, 2001 and 2000, respectively.

(7) Beginning in 2001, employees on long-term disability and employees of unconsolidated subsidiaries are excluded. Prior period data has not been reclassified.

(8) Loans include loans held for sale of $2.7 billion, $2.3 billion and $1.8 billion at December 31, 2002, 2001 and 2000, respectively. These amounts are not included in allowance coverage statistics. Prior periods have been recalculated to conform to current period presentation.

(9) Includes consumer balances that are placed on nonaccrual status when the collection of contractual principal or interest becomes 90 days past due.

(10) Nonperforming loans include loans held for sale of $3 million at December 31, 2002. There were no nonperforming loans held for sale at December 31, 2001 and 2000. These amounts are not included in allowance coverage statistics. Prior periods have been recalculated to conform to current period presentation.

2002 compared to 2001

Retail reported net income of $1.4 billion, up $209 million, or 18%, primarily reflecting reductions in noninterest expense.

Net interest income declined to $4.9 billion for the year, down $90 million, or 2%, driven by the intentional reduction of $5.1 billion of average loan balances for the vehicle lease and discontinued brokered home equity portfolios. This decline was partially offset by a 10% increase in core deposits, which include demand and savings products.

Noninterest income was $1.4 billion, down $21 million, or 1%, primarily as a result of lower mortgage-related revenue and lower revenue from the reduction of non-branded ATMs, partially offset by higher deposit service charges and debit card revenue.

Noninterest expense was $3.2 billion, a decline of $320 million, or 9% including a $122 million reduction in restructuring-related charges. Excluding restructuring costs, improvements were driven by lower staffing, the absence of goodwill amortization, lower fraud and operating losses and lower ATM expenses. The decline was partially offset by additional investments in marketing and benefits costs.

The provision for credit losses was $910 million, down $97 million, or 10%, due to the absence of reserve increases and reductions in net charge-offs in discontinued brokered home equity and vehicle leases offset by higher charge-offs in on-going home equity and vehicle loans.

The allowance for credit losses of $1.0 billion represented 1.57% of period-end loans, an increase from 1.53% in the prior year. Nonperforming assets were $1.6 billion, up $106 million, or 7%, due to increases in other real estate owned offset by nominal declines in commercial loans and consumer loans.

2001 compared to 2000

Retail reported net income of $1.2 billion in 2001 compared to $367 million in 2000. The 2000 net income reflected an adjustment for significant items totaling $456 million after-tax. The $358 million, or 43%, year-over-year increase, on an adjusted basis was principally driven by a $260 million reduction in noninterest expense.

Net interest income was $5.0 billion for the year, up $127 million, or 3%, due to improved spreads on the indirect auto loan portfolio and 11% growth in average home equity outstandings, partially offset by a narrower deposit margin. Loan balances were down $4.9 billion as Retail managed reductions in certain segments of the loan portfolio while direct home equity loans grew.

Deposits generated a narrower margin compared to 2000, reflecting the lower rate environment and a decline in average balances. Favorable mix changes from time to savings helped mitigate the impact of lower rates and balances. More positive trends emerged late in 2001 as average demand deposit balances posted 2% growth from the fourth quarter of 2000 to the fourth quarter of 2001.

Noninterest income was $1.4 billion, up $824 million compared to 2000. The absence of lease residual losses and higher fee revenue from deposit accounts and investment sales was partially offset by gains from the sale of miscellaneous assets in 2000. Sales of mutual funds and annuities totaled $4.9 billion in the year, up $595 million, or 14%.

Noninterest expense was $3.6 billion, down $455 million, or 11%, driving an improvement in the efficiency ratio from 74% in 2000 to 56% in 2001. The consolidation of operating sites in 2000 and 2001 and better overall expense management in Retail, and throughout the Corporation, drove the efficiency improvement. In addition, staffing levels were down 2,600 year-over-year leading to a 4% decrease in salaries and employee benefits expense.

The provision for credit losses was $1.0 billion, up $142 million, or 16%, from 2000. Net charge-offs were $820 million, up $278 million. Charge-offs on brokered home equity loans and auto loans and leases were the primary drivers of Retail's year-over-year increase.

Nonperforming assets were $1.4 billion, up $454 million, or 46%, compared to 2000, driven primarily by an increase in brokered home equity nonperforming loans. Nonperforming assets were 2.08% of related assets in the year, up from 1.33%. The allowance for credit losses expressed as a percent of year-end loans increased to 1.53% compared to 1.15% a year ago.

Commercial Banking

Commercial Banking offers a broad array of products, including global cash management, treasury services, capital markets, commercial cards, lending and other noncredit products and services to corporate banking and middle market banking customers.

Corporate banking serves primarily large corporations, financial institutions and commercial real estate entities. The Corporation's capital markets business is engaged in the origination, trading, and distribution of asset-backed securities, investment grade and high yield securities, derivatives, tax-exempt securities, foreign exchange, government bonds and tax oriented investments. Capital markets is also actively engaged in loan syndications, market research, advisory services, and private placements.

Middle market banking serves the customer segment with annual revenues from approximately $10 million to $500 million, which includes corporations, municipalities and not-for-profit entities. These customers use a wide variety of services, with nearly one-third using the Corporation exclusively. Since privately held companies comprise the vast majority of the middle market customer base, providing credit is fundamental to the success of this business. The loan portfolio is diversified across a broad range of industries and geographic locations. In addition to credit, this customer segment actively uses the Corporation's cash management, international, capital markets, and investment management products and services.

(Dollars in millions)	2002[12]	2001	2000
Income Statement Data:			
Net interest income-FTE [2] [11]	**$ 2,467**	$ 2,765	$ 2,886
Banking fees and commissions	**780**	718	608
Credit card revenue	**77**	86	75
Service charges on deposits	**714**	618	523
Fiduciary and investment management fees [13]	**1**	3	3
Investment securities losses	**(13)**	(12)	—
Trading [14]	**248**	269	183
Other losses	**(163)**	(100)	(31)
Total noninterest income	**1,644**	1,582	1,361
Total revenue, net of interest expense	**4,111**	4,347	4,247
Provision for credit losses	**994**	1,073	2,222
Salaries and employee benefits [15]	**1,062**	1,028	1,004
Other expense [15]	**1,280**	1,222	1,296
Total noninterest expense before merger and restructuring-related charges (reversals)	**2,342**	2,250	2,300
Merger and restructuring-related charges (reversals) [16]	**(4)**	73	(2)
Total noninterest expense	**2,338**	2,323	2,298
Income (loss) before income taxes	**779**	951	(273)
Applicable income taxes (benefit)	**162**	251	(181)
Net income (loss)	**$ 617**	$ 700	$ (92)
Memo–Revenue by activity [17]:			
Lending-related revenue	**$ 1,685**	$ 2,017	$ 2,206
Credit derivative hedge portfolio	**42**	6	—
Global treasury services	**1,653**	1,606	1,454
Capital markets [18]	**717**	684	482
Other	**14**	34	105
Financial Performance:			
Return (loss) on equity	**8%**	10%	(1)%
Efficiency ratio	**57**	53	54
Efficiency ratio excluding Credit derivative hedge portfolio	**57**	54	N/A
Headcount–full-time [19]:			
Corporate banking (including capital markets)	**2,359**	2,714	3,545
Middle market	**2,853**	3,251	3,543
Global treasury services	**3,342**	2,984	3,118
Operations, technology, and other administration	**1,988**	2,188	2,099
Total headcount–full-time	**10,542**	11,137	12,305
Ending Balances *(in billions):*			
Loans [20]	**$ 61.9**	$ 72.5	$ 87.9
Assets	**93.7**	100.7	106.6
Demand deposits	**25.5**	25.5	21.5
Savings	**3.5**	3.1	N/A
Time	**17.4**	14.0	8.0
Foreign offices	**10.2**	8.6	8.5
Total deposits	**56.6**	51.2	38.0
Equity	**7.4**	7.3	7.1
Average Balances *(in billions):*			
Loans	**$ 66.0**	$ 80.4	$ 87.9
Assets	**95.1**	107.1	117.1
Demand deposits	**22.4**	21.4	21.4
Savings	**3.0**	2.7	N/A
Time	**14.0**	8.9	8.5
Foreign offices	**8.6**	9.0	9.8
Total deposits	**48.0**	42.0	39.7
Equity	**7.4**	7.3	6.9

(Dollars in millions)	2002[12]	2001	2000
Credit Quality			
Net charge-offs	**$ 994**	$ 1,042	$ 562
Net charge-off ratio	**1.51%**	1.30%	0.64%
Nonperforming assets:			
Nonperforming loans [21]	**$ 1,874**	$ 2,127	$ 1,524
Other, including OREO	**21**	27	13
Total nonperforming assets	**1,895**	2,154	1,537
Allowance for credit losses	**3,071**	3,079	3,054
Allowance to period end loans [20]	**4.98%**	4.25%	3.48%
Allowance to nonperforming loans [21]	**166**	145	200
Nonperforming assets to related assets	**3.06**	2.97	1.75
Corporate banking *(in billions):*			
Loans –ending balance	**$ 31.6**	$ 36.6	$ 51.7
–average balance	**33.0**	43.5	53.4
Deposits –ending balance	**32.0**	28.7	19.6
–average balance	**26.1**	23.0	21.4
Credit quality *(dollars in millions)*:			
Net charge-offs	**639**	638	435
Net charge-off ratio	**1.94%**	1.47%	0.81%
Nonperforming loans	**$ 873**	$ 1,154	$ 1,065
Nonperforming loans to total loans	**2.76%**	3.15%	2.06%
Syndications:			
Lead arranger deals:			
Volume *(in billions)*	**$ 61.9**	$ 54.1	$ 59.8
Number of transactions	**271**	238	231
League table standing–rank	**4**	4	4
League table standing–market share	**6%**	5%	5%
Middle market banking *(in billions):*			
Loans –ending balance	**$ 30.3**	$ 35.9	$ 36.2
–average balance	**33.0**	36.9	34.5
Deposits –ending balance	**24.6**	22.5	18.4
–average balance	**21.9**	19.0	18.5
Credit quality *(dollars in millions)*:			
Net charge-offs	**355**	404	127
Net charge-off ratio	**1.08%**	1.09%	0.37%
Nonperforming loans	**$ 1,001**	$ 973	$ 459
Nonperforming loans to total loans	**3.30%**	2.71%	1.27%

For additional footnote detail see page 40

(11) Net interest income-FTE includes taxable equivalent adjustments of $91 million, $79 million and $111 million for the years ended December 31, 2002, 2001 and 2000, respectively.

(12) Results include the effect of consolidating Anexsys, LLC which had an impact on individual line items of revenue and expense but no impact on net income for the year ended December 31, 2002. The consolidation resulted in a $46 million increase in net interest income, a $19 million increase in noninterest income and a $65 million increase in noninterest expense.

(13) Fiduciary and investment management fees include asset management fees, personal trust fees, other trust fees and advisory fees.

(14) Trading income primarily includes realized and unrealized mark-to-market changes from trading assets, derivative financial instruments and foreign exchange products.

(15) Prior period data has been adjusted for the transfer of the national retail lockbox operations and cash vault services business from Commercial Banking to Corporate in 2002.

(16) Restructuring-related charges (reversals) are discussed on pages 52–53 and in Note 4 "Restructuring-Related Activity" on page 89. Income (loss) before restructuring-related charges (reversals) for Commercial Banking, net of $(1) million, $27 million and $(1) million of income taxes (benefit), was $614 million, $746 million and $(93) million, for the years ended December 31, 2002, 2001 and 2000, respectively.

(17) Prior periods have been adjusted to conform to material organizational changes.

(18) Capital markets includes trading income and underwriting, syndicated lending and advisory fees.

(19) Full-time headcount in 2000 has been reclassified to reflect the movement of support and other administrative personnel into the respective business units reported.

(20) Loans include loans held for sale of $235 million, $83 million and $488 million at December 31, 2002, 2001 and 2000, respectively. These amounts are not included in allowance coverage statistics. Prior periods have been recalculated to conform to current period presentation.

(21) Nonperforming loans include loans held for sale of $19 million at December 31, 2002. There were no nonperforming loans held for sale at December 31, 2001, and 2000. These amounts are not included in allowance coverage statistics. Prior periods have been recalculated to conform to current period presentation.

2002 compared to 2001

Commercial Banking reported net income of $617 million for 2002, down $83 million, or 12%, from 2001, due to lower net interest income offset by lower income taxes, lower credit provision and the absence of restructuring charges in 2002.

Net interest income was $2.5 billion, down $298 million, or 11%, reflecting a reduction in average loans of $14.4 billion or 18%. Average loans decreased $10.5 billion, or 24%, in corporate banking and $3.9 billion, or 11%, in middle market.

Mark-to-market adjustments on the credit derivatives portfolio positively impacted the current year by $42 million and the prior year by $6 million. Given the mark-to-market accounting treatment of this portfolio, continued volatility is expected. Excluding the impact of the gain in each period, noninterest income increased $26 million, or 2%, primarily as a result of the following items: banking fees and commissions increased $62 million, or 9%, due to growth in asset-backed finance underwriting and other capital markets products; service charges on deposits increased $96 million, or 16%, reflecting a shift in payment for services to fees due to the lower value of customers' compensating deposit balances; trading revenue decreased by $57 million, or 22%, primarily reflecting a decrease in fixed income trading revenues; and other income decreased by $63 million primarily due to higher losses in tax-oriented investments and various asset write-downs.

Noninterest expense was $2.3 billion, up $15 million, or 1%, from 2001 including a $77 million reduction in restructuring-related charges. Excluding restructuring costs, noninterest expense increased by $92 million, or 4%, as a result of a $65 million impact from the consolidation of Anexsys, LLC, as well as higher incentive compensation and systems conversion-related expenses.

The effective tax rate (on an FTE basis) of 20.8% in 2002 decreased from 26.4% in 2001 primarily due to an increase in tax credits generated from tax oriented investments combined with a decrease in pre-tax income in 2002.

The provision for credit losses was $994 million, down $79 million, or 7%, from 2001. Net charge-offs were $994 million, down $48 million, or 5%, and represented 1.51% of average loans, up from 1.30% in 2001. Corporate banking net charge-offs were $639 million, or 1.94% of average loans, up from 1.47% in 2001. Middle market net charge-offs were $355 million, or 1.08% of average loans, down slightly from 1.09% of average loans in the prior year. For additional detail on Commercial Banking net charge-offs, see the table on page 67.

The allowance for credit losses at December 31, 2002, was $3.1 billion, down $8 million from the prior year. This represented 4.98% of year-end loans and 166% of nonperforming loans compared with 4.25% and 145%, respectively, at December 31, 2001. Nonperforming loans were $1.9 billion, down $253 million, or 12%, from year-end 2001. Corporate banking nonperforming loans at year-end were $873 million, down $281 million, or 24%, from the prior year. Middle market nonperforming loans were $1.0 billion at December 31, 2002, up $28 million, or 3%, from the prior year. For additional detail on Commercial Banking nonperforming assets and the allowance for credit losses, see the tables on page 66 and page 69 respectively.

2001 compared to 2000

Commercial Banking reported net income of $700 million for 2001, up $792 million from 2000, primarily due to a significantly lower credit provision. 2001 results reflected strategic efforts to reduce corporate banking credit exposure and improve the cross-sell of capital markets and global treasury services products.

Net interest income was $2.8 billion, down $121 million, or 4%, reflecting the earnings impact of lower average loan balances resulting from efforts to reduce credit risk exposure.

Noninterest income was $1.6 billion, up $221 million, or 16%. Banking fees and commissions increased $110 million, or 18%, due to growth in the asset-backed and investment grade underwriting business and higher account sweep fees. Service charges on deposits increased $95 million, or 18%, reflecting improvement in global treasury services' volumes and pricing, as well as a shift in payment for services to fees due to the lower value of customers' compensating deposit balances. Trading revenue increased $86 million, or 47%, primarily reflecting improvement in fixed income trading activities. Other income decreased by $69 million mainly due to losses on the sale of loans.

The provision for credit losses was $1.1 billion, down $1.1 billion, or 52%, from 2000. In 2000, the allowance for credit losses increased substantially as the provision exceeded net charge-offs by $1.7 billion. In 2001 net charge-offs were $1.0 billion, up $480 million, or 85%, and represented 1.30% of average loans, up from 0.64% in 2000.

Noninterest expense was $2.3 billion, up $25 million from 2000, and included $73 million of additional restructuring-related charges. Excluding restructuring costs, noninterest expense declined $50 million, or 2%, reflecting the impact of waste-reduction efforts and lower headcount. The 2001 efficiency ratio improved to 53% from 54% in 2000.

Card Services

Card Services (previously referred to as Credit Card) offers customers more than 1,200 co-brand, affinity and other cards. These cards include some of the leading corporations, financial institutions, universities, sports franchises and affinity organizations. All of these cards carry the respective Visa® or MasterCard® brand names.

With 50.4 million cards in circulation, Card Services is the third largest credit card provider in the United States and the largest Visa credit card issuer in the world. Card Services is also a leader in online card marketing and customer service, with more than 3.4 million registered users of its website.

(Dollars in millions)	**2002**[23]	2001	2000
Income Statement Data:			
Net interest income-FTE [2] [22]	**$ 1,271**	$ 1,280	$ 1,303
Banking fees and commissions	**66**	96	112
Credit card revenue	**3,560**	2,525	2,050
Other income (loss)	**(33)**	120	(220)
Total noninterest income	**3,593**	2,741	1,942
Total revenue, net of interest expense	**4,864**	4,021	3,245
Provision for credit losses	**531**	392	301
Salaries and employee benefits	**589**	501	517
Other expense	**1,856**	1,618	2,422
Total noninterest expense before merger and restructuring-related charges (reversals)	**2,445**	2,119	2,939
Merger and restructuring-related charges (reversals) [24]	**(19)**	61	7
Total noninterest expense	**2,426**	2,180	2,946
Income (loss) before income taxes	**1,907**	1,449	(2)
Applicable income taxes (benefit)	**741**	542	(1)
Net income (loss)	**$ 1,166**	$ 907	$ (1)
Memo–Net securitization amortization	**$ (50)**	$ (62)	$ (116)
Financial Performance:			
Return on equity	**18%**	14%	—%
Efficiency ratio	**50**	54	91
Headcount–full-time	**10,548**	9,871	10,901
Ending Balances *(in billions):*			
Owned loans [25]	**$ 11.6**	$ 6.8	$ 4.7
Seller's interest and accrued interest receivable	**28.5**	24.0	22.5
Total	**40.1**	30.8	27.2
Assets	**45.3**	35.3	30.7
Equity	**6.4**	6.4	6.2
Average Balances *(in billions):*			
Owned loans	**$ 9.9**	$ 6.8	$ 4.8
Seller's interest and accrued interest receivable	**23.2**	18.8	18.5
Total	**33.1**	25.6	23.3
Assets	**37.6**	28.9	27.0
Equity	**6.4**	6.3	6.1
Credit Quality *(dollars in millions):*			
Net charge-offs	**$ 514**	$ 392	$ 247
Net charge-off ratios:			
Credit card – reported	**5.19%**	5.69%	5.20%
Delinquency ratio:			
30+ days	**2.95**	3.00	2.74
90+ days	**1.38**	1.41	1.20
Allowance for credit losses	**$ 396**	$ 396	$ 197
Allowance to period end owned loans (excluding loans held for sale) [25]	**5.22%**	7.86%	6.95%
Other Data:			
Charge volume *(in billions)*	**$ 155.4**	$ 140.4	$ 142.5
New accounts opened *(in thousands)*	**4,911**	3,925	3,324
Credit cards issued *(in thousands)* [26]	**50,351**	50,996	51,693
Number of FirstUSA.com customers *(in millions)* [27]	**3.4**	1.9	2.1
Paymentech:			
Bank card volume *(in millions)*	**$124,727**	$115,332	$108,684
Total transactions *(in millions)*	**4,208**	3,778	3,441

Through securitization the Corporation transforms a substantial portion of its credit card receivables into securities, which are sold to investors. Securitization impacts the Corporation's consolidated balance sheet by removing those credit card receivables that have been sold and by reclassifying those credit card receivables whose ownership has been transformed into certificate form (referred to as "Seller's Interest") from loans to investments. Gain or loss on the sale of credit card receivables, net of amortization of transaction costs and amortization from securitization repayments, is reported as securitization income in other income. Securitization also impacts the Corporation's consolidated income statement by reclassifying interest income and fees, interchange income, credit losses and recoveries related to securitized receivables as securitization income. Credit card interest income and fees, interchange income, credit losses and recoveries related to credit card receivables that have been converted to certificate form are reclassified as investment income in net interest income.

The Corporation evaluates its Card Services line of business trends on a managed basis, which treats the securitization as a secured financing transaction and assumes that receivables have not been sold and are still on the balance sheet. The Corporation manages its Card Services operations on a managed basis because the receivables that are securitized are subject to underwriting standards comparable to the owned portfolio and are serviced by operating personnel without regard to ownership. The Corporation believes that investors should be informed, and often request information, about the credit performance of the entire managed portfolio in order to understand the quality of the Card Services originations and the related credit risks inherent in the owned portfolio and retained interests in securitizations. In addition, the Corporation funds its Card Services operations, reviews operating results and makes decisions about allocating resources, such as employees and capital, on a managed basis. See "Loan Securitizations" on page 74 and Note 9 "Credit Card Securitizations," on pages 94–95 for additional information related to the Corporation's securitization activity.

The following table presents certain Card Services information on a managed basis.

Card Services – Managed Basis	**2002**[23]	2001	2000
Ending Balances *(in billions):*			
Owned [25]	**$ 11.6**	$ 6.8	$ 4.7
Seller's interest and accrued interest receivable [28]	**28.5**	24.0	22.5
Loans and investment securities on balance sheet	**40.1**	30.8	27.2
Securitized loans	**33.9**	37.4	39.8
Managed loans	**74.0**	68.2	67.0
Managed assets	**79.2**	72.7	70.5
Average Managed Assets *(in billions):*	**72.4**	68.7	70.0
Credit Quality *(dollars in millions):*			
Managed net charge-offs	**3,632**	3,823	3,584
Managed net charge-off ratios:			
For the period	**5.35%**	5.84%	5.42%
12-month lagged [29]	**5.55**	5.77	5.19
Managed delinquency ratio:			
30+ days	**4.02**	4.46	4.51
90+ days	**1.80**	1.93	2.02

For additional footnote detail see pages 40 and 43.

(22) Net interest income-FTE did not have tax equivalent adjustments for the years ended December 31, 2002, 2001 and 2000.

(23) Results include the effect of consolidating Paymentech beginning in the first quarter of 2002. As a result of this consolidation net interest income included $13 million, noninterest income included $322 million and noninterest expense included $285 million. There was no impact on net income.

(24) Restructuring-related charges (reversals) are discussed on pages 52–53 and in Note 4 "Restructuring-Related Activity" on page 89. Income (loss) before restructuring-related charges (reversals) for Card Services, net of $(7) million, $22 million and $3 million of income taxes (benefit), was $1.1 billion, $946 million and $3 million for the years ended December 31, 2002, 2001 and 2000, respectively.

(25) Loans include loans held for sale of $4.0 billion, $1.7 billion and $1.9 billion at December 31, 2002, 2001 and 2000, respectively. These amounts are not included in allowance coverage statistics. Prior periods have been recalculated to conform to current period presentation.

(26) Approximately 4.5 million previously acquired inactive accounts were purged during 2002 and prior periods have been recalculated to conform to current period presentation.

(27) Approximately 1 million registered users were purged in late 2001 due to inactivity.

(28) The investor portion of accrued interest receivable was $685 million and is recorded in other assets at December 31, 2002.

(29) The current year lagged loss rate includes Wachovia net credit losses while the prior year average loans only includes five months of Wachovia balances. The prior year lagged loss rate includes five months of Wachovia net credit losses while the 2000 average loans do not include Wachovia balances. The 2001 ratio includes Wachovia net charge-offs but excludes Wachovia loans.

2002 compared to 2001

Card Services reported net income of $1.2 billion, up $259 million, or 29%. 2002 results reflected twelve months of earnings from the acquisition of the Wachovia credit card business while 2001 results reflected five months of Wachovia earnings.

Total reported revenue was $4.9 billion, up $843 million or 21%. Net interest income was $1.3 billion, down $9 million, or 1%, reflecting lower spreads due to competitive pricing partially offset by higher volumes. Excluding the $322 million impact of the Paymentech consolidation effective January 1, 2002, noninterest income was $3.3 billion, an increase of $530 million, or 19%, primarily driven by higher volume related revenue and higher income earned on securitized loans.

Excluding the $285 million impact from the consolidation of Paymentech, noninterest expense was $2.1 billion, a decrease of $39 million, or 2%, resulting from continued expense management and the impact of restructuring-related charges (reversals) partially offset by higher marketing expense.

The reported provision for credit losses was $531 million, an increase of $139 million, or 35%, as a result of portfolio growth.

Securitization gains were $55 million resulting from the securitization of $6.8 billion in credit card receivables. This compares with securitization gains of $28 million resulting from the securitization of $3.8 billion in credit card receivables in the previous year.

Card Services has a significant co-branding relationship with United Airlines, the Mileage Plus® award program. In the fourth quarter of 2002, United Airlines announced their intent to reorganize under Chapter 11 of the U.S. Bankruptcy Code. The outcome is uncertain at this time, and could have a significant impact on Card Services. If United Airlines is unsuccessful, and in the worst scenario is liquidated, Card Services' net income would be negatively impacted by the dissolution of the marketing agreement, loss of fee and interest income and increased marketing expense to encourage customers to continue card usage. Management expects the amount could be as high as several hundred million dollars.

2001 compared to 2000

Card Services reported net income of $907 million in 2001, up from a net loss of $1 million. Adjusted for $522 million after-tax of significant items, 2000 net income was $521 million. Increased reported net income reflected lower expenses, the addition of the Wachovia credit card business and higher income on securitized loans, partially offset by increased credit costs and lower spreads.

Total reported revenue was $4.0 billion, up $776 million or 24%. Net interest income was $1.3 billion, down $23 million, or 2%, reflecting lower spreads partially offset by the addition of the Wachovia credit card business and higher fees.

Noninterest income was $2.7 billion, an increase of $799 million, or 41%. 2000 noninterest income included $467 million in significant items. Excluding these charges, noninterest income increased $332 million, or 14%, reflecting the Wachovia credit card business, higher income on securitized loans and increased securitization activity.

The reported provision for credit losses was $392 million, an increase of $91 million, or 30%, as a result of portfolio growth partially offset by lower provision funding.

Noninterest expense totaled $2.2 billion, a decrease of $766 million, or 26%. 2000 noninterest expense included significant items of $321 million. Excluding these charges, noninterest expense decreased $445 million, or 17%, reflecting lower fraud and operational losses, processing costs and a decrease in internally allocated costs related to a mid-year 2000 change in methodology. The decline from 2000 also reflected the sale of international operations in the second quarter. These reductions were partially offset by the addition of the Wachovia credit card business, additional restructuring reserves and higher marketing expense.

Securitization gains were $28 million resulting from the securitization of $3.8 billion in credit card receivables. There were no securitizations entered into in 2000.

Investment Management

The Investment Management Group (IMG) provides investment, insurance, trust and private banking services to individuals. IMG also provides investment and investment related services, including retirement and custody services, securities lending and corporate trust to institutions.

IMG's registered investment advisory arm, Banc One Investment Advisors, ranks among the nation's top asset managers with $162.0 billion in assets under management. In addition, IMG manages One Group® mutual funds, one of the largest mutual fund complexes with over 50 funds and $101.2 billion in assets under management. Performance of the funds continues to remain strong. 89% of the assets are in funds ranked 3 stars or better and 50% of the assets are in funds ranked 4 stars or better by Morningstar®. During 2002 the distribution function for the One Group mutual funds was brought in-house.

Private client services (PCS) helps manage and build wealth for high net worth clients. PCS provides integrated financial advice and services such as brokerage, investments and alternative asset management, personal trust, private banking, insurance and financial planning through nearly 700 client advisors.

The retail investment services (RIS) business serves the Corporation's retail customer base by delivering high quality investment and insurance products and services through nearly 3,100 licensed bankers in 1,795 banking centers in 14 states.

The global corporate trust business ranks among the largest providers in the country for bond trustee services. These services are provided to governmental and municipal entities, as well as a broad range of middle market and large institutions.

(Dollars in millions)	**2002**	2001	2000
Income Statement Data:			
Net interest income-FTE (2) (30)	**$ 423**	$ 427	$ 409
Banking fees and commissions	**523**	480	354
Service charges on deposits	**19**	17	16
Fiduciary and investment management fees	**739**	751	780
Other income	**14**	11	11
Total noninterest income	**1,295**	1,259	1,161
Total revenue, net of interest expense	**1,718**	1,686	1,570
Provision for credit losses	**35**	38	13
Salaries and employee benefits	**565**	564	554
Other expense	**464**	488	495
Total noninterest expense before merger and restructuring-related charges (reversals)	**1,029**	1,052	1,049
Merger and restructuring-related charges (reversals) (31)	**(1)**	19	—
Total noninterest expense	**1,028**	1,071	1,049
Income before income taxes	**655**	577	508
Applicable income taxes	**244**	215	186
Net income	**$ 411**	$ 362	$ 322
Memo – Insurance revenues	**$ 447**	$ 437	$ 357
Financial Performance:			
Return on equity	**37%**	36%	36%
Efficiency ratio	**60**	64	67
Headcount–full-time	**5,895**	6,071	6,562
Ending Balances *(in billions):*			
Loans	**$ 6.9**	$ 7.2	$ 7.0
Assets	**8.7**	8.6	8.1
Demand deposits	**2.6**	2.8	3.3
Savings	**4.8**	3.3	2.2
Time	**3.4**	3.2	4.0
Foreign offices	**0.2**	0.2	0.1
Total deposits	**11.0**	9.5	9.6
Equity	**1.1**	1.1	1.0
Average Balances *(in billions):*			
Loans	**$ 7.0**	$ 6.9	$ 6.6
Assets	**8.5**	8.1	7.6
Demand deposits	**2.1**	2.0	2.5
Savings	**4.0**	2.8	1.9
Time	**3.3**	3.3	4.0
Foreign offices	**0.2**	0.2	0.2
Total deposits	**9.6**	8.3	8.6
Equity	**1.1**	1.0	0.9
Credit Quality *(dollars in millions):*			
Net charge-offs:			
Commercial	**$ 15**	$ 27	N/A
Consumer	**5**	7	N/A
Total net charge-offs	**20**	34	N/A
Net charge-off ratios:			
Commercial	**0.45%**	0.81%	N/A
Consumer	**0.14**	0.19	N/A
Total net charge-off ratio	**0.29**	0.49	N/A
Nonperforming assets:			
Commercial	**$ 61**	$ 38	$ 36
Consumer	**10**	4	4
Total nonperforming loans	**71**	42	40
Other, including OREO	**1**	1	—
Total nonperforming assets	**72**	43	40
Allowance for credit losses	**40**	25	22
Allowance to period end loans	**0.58%**	0.35%	0.31%
Allowance to nonperforming loans	**56**	60	55
Nonperforming assets to related assets	**1.04**	0.60	0.57

(In billions)	2002	2001	2000
Assets Under Management Ending Balances			
Mutual funds	**$ 101.2**	$ 83.5	$ 70.4
Other	**60.8**	59.1	60.8
Total	**162.0**	142.6	131.2
By type:			
Money market	**78.6**	58.5	43.1
Equity	**37.1**	47.3	53.5
Fixed income	**46.3**	36.8	34.6
Total	**162.0**	142.6	131.2
By channel: (17)			
Private client services	**42.7**	50.6	56.2
Retail brokerage	**7.0**	7.6	7.0
Institutional	**77.8**	62.4	52.1
Commercial cash sweep	**9.0**	9.8	8.6
Capital markets	**4.9**	1.5	0.4
External (32)	**10.8**	3.8	1.1
All other direct (33)	**9.8**	6.9	5.8
Total	**162.0**	142.6	131.2
Morningstar® Rankings: (34)			
% of assets in funds ranked 4 or better	**50%**	57%	49%
% of assets in funds ranked 3 or better	**89**	88	99
Trust Assets Ending Balances *(in billions):*			
Trust assets under administration	**$ 342.8**	$ 352.5	$ 319.4
Corporate Trust Securities Ending Balances *(in billions):* (35)			
Corporate trust securities under administration	**$1,016.0**	$ 915.0	$ 751.1
Retail Brokerage *(in millions):*			
Mutual fund sales	**2,293**	2,284	2,613
Annuity sales	**3,114**	2,583	1,659
Total sales	**5,407**	4,867	4,272
Number of customers–end of period (17) *(in thousands)*	**681**	646	N/A
Market value customer assets–end of period *(in billions)*:			
Brokerage	**$ 16.6**	$ 16.6	$ 17.3
Annuity account value	**11.3**	8.7	6.8
Total market value (17)	**27.9**	25.3	24.1
Number of registered sales representatives	**845**	724	700
Number of licensed retail bankers	**3,086**	3,042	2,689
Private Client Services:			
Number of private client advisors	**676**	641	747
Number of private client offices (36)	**92**	105	104
Market value customer assets–end of period (17) *(in billions)*	**$ 61.7**	$ 72.2	$ 80.6
Ending balances *(in billions)*:			
Loans	**6.9**	7.0	6.7
Deposits	**9.2**	7.6	7.2
Average balances *(in billions)*:			
Loans	**6.9**	6.9	6.4
Deposits	**8.3**	7.0	7.0

For additional footnote detail see pages 40, 43 and 46.

(30) Net interest income-FTE did not have tax equivalent adjustments for the years ended December 31, 2002, 2001 and 2000, respectively.

(31) Restructuring-related charges (reversals) are discussed on pages 52–53 and in Note 4 "Restructuring Related Activity" on page 89. Income before restructuring-related charges (reversals) for IMG, net of $244 million and $222 million of income taxes, was $411 million and $374 million for the years ended December 31, 2002 and 2001, respectively.

(32) Includes broker/dealers, trust companies, and registered investment advisors that sell, or offer, One Group funds.

(33) One Group funds invested in other One Group funds and other mutual funds sub-advised.

(34) Morningstar changed the rating process effective June 30, 2002 with no prior period restatements.

(35) Certain adjustments, primarily definitional in nature, were made to prior periods to conform to the current period presentation. Ending balances are estimated.

(36) During 2002, PCS offices that were in close proximity were consolidated to realize operational efficiencies.

2002 compared to 2001

IMG reported net income of $411 million, up $49 million from the prior year. Net interest income decreased $4 million, or 1%, reflecting narrower spreads on deposits and an increase in other funding costs.

Noninterest income, which is principally fiduciary, investment and banking fees and commissions, increased $36 million, or 3%. The principal driver of growth in noninterest income was an 11% increase in retail brokerage sales, partially offset by lower management fee revenue resulting from weak market conditions and a shift in assets under management from equities to money market and fixed income assets.

Noninterest expense was $1.0 billion, a decrease of $23 million, or 2%, excluding the impact of the restructuring charges and reversals. The principal drivers of the decrease were lower headcount and other cost savings initiatives.

The provision for credit losses was $35 million, a $3 million decrease from the prior year. The allowance for credit losses increased $15 million to $40 million reflecting the deterioration in credit quality of certain large loans. Nonperforming assets were $72 million, a $29 million increase, reflecting the aforementioned deterioration.

Assets under management were $162.0 billion, an increase of $19.4 billion, or 14%, as a result of strong money market and fixed income asset growth, partially offset by a decline in equity assets, reflecting weak market conditions. One Group mutual fund assets grew to $101.2 billion, an increase of $17.7 billion, or 21%.

2001 compared to 2000

IMG reported net income of $362 million, up $40 million. Net interest income increased $18 million, or 4%, reflecting a 5% increase in average loans partially offset by narrower deposit spreads and a 3% decrease in average deposits.

Noninterest income, which is principally fiduciary, investment and banking fees and commissions, increased $98 million, or 8%. Beginning in November 2000, fees associated with the administration of the One Group mutual funds were recorded as revenue, with a corresponding increase in expense. Prior to that, a third-party administrator incurred such fees and expenses, which totaled $80 million in 2000. Excluding the impact of this change, noninterest income increased $18 million reflecting growth in retail brokerage sales offset by lower investment advisory fees on equity assets because of overall market conditions.

Noninterest expense before restructuring-related charges increased $3 million, principally related to expenses of $80 million associated with the administration of the One Group mutual funds, offset by a decrease in expenses related to tighter cost control, lower headcount and reduced operating losses. Excluding the expenses associated with the administration of the One Group mutual funds, noninterest expenses declined 7%.

Provision for credit losses increased $25 million, principally related to higher net charge-offs resulting from a difficult economic climate and loan growth.

Assets under management totaled $142.6 billion, up 9% from the end of 2000. One Group mutual fund assets under management increased 19% to $83.5 billion. One Group mutual fund performance continued to remain strong, with 88% of these funds rated three stars or higher by Morningstar. Average assets under management increased 3% compared with 2000, driven principally by a 12% increase in One Group mutual funds.

Corporate

Corporate includes treasury, fixed income and principal investment portfolios, mortgage-servicing assets, unallocated corporate expenses, and any gains or losses from corporate transactions. The treasury group within the Corporate line of business risk manages mortgage-servicing assets on behalf of the Corporation.

(Dollars in millions)	**2002**	2001	2000
Income Statement Data:			
Net interest expense-FTE [(2) (37) (38)]	**$ (292)**	$ (664)	$ (458)
Banking fees and commissions	**(24)**	(18)	N/A
Credit card revenue	**2**	—	N/A
Service charges on deposits	**11**	23	N/A
Investment securities gains (losses)	**178**	(54)	N/A
Trading losses	**(24)**	(49)	N/A
Other income	**147**	304	N/A
Total noninterest income [(39)]	**290**	206	15
Total loss, net of interest expense	**(2)**	(458)	(443)
Provision for credit losses	**17**	—	(3)
Salaries and employee benefits	**800**	629	N/A
Other expense	**(221)**	(297)	N/A
Total noninterest expense before merger and restructuring-related charges (reversals)	**579**	332	1,192
Merger and restructuring-related charges (reversals) [(40)]	**(21)**	94	117
Total noninterest expense [(41)]	**558**	426	1,309
Loss before income benefit	**(577)**	(884)	(1,749)
Applicable income benefit	**(288)**	(416)	(642)
Net loss	**$ (289)**	$ (468)	$ (1,107)

	2002	2001	2000
Financial Performance:			
Headcount–full-time [19]	**14,456**	13,536	15,496
Ending Balances *(in billions):*			
Loans	**$ —**	$ 0.6	$ 0.1
Assets	**58.3**	50.8	46.8
Memo–			
Treasury investments [42]	**34.2**	32.2	22.8
Principal investments [43]	**2.3**	2.7	3.5
Deposits	**14.1**	19.6	30.7
Equity	**1.3**	(0.8)	(1.6)
Average Balances *(in billions):*			
Loans	**$ 0.2**	$ 0.9	$ 0.2
Assets	**50.6**	47.3	43.9
Deposits	**14.3**	24.1	26.1
Equity	**0.6**	(0.9)	(0.2)

For additional footnote detail see pages 40, 43, 46 and 49.

(37) Net interest expense-FTE includes tax equivalent adjustments of $32 million, $25 million and $2 million for the years ended December 31, 2002, 2001 and 2000, respectively.

(38) Net interest expense-FTE primarily includes treasury results and interest spread on investment related activities.

(39) Noninterest income primarily includes the gains and losses from investment activities and other corporate transactions.

(40) Restructuring-related charges (reversals) are discussed on pages 52–53 and in Note 4 "Restructuring-Related Activity" on page 89. Loss before merger and restructuring-related charges (reversals) for Corporate, net of $(8) million, $35 million and $44 million in income tax expense (benefit), was $302 million, $409 million and $1.0 billion for the years ended December 31, 2002, 2001 and 2000, respectively.

(41) Noninterest expense primarily includes corporate expenses not allocated to the lines of business.

(42) Treasury investments may include U.S. government and agency debt securities, mortgage and other asset backed securities and other fixed income investments.

(43) Principal investments include primarily private equity investments and venture capital fund investments.

2002 compared to 2001

Corporate net loss was $289 million, compared with a net loss of $468 million. Excluding the impact of restructuring charges/reversals, net loss was $302 million in 2002 and $409 million in 2001.

Net interest expense was $292 million, an improvement of $372 million, primarily a result of lower interest rates. During the latter part of the year the Corporation took actions to position the balance sheet more defensively for rising interest rates. These actions primarily involved raising fixed rate funding and swapping existing floating rate liabilities to fixed rate. As a result, the Corporation significantly shifted its interest rate risk posture as further detailed in the "Market Risk Management Non-Trading Activities" discussion beginning on page 61.

Net investment securities gains were $178 million reflecting the gain on the sale of the GE Monogram joint venture of $261 million, partially offset by net losses in the investment portfolios. In 2001, net investment losses were $54 million due to writedowns in the principal investments portfolio partially offset by treasury investment portfolio gains. The valuation adjustments in principal investments in 2002 and 2001 were primarily a result of the overall decline in the value of the equity market, the interest rate environment and a decline in the value of private investments as a result of existing economic conditions.

Other income was $147 million, compared with $304 million. The decrease of $157 million was primarily a result of mortgage related losses and valuation adjustments on other investments in 2002, and $73 million of gains realized in 2001 on the sales of the Corporation's interests in EquiServe Limited Partnership and Star Systems, an ATM network.

Corporate noninterest expenses were $558 million, compared with $426 million in the prior year. The current year increase was primarily due to salaries and benefits, including stock options, and one-time charges of $89 million related to the in-sourcing of certain vendor contracts.

2001 compared to 2000

Corporate reported a net loss of $468 million, compared with a net loss of $1.1 billion. Excluding restructuring charges of $59 million after-tax, the net loss in 2001 was $409 million. Excluding restructuring charges and significant items of $73 million and $778 million, after-tax, respectively, the net loss in 2000 was $256 million.

Net interest expense increased to $664 million from $458 million in 2000. These results were principally due to changes in the treasury investment portfolio and an increase in unallocated equity.

Noninterest income was $206 million compared with $15 million in 2000. Excluding significant item charges of $436 million, noninterest income in 2000 was $451 million. The $245 million decrease from 2000 was primarily driven by higher investment security losses resulting from market conditions.

Unallocated corporate expenses were $426 million compared with $1.3 billion. Excluding restructuring charges and significant items, unallocated corporate expenses were $332 million in 2001 versus $473 million in 2000. The $141 million reduction from 2000 was principally due to increased allocations.

Significant Items

In 2000, the Corporation initiated certain actions (e.g., decisions related to staff reductions and the use of existing real estate and fixed assets), made certain decisions regarding its business activities (e.g., substantially reducing the vehicle lease portfolio), reacted to changes in market conditions (e.g., decline in used car market, investment portfolio repositioning), and applied assumptions reflective of current market conditions, including current deterioration in performance, in its valuation process (e.g., interest-only strip, purchased credit card relationships). The results of these actions were adjustments to the carrying value of related assets and liabilities. These items were identified as significant items to differentiate these actions from ongoing/routine business activities.

The Corporation determined and recorded the adjustments for these actions (in general) as follows:

- Severance costs related to staff reductions were based on the identified number of employees terminated.
- Real estate and fixed asset costs were based on the estimated costs to close and consolidate facilities, including the write-off of capitalized costs.
- Due to overcapacity in the used automobile market, especially with sport utility vehicles (a major component of the Corporation's lease portfolio), estimated residual values for leased automobiles declined significantly. Accordingly, the Corporation wrote down the residual value related to these automobile leases. In addition, the Corporation planned to sell certain vehicle loans, which were written down to fair value. The Corporation's lease financing accounting policy is presented on page 85.
- The losses on the repositioning of the investment portfolio, as part of the Corporation's overall investment strategy, were based on market prices.
- The Corporation evaluates the fair value of its interest-only strip resulting from securitization transactions at both the date of the securitization and the balance sheet date. In 2000, the Corporation adjusted these assumptions and estimates to reflect the change in the fair value for these types of assets and, accordingly, recorded a writedown in its interest-only strip. For a more detailed discussion of the factors used in this process, see Note 9 "Credit Card Securitizations" on pages 94-95.
- The writedown of purchased credit card relationship intangibles reflected revised assumptions in the Corporation's discounted cash flow analysis reflecting higher cost of funds assumptions, consistent with the interest rate environment, and loss trends resulting from deterioration in performance.

As a result of the significant items noted and the restructuring plans initiated in 2000 and 2001, the Corporation's noninterest expense, before restructuring-related reversals was $9.6 billion for 2002, which represented a reduction in annualized noninterest expense of approximately $1.2 billion and decreased headcount of approximately 9,000 employees from June 30, 2000.

Results in 2000 included the negative impact of $2.2 billion after-tax ($3.3 billion pre-tax) of significant items. Business Segments – Table 1 – summarizes these significant items by action taken within each line of business. Income Statement Line – Table 2 – reflects these same actions by income statement line. Both tables exclude merger and restructuring–related charges.

Business Segments – Table 1 – 2000

(In millions)	Retail	Commercial Banking	Card Services	Investment Management	Corporate	Total
Pretax expense (income)						
Writedown of auto lease residuals	$532					$ 532
Provision for credit losses		$628				628
Repositioning of investment securities portfolio					$ 415	415
Operational and other [1]	2	(18)	$ 56		220	260
Writedown of interest-only strip			354			354
Occupancy and fixed asset related	9	6	11	$ (4)	315	337
Writedown of purchased credit card relationship intangibles			275			275
Writedowns primarily related to planned loan sales [2]	167					167
Increase in legal accruals					190	190
Writedown of marketing partnership agreements			121			121
Severance related	10	21	6	4	9	50
Total	$720	$637	$823	$ —	$1,149	$3,329
After-tax	$456	$404	$522	$ —	$ 778	$2,160

Income Statement Line – Table 2 – 2000

(In millions)	Retail	Commercial Banking	Card Services	Investment Management	Corporate	Total
Net interest income	$ 14	$ (7)			$(6)	$1
Noninterest income:						
Banking fees and commissions					(1)	(1)
Credit card revenue			$152			152
Service charges on deposits		5				5
Investment securities (gains) losses		(1)			426	425
Trading		44				44
Other income	650	3	315	2	11	981
Total noninterest income	650	51	467	2	436	1,606
Provision for credit losses	11	628	35			674
Noninterest expense:						
Salaries and employee benefits (1)	12	(42)	(4)	(19)	145	92
Occupancy expense	9	6	11		72	98
Other intagible amoritization			275	9	36	320
Other	24	1	39	8	466	538
Total noninterest expense	45	(35)	321	(2)	719	1,048
Pretax expense	$720	$637	$823	$ —	$1,149	$3,329

(1) Includes $75 million of incentive accruals reversed in the fourth quarter relating to the full year in which existing plans were adjusted to a pay for performance basis.

(2) At December 31, 2000, management discontinued its plan to dispose of these loans, and as such, are considered part of the general portfolio.

CONSOLIDATED RESULTS

Net Interest Income

Net interest income represents the spread on interest earning assets over interest bearing liabilities as well as items such as loan fees, cash interest collections on problem loans, dividend income, interest reversals, and income or expense on derivatives used to manage interest rate risk.

For the Year Ended December 31,	**2002**(3)	2001	2000	Percent Change 2002-2001	Percent Change 2001-2000
(Dollars in millions)					
Net interest income-FTE basis (1) (2)	**$ 8,740**	$ 8,769	$ 8,974	—%	(2)%
Average earning assets	**231,401**	237,869	241,058	(3)	(1)
Net interest margin	**3.78%**	3.69%	3.72%		

(1) Net interest income-FTE includes taxable equivalent adjustments of $145 million, $131 million, and $138 million for years ended December 31, 2002, 2001 and 2000, respectively.

(2) Net interest income is presented rather than gross interest income and gross interest expense because the Corporation relies primarily on net interest revenue to assess performance.

(3) Results include the effects of the consolidation of Paymentech, Inc. and Anexsys, LLC.

2002 compared to 2001

While the net interest margin increased to 3.78% from 3.69%, net interest income declined $29 million to $8.7 billion from $8.8 billion. This decrease was primarily a result of intentionally reducing earning assets such as large corporate loans, vehicle leases and brokered home equity loans. In addition, the Corporation took actions to both the assets and liabilities sides of the balance sheet to defensively position itself for a higher rate environment.

2001 compared to 2000

Net interest income declined $205 million from that reported in 2000, largely due to lower earning assets. The decline in average earning assets was attributed to efforts to reduce commercial credit exposure, discontinued brokered home equity loan and auto lease outstandings, and also reflected lower credit card receivables.

Noninterest Income

The components of noninterest income for the periods indicated are:

For the Year Ended December 31,	**2002** (1)	2001	2000	Percent Change 2002-2001	Percent Change 2001-2000
(Dollars in millions)					
Banking fees and commissions	**$1,775**	$1,731	$1,537	3%	13%
Credit card revenue	**3,816**	2,775	2,299	38	21
Service charges on deposits	**1,578**	1,449	1,310	9	11
Fiduciary and investment management fees	**740**	754	783	(2)	(4)
Investment securities gains (losses)	**165**	(66)	(235)	N/M	(72)
Trading	**224**	220	134	2	64
Other income (losses)	**(62)**	360	(738)	N/M	N/M
Total noninterest income	**$8,236**	$7,223	$5,090	14	42
Noninterest income to total revenue	**48.9%**	45.5%	36.6%		

N/M Not meaningful.

(1) Results include the effects of the consolidation of Paymentech, Inc. and Anexsys, LLC.

Components of noninterest income that are primarily related to a single business segment are discussed within that business segment rather than the consolidated section.

2002 compared to 2001

Banking fees and commissions of $1.8 billion increased $44 million, or 3%. This increase was primarily the result of increased annuity and mutual fund sales, as well as from growth in asset-backed finance and other underwriting fees in capital markets, partially offset by lower mortgage-related revenue.

Credit card revenue of $3.8 billion increased $1.0 billion, or 38%. This increase was due to the addition of the Wachovia credit card business, consolidation of Paymentech, higher volume-related revenue and higher income earned on securitized loans.

Service charges on deposits of $1.6 billion increased $129 million, or 9%. This increase primarily reflected improvement in global treasury services as clients shifted their payment method to fees due to the lower value of their compensating deposit balances.

Net investment gains were $165 million compared to losses of $66 million. Included in 2002 results was the $261 million gain on sale of the GE Monogram joint venture, partially offset by net losses in the investment portfolios.

Trading produced gains of $224 million, an increase of $4 million, or 2%. This slight increase was primarily the result of an increase in the fair value of credit derivatives used to hedge the commercial loan portfolio and limit exposures for specific credits, partially offset by lower results across multiple trading products.

Other income decreased $422 million. This decrease was primarily due to higher losses on tax-oriented investments, mortgage-related losses, valuation adjustments on other investments, various asset write-downs and the consolidation of Paymentech and Anexsys. Gains on the sale of ownership interests in EquiServe Limited Partnership and Star Systems recognized in the prior year also contributed to the decrease.

2001 compared to 2000

Banking fees and commissions increased $194 million, or 13%. This increase was primarily the result of increased annuity sales and fees associated with the in-house administration of the One Group mutual funds, which the Corporation began recording as revenue in the 2000 fourth quarter. Additionally, this increase reflected growth in retail brokerage sales.

Credit card revenue increased $476 million, or 21%. This improvement was due to the third quarter 2001 addition of the Wachovia credit card business and significant items recorded in 2000 (see table 2 on page 53).

Service charges on deposits increased $139 million, or 11%. A lower rate environment produced a shift to the payment of fees from net interest income due to the lower value ascribed to customers' compensating deposit balances.

Fiduciary and investment management fees declined by $29 million, or 4%. This reduction was as a result of lower investment advisory fees on equity assets because of overall market conditions.

Investment securities losses were $66 million due to principal investment losses and lower market valuations, partially offset by the gains on sale of fixed income securities. This was an improvement from 2000 when investment securities portfolio activity produced a loss of $235 million. This loss occurred when significant items were recorded in the second quarter of 2000 (see table 2 on page 53).

Trading produced gains of $220 million, an increase of $86 million, or 64%. This improvement was due to significant items recorded in 2000 (see table 2 on page 53) and market value gains.

Other income was $360 million compared to a $738 million loss in 2000. This improvement was predominately due to significant items recorded in 2000 (see table 2 on page 53).

Noninterest Expense

The components of noninterest expense for the periods indicated are as follows:

For the Year Ended December 31,	2002	2001	2000	Percent Change 2002-2001	Percent Change 2001-2000
(Dollars in millions)					
Salaries and employee benefits:					
Salaries [1]	**$ 3,823**	$ 3,638	$ 3,949	5%	(8)%
Employee benefits	**642**	560	653	15	(14)
Total salaries and employee benefits	**4,465**	4,198	4,602	6	(9)
Occupancy	**645**	686	872	(6)	(21)
Equipment	**426**	457	593	(7)	(23)
Outside service fees and processing	**1,303**	1,178	1,537	11	(23)
Marketing and development	**1,054**	862	900	22	(4)
Telecommunication	**365**	407	411	(10)	(1)
Other intangible amortization	**125**	97	410	29	(76)
Goodwill amortization	**—**	69	70	N/M	(1)
Other expense [1]	**1,261**	1,246	2,052	1	(39)
Total noninterest expense before merger and restructuring-related charges (reversals)	**9,644**	9,200	11,447	5	(20)
Merger and restructuring-related charges (reversals)	**(63)**	351	161	N/M	N/M
Total noninterest expense	**$ 9,581**	$ 9,551	$11,608	—	(18)
Headcount	**73,685**	73,519	80,778	—	(9)
Efficiency ratio	**56.4%**	59.7%	82.5%		

N/M Not meaningful.

(1) Certain expenses have been reclassified from salaries to other expenses in all periods.

Components of noninterest expense that are primarily related to a single business segment are discussed within that business segment rather than the consolidated section.

2002 compared to 2001

Salaries and employee benefits of $4.5 billion increased $267 million, or 6%. This increase was due to insourcing activities previously performed by outside vendors, increased incentive compensation, the consolidation of Paymentech and Anexsys, and also included $45 million related to the adoption of the fair value method of accounting for stock option and stock purchase plans.

Outside service fees and processing expense of $1.3 billion increased $125 million, or 11%, due to the increase in contract programming charges related to the Corporation's systems conversion efforts and the one-time charge of $89 million related to termination and renegotiation of certain vendor contracts.

Marketing and development expense of $1.1 billion increased $192 million, or 22%, primarily due to increased advertising expenditures for Card Services and certain Retail products.

Telecommunication expense of $365 million decreased $42 million, or 10%, primarily due to lower servicing expenses resulting from the termination and renegotiation of certain vendor contracts.

Other intangible amortization of $125 million increased $28 million, or 29%, primarily due to the amortization of purchased credit card relationships associated with the addition of the Wachovia credit card business. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Corporation no longer amortizes goodwill and thus did not incur any goodwill amortization expense during 2002.

Other expense increased by $15 million primarily due to systems conversion costs. The Corporation successfully completed the Michigan, Florida and Illinois conversions during 2002.

As a result of the significant items noted on pages 52-53 and restructuring plans initiated in 2000 and 2001, the Corporation's noninterest expense before restructuring-related reversals was $9.6 billion for 2002, which represents a reduction in annualized noninterest expense of $1.2 billion and decreased headcount of approximately 9,000 employees from June 30, 2000.

2001 compared to 2000

Salaries and employee benefits were $4.2 billion, down 9% from $4.6 billion. This decline was attributed to expense savings from reduced headcount and cost reductions associated with the modification of the Corporation's benefit plans.

Occupancy expense declined by $186 million, or 21%. The decrease was the result of less occupied space.

Equipment expense in 2001 decreased $136 million. Reduced furniture and equipment rental along with lower maintenance and depreciation expense was primarily the reason for the 23% decline.

The Corporation recorded restructuring-related charges in the fourth quarter of 2001 affecting all lines of business for additional real estate and staff reductions (severance) costs to accomplish expense reductions, accelerated systems conversions, and other consolidations. Actions under the plan were implemented. See Note 4 "Restructuring-Related Activity" on page 89.

The Corporation recorded restructuring-related charges in the second quarter of 2000 related to restructuring its indirect lending and home mortgage business as well as exit costs associated with specific decisions made to permanently abandon identified facilities, equipment and application software (for all lines of business). Actions under this plan have been completed, with only payments of identified obligations remaining. See Note 4 "Restructuring-Related Activity" on page 89.

Restructuring-related charges (reversals) are allocated to each line of business (see tables on pages 52-53) for management reporting purposes.

Outside service fees and processing expense also declined 23%, attributed to a reduction in consulting expense and the benefits from contract renegotiations and other waste-reduction initiatives.

Marketing and development expense decreased $38 million, or 4%, as continued expense reductions in the Retail line of business more than offset increased expenditures for Card Services.

Other intangible amortization expense decreased by $313 million, or 76%, predominately due to significant items recorded in 2000 (see table 2 on page 53).

Other expense was reduced by $806 million, or 39%. This decrease was primarily due to significant items recorded in 2000 (see table 2 on page 53). This reduction also reflects the continuation of the Corporation's waste-reduction initiatives to lower expenses for such items as travel, entertainment and other miscellaneous items, which was partially offset by system conversion costs. The Corporation successfully converted the Texas/Louisiana and the Arizona/Utah deposit systems during 2001.

Applicable Income Taxes

The Corporation's income (loss) before income taxes and cumulative effect of change in accounting principle, as well as applicable income tax expense (benefit) and effective tax rate for each of the past three years follows:

(Dollars in millions)	**2002**	2001	2000
Income (loss) before income taxes (benefit) and cumulative effect of change in accounting principle	**$4,763**	$3,800	$(1,080)
Applicable income taxes (benefit)	**1,468**	1,118	(569)
Effective tax rate	**30.8%**	29.4%	52.7%

Applicable income tax expense (benefit) for all three years included benefits for tax-exempt income, tax-advantaged investments and general business tax credits offset by the effect of nondeductible expenses. In the case of a loss before income taxes and the cumulative effect of change in accounting principle, the effect of the net tax benefits described above is to increase, rather than decrease, the effective rate of tax. This is the primary reason for the difference in effective tax rates between 2000 and the other years presented. More detail on income taxes can be found in Note 20 "Income Taxes" on page 101.

RISK MANAGEMENT

Risk is an inherent part of the Corporation's business activities. The Corporation's ability to properly and effectively identify, measure, monitor, and report risk in its business activities is critical to its soundness and profitability. The diversity of the Corporation's lines of business helps reduce the impact that volatility in any particular area has on its operating results as a whole.

Corporate Risk Management Governance Structure

While the lines of business are primarily responsible for managing the risks inherent in their businesses, the Corporation has established a risk management governance structure to establish policy, monitor adherence to policy and manage the overall risk profile of the organization.

The Corporation believes risk management is the responsibility of every employee. However, various functional groups have specific roles and responsibilities to manage risk:

- **Board of Directors:** determines risk appetite and risk capacity. The Audit and Risk Management Committee routinely reviews risk issues.
- **Risk Committees:** ensure appropriate management of aggregate risks and capital, acceptable corporate and line of business risk profiles and the integrity of risk governance processes. Risks addressed include, but are not limited to credit, market and operational risk. The Executive Risk Committee is co-chaired by the Chief Executive Officer and Chief Risk Officer. Lines of business sub-committees are co-chaired by the heads of the lines of business and their respective chief risk officers. Committee members represent the lines of business, corporate risk management, finance and legal functions.
- **Chief Risk Officer:** establishes effective risk management infrastructure (people, process and systems).
- **Lines of Business:** manages risk exposures to approved limit structures for their applicable line of business and identifies risk linkages to other businesses.
- **Investment Committee:** ensure appropriate management of both new investment proposals and the existing portfolio of investments; approve new investment proposals and divestment strategies. The committe is co-chaired by the Chief Financial Officer and Head of Financial Planning and Acquisitions.
- **Principal Investments Committee:** a separate investment committee exists for governing the principal investments portfolio and is chaired by the Chief Executive Officer.
- **Corporate Audit:** independently assesses and recommends actions to mitigate risk.
- **Asset and Liability Committee ("ALCO"):** provides governance and oversight of liquidity, structural interest rate risk and capital and is co-chaired by the Chief Financial Officer and Treasurer.

Risk Management Process

There are four critical elements to the Corporation's risk management process:

- **Risk Identification:** The Corporation identifies risk dynamically by assessing the potential impact of internal and external factors on current businesses and new products/programs, and by developing risk mitigation strategies to effectively manage identified risks.
- **Risk Measurement:** The Corporation measures risk using a variety of methodologies including: calculating expected loss, unexpected loss and value-at-risk; and conducting stress tests and making comparisons to external benchmarks. Measurement models and underlying assumptions are routinely validated to ensure accurate risk measurement.
- **Risk Monitoring/Control:** The Corporation establishes risk management policies and procedures. These policies contain approved limits by customer, product and business that are monitored weekly.
- **Risk Reporting:** Risk reporting covers all lines of business and is comprehensively provided to management on a weekly basis.

Risk Types

There are seven major risk types identified by the Corporation:

- **Credit risk** is the risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with the lender or otherwise fail to perform as agreed.
- **Liquidity risk** is the risk of loss arising from an institution's inability to meet its obligations when they come due without incurring unacceptable losses.
- **Market risk** is the risk that changes in future market rates or prices will make the Corporation's positions less valuable.
- **Operational risk** is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events.
- **Reputation risk** is the risk to earnings or capital arising from negative public opinion. This affects the institution's ability to establish new relationships or services, or continue servicing existing relationships.
- **Strategic risk** is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions.
- **Compliance risk** is the risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, or ethical standards.

CREDIT RISK MANAGEMENT

Credit risk is a significant risk to the Corporation. It represents risk to earnings arising from an obligor's failure to meet the terms of any contract with the Corporation or otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on issuer, borrower or counterparty performance. It arises any time funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. On-balance sheet credit exposure includes such items as loans. Off-balance sheet credit exposure includes unfunded credit commitments and other credit-related financial instruments.

Management proactively manages the risk/reward relationship of each portfolio to achieve profitability targets and required rates of return on investment. The Corporation uses credit derivatives (primarily single name credit swaps) and short bond positions, as protection against deterioration of credit quality on commercial loans and loan commitments.

Risk Identification

Credit risk is the most prevalent risk associated with banking, and encompasses more than the traditional definition associated with lending activities. Credit risk also arises in conjunction with a broad range of bank activities, including selected investment portfolio products, derivatives trading partners, or foreign exchange counterparties. Credit risk also arises due to country or sovereign exposure, as well as indirectly through guarantor performance.

Risk Measurement

Expected and Unexpected Losses

Using statistical techniques, expected and unexpected losses are calculated for each segment of the portfolio. Expected loss is the average expected loss over a cycle, and unexpected loss represents the potential volatility of losses relative to expected loss levels.

Expected loss calculations and related stress tests are used as a basis for evaluating allowance for credit losses adequacy. Unexpected loss calculations are used as a basis for calculating economic capital, which is a management tool used to allocate capital for internal management purposes. Expected and unexpected loss calculations are made at the facility and portfolio levels, and are used as a basis for pricing to ensure appropriate risk/reward balance.

The Corporation employs several methodologies for estimating expected and unexpected losses. Methodologies are determined based on a number of factors, including type of asset (e.g., consumer installment versus commercial loan), risk measurement parameters (e.g., delinquency status and bureau score versus commercial risk rating), and risk management and collection processes (e.g., retail collection center versus centrally managed workout units). Risk measurement is primarily based upon two methodologies: risk rating exposure and credit scoring exposure.

Risk-Rated Exposure

For portfolios that are risk-rated (generally commercial), expected and unexpected loss calculations are based on estimates of probability of default and loss given default. Probability of default is the one-year expected default calculated on an obligor basis. Loss given default is an estimate of losses that are based upon collateral and structural support for each credit facility. Calculations and assumptions are based on management information systems and methodologies that are under continual review.

In the second quarter 2001, the Corporation refined its measurement process for estimating expected loss by enhancing its risk rating system to provide for discrete estimates of probability of default and loss given default. In addition, the Corporation moved from a one-tier, 12 point combined obligor and facility-based scale to estimate expected loss to a two-tiered methodology: a 20 point obligor-based scale, which estimates probability of default, and an 8 point facility-based scale, which estimates loss given default. The benefit of the 20 point obligor-based scale is it enables the Corporation to benchmark its internal measures of risk with publicly available ratings and market prices. The estimated probability of default covers a one-year time horizon. Expected loss represents the combined effect of estimates from both components. While the risk rating system changed, estimates of expected loss were relatively unaffected and no increase to the reserve was required.

Risk ratings are reviewed on an ongoing basis by corporate risk management and revised, if needed, to reflect the borrowers' current risk profile and the related collateral position. The lower categories of credit risk are equivalent to the four bank regulatory classifications: Special Mention, Substandard, Doubtful and Loss.

Credit-Scored Exposure

For credit-scored portfolios (generally Retail and Card Services), expected loss is based on a statistical analysis of inherent losses over discrete periods of time. Expected losses are estimated using statistical analysis, such as roll rate models, which use historical losses, and vintage forecasting models. Other risk characteristics evaluated include: recent loss experience in the portfolios, changes in origination sources, portfolio seasoning, loss severity, and underlying credit practices, including charge-off policies. This analysis is applied to the current portfolios in order to forecast delinquencies and severity of losses, which determines the amount of future probable losses. These factors and analysis are updated on a quarterly basis.

Risk Monitoring/Control

The Executive Risk Committee has developed policies to manage the level and composition of risk in its portfolio, and reviews the Corporation's performance relative to those policies.

The line of business risk committees have developed policies that focus on origination, portfolio management and managed assets related activities. The policy framework establishes approval authorities and related processes, risk rating methodologies, portfolio review parameters and management of problem loans. The objective of the credit risk management process is to quantify and manage credit risk on an aggregate portfolio basis as well as to reduce the risk of loss resulting from an individual customer default. Corporate risk management works with lending officers and line of business personnel involved in credit decision making and is involved in the implementation, refinement, and monitoring of the Corporation's credit policies and procedures. Credit limits are approved by the Executive Risk Committee and adherence to those limits is monitored weekly.

In order to meet its credit risk management objectives, the Corporation maintains a risk profile that is diverse in terms of borrower, product-type, and industry and geographic concentrations. Additional diversification of the Corporation's exposure is accomplished through syndication of credits, participations, loan sales, securitizations, credit derivatives and other risk-reduction techniques.

Risk Reporting

Aggregate credit exposure, credit metric forecasts, hold limit exceptions and risk profile changes are reported weekly for all portfolios. Expected loss calculations and detailed portfolio reporting of industry, customer and geographic concentrations are reported monthly to senior management. In addition, the results of comprehensive stress tests of expected loss for reserve establishment are presented in the quarterly reports to senior management. Through the Risk Committee governance structure, credit risk trends and limit exceptions are regularly discussed on a comprehensive basis.

LIQUIDITY RISK MANAGEMENT

Liquidity is managed to preserve stable, reliable and cost-effective sources of funding to meet all current and future financial obligations.

At the Corporation, strong liquidity is provided by a variety of sources including:

- A portfolio of liquid assets, comprised of federal funds sold, deposit placements and marketable securities.
- A large customer deposit base arising through the Corporation's Commercial Banking and Retail business activities.
- A diversified mix of short- and long-term funding sources from the wholesale financial markets.
- A substantial and growing capital position in excess of regulatory well-capitalized standards.
- Significant borrowing capacity at the Federal Reserve discount window.

The Corporation is an active participant in the global financial markets through which it obtains a significant amount of funding. These markets serve as a cost-effective source of funds and are a critical component of the Corporation's liquidity management. Decisions to access these markets are based upon relative costs, prospective views of balance sheet growth, and a targeted liquidity profile. A disruption in the financial markets could limit access to liquidity for the Corporation.

The Corporation's ability to maintain regular access to competitively priced wholesale funds is fostered by strong debt ratings from the major credit rating agencies. Management views the following factors as critical to retaining high credit ratings:

- Strong capital ratios and credit quality
- A stable, diverse earnings stream
- Diversity of liquidity sources
- Strong liquidity monitoring procedures

At December 31, 2002, the Corporation and its principal banks had the following long- and short-term debt ratings:

	Short-Term Debt			Senior Long-Term Debt		
	S & P	Moody's	Fitch	S & P	Moody's	Fitch
The Corporation (parent)	A-1	P-1	F-1	A	Aa3	A+
Principal banks	A-1	P-1	F-1+	A+	Aa2	AA-

Risk Identification

Treasury is responsible for measuring and managing the liquidity profile with oversight from the ALCO. Liquidity risks reviewed include the diversity of the Corporation's sources of funding and the maturity structure of those sources, quantity of liquid assets held, contingent funding requirements and sensitivity to changes in credit ratings. Treasury tests a series of liquidity scenarios and works with the lines of business to understand and manage the potential liquidity risks in the Corporation.

Measurement and Monitoring/Control

The Corporation has established operating guidelines around balance sheet liquidity that include required levels of liquid assets and limits on liquidity gaps. Liquidity gaps measure balance sheet cash flow mismatches and quantify certain liability maturities in excess of liquid assets.

The Corporation monitors and manages liquidity considering both on- and off-balance sheet exposures. On-balance sheet liquidity is impacted by balance sheet growth, level and mix of customer deposits, and access to wholesale funding. In the normal course of business, the Corporation enters into certain forms of off-balance sheet transactions, including credit card securitizations, unfunded loan commitments and letters of credit. These transactions are managed through the Corporation's various risk management processes. For example, liquidity facilities provided to Corporation-and third party-administered specialized financing entities might require funding if the Corporation's short-term rating were to fall to A-2 or P-2. Credit card securitizations may be subject to early amortization if certain performance measures of the issuing trust were not maintained. Other events could result in additional funding requirements for the Corporation.

The parent company faces unique liquidity constraints due to legal limitations on its ability to borrow funds from its banking subsidiaries. The parent company obtains funding to meet its obligations through bank and non-bank subsidiary dividends (within regulatory limitations) and through the issuance of debt securities. The parent company holds liquid assets equal to at least 12 months of its upcoming debt maturities to ensure adequate liquidity is available.

Reporting

A combination of daily, weekly, monthly and periodic reports provided to senior management detail the following:

- Internal liquidity risk metrics
- Composition and level of the liquid asset portfolio
- Timing differences in short-term cash flow obligations
- Available pricing and market access to the financial markets for capital, term-debt and securitization transactions
- Exposure to contingent draws on the Corporation's liquidity
- Liquidity stress testing under systemic and Corporation specific scenarios

MARKET RISK MANAGEMENT

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads in market risk sensitive instruments. Market risk arises in both trading and non-trading portfolios. The section on "Market Risk Management-Nontrading Activities" on page 61 provides an overview of our approach to managing market risks arising from non-trading portfolios. In these asset and liability management activities, policies are in place to closely manage structural interest rate risk. Disclosures about the fair value of financial instruments, which reflect changes in market prices and rates, can be found in Note 23 "Fair Value of Financial Instruments" on pages 103–105.

Market Risk Management — Trading Activities

Through its trading activities, the Corporation strives to take advantage of profit opportunities due to changes in interest rates, exchange rates, equity prices, commodity prices and credit spreads. The Corporation's trading activities are primarily customer-oriented. For example, cash instruments are bought and sold to satisfy customers' investment needs. Derivative contracts are initially entered into to meet the risk management needs of customers. The Corporation enters into subsequent transactions to manage the level of risk in accordance with approved limits. In order to accommodate customers, an inventory of capital markets instruments is carried, and access to market liquidity is maintained by making bid-offer prices to other market makers. The Corporation may also take proprietary trading positions in various capital markets cash instruments and derivatives, and these positions are designed to profit from anticipated changes in market factors. Activity is focused in OECD (Organisation for Economic Cooperation and Development) markets, with very little activity in emerging markets.

Many trading positions are kept open for brief periods of time, often less than one day. Other positions may be held for longer periods. Trading positions are carried at estimated fair value, with realized and unrealized gains and losses included in noninterest income as trading income.

Risk Identification

Corporate market risk management works with various lines of business personnel to refine and monitor market risk policies and procedures, and is the primary independent oversight unit for market risk arising from line of business activities. The line of business, working in conjunction with corporate market risk management, is responsible for comprehensive identification of market risks. These market risks include the sensitivities to such market factors as changes in prices, interest rate curves, spreads, basis, volatility, gamma, time decay and correlations. Market risk management also conducts annual reviews of each of the trading businesses to confirm approved products and trading strategies.

Risk Measurement

The Corporation relies on a number of statistical and non-statistical measurements to monitor the level of market risk arising from interest rates, foreign exchange, equities, commodities and credit spreads. The Corporation has developed policies and procedures to manage market risk in its trading activities through a value-at-risk measurement, stress testing and dollar trading limits. The objective of this process is to quantify and manage market risk in order to limit single and aggregate exposures. Dollar trading limits are subject to varying levels of approval by senior line of business management, with review by corporate market risk management. For non-trading portfolios, the primary measures of market risk are earnings at risk and the economic value of equity.

Value-At-Risk

For trading portfolios, value-at-risk measures the maximum fair value the Corporation could be reasonably expected to lose on a trading position, given a specified confidence level and time horizon. Value-at-risk limits and exposure are monitored daily for each significant trading portfolio. Value-at-risk was not calculated for credit derivatives used to hedge specific credits in the loan portfolio. However, stress testing is regularly performed for these credit derivative positions. See discussion of credit derivatives under the "Trading Derivative Instruments" section on page 72. Likewise, value-at-risk calculations do not include the principal investments portfolio that is being accounted for similar to trading portfolios in that realized and unrealized gains and losses are recorded currently in income.

The Corporation applies a statistical model to its portfolios of cash and derivative positions, including options, to calculate value-at-risk. The variance-covariance model estimates the volatility of returns on individual assets, as well as the correlation of changes of asset price pairs. These volatility and correlation estimates are made on the basis of one-year, equally-weighted historical observations of market variables. The model then computes the volatility of changes in the market values of the portfolios (i.e., the value-at-risk results) by applying each portfolio's statistical sensitivities to the correlations.

The Corporation's value-at-risk calculation measures potential losses in fair value using a 99% confidence level and a one-day time horizon. This equates to 2.33 standard deviations from the mean under a normal distribution. This means that, on average, daily profits and losses are expected to exceed value-at-risk one out of every 100 overnight trading days.

The value-at-risk in the Corporation's trading portfolio was as follows (excluding credit derivatives and other instruments used to hedge specific credits in the loan portfolio with a notional amount of $7.3 billion and $3.3 billion at December 31, 2002 and 2001, respectively):

	2002			
(In millions)	**December 31**	**Average**	**High**	**Low**
High Volume Capital Markets Trading Portfolios and Mortgage Pipeline (1)				
Risk type:				
Interest rate	**$6**	**$5**	**$7**	**$3**
Commodity price	**—**	**—**	**2**	**—**
Currency exchange rate	**—**	**—**	**3**	**—**
Equity	**1**	**1**	**2**	**—**
Diversification benefit	**—**	**—**	**N/A**	**N/A**
Other Trading Portfolios	**7**	**6**	**8**	**3**
Risk type:				
Interest rate	**7**	**7**	**8**	**7**
Aggregate trading portfolio market risk	**$14**	**13**	**16**	**11**

	2001			
(In millions)	December 31	Average	High	Low
High Volume Capital Markets Trading Portfolios and Mortgage Pipeline (1)				
Risk type:				
Interest rate	$5	$5	$7	$3
Commodity price	—	—	—	—
Currency exchange rate	—	1	4	—
Equity	1	1	4	—
Diversification benefit	—	—	N/A	N/A
Other Trading Portfolios	6	7	15	3
Risk type:				
Interest rate	6	6	8	5
Aggregate trading portfolio market risk	$12	13	16	9

(1) Subject to backtesting.

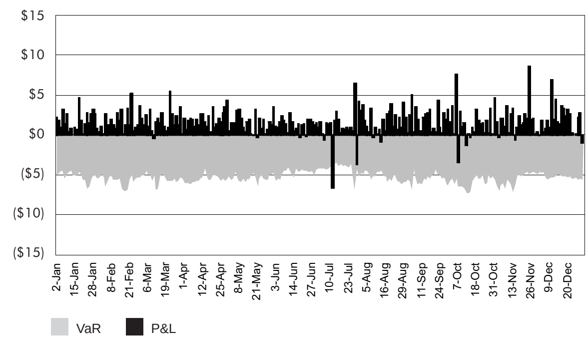
Interest rate risk was the predominant type of market risk incurred during 2002. At December 31, 2002, approximately 95% of primary market risk exposures were related to interest rate risk. Currency exchange rate, equity and commodity risks accounted for 1%, 3% and 1%, respectively, of primary market risk exposures.

- U.S. Treasury, corporate, asset-backed, municipal, and mortgage-backed securities generated 82% of the interest rate risk component. Interest rate derivatives accounted for 15% of the interest rate risk, while the remaining 3% was derived primarily from money market and foreign exchange trading activities.
- Foreign exchange spot, forward and option trading generated 100% of the currency exchange rate risk. Of the currency exchange rate risk arising from these activities, 43% related to major currency exposures and 57% to minor currencies.
- Equity derivatives trading and off-setting cash positions generated 100% of equity price risk.

At December 31, 2002, aggregate portfolio market risk exposures were 17% higher than at year-end 2001. The majority of this increase was due to increased market risk in various trading books.

Value-at-risk levels are regularly backtested to validate the model by comparing predictions with actual results. For 2002, backtesting results for the high volume capital markets portfolios and the mortgage pipeline appear in the following graph:

(In millions)



These backtesting results reflect only the higher volume trading portfolios that are actively managed and marked-to-market on a daily basis (i.e., the capital markets trading portfolios and the mortgage pipeline in the consumer lending business). Based on a 99% confidence interval in predicting actual profit or loss, the Corporation would expect actual profit or loss to exceed value-at-risk one day for every one hundred days. As shown in the graph above, there was only one day in 2002 where the actual loss exceeded the calculated value-at-risk. The Corporation's value-at-risk measure provides a conservative measure of the level of market risk.

Stress Testing

Stress tests are conducted regularly for all capital markets trading portfolios including credit derivatives for a standard set of forward-looking scenarios for large, low probability changes in the market variables. Scenarios may be derived from either severe historical crises or forward assessment of developing market trends. The scenarios are continuously reviewed to reflect changing market and economic conditions.

Risk Monitoring

The Corporation establishes limits for value-at-risk, market variable exposures, position limits and dollar trading loss limits for all capital markets trading portfolios. Actual activity compared with these limits is monitored daily. In addition, trading limits have been established for trading portfolios within other areas of the Corporation, including treasury and principal investments. Actual activity compared with these trading limits is regularly monitored. As a rule, all businesses are expected to maintain exposure within approved limits. Should a risk exposure level exceed approved limit levels, business management provides a strategy for bringing risk levels down within approved levels.

Risk Reporting

Value-at-risk, market variable exposures and dollar trading loss limit exceptions are reported daily for each capital markets trading portfolio. Market risk exposure trends, value-at-risk trends, profit and loss changes, aged asset inventories and portfolio concentrations are reported daily to business management and weekly to executive management. In addition, the results of comprehensive, weekly stress tests are presented in the weekly reports to executive management. Market risk exposure for treasury and principal investment trading portfolios are reported regularly through the Risk Committee governance structure. Market risk trends and limit exceptions are comprehensively and regularly discussed.

Market Risk Management — Non-Trading Activities

Interest rate risk exposure in the Corporation's core non-trading business activities, (i.e., asset/liability management ("ALM") position), is a result of reprice, option, and basis risks associated with on- and off-balance sheet positions. Reprice risk represents timing mismatches in the Corporation's ability to alter contractual rates earned on financial assets or paid on liabilities in response to changes in market interest rates. Basis risk refers to the potential for change in the underlying relationship between market rates or indices, which subsequently result in a narrowing of the spread earned on a loan or investment relative to its cost of funds. Option risk arises from "embedded options" present in many financial instruments such as interest rate options, loan prepayment options and deposit early withdrawal options. These provide customers and investors opportunities to take advantage of directional changes in rates, which could have an adverse impact on the Corporation's margin performance. Embedded options are complex risk positions that are difficult to predict and offset, and are a significant component of the interest rate risk exposure for the Corporation.

Risk Identification

Interest rate risk arises through ongoing banking activities, including traditional customer lending and deposit activities and wholesale funding and portfolio actions. The Corporation identifies interest rate risk by quantifying the impact of new programs, products and strategies on overall balance sheet sensitivity.

Responsibility for management of interest rate risk resides with treasury under the oversight of the Corporation's ALCO and is apprised weekly of newly discovered risks associated with the ALM position and the strategies to manage resultant exposure.

Risk Measurement

The ALM position is measured using sophisticated earnings simulation and valuation tools. The primary risk measure employed is earnings-at-risk, which measures the sensitivity of pretax earnings to various interest rate movements as compared to a base-case scenario established using current rates. Earnings-at-risk incorporates estimates of balance sheet growth, pricing and customer behavior under each scenario analyzed. The analysis is calculated over multiple time horizons.

In addition to earnings-at-risk analysis, management uses an economic value of equity sensitivity technique to capture the risk in both short- and long-term positions. This analysis involves calculating future cash flows over the life of all current assets, liabilities and off-balance sheet positions under different rate scenarios. The discounted present value of all cash flows represents the Corporation's economic value of equity. The sensitivity of this value to shifts in the yield curve allows management to measure longer-term repricing and option risk in the portfolio.

The measurement of interest rate risk is highly dependent on numerous assumptions. While the risk analysis incorporates management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. Sensitivities to key assumptions are tested and reviewed to provide a range of possible outcomes. For mortgage-related assets, the simulation model captures the expected prepayment behavior under changing interest rate environments. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity products, (e.g., credit card receivables, savings, money market, NOW and demand deposits), reflect management's best estimate of expected future behavior. Sensitivity of service fee income to market interest rate levels, such as those related to cash management products, is included as well.

Risk Monitoring

The Corporation has established risk measures, policy limits and internal control mechanisms (collectively referred to as the Interest Rate Risk Policy) for managing the overall ALM position, including both on- and off-balance sheet positions. Policy limits are based on immediate parallel shocks of +/-100 basis point rate movements.

Responsibility for the management of interest rate risk resides with treasury under the oversight of the ALCO. Business unit management is responsible for understanding their interest rate risk, while the Corporation controls and monitors this risk centrally. ALCO is apprised weekly of the risks associated with the ALM position, with exposures tested under multiple rate and yield curve scenarios. The Corporation balances the return potential of the ALM position against the desire to limit volatility in earnings and/or economic value.

Risk Reporting

Based on immediate parallel shocks, the Corporation's earnings-at-risk to rising interest rates, versus base-case, has improved. The Corporation's 12-month pretax earnings sensitivity profile as of year-end 2002 and 2001 is as follows:

	Immediate Change in Rates			
(In millions)	+200 bp	+100 bp	-50 bp	-100 bp
December 31, 2002	**$165**	**$100**	**$(89)**	**$(177)**
December 31, 2001	$(754)	$(341)	$135	$174

The decrease in earnings-at-risk during the year largely reflects management's decision to reduce exposure to rising market interest rates and take advantage of market opportunities to secure long-term, low cost funding. These activities included the termination of $6 billion notional value in receive fixed/pay floating swaps, execution of $15 billion pay fixed/receive floating swaps and the issuance of $5 billion in fixed rate term funding.

Numerous alternative scenarios are reviewed internally, including more gradual and more severe rate movements and non-parallel rate shifts. These scenarios are intended to provide a more comprehensive view of the Corporation's interest rate risk exposure by further detailing reprice, option, yield curve and basis risk. The interest rate scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. Rather, they are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings and economic value of the Corporation.

Rates as represented by implied forward rates (or the market's expectations for rates as embedded in the current yield curve) provide an important benchmark in the evaluation of balance sheet management strategies and the overall risk posture. The market's view of rates is embedded in the price of all financial instruments. Strategies to modify risk are therefore evaluated based on a comparison of management's and the market's expectations about the degree and timing of the expected rate movement. At year-end, implied forward rates suggested a modest increase in interest rates in the second half of 2003. This rate scenario would not materially impact the earnings of the Corporation.

The Corporation generally benefits if rates increase earlier or more than expected under the implied forwards or if the general level of rate increase is sudden and severe due to actions taken over the year to minimize increases in funding costs relative to assets repricings. The benefit of increasing short-term rates is further enhanced when rates increase more than 425 basis points and the rate earned on a portion of the credit card portfolio moves above contractual floors. The Corporation would be negatively impacted by sudden rate increases accompanied by a flattening yield curve that would diminish the benefit of term asset repricing.

Steeper yield curves typically benefit earnings, particularly when the increase in long-term rates is not accompanied by increasing short-term rates. Falling long-term rates negatively impact earnings and can also expose the Corporation to additional option risk. The Corporation's basis risk is largely the result of corporate and consumer demand for prime-based loan products. Declines in the prime rate relative to bank funding costs will result in decreased earnings.

OPERATIONAL RISK MANAGEMENT

The Corporation is exposed to numerous types of operational risk. Operational risk is defined as the risk of loss resulting from the inadequate or failed internal processes, people and systems or from external events. Operational risk generally refers to the risk of loss resulting from the Corporation's operations, including, but not limited to, the risk of fraud by employees or persons outside the Corporation, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

The Corporation operates in many different businesses in diverse markets and places reliance on the ability of its employees and systems to process a high number of transactions. In the event of a breakdown in the internal control systems, improper operation of systems or improper employee actions, the Corporation could suffer financial loss, face regulatory action and suffer damage to its reputation. The Corporation's framework for managing operational risk establishes a foundation on which to comprehensively and effectively identify, measure, mitigate, monitor and report operational risks.

The Corporation maintains systems of controls that provide management with timely and accurate information about the operations of the Corporation. These systems have been designed to manage operational risk at appropriate levels given the Corporation's financial strength, the environment in which it operates, and considering factors such as competition and regulation. The Corporation has also established procedures that are designed to ensure that policies relating to conduct, ethics and business practices are followed on a uniform basis. In certain cases, the Corporation has experienced losses from operational risk. Such losses have included the effects of operational errors that the Corporation has discovered and taken as charges in the income statement. While there can be no assurance the Corporation will not suffer such losses in the future, management continually monitors and improves its internal controls, systems and corporate-wide processes and procedures. Furthermore, management believes the plans to streamline the organization through charter consolidations and further systems integration and policies enacted to push down reporting accountabilities further in the organization, have improved the Corporation's ability to identify and limit operational risk.

Selected Statistical Information

The significant components of credit risk and the related ratios for the years indicated are as follows:

December 31,	**2002**	2001	2000	1999	1998
(Dollars in millions)					
Loans outstanding	**$148,125**	$156,733	$174,251	$163,877	$155,398
Average loans	**150,805**	167,054	171,768	156,855	154,952
Nonperforming loans [(1)]	**3,276**	3,551	2,475	1,559	1,207
Other, including other real estate owned	**251**	137	98	106	90
Nonperforming assets	**3,527**	3,688	2,573	1,665	1,297
Allowance for credit losses	**4,525**	4,528	4,110	2,285	2,271
Net charge-offs	**2,465**	2,288	1,391	1,206[(3)]	1,498
Nonperforming assets to related assets [(2)]	**2.38%**	2.35%	1.48%	1.02%	0.83%
Allowance to period end loans	**3.20**	2.97	2.42	1.42	1.51
Allowance to nonperforming loans	**139**	128	166	147	188
Net charge-offs to average loans	**1.63**	1.37	0.81	0.77	0.97
Allowance to net charge-offs	**184**	198	295	189[(3)]	152

(1) Includes loans held for sale of $22 million for the year ended December 31, 2002. For December 31, 2001, 2000, 1999 and 1998 there were no nonperforming loans included in loans held for sale. These amounts are not included in allowance coverage statistics.

(2) Related assets consist of loans outstanding, including loans held for sale and other real estate owned.

(3) Includes $143 million of charge-offs required to bring the consumer portfolio into compliance with FFIEC guidelines. Excluding these incremental charge-offs, the adjusted coverage ratio would have been 215%.

Loan Composition

In 2001, the Corporation changed its loan composition methodology to a line of business approach, dividing the loan portfolio into Retail, Commercial Banking, Card Services, IMG and Corporate. The Corporation has presented 2000 information under both the "old" and "new" compositions, but has not presented 1999 and 1998 under the "new" composition as it would be impractical to reclassify those periods using the new methodologies.

The Corporation's loan portfolios at December 31 are as follows:

	2002		2001		2000	
(Dollars in millions)	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Retail:						
Small business commercial	**$ 9,863**	**7%**	$ 9,947	6%	$ 9,344	5%
Home equity	**28,469**	**19**	25,143	16	31,361	18
Vehicle	**14,012**	**9**	13,481	9	14,300	8
Other personal	**8,491**	**6**	9,779	7	10,697	6
Core businesses	**60,835**	**41**	58,350	38	65,702	37
Brokered home equity discontinued	**3,242**	**2**	5,125	3	N/A	
Vehicle leases	**3,596**	**2**	6,155	4	8,840	5
Home equity discontinued/vehicle leases	**6,838**	**4**	11,280	7	8,840	5
Total Retail	**67,673**	**45**	69,630	45	74,542	42
Commercial Banking:						
Corporate banking:						
Commercial and industrial	**17,866**	**12**	22,268	14	N/A	
Commercial real estate	**8,321**	**6**	8,975	6	N/A	
Lease financing	**4,358**	**3**	4,669	3	N/A	
Other	**1,014**	**—**	731	—	N/A	
Total corporate banking	**31,559**	**21**	36,643	23	51,700	30
Middle market:						
Commercial and industrial	**26,983**	**18**	31,076	20	N/A	
Commercial real estate	**2,318**	**2**	3,472	2	N/A	
Lease financing	**1,008**	**1**	1,053	1	N/A	
Other	**27**	**—**	294	—	N/A	
Total middle market	**30,336**	**21**	35,895	23	36,159	21
Total Commercial Banking	**61,895**	**42**	72,538	46	87,859	51
Card Services	**11,581**	**8**	6,786	4	4,744	3
IMG and Corporate	**6,976**	**5**	7,779	5	7,106	4
Total	**$148,125**	**100%**	$156,733	100%	$174,251	100%

N/A Not available due to changes in segment composition.

Loans held for sale, which are classified as loans, are carried at lower of cost or fair value and totaled $6.9 billion, $4.2 billion and $4.2 billion at December 31, 2002, 2001 and 2000, respectively. At December 31, 2002, loans held for sale included Commercial Banking loans of $235 million of which approximately $19 million were included in nonperforming loans, and Card Services and other consumer loans of $6.7 billion.

Prior to 2001, the Corporation's loan portfolio was divided into commercial, consumer and credit card loan categories as follows:

	2000		1999		1998	
(Dollars in millions)	Amount	Percent	Amount	Percent	Amount	Percent
Commercial:						
Domestic:						
Commercial	$ 65,270	38%	$ 59,070	36%	$ 53,362	34%
Real estate:						
Construction	5,757	3	5,836	4	5,108	3
Other	16,778	10	18,817	11	17,787	12
Lease financing	5,818	3	5,562	3	6,236	4
Foreign	6,837	4	7,067	4	5,945	4
Total commercial	100,460	58	96,352	58	88,438	57
Consumer:						
Residential real estate	40,596	23	32,313	20	25,804	17
Automotive-loans/leases	20,741	12	23,567	14	20,634	13
Other	7,710	4	7,608	5	11,488	7
Total consumer	69,047	39	63,488	39	57,926	37
Card Services	4,744	3	4,037	3	9,034	6
Total	$174,251	100%	$163,877	100%	$155,398	100%

Managed Credit Card Receivables

For analytical purposes, the Corporation reports credit card receivables on both a reported basis and a managed basis. Reported credit card receivables include those receivables held in the portfolio and reported on the balance sheet. Managed credit card receivables include reported credit card receivables, receivables sold to investors through securitization and retained interests (see page 74 for discussion of "Loan Securitizations").

The following table shows the average managed credit card receivables and the related charge-off and delinquency rates for the years ended:

December 31,	**2002**	2001	2000
(Dollars in millions)			
Average balances:			
Credit card loans	**$ 9,899**	$ 6,884	$ 4,754
Credit card receivables transferred to trusts	**57,969**	58,563	61,424
Total average managed credit card receivables	**67,868**	65,447	66,178
Total net charge-offs (including securitizations)	**$ 3,632**	$ 3,823	$ 3,584
Net charge-offs/average total receivables	**5.35%**	5.84%	5.42%
Card Services delinquency rate at period end:			
30+ days	**4.02%**	4.46%	4.51%
90+ days	**1.80%**	1.93%	2.02%

The decrease in the managed net charge-off rate to 5.35% in 2002 from 5.84% in 2001 reflected management's continued emphasis on prudent credit risk management including disciplined underwriting and account management practices targeted to the prime and super prime credit sectors. Nationally, consumers filed for bankruptcy in 2002 in much higher numbers than in any prior year. Credit risk management tools used to manage the level and volatility of losses for credit card accounts have been continually updated, and, where appropriate, these tools were adjusted to reduce credit risk in 2002 and beyond. The managed credit card portfolio continues to reflect a well-seasoned portfolio that has good national geographic diversification.

Future charge-offs in the credit card portfolio and overall credit quality are subject to uncertainties, which may cause actual results to differ from current and historic performance. This could include the direction and level of loan delinquencies, changes in consumer behavior, bankruptcy trends, portfolio seasoning, interest rate movements, and portfolio mix, among other things. While current economic and credit data suggests that credit quality will not significantly deteriorate, significant deterioration in the general economy could materially change these expectations.

Retail

The retail loan portfolio primarily consists of loans secured by real estate as well as vehicle loans and leases, and provides broad diversification of risk from both a product and geographic perspective. Average loan balances for 2002 were $67.7 billion. The Corporation continues to effectively enhance the composition of loans in the portfolio by emphasizing loans to prime credit quality prospects. During 2002, the Corporation continued to de-emphasize vehicle leasing and significantly refocused its indirect real estate lending involving loans sourced through brokers. New loans originated in 2002 on average reflect higher credit quality consistent with management's focus on the prime credit market segment. The net charge-off rate for retail loans in 2002, however, was 1.36%, an increase of 22 basis points from 2001. The increase in part reflected higher loss severity on vehicle loans due to price weakness in the secondary market for used vehicles, increased consumer bankruptcies and higher losses from discontinued segments of the broker home equity portfolio.

Future retail portfolio charge-offs and credit quality are subject to uncertainties which may cause actual results to differ from current anticipated performance, including the direction and level of loan delinquencies, changes in consumer behavior, bankruptcy trends, portfolio seasoning, interest rate movements and portfolio mix among other things.

The Corporation continues to proactively manage its retail credit operation even in difficult economic conditions. Ongoing efforts include continual review and enhancement of credit underwriting criteria, rationalization of the number and quality of third-party loan originators (i.e., brokers and correspondents) and refinement of pricing and risk management models.

Commercial Banking

Commercial Banking loans decreased by $10.6 billion, or 15%, between December 31, 2001, and December 31, 2002, primarily due to a planned and managed reduction of the corporate banking portfolio. Nonperforming Commercial Banking loans decreased by $253 million, or 12%, to $1.9 billion at December 31, 2002, as compared to $2.1 billion at December 31, 2001, primarily driven by improvement in corporate banking. Commercial Banking's net charge-offs in 2002 were $994 million, or 1.51% of average loans, compared with $1.0 billion of net charge-offs, or 1.30% of average loans, in 2001.

Management believes that actions taken over the past two years have led to an overall improvement in both the corporate banking and middle market credit portfolios. These actions, including the deliberate reductions in the loan portfolio, are essentially complete. The Corporation remains increasingly comfortable with its ability to better control, manage and underwrite risk in a consistent and disciplined manner. In spite of this improvement, future charge-offs and credit quality in the Commercial Banking portfolio are subject to uncertainties that may cause actual results to differ from historical experience or forecasted results, including the state of the economy and its impact on individual industries, commercial real estate values, interest rate movements and portfolio mix, among other things.

Commercial and Industrial Loans

Commercial and industrial loans represent commercial loans other than commercial real estate. At December 31, 2002, commercial and industrial loans totaled $44.8 billion, which represents 73% of the Commercial Banking portfolio.

The more significant industry concentrations of the Commercial Banking commercial and industrial portfolio for the year ended December 31, 2002 are as follows:

	2002	
(Dollars in millions)	Outstanding	Percent[1]
Motor vehicles and parts/auto related	$ 3,990	8.9%
Wholesale trade	3,558	7.9
Oil and gas	3,069	6.8
Industrial materials	2,471	5.5
Business finance and leasing	2,222	5.0
Other [2]	29,539	65.9
Total	$44,849	100%

(1) Total outstanding by industry concentration as a percentage of total commercial and industrial loans.

(2) Presented for informational purposes and includes 36 industry concentrations including telephone, wireless and cable of $557 million (or 1.2% of the total portfolio).

Commercial Real Estate

Commercial real estate loans represent credit extended for real estate-related purposes to borrowers or counterparties who are primarily in the real estate development or investment business and for which the primary source of repayment of the loan is from the sale, lease, rental, management, operations or refinancing of the property.

Commercial real estate lending is conducted in several lines of business with the majority of these loans originated by corporate banking primarily through its specialized National Commercial Real Estate Group. This group's focus is lending to targeted regional and national real estate developers and homebuilders. As of December 31, 2002, National Commercial Real Estate Group's loan outstandings totaled $8.3 billion or 78% of the commercial real estate portfolio.

At December 31, 2002 and 2001, commercial real estate loans totaled $10.6 billion and $12.4 billion, or 17% and 18% of Commercial Banking loans, respectively. During 2002 and 2001, net charge-offs in the commercial real estate portfolio segment were $46 million and $14 million, respectively. Nonperforming commercial real estate assets, including other real estate owned, totaled $212 million, or 2.0% of related assets, at December 31, 2002. As of December 31, 2001, nonperforming commercial real estate assets, including other real estate owned, totaled $199 million, or 1.6% of related assets.

The commercial real estate loan portfolio by both collateral location and property type as of December 31, 2002 are as follows:

(Dollars in millions)	Outstanding	
By Collateral Location:	Amount	Percent of Portfolio
Michigan	$ 1,118	11%
California	1,109	10
Illinois	1,088	10
Ohio	848	8
Texas	824	8
Arizona	741	7
Louisiana	376	3
Kentucky	369	3
Indiana	363	3
Colorado	288	3
Other areas	1,563	15
Unsecured	1,341	13
Secured by other than commercial real estate	611	6
Total	$10,639	100%

By Property Type:	Amount	Percent of Portfolio
Apartment	$ 1,854	17%
Retail	1,762	17
Office	1,738	16
Industrial/warehouse	1,161	11
Single family residential development	1,137	11
Hotels	560	5
Residential lots	543	5
Miscellaneous commercial income producing	1,758	17
Miscellaneous residential developments	126	1
Total	$10,639	100%

ASSET QUALITY

In 2001, the Corporation changed its loan composition methodology to a line of business approach, dividing the loan portfolio into Retail, Commercial Banking, Card Services, and other lines of business. The Corporation has presented 2000 information under both the "old" and "new" compositions, but has not presented 1999 and 1998 under the "new" composition as it would be impractical to reclassify those periods using the new methodologies.

Nonperforming Assets

The Corporation places loans on nonaccrual status as follows:

- Retail consumer loans are placed on nonaccrual status when the collection of contractual principal or interest becomes 90 days past due. Accrued but uncollected interest and fee income are reversed and charged against interest income when the consumer loan is placed on nonaccrual status. Subsequent cash collections are recognized as interest income unless the consumer loan is subsequently charged-off, in which case cash collections are recognized as recoveries.
- Commercial Banking and Retail small business commercial loans are placed on nonaccrual status when the collection of contractual principal or interest is deemed doubtful, or it becomes 90 days or more past due and is not both well-secured and in the process of collection. Accrued but uncollected interest and fee income are reversed and charged against interest income when placed on nonaccrual status. Cash interest payments received are recognized either as interest income or as a reduction of principal when collection of principal is doubtful. The loan is returned to accrual status only when all of the principal and interest amounts contractually due are reasonably assured within a reasonable time frame and when the borrower has demonstrated payment performance.
- Credit card receivables are charged-off rather than placed on nonaccrual status.

The Corporation's nonperforming assets for the years ended December 31 are as follows:

(Dollars in millions)	**2002**	2001	2000
Nonperforming Loans:			
Retail	**$1,331**	$1,344	$ 911
Commercial Banking:			
Corporate banking	**873**	1,154	1,065
Middle market banking	**1,001**	973	459
Total Commercial Banking	**1,874**	2,127	1,524
IMG and Corporate	**71**	80	40
Total (1) (2)	**3,276**	3,551	2,475
Other, including other real estate owned	**251**	137	98
Total nonperforming assets	**$3,527**	$3,688	$2,573
Nonperforming assets to related assets (3)	**2.38%**	2.35%	1.48%
Loans 90-days or more past due and accruing interest:			
Card Services	**$ 160**	$ 96	$ 57
Other	**1**	1	5
Total	**$ 161**	$ 97	$ 62

(1) Nonperforming loans at December 31, 2002, include $22 million of loans held for sale. For December 31, 2001 and 2000, there were no nonperforming loans included in held for sale.

(2) The amount of interest on nonperforming loans that was contractually due in 2002 totaled $281 million. Of this amount, $111 million was actually recorded in 2002.

(3) Related assets consist of loans outstanding, including loans held for sale, and other real estate owned.

Prior to 2001, the Corporation's nonperforming assets as of December 31 were:

(Dollars in millions)	2000	1999	1998
Nonperforming Loans:			
Commercial	$1,761	$1,053	$ 729
Consumer	714	506	478
Total	2,475	1,559	1,207
Other, including other real estate owned	98	106	90
Total nonperforming assets	$2,573	$1,665	$1,297
Nonperforming assets to related assets (1)	1.48%	1.02%	0.83%
Loans 90-days or more past due and accruing interest:			
Card Services	$ 57	$ 76	$ 161
Other	5	50	78
Total	$ 62	$ 126	$ 239

(1) Related assets consist of loans outstanding, including loans held for sale, and other real estate owned.

Credit quality improved in 2002 as nonperforming assets declined $161 million from the prior year. In Commercial Banking, nonperforming loans declined $253 million from the prior year. These declines are a result of risk management actions including: loan sales, distressed portfolio sales, and ongoing review of individual credits. The Corporation has established processes for identifying potential problem areas of the portfolio, which currently include exposure to energy, auto-related, airlines and telecommunications. The Corporation will continue to monitor and manage these potential risks, however, concerns remain due to the uncertain economic environment and the potential effect they may have on future credit quality.

Nonperforming loans within Retail at December 31, 2002, were $1.3 billion, a decrease of $13 million. This decrease was primarily driven by discontinued segments of the brokered home equity business. Home equity loans are written down to net realizable value once a loan reaches 120 days delinquency. However, due to the time necessary to complete foreclosure and acquire title, real estate loans remain in nonperforming status for an extended period.

Charge-offs

The Corporation records charge-offs as follows:

- Commercial loans are charged-off in the reporting period in which either an event occurs that confirms the existence of a loss or it is determined that a loan or a portion of a loan is uncollectible.
- A credit card loan is charged-off in the month it becomes contractually 180 days past due and remains unpaid at the end of that month, or 60 days after receipt of bankruptcy notification. Interest on credit card loans is accrued until the loan is charged-off. All interest and fees on loans greater than 90 days delinquent are fully reserved for. At the time of charge-off, accrued but uncollected finance charges and fee income are reversed and charged against interest income and credit card revenue, respectively. Subsequent cash collections are recorded as recoveries. Beginning in 2003, recoveries of previously reversed interest income related to charged off loans are recorded as interest income.
- Retail loans are generally charged-off following a delinquency period of 120 days, or within 60 days for unsecured Retail loans after receipt of notification in case of bankruptcy. Closed-end consumer loans, such as auto loans and leases and home mortgage loans, are typically written down to the extent of loss after considering the net realizable value of the collateral.

The timing and amount of the charge-off on consumer loans will depend on the type of loan, giving consideration to available collateral, as well as the circumstances giving rise to the delinquency. The Corporation adheres to uniform guidelines published by the FFIEC in charging off consumer loans.

The Corporation's net charge-offs for the years ended December 31 are as follows:

	2002			2001			2000		
(Dollars in millions)	**Net charge-offs**	**Average balance**	**Net charge-off rate**	Net charge-offs	Average balance	Net charge-off rate	Net charge-offs	Average balance	Net charge-off rate
Retail	**$ 919**	**$ 67,671**	**1.36%**	$ 820	$ 72,149	1.14%	$ 542	$ 72,282	0.75%
Commercial Banking:									
Corporate banking	**639**	**32,973**	**1.94**	638	43,495	1.47	435	53,343	0.81
Middle market banking	**355**	**32,996**	**1.08**	404	36,910	1.09	127	34,528	0.37
Total Commercial Banking	**994**	**65,969**	**1.51**	1,042	80,405	1.30	562	87,871	0.64
Card Services	**514**	**9,899**	**5.19**	392	6,884	5.69	247	4,754	5.20
IMG and Corporate	**38**	**7,266**	**—**	34	7,616	—	40	6,861	—
Total	**$2,465**	**$150,805**	**1.63%**	$2,288	$167,054	1.37%	$1,391	$171,768	0.81%

Net charge-offs increased 8% during 2002 to $2.5 billion from the prior year reflecting higher charge-offs in nearly all lines of business. The net charge-off rate increased to 1.63% in 2002 versus 1.37% in 2001.

Retail net charge-offs for 2002 totaled $919 million, up from $820 million in 2001. Several factors contributed to these increased losses including: increased consumer bankruptcies; increased severity per default involving auto loans and leases tied to weaker market prices for repossessed vehicles; and high losses on discontinued brokered home equity loans.

For a discussion of Commercial Banking net charge-offs see "Commercial Banking" on page 65.

Card Services net charge-offs for 2002 totaled $514 million, up from $392 million pimarily as a result of growth in the portfolio.

Loan Sales

A summary of the Corporation's Commercial Banking loan sales, excluding syndications, and syndication-related activity and trade finance transactions, for the years indicated are as follows:

(In millions)	**2002**	2001
Loans sold and loans transferred to loans held for sale: (1)		
Nonperforming loans	**$ 508**	$ 582
Other loans with credit related losses	**670**	487
Other loans	**852**	1,148
Total	**$2,030**	$2,217
Impact of sales, transfers to loans held for sale and valuation adjustments on held for sale:		
Charge-offs on loans sold and transferred to held for sale:		
Nonperforming loans	**$ 92**	$ 124
Other loans with credit related losses	**42**	92
Total charge-offs to allowance	**134**	216
Losses on loans sold and held for sale	**35**	43
Total	**$ 169**	$ 259

(1) December 31, 2002 data includes loans reclassified to loans held for sale that are not yet sold of approximately $19 million, $148 million and $68 million in nonperforming loans, other loans with credit related losses and other loans, respectively.

The Corporation sells Commercial Banking loans in the normal course of its business activities as one alternative to manage credit risk. These loans are subject to the Corporation's overall risk management practices. When a loan is sold or transferred to held for sale, the gain or loss is evaluated to determine whether it resulted from credit deterioration or other conditions. Based upon this evaluation, losses resulting from credit deterioration are recorded as charge-offs. Losses or gains deemed to be from other than credit deterioration are recorded as losses or gains on sale. Subsequent writedowns in fair value on loans held for sale are reflected in other noninterest income.

Loans classified as held for sale are carried at the lower of cost or market value. Accordingly, these loans are no longer included in the evaluation of the adequacy of the allowance for credit losses.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level that in management's judgment is adequate to provide for estimated probable credit losses inherent in various on- and off-balance sheet financial instruments. This process includes deriving expected loss estimates that are based on historical loss ratios, portfolio stress testing and management's judgment. The allowance is based on ranges of estimates and is intended to be adequate but not excessive. Each quarter, an allowance level is estimated by each line of business and reviewed by corporate risk management and senior management. The allowance for credit losses also includes provisions for losses on loans considered impaired and measured pursuant to Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan," (see Note 8 "Loans" on page 92). Securitized loans and loans held for sale, including credit card receivables, are not subject to this process.

Corporate risk management recommends an allowance and provision for credit losses that result in adequate coverage of inherent losses within the Corporation's credit portfolios. Corporate risk management's assessment is based on line of business tests, portfolio-level modeling and stress testing, as well as management's judgment. Corporate risk management also utilizes third-party benchmarks to validate internal measures of probability of default, loss given default, credit quality and allowance adequacy.

The changes in the Corporation's allowance for credit losses for the years ended December 31 are as follows:

(In millions)	**2002**	2001	2000
Balance, beginning of year	**$4,528**	$4,110	$2,285
Charge-offs:			
Retail:			
Small business commercial	**105**	92	66
Home equity	**292**	230	196
Vehicle	**288**	220	201
Other personal	**135**	151	149
Core businesses	**820**	693	612
Brokered home equity discontinued	**162**	172	N/A
Vehicle leases	**96**	127	91
Home equity discontinued/vehicle leases	**258**	299	91
Total consumer	**973**	900	637
Total Retail	**1,078**	992	703
Commercial Banking:			
Corporate Banking:			
Commercial and industrial	**541**	689	N/A
Commercial real estate	**35**	15	N/A
Lease financing	**135**	16	N/A
Total corporate banking	**711**	720	469
Middle market:			
Commercial and industrial	**377**	418	N/A
Commercial real estate	**21**	8	N/A
Lease financing	**30**	36	N/A
Total middle market	**428**	462	157
Total Commercial Banking	**1,139**	1,182	626
Card Services	**565**	415	261
IMG and Corporate	**47**	41	77
Total charge-offs	**2,829**	2,630	1,667
Recoveries:			
Retail:			
Small business commercial	**20**	22	22
Home equity	**32**	20	15
Vehicle	**60**	66	63
Other personal	**26**	29	40
Core businesses	**138**	137	140
Brokered home equity discontinued	**4**	7	N/A
Vehicle leases	**17**	28	21
Home equity discontinued/vehicle leases	**21**	35	21
Total consumer	**139**	150	139
Total Retail	**159**	172	161
Commercial Banking:			
Corporate banking:			
Commercial and industrial	**66**	74	N/A
Commercial real estate	**6**	8	N/A
Lease financing	**—**	—	N/A
Total corporate banking	**72**	82	36
Middle market:			
Commercial and industrial	**65**	49	N/A
Commercial real estate	**4**	1	N/A
Lease financing	**4**	8	N/A
Total middle market	**73**	58	28
Total Commercial Banking	**145**	140	64
Card Services	**51**	23	14
IMG and Corporate	**9**	7	37
Total recoveries	**364**	342	276
Net charge-offs:			
Retail	**919**	820	542
Commercial Banking	**994**	1,042	562
Card Services	**514**	392	247
IMG and Corporate	**38**	34	40
Total net charge-offs	**2,465**	2,288	1,391
Provision for credit losses	**2,487**	2,510	3,398
Transfers(1)	**(25)**	196	(182)
Balance, end of year	**$4,525**	$4,528	$4,110

N/A Not available due to changes in segment composition.

(1) Transfers to the allowance for credit losses in 2001 primarily represent the addition of the Wachovia credit card portfolio. Transfers from the allowance for credit losses for 2000 primarily represent allocable credit allowances associated with consumer loan sale transactions, including securitization transactions.

For analytical purposes, using the previous methodology for portfolio segmentation, summarized below are the changes in the allowance for credit loss for the years ended December 31:

(In millions)	2000	1999	1998
Balance, beginning of year	$2,285	$2,271	$2,817
Charge-offs:			
Commercial:			
Domestic:			
Commercial	618	325	222
Real estate:			
Construction	8	5	3
Other	11	27	25
Lease financing	7	12	20
Foreign	64	41	52
Total commercial	708	410	322
Consumer:			
Residential real estate	230	189	74
Automotive:			
Loans	215	256	220
Leases	91	87	61
Other	162	203	246
Total consumer	698	735	601
Card Services	261	386	1,022
Total charge-offs	1,667	1,531	1,945
Recoveries:			
Commercial:			
Domestic:			
Commercial	98	70	68
Real estate:			
Construction	1	6	3
Other	4	25	23
Lease financing	1	2	5
Foreign	7	1	1
Total commercial	111	104	100
Consumer:			
Residential real estate	17	12	11
Automotive:			
Loans	69	82	92
Leases	21	23	21
Other	44	60	64
Total consumer	151	177	188
Card Services	14	44	159
Total recoveries	276	325	447
Net charge-offs:			
Commerical	597	306	222
Consumer	547	558	413
Card Services	247	342	863
Total net charge-offs	1,391	1,206	1,498
Provision for credit losses	3,398	1,249	1,408
Transfers [1]	(182)	(29)	(456)
Balance, end of year	$4,110	$2,285	$2,271

(1) Transfers from the allowance for credit losses primarily represent allocable credit allowances associated with consumer loan sale transactions, including securitization transactions.

Composition of Allowance for Credit Losses

While the allowance for credit losses is available to absorb credit losses in the entire portfolio, allocations of the allowance for credit losses by line of business as of December 31 are as follows:

	2002		2001		2000	
(Dollars in millions)	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Retail	**$1,018**	**22%**	$1,027	23%	$ 836	20%
Commercial Banking:						
Corporate banking	**1,706**	**38**	1,714	38	1,699	41
Middle market	**1,365**	**30**	1,365	30	1,355	33
Total Commercial Banking	**3,071**	**68**	3,079	68	3,054	74
Card Services	**396**	**9**	396	8	197	5
IMG and Corporate	**40**	**1**	26	1	23	1
Total	**$4,525**	**100%**	$4,528	100%	$4,110	100%

For analytical purposes using the previous methodology for portfolio segmentation, an allocation of the allowance for credit losses by loan type as of December 31 follows:

	2000		1999		1998	
(Dollars in millions)	Amount	Percent	Amount	Percent	Amount	Percent
Commercial (1)	$3,199	78%	$ 972	43%	$ 834	37%
Consumer	714	17	486	21	440	19
Card Services	197	5	148	6	199	9
Unallocated	—	—	679	30	798	35
Total	$4,110	100%	$2,285	100%	$2,271	100%

(1) Includes allowance related to Business and Community Banking loans, which are included in the Retail business segment results.

Components of Allowance for Credit Losses

The Corporation determines allowance levels based upon the probable losses in the credit portfolios. Several methodologies are employed for estimating probable losses. A detailed discussion of the process is presented beginning on page 57.

The table below presents the components of the probable loss estimate as of December 31:

(In millions)	**2002**	2001
Asset specific	**$ 678**	$ 731
Expected loss	**2,810**	3,167
Stress	**1,037**	630
Total (1)	**$4,525**	$4,528

(1) The underlying assumptions, estimates and assessments made by management to determine the components of the allowance for credit losses are continually evaluated by management and updated to reflect management's judgments regarding economic conditions and various relevant factors impacting credit quality and inherent losses.

The December 31, 2002 allowance for credit losses remained relatively unchanged; however, due to decreases in nonperforming loans and asset levels, coverage ratios improved. The allowance for credit losses at December 31, 2002 represented 3.20% of period-end loans and 139% of nonperforming loans, compared to 2.97% and 128%, respectively, at December 31, 2001. The asset-specific and expected loss components of the allowance for credit losses decreased from prior year reflecting some improvement in credit quality. However, this was offset by an increase in the stress component of the allowance for credit losses reflecting management's ongoing assessment and outlook of the probable losses inherent in the portfolio resulting from the overall economic environment. The allowance for credit losses established for specifically identified off-balance sheet lending exposures was not material at December 31, 2002.

As a result of significant deterioration in certain components of the commercial loan portfolio, the allowance for credit losses was increased to $4.1 billion at December 31, 2000. The majority of the increase in the allowance occurred in the fourth quarter of 2000 as the Corporation identified an increase in the losses inherent in the portfolio not yet realized. During 2001, increases in both charge-offs and nonperforming loans occurred as net charge-offs increased from $1.4 billion in 2000 to $2.3 billion in 2001, and nonperforming loans increased from $2.5 billion at December 31, 2000 to $3.6 billion at December 31, 2001. While credit deterioration occurred during 2000, necessitating the increase in the allowance for credit losses, its impact on delinquencies and charge-offs on the commercial loan portfolio was realized in subsequent periods. While the calculated coverage ratios for 2001 declined in comparison to 2000, the decline was a result of the lagging nature of charge-offs.

Portfolio Stress-Tests

Stress testing is performed on all significant portfolios to simulate the effect of economic deterioration on credit performance. Stress testing the portfolios provides management with a range of loss estimates that incorporates the Corporation's historical loss experience and the reserve impact of events that have occurred, but that have not been reflected in either the historical expected loss factors or the currently assigned risk ratings.

Stress testing of the commercial portfolio is accomplished using a framework developed to test expected default factors and loss given default estimates and to test the effect of downgrades to exposures in identified high-risk industries. This process includes: establishing a base case scenario using three alternative market probability sets and an estimated loss given default probability to measure the impact on reserves; determining the effect of applying a higher loss given default probability to the base case to take into consideration the variability of historical loss rates over the business cycle; and estimating trend-based reserves in high-risk industries that may not be fully reflected in the historically based loss factors, using market-based tools and information as well as sanctioned macroeconomic forecasts.

Stress testing the consumer portfolios, including credit card, is accomplished in part by analyzing the 5-year historical loss experience for each major product segment. Management analyzes the range of credit loss experienced for each major portfolio segment taking into account economic cycles, portfolio seasoning, underwriting criteria, and then formulates a stress test range that incorporates relevant risk factors that can impact overall credit performance.

DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation uses a variety of derivative financial instruments in its trading activity and asset and liability management, and to a lesser extent, in its mortgage operations and to manage certain currency translation exposures of foreign entities.

Effective January 1, 2001, the Corporation adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended. This standard significantly changed the accounting treatment for interest rate and foreign exchange derivatives the Corporation uses in its derivative activity. As required by SFAS No. 133, all derivative instruments are carried at fair value irrespective of the purpose for entering into the contracts (i.e., trading, hedging, etc). Purchased option contracts are reported in derivative product assets, and written option contracts are reported in derivative product liabilities. For other derivative financial instruments, unrealized gains are reported in derivative product assets, and unrealized losses are reported in derivative product liabilities. However, fair value amounts recognized for derivative financial instruments executed with the same counterparty under a legally enforceable master netting arrangement are reported on a net basis. Cash flows from derivative financial instruments are reported net as operating activities in the statement of cash flows.

Trading Derivative Instruments

Derivative financial instruments used in trading activities include swaps, forwards, futures, options, and other conditional or exchange contracts in the interest rate, foreign exchange, equity and commodity markets. The estimated fair values are based on quoted market prices or valuation models using current market information. Realized and unrealized gains and losses, including any interest income or expense on derivative instruments, are recorded in noninterest income as trading.

The Corporation uses credit derivatives (primarily single name credit default swaps) and short bond positions, as protection against the deterioration of credit quality on commercial loans and loan commitments. The change in fair value of credit derivative instruments is included in trading results in the Corporation's financial statements, while any credit assessment change in the identified commercial credit exposure is reflected as a change in the allocated credit reserves. At December 31, 2002, the notional amount of credit derivatives economically hedging commercial credit exposure totaled $7.3 billion, and related trading income was $42 million.

Asset and Liability Management Hedging Derivative Instruments

Derivatives are an integral component of the Corporation's asset/liability management activities and associated management of interest rate risk. In general, the assets and liabilities generated through the ordinary course of business activities do not naturally create offsetting positions with respect to repricing, basis or maturity characteristics. Using derivative instruments, principally plain vanilla interest rate swaps (ALM swaps), interest rate sensitivity is adjusted to maintain the desired interest rate risk profile. Interest rate swaps used to adjust the interest rate sensitivity of certain interest-bearing assets and liabilities will not need to be replaced at maturity, since the corresponding asset or liability will mature along with the interest rate swap.

Derivative financial instruments used in hedging activities are designated as fair value hedges, cash flow hedges, or hedges of net investments in foreign operations, and are required to meet specific criteria. The instruments used in fair value hedges and cash flow hedges are principally interest rate swaps. Such interest rate swaps are designated as a hedge, and adjust effectively the interest rate sensitivity of specific assets and liabilities. Interest rate swaps not designated as a qualified hedge are treated as trading derivative instruments.

Interest rate swaps designated as an interest rate related hedge of an existing fixed rate asset or liability are fair value type hedges. Conversely, interest rate swaps designated as an interest rate hedge of an existing variable rate asset or liability are cash flow type hedges. The risk characteristics of the item being hedged generally determine the type of hedge for accounting purposes. Maximizing hedge effectiveness is the primary consideration in choosing the specific asset, liability or forecasted transaction to be hedged.

Fair Value Hedges

Fair value hedges primarily represent hedges of fixed rate interest-bearing instruments. The change in fair value of both the hedging derivative and hedged item is recorded in current earnings. If a hedge is dedesignated prior to maturity, previous adjustments to the carrying value of the hedged item are recognized in earnings to match the earnings recognition pattern of the hedged item (e.g., level yield amortization if hedging an interest-bearing instrument that has not been sold or extinguished).

Cash Flow Hedges

Cash flow hedges primarily represent hedges of variable rate interest-bearing instruments. The effective portion of the change in fair value of the hedging derivative is recorded in Accumulated Other Adjustments to Stockholders' Equity ("AOASE"), which is reclassified into earnings in a manner consistent with the earnings pattern of the underlying hedged instrument or transaction. At December 31, 2002, the total amount of such reclassification into earnings is projected to be a decrease in net interest income of $323 million after-tax ($510 million pre-tax) over the next twelve months. This decrease, along with the contractual interest on the underlying variable rate debt, achieves the overall intended result of converting the variable rate to a specified fixed rate and is included in our analysis of interest rate exposure. These projections involve the use of currently forecasted interest rates over the next twelve months. These rates, and the resulting reclassifications into earnings, are subject to change. The maximum length of time is 27 months for which exposure to the variability of future cash flows for forecasted transactions is hedged. No events occurred in 2002 that impacted earnings from the discontinuance of cash flow hedges due to the determination that a forecasted transaction is no longer likely to occur.

Interest income or expense on most hedging derivatives used to manage interest rate exposure is recorded on an accrual basis as an adjustment to the yield of the designated hedged exposures over the periods covered by the contracts. This matches the income recognition treatment of that exposure, generally assets or liabilities carried at historical cost, with interest recorded on an accrual basis. If all or part of a designated hedged position is terminated (e.g., a hedged asset is sold or prepaid), or if the amount of an anticipated transaction is likely to be less than originally expected, then the related pro rata portion of any unrecognized gain or loss on the derivative is recognized in earnings at that time, and the related pro rata portion of the derivative is subsequently accounted for as a trading instrument.

Hedges entered into by the Corporation are regularly monitored to verify that the hedge continues to be effective in offsetting changes in fair value or cash flows of the risk being hedged. In the event that hedges cease to be effective, hedge accounting is discontinued. Amounts previously recognized as adjustments to the carrying value of the hedged item (in a fair value hedge), and accumulated in AOASE (in a cash flow hedge) are subsequently recognized in earnings when the previously hedged item affects earnings.

The amount of hedge ineffectiveness recognized for cash flow and fair value hedges for the twelve months ended December 31, 2002 and 2001, was a gain of $2 million and $14 million, respectively, recognized in noninterest income. No component of a hedging derivative instrument's gain or loss is excluded from the assessment of hedge effectiveness. The Corporation has no non-derivative instruments designated as a hedge.

Asset and Liability Management Swaps — Maturities and Rates

The notional amounts, maturity, and weighted-average pay and receive rates for the ALM swap position at December 31, 2002, are summarized as follows:

(Dollars in millions)	2003	2004	2005	2006	2007	Thereafter	Total
Receive fixed/pay floating swaps:(1)							
Notional amount	$ 225	$ —	$ —	$ —	$ —	$2,475	$ 2,700
Weighted average:							
Receive rate	3.13%	—%	—%	—%	—%	6.22%	5.96%
Pay rate	1.43	—	—	—	—	1.74	1.72
Pay fixed/receive floating swaps:(1)							
Notional amount	$1,310	$2,970	$9,582	$2,895	$1,821	$ 50	$18,628
Weighted average:							
Receive rate	1.67%	1.63%	1.36%	1.46%	1.53%	1.78%	1.46%
Pay rate	6.93	3.67	4.19	4.77	3.69	7.71	4.35
Total notional amount	$1,535	$2,970	$9,582	$2,895	$1,821	$2,525	$21,328

(1) Variable interest rates – which generally are the one-month, three-month and six-month London interbank offered rates ("LIBOR") in effect on the date of repricing.

Mortgage Banking Hedging Activity

The Corporation uses derivatives, primarily mortgage backed security forward sale agreements, to hedge exposure to changes in interest rates in its mortgage loan origination and sale activity. Changes in fair value of mortgage loan interest rate lock commitments granted to customers and the related derivative contracts used to economically hedge this exposure are recorded in other noninterest income. In contrast, fair value hedge accounting, as described above, is used to account for the derivatives entered into to hedge the 15 and 30 year closed loan warehouse that is held for sale. Changes in fair value of derivatives used to economically hedge the adjustable rate closed loan warehouse are also recorded in other noninterest income.

Hedges of Non-U.S Dollar Net Investment in Foreign Operations

In order to minimize the capital impact of translation gains or losses measured on an after-tax basis, the Corporation uses forward foreign exchange contracts to hedge the exposure relating to non-U.S. dollar net investments in foreign operations. The effective portion of the change in fair value of the hedging derivatives is recorded in AOASE as part of the cumulative translation adjustment. The amount of after-tax gains included in the cumulative translation adjustment during the years ended December 31, 2002 and 2001, related to hedges of the foreign currency exposures of net investments in foreign operations, totaled $9 million and $6 million, respectively.

Credit Exposure Resulting from Derivative Financial Instruments

The credit risk associated with exchange-traded derivative financial instruments is limited to the relevant clearinghouse. Written options do not expose the Corporation to credit risk, except to the extent of the underlying risk in a financial instrument that the Corporation may be obligated to acquire under certain written put options. Written caps and floors do not expose the Corporation to credit risk.

Credit exposure from derivative financial instruments arises from the risk of a counterparty default on the derivative contract. The amount of loss created by the default is the replacement cost or current positive fair value of the defaulted contract. The Corporation utilizes master netting agreements whenever possible to reduce its credit exposure from counterparty defaults. These agreements allow the netting of contracts with unrealized losses against contracts with unrealized gains to the same counterparty, in the event of a counterparty default.

The impact of these master netting agreements at December 31 follows:

(In millions)	**2002**	2001
Gross replacement cost	**$22,066**	$12,262
Less: Adjustment due to master netting agreements	**17,793**	9,037
Balance sheet credit exposure	**$ 4,273**	$ 3,225

LOAN SECURITIZATIONS AND OFF-BALANCE SHEET ACTIVITIES

Loan Securitizations

The Corporation transforms loans into securities that are sold to investors through the process of securitization. The Corporation primarily securitizes credit card receivables and home equity loans and consumer assets. In a credit card securitization, a designated pool of credit card receivables is removed from the balance sheet and transferred to a QSPE, that in turn sells securities to investors entitling them to receive specified cash flows during the life of the security. The proceeds from the issuance of securities are then distributed by the QSPE to the Corporation as consideration for the loans transferred. Following a securitization, the Corporation receives fees for servicing the receivables and any excess finance charges, yield-related and other fees, and interchange revenue on the receivables over and above the interest paid to the investors, net credit losses and servicing fees (collectively termed "the excess spread"). At the date of sale an interest-only strip is recorded on the balance sheet representing the estimated discounted excess spread earned on the assets sold over the life of underlying receivables.

The Corporation's continued involvement in the securitized assets includes the process of managing and servicing the transferred receivables, as well as maintaining an undivided, pro rata interest in all credit card receivables that have been securitized, referred to as seller's interest, which is generally equal to the pool of assets included in the securitization less the investors' portion of those assets. The Corporation's seller's interest ranks pari-passu with the investors' interests in the trusts. As the amount of the loans in the securitized pool fluctuates due to customer payments, purchases, cash advances, and credit losses, the carrying amount of the seller's interest will vary. However, the seller's interest is required to be maintained at a minimum level to ensure receivables are available for allocation to the investor's interest. This minimum level is generally between 4% and 7% of the QSPEs principal receivables. The Corporation's credit card seller's interests were in aggregate 45% and 38% of the QSPEs principal receivables at December 31, 2002, and 2001, respectively. Average credit card seller's interests were approximately 40% and 30% of the QSPEs average principal receivables for the years ended December 31, 2002, and 2001, respectively.

Investors in the beneficial interests of the securitized loans have no recourse against the Corporation if cash flows generated from the securitized loans are inadequate to service the obligations of the QSPE. To help ensure that adequate funds are available in the event of a shortfall, the Corporation is required to deposit funds into cash spread accounts if excess spread falls below certain minimum levels. Spread accounts are funded from excess spread that would normally be returned to the Corporation. In addition, various forms of other credit enhancements are provided to protect more senior investor interests from loss. Credit enhancements associated with credit card securitizations, such as cash collateral or spread accounts, totaled $145 million and $165 million at December 31, 2002, and 2001, respectively, and are classified on the balance sheet as other assets at amounts approximating fair value.

The following comprised the Corporation's managed credit card loans at December 31:

(In millions)	**2002**	2001
Owned credit card loans – held in portfolio	**$ 7,592**	$ 5,040
Owned credit card loans – held for future securitization	**3,989**	1,746
Seller's interest in credit card loans and accrued interest receivable	**28,526**	24,019
Total credit card loans reflected on balance sheet	**40,107**	30,805
Securities sold to investors and removed from balance sheet	**33,889**	37,350
Managed credit card loans	**$73,996**	$68,155

Off-Balance Sheet Activities

In the normal course of business, the Corporation is a party to a number of activities that contain credit, market and operational risk that are not reflected in whole or in part in the Corporation's consolidated financial statements. Such activities include: traditional off-balance sheet credit-related financial instruments; commitments under capital and operating leases and long-term debt; credit enhancement and liquidity facilities associated with the commercial paper conduit program; joint venture activities; and other contractual obligations.

Credit-Related Financial Instruments

The Corporation provides customers with off-balance sheet credit support through loan commitments, standby letters of credit and guarantees, as well as commercial letters of credit. Summarized credit-related financial instruments at December 31, 2002, are as follows:

		Amount of Commitment Expiration Per Period			
(In billions)	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years
Unused credit card lines	$337.5	$337.5	$ —	$ —	$ —
Unused loan commitments	134.8	103.1	22.1	9.3	0.3
Standby letters of credit and foreign office guarantees	24.0	16.3	5.9	1.4	0.4
Commercial letters of credit	0.5	0.5	—	—	—

Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

Lease Commitments, Long-Term Debt and Other

The Corporation has entered into a number of long-term leasing arrangements of banking facilities to support the ongoing activities of the Corporation. The required payments under such commitments and long-term debt at December 31, 2002 are as follows:

(In millions)	2003	2004	2005	2006	2007	2008 and After	Total
Long-term debt, including capital leases	$7,846	$6,291	$6,622	$6,896	$4,542	$7,722	$39,919
Trust preferred capital securities	—	—	—	—	—	3,315	3,315
Operating leases	239	228	205	187	160	843	1,862
Total	$8,085	$6,519	$6,827	$7,083	$4,702	$11,880	$45,096

Asset Backed Finance Programs

The Corporation is an active participant in the asset-backed securities business where it helps meet customers' financing needs by providing access to the commercial paper markets through special purpose entities, known as multi-seller conduits. These entities are separate bankruptcy-remote corporations in the business of purchasing interests in, and making loans secured by, receivable pools and other financial assets pursuant to agreements with customers. The entities fund their purchases and loans through the issuance of highly rated commercial paper. The primary source of repayment of the commercial paper is the cash flow from the pools of assets. Investors in the commercial paper have no recourse to the general assets of the Corporation. Customers benefit from such structured financing transactions as these transactions provide an ongoing source of asset liquidity, access to the capital markets, and a potentially favorable cost of financing.

As of December 31, 2002, the Corporation administered multi-seller conduits with a total program limit of $70.0 billion and with $39.3 billion in commercial paper outstanding. The multi-seller conduits were rated A-1 by S & P, P-1 by Moody's and F1 or higher by Fitch.

These multi-seller conduits are a type of variable interest entity ("VIE"), as defined by Financial Accounting Standards Board ("FASB") Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). From the Corporation's perspective, these entities have historically met all of the requirements to be treated as independent entities, which have not been required to be consolidated. See pages 87–88 for additional discussion. Each of the multi-seller conduits administered by the Corporation has stand-alone financial statements, which are independently audited on an annual basis.

As administrator of the multi-seller conduits, the Corporation provides deal origination services, asset portfolio monitoring, treasury and financial administration services for these entities. The Corporation structures financing transactions for customers such that the receivables and other financial instruments financed through the multi-seller conduits are appropriately diversified and credit enhanced to support the conduits' commercial paper issuances. The Corporation does not service these assets and does not transfer its own receivables or other financial instruments into the multi-seller conduits it administers. Each conduit has program documents and investment policies, which govern the types of assets and structures permitted by the conduit. The mix of assets is principally trade receivables, auto loans and leases and credit card receivables. Under the program document, one conduit has publicly rated marketable investment securities.

The commercial paper issued by the conduits is supported by deal specific credit enhancement, which is generally structured to cover more than the expected losses on the pool of assets. The deal specific credit enhancement is typically in the form of overcollateralization, but may also include any combination of the following: recourse to the seller or originator, cash collateral accounts, letters of credit, excess spread, retention of subordinated interests or third-party guarantees. In a limited number of cases, the Corporation provides the deal specific credit enhancement as a financial arrangement for the customer. As of December 31, 2002 and 2001, the Corporation provided such deal specific credit enhancement to customers in the form of subordinated interests totaling $203 million and $132 million, respectively. These subordinated interest positions are included in loans on the Corporation's balance sheet.

In general, the commercial paper investors have access to a second loss credit protection in the form of program-wide credit enhancement. The program-wide credit enhancement consists of a subordinated term loan from the Corporation and a surety bond from an AAA rated monoline insurance company. The subordinated term loans from the Corporation to these entities totaled $1.0 billion and $1.1 billion as of December 31, 2002 and 2001, respectively. However, one conduit has only deal specific credit enhancements provided by other financial institutions.

As a means of ensuring timely repayment of the commercial paper, each asset pool financed by the conduits has a minimum of 100% deal specific liquidity facility associated with it. In the unlikely event of a disruption in the commercial paper market or in the event an asset pool is removed from the conduit, the administrator can draw on the liquidity facility to repay the maturing commercial paper. The liquidity facilities are typically in the form of asset purchase agreements and are generally structured such that the bank liquidity provider is purchasing, or lending against, a pool of non-defaulted, performing assets. Additionally, programwide liquidity facilities and lines of credit are provided by the Corporation to the multi-seller conduits to facilitate access to the commercial paper markets.

The following table summarizes the total amount of deal specific and programwide liquidity facilities, as well as the share of these facilities provided by the Corporation, for each of the multi-seller conduits as of December 31, 2002 and 2001:

	2002			2001		
(Dollars in billions)	Total Liquidity Facility	Liquidity Facility provided by the Corporation	Percent	Total Liquidity Facility	Liquidity Facility provided by the Corporation	Percent
Total multi-seller conduits	**$50.6**	**$41.3**	**82%**	$53.5	$41.3	77%

The Corporation also provides deal specific and program-wide liquidity facilities to conduits administered by other financial institutions totaling approximately $6.3 billion and $2.1 billion as of December 31, 2002 and 2001, respectively.

With the January 2003 issuance of FIN No. 46, the Corporation is currently in the process of evaluating what entities will be required to be consolidated. The Corporation believes it is reasonably possible that the multi-seller conduits and an investment vehicle as currently structured, for which it is the administrator will be consolidated. Investors in the multi-seller conduits have no recourse to the general assets of the Corporation.

Based on information as of December 31, 2002, the expected impact of FIN No. 46 to the Corporation's balance sheet would be to increase both assets and liabilities by approximately $42.8 billion for the multi-seller conduits and an investment vehicle. Management has estimated its maximum loss exposure to be $130 million. Based on capital ratios as of December 31, 2002, consolidation of these entities would affect regulatory risk-based capital by reducing the Tier 1 risked-based capital ratio from 9.9% to 8.6% and total risked-based capital ratio from 13.7% to 12.1%. The Corporation's actual capital ratios as of the date of adoption will depend on the actual level of risk based capital, which is subject to change from that of December 31, 2002.

Principal Investments and Joint Ventures

In the normal course of business, the Corporation invests in principal investments, comprised of indirect investments in private equity, venture capital, and other equity and debt assets. The investment strategy for the portfolio, primarily executed by One Equity Partners (a wholly-owned consolidated subsidiary), is to focus on direct investments in high potential entities. Investments made in the past year include stakes in Howaldtswekre-Deutsche Werft (HDW), the global leader in the design and manufacture of non-nuclear submarines, and Polaroid, a leader in the instant imaging industry. Commitments to fund such investments at December 31, 2002 totaled $1.1 billion.

Beginning January 1, 2002, Paymentech, Inc. and Anexsys, LLC were consolidated. At December 31, 2002, the Corporation is not party to any material joint venture arrangements which are not consolidated.

Loans Sold with Recourse

The Corporation occasionally sells or securitizes loans with limited recourse. The amount of outstanding loans sold with recourse totaled $4.7 billion and $8.3 billion at December 31, 2002, and 2001, respectively. The recourse provisions require the Corporation to repurchase loans at par plus accrued interest upon a credit-related triggering event. Exposure to credit losses from these arrangements has been reduced with the purchase of credit insurance contracts that cover the majority of expected losses.

CAPITAL MANAGEMENT

The capital position of the Corporation is managed to achieve management's external debt rating objectives, comply with regulatory requirements and reflect the underlying risks of the Corporation's business activities. The Corporation employs an economic capital framework (described further on page 79) to facilitate a standard measure of risk and return across all business units, as well as to provide a measure of capital adequacy consistent with internal risk evaluation practices. This serves as the basis for capital planning and related management activities.

Selected Capital Ratios

The Corporation aims to maintain regulatory capital ratios, including those of the principal banking subsidiaries, in excess of the well-capitalized guidelines under federal banking regulations. The Corporation maintains a well-capitalized regulatory position.

The Corporation's capital ratios are as follows:

	2002	2001	2000	1999	1998	Well-Capitalized Regulatory Guidelines
Risk-based capital ratios:						
Tier 1	**9.9%**	8.6%	7.3%	7.7%	7.9%	6.0%
Total	**13.7**	12.2	10.8	10.7	11.3	10.0
Leverage ratio (1)	**8.9**	8.2	7.3	7.7	8.0	N/A
Common equity/assets	**8.1**	7.5	6.8	7.4	7.8	—
Tangible common equity/tangible reported assets	**7.2**	6.8	6.3	6.6	6.8	—
Tangible common equity/tangible managed assets	**6.4**	5.9	5.5	5.7	5.8	—
Double leverage ratio	**103**	103	108	112	108	—
Dividend payout ratio	**30**	38	N/M	57	58	—

N/A Not applicable

(1) The minimum regulatory guideline is 3%.

The components of the Corporation's regulatory risk-based capital and risk-weighted assets are as follows at December 31:

(In millions)	2002	2001	2000	1999	1998
Regulatory risk-based capital:					
Tier 1 capital	**$ 23,918**	$ 21,749	$ 19,824	$ 20,247	$ 19,495
Tier 2 capital	**9,201**	9,091	9,316	7,967	8,295
Total capital	**33,119**	30,840	29,140	28,214	27,790
Total risk-weighted assets	**$241,468**	$253,330	$270,182	$263,169	$244,473

In deriving Tier 1 and total capital, goodwill and other nonqualifying intangible assets are deducted as indicated for the years ended December 31:

(In millions)	2002	2001	2000	1999	1998
Goodwill	**$1,882**	$1,560	$ 858	$ 934	$1,075
Other nonqualifying intangibles	**256**	207	375	669	637
Subtotal	**2,138**	1,767	1,233	1,603	1,712
Qualifying intangibles	**415**	414	214	583	984
Total intangibles	**$2,553**	$2,181	$1,447	$2,186	$2,696

See page 77 for a discussion of the possible impact of consolidation of certain multi-seller conduits to the Corporation's risk-based capital ratios under FIN No. 46.

Dividend Policy

The Corporation's common stock dividend policy reflects its earnings outlook, desired payout ratios, the need to maintain an adequate capital level, and alternative investment opportunities. The common stock dividend payout ratio is currently targeted in the range of 25% - 30% of earnings over time. Common stock dividends declared for 2002 and 2001 were $0.84 per share. On January 21, 2003, the Corporation declared its quarterly common cash dividend of $0.21 per share, payable on April 1, 2003.

Double Leverage

Double leverage is the extent to which the Corporation's resources are used to finance investments in subsidiaries. Double leverage was 103% at December 31, 2002, and 2001. Trust Preferred Capital Securities of $3.3 billion in 2002 and 2001 were included in capital for purposes of this calculation.

Stock Repurchase Program and Other Capital Activities

On July 16, 2002, the Corporation's Board of Directors approved the repurchase of up to $2 billion of the Corporation's common stock, replacing the two previous buyback programs announced in September 2001 and May 1999. The timing of the purchases and the exact number of shares to be repurchased will depend on market conditions. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. In 2002, the Corporation purchased 16 million shares of common stock at an average price of $37.54 per share. There remains available $1.6 billion of common stock that may be repurchased under the Board authorization.

On November 1, 2001, the Corporation redeemed all outstanding preferred stock with cumulative and adjustable dividends, Series B and C, totaling $190 million. The redemption price for both of the Series B and C preferred stock was $100.00 per share, plus accrued and unpaid dividends totaling $1.00 per share and $1.083 per share, respectively.

During 2001, the Corporation added to its Tier 1 capital through the sponsorship of two trusts that issued $825 million in aggregate principal amount of trust preferred securities.

During 2001 the Corporation strengthened its capital position through the issuance of $750 million of subordinated debt.

Economic Capital

An important aspect of risk management and performance measurement is the ability to evaluate the risk and return of a business unit, product or customer consistently across all lines of business. The Corporation's economic capital framework facilitates this standard measure of risk and return. Business units are assigned capital consistent with the underlying risks of their product set, customer base and delivery channels.

The following principles are inherent in the capital allocation methodology employed:

- An equal amount of capital is assigned for each measured unit of risk.
- Risk is defined in terms of "unexpected" losses over the life of the exposure, measured at a confidence interval consistent with that level of capitalization necessary to achieve a targeted AA solvency standard. Unexpected losses are in excess of those normally incurred and for which reserves are maintained.
- Business units are assessed a uniform charge against allotted capital, representing a target hurdle rate on equity investments. Returns on capital in excess of the hurdle rate contribute to increases in shareholder value.

Four forms of risk are measured – credit, market, operational and lease residual. Credit risk capital is determined through an analysis of both historical loss experience and market expectations. Market risk capital is set consistent with value-at-risk limits established by the Corporation's risk oversight committees. Operational risk capital incorporates event and technology risks. The operational risk evaluation process involves an examination of various risk factors that contribute to a greater likelihood of loss due to such things as fraud or processing error. Finally, lease residual risk capital covers the potential for losses arising from the disposition of assets returned at the end of lease contracts. This price risk is analyzed based upon historical loss experiences and market factors, as well as by reviewing event-specific scenarios.

The economic capital process provides a valuable analytical tool that is critical to the understanding of business segment performance trends. The methodologies employed are subject to ongoing development and review. Over time, the Corporation's view of individual risks and associated capital will likely change given improvements in the Corporation's ability to quantify risks inherent in various business activities.

FORWARD-LOOKING STATEMENTS

This discussion of financial results contains forward-looking statements about the Corporation, including descriptions of plans or objectives of its management for future operations, products or services, and forecasts of its revenues, earnings or other measures of economic performance. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believe," "expect," "anticipate," "intend," "plan," "estimate" or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could" or "may."

Forward-looking statements, by their nature, are subject to risks and uncertainties. A number of factors – many of which are beyond the Corporation's control – could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements. Some of these factors include certain credit, market, operational, liquidity and interest rate risks associated with the Corporation's business and operations. Other factors described in the Corporation's Form 10-K include changes in business and economic conditions, competition, fiscal and monetary policies and legislation.

Forward-looking statements speak only as of the date they are made. The Corporation does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events, such as further market deterioration that adversely affects credit quality, auto lease residuals and credit card asset values.

CONSOLIDATED BALANCE SHEETS

BANK ONE CORPORATION and Subsidiaries

At December 31,	2002	2001
(Dollars in millions)		
Assets		
Cash and due from banks	**$ 17,920**	$ 17,383
Interest-bearing due from banks	**1,503**	1,030
Federal funds sold and securities purchased under resale agreements	**17,356**	9,347
Trading assets	**7,190**	6,167
Derivative product assets	**4,273**	3,225
Investment securities	**67,643**	60,883
Loans [(1)]	**148,125**	156,733
Allowance for credit losses	**(4,525)**	(4,528)
Loans, net	**143,600**	152,205
Other assets	**17,898**	18,714
Total assets	**$277,383**	$268,954
Liabilities		
Deposits:		
Demand	**$ 34,325**	$ 32,179
Savings	**88,934**	80,599
Time:		
Under $100,000	**16,767**	20,106
$100,000 and over	**13,745**	18,071
Foreign offices	**16,237**	16,575
Total deposits	**170,008**	167,530
Federal funds purchased and securities sold under repurchase agreements	**14,578**	13,728
Other short-term borrowings	**12,306**	10,255
Long-term debt	**39,919**	40,103
Guaranteed preferred beneficial interest in the Corporation's junior subordinated debt	**3,315**	3,315
Derivative product liabilities	**3,838**	2,574
Other liabilities	**10,979**	11,223
Total liabilities	**254,943**	248,728
Stockholders' Equity		
Common stock ($0.01 par value; authorized 4,000,000,000; issued 1,181,382,304)	**12**	12
Surplus	**10,239**	10,311
Retained earnings	**13,020**	10,707
Accumulated other adjustments to stockholders' equity	**(8)**	(65)
Deferred compensation	**(157)**	(121)
Treasury stock, at cost (17,340,948 and 14,415,873 shares, respectively)	**(666)**	(618)
Total stockholders' equity	**22,440**	20,226
Total liabilities and stockholders' equity	**$277,383**	$268,954

(1) Includes loans held for sale of $6.9 billion and $4.2 billion at December 31, 2002 and 2001, respectively.

The accompanying notes are an integral part of this statement.

CONSOLIDATED INCOME STATEMENTS
BANK ONE CORPORATION and Subsidiaries

For The Year Ended December 31,	2002	2001	2000
(In millions, except per share data)			
Net Interest Income:			
Interest income	**$13,935**	$17,304	$20,078
Interest expense	**5,340**	8,666	11,242
Total net interest income	**8,595**	8,638	8,836
Noninterest Income:			
Banking fees and commissions	**1,775**	1,731	1,537
Credit card revenue	**3,816**	2,775	2,299
Service charges on deposits	**1,578**	1,449	1,310
Fiduciary and investment management fees	**740**	754	783
Investment securities gains (losses)	**165**	(66)	(235)
Trading	**224**	220	134
Other income (losses)	**(62)**	360	(738)
Total noninterest income	**8,236**	7,223	5,090
Total revenue, net of interest expense	**16,831**	15,861	13,926
Provision for credit losses	**2,487**	2,510	3,398
Noninterest Expense:			
Salaries and employee benefits	**4,465**	4,198	4,602
Occupancy	**645**	686	872
Equipment	**426**	457	593
Outside service fees and processing	**1,303**	1,178	1,537
Marketing and development	**1,054**	862	900
Telecommunication	**365**	407	411
Other intangible amortization	**125**	97	410
Goodwill amortization	**—**	69	70
Other expense	**1,261**	1,246	2,052
Total noninterest expense before merger and restructuring-related charges (reversals)	**9,644**	9,200	11,447
Merger and restructuring-related charges (reversals)	**(63)**	351	161
Total noninterest expense	**9,581**	9,551	11,608
Income (loss) before income taxes (benefit) and cumulative effect of change in accounting principle	**4,763**	3,800	(1,080)
Applicable income taxes (benefit)	**1,468**	1,118	(569)
Income (loss) before cumulative effect of change in accounting principle	**3,295**	2,682	(511)
Cumulative effect of change in accounting principle, net of taxes of ($25)	**—**	(44)	—
Net income (loss)	**$ 3,295**	$ 2,638	$ (511)
Net income (loss) attributable to common stockholders' equity	**3,295**	2,628	(523)
Earnings (loss) per share before cumulative effect of change in accounting principle:			
Basic	**$ 2.83**	$ 2.28	$ (0.45)
Diluted	**2.80**	2.28	(0.45)
Earnings (loss) per share:			
Basic	**$ 2.83**	$ 2.25	$ (0.45)
Diluted	**2.80**	2.24	(0.45)

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

BANK ONE CORPORATION and Subsidiaries

(In millions)	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Adjustments to Stockholders' Equity	Deferred Compensation	Treasury Stock	Total Stockholders' Equity
Balance-December 31, 1999	$ 190	$12	$10,799	$11,037	$(263)	$(118)	$(1,567)	$20,090
Net loss				(511)				(511)
Change in fair value, investment securities-available for sale, net of taxes					256			256
Translation gain, net of hedge results and taxes					2			2
Net loss and changes in accumulated other adjustments to stockholders' equity				(511)	258			(253)
Cash dividends declared:								
Common stock				(1,454)				(1,454)
Preferred stock				(12)				(12)
Net issuance of common stock			(302)				615	313
Purchase of common stock							(17)	(17)
Restricted stock awards granted, net of forfeitures and amortization						(34)		(34)
Other			(10)			31	(19)	2
Balance-December 31, 2000	$ 190	$12	$10,487	$ 9,060	$ (5)	$(121)	$ (988)	$18,635
Net income				2,638				2,638
Change in fair value, investment securities-available for sale, net of taxes					93			93
Change in fair value of cash-flow hedge derivative securities, net of taxes					(146)			(146)
Translation loss, net of hedge results and taxes					(7)			(7)
Net income and changes in accumulated other adjustments to stockholders' equity				2,638	(60)			2,578
Cash dividends declared:								
Common stock				(981)				(981)
Preferred stock				(10)				(10)
Net issuance of common stock			(179)				448	269
Redemption of stock	(190)							(190)
Purchase of common stock							(78)	(78)
Other			3					3
Balance-December 31, 2001	$ —	$12	$10,311	$10,707	$ (65)	$(121)	$ (618)	$20,226
Net income				3,295				3,295
Change in fair value, investment securities-available for sale, net of taxes					474			474
Change in fair value of cash-flow hedge derivative securities, net of taxes					(414)			(414)
Translation loss, net of hedge results and taxes					(3)			(3)
Net income and changes in accumulated other adjustments to stockholders' equity				3,295	57			3,352
Common stock cash dividends declared				(982)				(982)
Net issuance of common stock			(134)				(48)	(182)
Restricted stock awards granted, net of forfeitures and amortization						(36)		(36)
Stock option grants			45					45
Other			17					17
Balance-December 31, 2002	**$ —**	**$12**	**$10,239**	**$13,020**	**$ (8)**	**$(157)**	**$ (666)**	**$22,440**

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF CASH FLOWS

BANK ONE CORPORATION and Subsidiaries

For The Year Ended December 31,	**2002**	2001	2000
(In millions)			
Cash Flows from Operating Activities:			
Net income (loss)	**$ 3,295**	$ 2,638	$ (511)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**524**	571	934
Cumulative effect of accounting change	**—**	69	—
Provision for credit losses	**2,487**	2,510	3,398
Investment securities (gains) losses, net	**(165)**	66	236
Net increase in net derivative product assets and liabilities	**(504)**	(198)	(71)
Net (increase) decrease in trading assets	**(1,021)**	(3,456)	11,691
Net decrease (increase) in other assets	**1,229**	213	(655)
Net (decrease) increase in other liabilities	**(867)**	375	1,502
Merger-related and restructuring (reversals) charges	**(63)**	351	161
Other operating adjustments	**523**	(764)	139
Net cash provided by operating activities	**5,438**	2,375	16,824
Cash Flows from Investing Activities:			
Net (increase) decrease in federal funds sold and securities purchased under resale agreements	**(8,010)**	(4,610)	5,045
Securities available for sale:			
Purchases	**(57,304)**	(56,088)	(72,098)
Maturities	**7,193**	23,579	17,882
Sales	**48,340**	23,393	48,960
Credit card receivables securitized	**6,775**	3,845	—
Net (increase) decrease in loans	**(4,677)**	13,425	(14,903)
Purchase of Wachovia credit card business	**—**	(5,776)	—
Loan recoveries	**364**	342	276
Additions to premises and equipment	**(488)**	(169)	(533)
Proceeds from sales of premises and equipment	**53**	55	—
All other investing activities, net	**(257)**	383	(1,194)
Net cash used in investing activities	**(8,011)**	(1,621)	(16,565)
Cash Flows from Financing Activities:			
Net increase in deposits	**2,590**	373	4,681
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	**850**	1,607	(6,599)
Net increase (decrease) in other short-term borrowings	**2,061**	(7,757)	(3,208)
Proceeds from issuance of long-term debt	**8,293**	12,466	13,914
Repayment of long-term debt	**(8,945)**	(11,341)	(9,237)
Repurchase of treasury stock	**(617)**	(78)	(3)
Cash dividends paid	**(983)**	(991)	(1,222)
Proceeds from issuance of trust preferred capital securities	**—**	825	915
Proceeds from issuance of common and treasury stock	**292**	191	152
Redemption of preferred stock	**—**	(190)	—
All other financing activities, net	**69**	19	(19)
Net cash provided by (used in) financing activities	**3,610**	(4,876)	(626)
Effect of exchange rate changes on cash and cash equivalents	**(27)**	34	147
Net increase (decrease) in cash and cash equivalents	**1,010**	(4,088)	(220)
Cash and cash equivalents at beginning of year	**18,413**	22,501	22,721
Cash and cash equivalents at end of year	**$ 19,423**	$ 18,413	$ 22,501
Other cash flow disclosures:			
Interest paid	**$ 5,684**	$ 9,221	$ 10,777
Income taxes paid	**1,111**	506	371

The accompanying notes are an integral part of this statement.

Note 1 – Summary of Significant Accounting Policies

BANK ONE CORPORATION, along with its subsidiaries ("Bank One" or the "Corporation"), is a financial holding company that offers a full range of financial services to commercial and business customers and consumers.

(a) Basis of Presentation

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America. Certain prior-year financial statement information has been reclassified to conform to the current year's presentation. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Certain assets and liabilities, primarily derivative assets and liabilities as well as resale and repurchase agreements, are reported on a net basis by counterparty if legally enforceable master netting arrangements are in place.

(b) Principles of Consolidation

The Corporation's consolidated financial statements include all accounts of BANK ONE CORPORATION (the "Parent Company") and all significant majority-owned subsidiaries with principal investment subsidiaries following specialized industry accounting as described below. All significant intercompany accounts and transactions have been eliminated. Results of operations of acquired entities are included from the acquisition date, and assets and liabilities are stated at their estimated fair values at the acquisition date.

The Corporation is involved with Special Purpose Entities ("SPEs") as either a transferor or an administrator. The Corporation considers the underlying facts and circumstances of individual transactions when assessing the appropriateness of consolidating SPEs. The Corporation's assessment focuses on its ability to influence or control a SPE as well as the dispersion of risk and rewards attributable to a SPE. In cases where the Corporation transfers financial assets to a SPE, the SPE must represent a qualifying SPE ("QSPE") or the Corporation consolidates the transferred financial assets. QSPE status is achieved when all conditions specified in SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 140") are met. Those conditions focus on whether the SPE is demonstrably distinct from the Corporation, limited to only permitted activities, limited on what assets the QSPE may hold, and limited on sales or other dispositions of assets. The Corporation has determined that its credit card trusts are QSPEs, and has obtained supporting legal opinions as applicable.

As discussed on pages 75-77 the Corporation serves as an administrator of commercial paper multi-seller conduits. In determining whether to consolidate the financial assets held by these SPEs, the Corporation considered qualitative and quantitative factors of the SPEs that were deemed appropriate prior to the issuance of new and pending accounting pronouncements. Such factors included the purpose and nature of the SPE, the Corporation's continuing involvement, any fee arrangements, credit facilities and other relevant factors. Based on its evaluation of these factors, the Corporation has determined that none of these SPEs require consolidation. However, as described in Note 1(r) "New and Pending Accounting Pronouncements" it is reasonably possible that these SPEs will be consolidated effective July 1, 2003 under new accounting guidance.

The Corporation's principal investment subsidiaries, separate legal entities, have majority equity ownership in investees that are not consolidated because of specialized industry accounting for investment companies which requires fair value accounting.

(c) Resale and Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are treated as collateralized financing transactions and carried at the amount at which the securities will be subsequently resold or repurchased, plus accrued interest.

(d) Trading Activities

The Corporation's trading activities are primarily customer oriented. Securities bought and sold and held principally for short-term appreciation or other trading purposes and to protect credit deterioration in the loan portfolio are classified as trading assets and other short-term borrowings and recorded on a trade date basis at fair value. Derivative contracts entered into for trading and economic hedging purposes which do not qualify for hedge accounting are classified as derivative product assets and derivative product liabilities, as appropriate. Trading income includes realized and unrealized gains and losses from trading positions, including interest income or expense on derivative instruments. Estimated fair values are based on quoted market prices or valuation models, which use current market information. Trading activities involve instruments with interest rate, exchange rate, equity price, credit and commodity price risk.

(e) Hedging Activities

Hedging derivatives that qualify for hedge accounting are recognized on the balance sheet at fair value as either derivative product assets or liabilities. Hedge ineffectiveness, if any, is calculated and recorded in current earnings. See "Derivative Financial Instruments" beginning on page 72 for detailed information on the Corporation's strategy in using derivative instruments in its asset and liability management and trading activities, as well as the accounting principles and disclosures for these instruments.

(f) Investment Securities

Debt and equity investment securities designated as available for sale are carried at fair value, with unrealized gains and losses, net of taxes, included in accumulated other adjustments to stockholders' equity. The estimated fair value of a security is determined based on market quotations when available or, if not available, by using a discounted cash flow approach. Realized gains and losses, including other than temporary impairments, are included in noninterest income as investment securities gains (losses). The specific identification method is used to calculate realized gains or losses.

In accordance with Emerging Issues Task Force (EITF) No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," impairment of certain beneficial interests in securitized financial assets must be recognized when there has been an adverse change in estimated cash flows and the asset's fair value is below its carrying value. The Corporation recognizes interest income based on the amount of the excess of estimated cash flows over the recorded investment in the securitized financial assets. Changes in estimated cash flows are recognized on a prospective basis. The Corporation adopted EITF No. 99-20 effective April 1, 2001. The effect of adoption was a one-time, non-cash charge to earnings of $44 million after-tax ($69 million pre-tax).

Principal investments are carried at fair value, with unrealized and realized gains and losses included in noninterest income as investment securities gains (losses). The fair value of a publicly traded principal investment is determined using quoted market prices when the investment is unrestricted; otherwise fair value is estimated using quoted market prices adjusted for market liquidity, position size and sale restrictions other than time. The fair value of principal investments that are not publicly traded is estimated based on the investees' financial results, conditions and prospects, values of comparable public companies, market liquidity and sales restrictions.

(g) Equity and Cost Method Investments

The equity method of accounting is applied to investments that the Corporation has significant influence over, excluding principal investments, which typically represents ownership interests between 20-50% for investments in common stock or when ownership interests equals or exceeds 3% for investments in limited partnerships. The equity method of accounting results in recognition of the Corporation's pro-rata share of investment income or loss in other noninterest income.

The cost method of accounting is applied to investments that the Corporation does not have a significant influence over, excluding principal investments, which typically represent ownership interests less than 20% for investments in common stock or when ownership interests is less than 3% for investments in limited partnerships. The cost method recognizes income when dividends are received.

(h) Loans

Loans are recognized at the principal amount outstanding, net of unearned income and amounts charged off. The recorded investment in credit card loans also includes unpaid interest and fees. Unearned income includes deferred loan origination fees reduced by loan origination costs. Unearned income on loans, excluding credit card loans, is amortized to interest income over the life of the related loan using methods which approximate the effective interest rate method. Unearned income on credit card loans is typically amortized over one year using a straight-line method to noninterest income as credit card revenue.

Fees received for providing loan commitments and letters of credit that result in loans are typically deferred and amortized to interest income over the life of the related loan, beginning with the initial borrowing. Fees on commitments and letters of credit are amortized to noninterest income as banking fees and commissions over the commitment period when funding is not expected.

Other credit-related fees, including syndication management fees, are recorded to noninterest income as banking fees and commissions when received or over time to match the earnings process.

(i) Lease Financing Receivables

The Corporation typically provides lease financing to its customers through direct financing leases. Leveraged leases, which represent direct financing leases involving nonrecourse debt, also are provided to customers. Unearned income on a direct financing lease is amortized to income over the lease term so as to yield a constant rate of return on the net investment in the lease. Periodic recognition of lease income on leveraged leases is based on an analysis of cash flows using the original investment less deferred taxes arising from the difference between the pretax financial accounting income and taxable income. Residual values of leased assets are reviewed at least annually with periodic reviews performed as warranted by the underlying circumstances. In the case of automobiles, valuations are based upon various assumptions and estimates including the probability of the automobile being returned to the Corporation, estimated costs incurred to reduce the number of returned automobiles from the customer, estimated collectable fees for mileage and other wear and tear, reconditioning costs, and estimated used car sales prices. Declines in estimated residual values that are other than temporary are recognized in the period such determination is made in other noninterest income.

(j) Loan Sales and Securitizations

Loans held for sale are carried at the lower of cost or market value. When a loan is sold or transferred to held for sale, the loan's carrying value is compared to its fair value and any shortfall in value that is determined to be credit related is recorded as a charge-off, reducing the allowance for credit losses. Any shortfall in fair value other than credit related is recorded as a charge to other noninterest income. All subsequent net declines in market value of loans held for sale are recorded to other noninterest income.

With consumer loan portfolio sales, the allocable portion of the allowance for credit losses adjusts the carrying value of the loan portfolio and is treated as a transfer out of the allowance for credit losses. The difference between the portfolio's carrying value adjusted for the allocable credit reserves and the net sales proceeds is recorded as a component of other noninterest income.

The Corporation records a transfer of financial assets as a sale when it surrenders control over those financial assets to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The Corporation considers control surrendered when all conditions prescribed by SFAS No. 140 are met. Those conditions focus on whether the transferred financial assets are isolated beyond the reach of the Corporation and its creditors, the constraints on the transferee or beneficial interest holders, and the Corporation's rights or obligations to reacquire transferred financial assets. As appropriate, the Corporation obtains legal opinions supporting the conclusion that transferred financial assets are isolated beyond the reach of the Corporation and its creditors.

(k) Nonperforming Loans

A loan is considered nonperforming when placed on nonaccrual status, or when renegotiated at terms that represent an economic concession to the borrower because of a decline in the borrower's financial condition. For a more detailed discussion, see the "Nonperforming Assets" section beginning on page 66. The Corporation's charge-off policies are presented on page 67.

(l) Allowance for Credit Losses

Management maintains the allowance for credit losses at a level it believes is adequate to provide for estimated probable credit losses inherent in on- and off-balance sheet credit exposure. For a more detailed discussion, see the "Allowance for Credit Losses" section beginning on page 68.

(m) Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful life of the owned asset and, for leasehold improvements, over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. For owned and capitalized assets, estimated useful lives range from three to 30 years. Maintenance and repairs are charged to expense as incurred, while major improvements are capitalized and amortized to operating expense over the identified useful life.

(n) Other Real Estate Owned ("OREO")

OREO includes real estate assets that have been received in satisfaction of debt. OREO is initially recorded and subsequently carried at the lower of cost or fair value less estimated selling costs. Any valuation adjustments required at the date of transfer are charged to the allowance for credit losses. Subsequently, unrealized losses and realized gains and losses on sale are included in other noninterest income. Operating results from OREO are recorded in other noninterest expense.

(o) Credit Card Award Programs

Costs associated with credit card award programs are accounted for on an accrual basis, and are charged against credit card revenue in the period in which the related benefits are earned by customers. See page 47 for a discussion of risks and uncertainty associated with an award program.

(p) Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their related tax bases and are measured using the enacted tax rates and laws that are in effect. The effect on deferred tax assets and liabilities of a change in rates is recognized as income or expense in the period in which the change occurs.

(q) Cash Flow Reporting

Cash and cash equivalents consist of cash and due from banks, whether interest-bearing or not. Net reporting of cash transactions has been used when the balance sheet items consist predominantly of maturities of three months or less, or where otherwise permitted. Other items are reported on a gross basis.

(r) New and Pending Accounting Pronouncements

The Corporation adopted in 2002 the following new accounting pronouncements and will adopt in 2003 the following pending accounting pronouncements.

Goodwill and Other Intangible Assets

Effective January 1, 2002, the Corporation adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to impairment tests at least annually. Intangible assets with finite lives continue to be amortized over the period the Corporation expects to benefit from such assets and are periodically reviewed for other than temporary impairment.

The impact of adopting SFAS No. 142 on net income and earnings per share adjusted to exclude amortization expense (net of taxes) related to goodwill is as follows:

(In millions, except per share data)	**2002**	2001	2000
Net income (loss) attributable to common stockholders' equity[1]	**$3,295**	$2,628	$ (523)
Goodwill amortization	**—**	44	44
Pro forma net income (loss) attributable to common stockholders' equity	**$3,295**	$2,672	$ (479)
Basic earnings (loss) per share:			
Reported earnings (loss) per share	**$ 2.83**	$ 2.25	$(0.45)
Goodwill amortization	**—**	0.04	0.04
Pro forma basic earnings (loss) per share	**$ 2.83**	$ 2.29	$(0.41)
Diluted earnings (loss) per share:			
Reported earnings (loss) per share	**$ 2.80**	$ 2.24	$(0.45)
Goodwill amortization	**—**	0.04	0.04
Pro forma diluted earnings (loss) per share	**$ 2.80**	$ 2.28	$(0.41)

(1) Includes the impact of preferred stock dividends of $10 million and $12 million in 2001 and 2000, respectively.

Stock Options

Effective January 1, 2002, the Corporation adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-based Compensation" ("SFAS No. 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation– Transition and Disclosure, an amendment to FASB Statement No. 123" ("SFAS No. 148"), and selected the prospective method of transition and began recognizing compensation expense based on the fair value method on newly granted stock awards. Under this method, compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period of the grant. Pursuant to the requirements of SFAS No. 123, as amended by SFAS No. 148, options granted prior to January 1, 2002, continue to be accounted for under APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Under APB No. 25, no compensation expense is recognized when the exercise price is greater than or equal to the market price of the underlying common stock on the date of grant.

Awards under the Corporation's stock compensation plans vest over periods ranging from two to five years. Therefore, the expense related to stock option compensation included in the determination of net income for 2002 is less than that which would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS No. 123. The net income and earnings per share implications if the fair value method had been applied to all awards which vested during the years ended December 31, 2002, 2001 and 2000 would have been as follows:

(In millions, except per share data)	**2002**	2001[(1)]	2000[(1)]
Net income (loss) attributable to common stockholders' equity[(2)]	**$3,295**	$2,628	$ (523)
Add: Stock option employee compensation expense included in reported net income, net of related tax effects	**29**	—	—
Deduct: Total stock option employee compensation expense determined under the fair value method for all awards vested during the year, net of related tax effects [(3)]	**92**	222	151
Pro forma net income (loss) attributable to common stockholders' equity	**$3,232**	$2,406	$(674)
Earnings (loss) per share:			
Basic – as reported	**$ 2.83**	$ 2.25	$(0.45)
Basic – pro forma	**2.78**	2.06	(0.58)
Diluted – as reported	**2.80**	2.24	(0.45)
Diluted – pro forma	**2.76**	2.05	(0.58)

(1) In 2002, management refined its methodology in estimating pro forma compensation cost. Accordingly, the 2001 and 2000 pro forma compensation cost has been adjusted for comparability purposes.

(2) Includes the impact of preferred stock dividends of $10 million and $12 million in 2001 and 2000, respectively.

(3) Stock option awards granted in 1999 and 2000 were fully vested by early 2002.

Costs Associated with Exit or Disposal Activities

In 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146") which supercedes EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred rather than when a company commits to such an activity and also establishes fair value as the objective for initial measurement of the liability. The Corporation will adopt SFAS No. 146 for exit or disposal activities that are initiated after December 31, 2002, and the impact of adoption is not expected to have a material impact on the Corporation's results of operations, financial position or cash flows.

Accounting and Disclosure Requirements for Guarantees

In 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45") which requires additional disclosures by a guarantor about its obligations under certain guarantees that it has issued. FIN No. 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The most significant instruments impacted for the Corporation are financial and performance standby letters of credit. The required FIN No. 45 disclosures for 2002 have been incorporated into Note 22 "Financial Instruments with Off-Balance Sheet Risk" that appears on pages 102–103. The accounting requirements of FIN No. 45 are effective for the Corporation on January 1, 2003, on a prospective basis. The impact of adoption is not expected to have a material impact on the Corporation's results of operations, financial position or cash flows.

Consolidation of Variable Interest Entities

In 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46") which provides new accounting guidance on when to consolidate a variable interest entity. A variable interest entity exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics include the direct or indirect ability to make decisions about an entity's activities through voting rights or similar rights, the obligation to absorb the expected losses of an entity if they occur, and the right to receive the expected residual returns of the entity if they occur.

FIN No. 46 is effective immediately for new entities that were created or acquired after January 31, 2003, and will become effective on July 1, 2003, for entities in which the Corporation had a variable interest prior to February 1, 2003. The Corporation plans to adopt FIN No. 46 on a prospective basis and, accordingly, will not restate prior periods. FIN No. 46 affects the Corporation's accounting and reporting for certain SPEs in which the Corporation is involved.

The Corporation's retained interest in its credit card securitizations and its investments in commercial mortgage backed securities will not be consolidated since both transaction structures are exempt from the requirements of FIN No. 46.

As discussed on pages 75 – 77, the Corporation is an active participant in the asset-backed securities business where it helps meet customers' financing needs by providing access to the commercial paper markets through SPEs, known as multi-seller conduits. These multi-seller conduits are a type of variable interest entity ("VIE"), as defined by FIN No. 46. These entities have historically met the requirements to be treated as independent entities, which have not been required to be consolidated. With the January 2003 issuance of FIN No. 46, the Corporation believes it is reasonably possible that the multi-seller conduits and an investment vehicle as currently structured, for which it is the administrator, will be consolidated. Investors in the multi-seller conduits have no recourse to the general assets of the Corporation. The Corporation is currently evaluating all variable interests in variable interest entities.

Based on information as of December 31, 2002, the expected impact of FIN No. 46 to the Corporation's balance sheet would be to increase both assets and liabilities by approximately $42.8 billion. Any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the newly consolidated entities would be recognized as a cumulative effect of an accounting change. The Corporation is assessing the impact of adoption, if any. See page 77 for loss exposure and the potential impact on risk-based capital ratios.

Note 2 – Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the average number of common shares outstanding for the period. Except when the effect would be antidilutive, the diluted EPS calculation includes shares that could be issued under outstanding stock options and the employee stock purchase plans. In addition, interest on convertible debentures (net of tax) is added to net income, since this interest would not be paid if the debentures were converted to common stock.

The computation of basic and diluted earnings per share follows:

For The Year Ended December 31,	**2002**	2001	2000
(In millions, except per share data)			
Income (loss) before cumulative effect of change in accounting principle	**$3,295**	$2,682	$ (511)
Cumulative effect of change in accounting principle, net of taxes of ($25)	**—**	(44)	—
Net income (loss)	**3,295**	2,638	(511)
Preferred stock dividends	**—**	(10)	(12)
Net income (loss) available to common stockholders for basic and diluted EPS	**$3,295**	$2,628	$ (523)
Average shares outstanding	**1,162**	1,166	1,154
Stock options	**10**	8	—
Average shares outstanding assuming full dilution	**1,172**	1,174	1,154
Earnings (loss) per share before cumulative effect of change in accounting principle:			
Basic	**$ 2.83**	$ 2.28	$ (0.45)
Diluted	**2.80**	2.28	(0.45)
Earnings (loss) per share:			
Basic	**2.83**	2.25	(0.45)
Diluted	**2.80**	2.24	(0.45)

Note 3 – Acquisitions

On July 27, 2001, the Corporation completed its acquisition of the Wachovia credit card business, including a credit card portfolio of approximately $7.5 billion consumer credit card receivables. The acquisition was accounted for under the provisions of SFAS No. 141 and SFAS No. 142. The first component of the transaction was the primary portfolio of $6.2 billion in receivables of credit card holders who are not customers of Wachovia's retail bank. The second component was the agent bank portfolio comprised of credit card holders that were Retail customers of Wachovia of $1.3 billion. Wachovia retained the right to purchase the agent bank receivables under certain conditions.

On September 7, 2001, the Corporation announced its agreement with Wachovia to end the agent bank relationship and sell back to Wachovia the approximately $1.3 billion of consumer credit card receivables of customers who also have a Wachovia retail banking relationship. Under the terms of the agreement, Wachovia paid a $350 million termination fee and reimbursed the Corporation for the premium paid on the repurchased receivables and conversion costs related to the repurchase. The Corporation accounted for these amounts received from Wachovia as a reduction of acquisition intangibles.

Note 4 – Restructuring-Related Activity

a) Fourth Quarter 2001 Restructuring-Related Charges

The Corporation recorded restructuring-related charges in the fourth quarter of 2001 for additional real estate and severance costs to accomplish more rapid expense reductions, accelerated systems conversions and other consolidations. Summarized below are the details of these restructuring-related charges:

(In millions)	Personnel-Related Costs	Contractual Obligations and Asset Writedowns	Total
December 31, 2001			
Reserve balance	$ 76	$ 278	$ 354
Amounts utilized	(36)	(168)	(204)
Reserve adjustments	(21)	(21)	(42)
December 31, 2002			
Reserve balance	**$ 19**	**$ 89**	**$ 108**

Personnel-related costs initially recorded consisted primarily of severance costs related to identified staff reductions in the lines of business totaling approximately 6,900 positions for: the consolidation of various telephone banking and related sites and loan processing locations for Retail; the consolidation of call centers by Card Services; the closing of certain international locations; the consolidation of credit processing activities to one primary loan system for middle market banking; and certain other consolidations. At December 31, 2002, approximately 2,700 of these identified employees have been terminated under these programs, including 600 of which have future payment obligations of approximately $10 million. During the 2002 second quarter, the reserve was adjusted for approximately 3,100 employees, primarily in the Retail and Card Services lines of business, due to changes in attrition and circumstances for elimination under these programs.

Contractual obligations included the estimated costs associated with lease and other contract termination costs incorporated in the business restructuring plans. Asset writedowns included leasehold improvement write-offs related to leased properties following the decision to abandon such facilities, as well as in the case of fixed assets and capitalized software for which similar decisions were made.

Actions remaining under this overall restructuring plan are expected to be completed within approximately six months or less. Certain contractual payments associated with these actions, as required, will extend beyond this six month time frame.

b) Second Quarter 2000 Restructuring-Related Activity

Actions under this restructuring plan have been completed, with only payments of identified obligations remaining, which consist primarily of lease obligations. Unpaid amounts totaled $41 million as of December 31, 2002, and will be paid as required over the remaining contractual periods.

Note 5 – Business Segments

In 2002, certain organizational changes were made involving the Corporate, Commercial Banking, and Retail lines of business. The dealer commercial services business was transferred from Retail to Commercial Banking. National retail lockbox operations and cash vault services were transferred from Commercial Banking to Corporate. Results for the prior periods have been adjusted to reflect these and other insignificant changes to conform to the current line of business structure.

The information below is consistent with the content of business segment data provided to the Corporation's management, which does not use product group revenues to assess consolidated results. Aside from investment management and insurance products, product offerings are tailored to specific customer segments. As a result, the aggregation of product revenues and related profit measures across lines of business is not available.

Aside from the United States of America, no single country or geographic region generates a significant portion of the Corporation's revenues or assets. In addition, there are no single customer concentrations of revenue or profitability.

For additional disclosures regarding the Corporation's segments see the "Business Segment Results" section beginning on page 38.

The following table summarizes certain financial information by line of business for the years indicated:

	Total Revenues-FTE (1)			Provision for Income Taxes (1)			Net Income (Loss)			Identifiable Assets at Period-End		
For The Year Ended December 31,	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000
(In millions, except identifiable assets in billions)												
Retail	**$ 6,285**	$ 6,396	$ 5,445	**$ 754**	$ 657	$ 207	**$1,390**	$1,181	$ 367	**$ 71.4**	$ 73.6	$ 77.1
Commercial Banking	**4,111**	4,347	4,247	**162**	251	(181)	**617**	700	(92)	**93.7**	100.7	106.6
Card Services	**4,864**	4,021	3,245	**741**	542	(1)	**1,166**	907	(1)	**45.3**	35.3	30.7
Investment Management	**1,718**	1,686	1,570	**244**	215	186	**411**	362	322	**8.7**	8.6	8.1
Corporate	**(2)**	(458)	(442)	**(288)**	(416)	(643)	**(289)**	(468)	(1,107)	**58.3**	50.7	46.8
Total before cumulative effect of change in accounting principle	**16,976**	15,992	14,065	**1,613**	1,249	(432)	**3,295**	2,682	(511)	**277.4**	268.9	269.3
Cumulative effect of change in accounting principle, net of taxes of ($25)							**—**	(44)	—			
Total	**$16,976**	$15,992	$14,065	**$1,613**	$1,249	$(432)	**$3,295**	$2,638	$ (511)	**$277.4**	$268.9	$269.3

(1) Revenue and provision for income tax includes taxable equivalent adjustments of $145 million, $131 million and $138 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 6 – Interest Income and Interest Expense

Details of interest income and expense are as follows:

For The Year Ended December 31,	**2002**	2001	2000
(In millions)			
Interest Income			
Loans, including fees	**$ 9,947**	$13,213	$15,214
Bank balances	**58**	145	503
Federal funds sold and securities purchased under resale agreements	**159**	418	577
Trading assets	**256**	309	440
Investment securities	**3,515**	3,219	3,344
Total interest income	**13,935**	17,304	20,078
Interest Expense			
Deposits	**2,719**	4,895	6,137
Federal funds purchased and securities sold under repurchase agreements	**271**	633	1,142
Other short-term borrowings	**262**	659	1,216
Long-term debt	**2,088**	2,479	2,747
Total interest expense	**5,340**	8,666	11,242
Net Interest Income	**8,595**	8,638	8,836
Provision for credit losses	**2,487**	2,510	3,398
Net Interest Income After Provison for Credit Losses	**$ 6,108**	$ 6,128	$ 5,438

Note 7 – Investment Securities

A summary of the Corporation's investment portfolio follows:

At December 31, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Book Value)
(In millions)				
U.S. Treasury	**$ 1,310**	**$ 25**	**$ —**	**$ 1,335**
U.S. government agencies	**26,419**	**635**	**14**	**27,040**
States and political subdivisions	**1,116**	**54**	**1**	**1,169**
Interests in credit card securitized receivables	**28,202**	**147**	**—**	**28,349**
Other debt securities	**4,719**	**40**	**14**	**4,745**
Equity securities (1)	**3,406**	**4**	**1**	**3,409**
Total available for sale securities	**$65,172**	**$905**	**$ 30**	**$66,047**
Principal and other investments (2)				**1,596**
Total investment securities				**$67,643**
At December 31, 2001				
(In millions)				
U.S. Treasury	$ 1,424	$ 30	$ 4	$ 1,450
U.S. government agencies	25,265	113	132	25,246
States and political subdivisions	1,310	28	8	1,330
Interests in credit card securitized receivables	23,998	107	—	24,105
Other debt securities	4,397	24	18	4,403
Equity securities (1)	2,775	10	15	2,770
Total available for sale securities	$59,169	$312	$177	$59,304
Principal and other investments (2)				1,579
Total investment securities				$60,883

(1) The fair values of certain securities for which market quotations were not available were estimated.

(2) The fair values of certain securities reflect liquidity adjustments and other market-related factors, and include investments accounted for at fair value consistent with specialized industry practice.

For the year ended December 31, 2002, gross recognized gains and losses on the sale of investment securities were $1.3 billion and $1.1 billion, respectively. For the year ended December 31, 2001, gross recognized gains and losses on investment securities were $1.0 billion and $1.1 billion, respectively.

As of December 31, 2002, debt investment securities had the following maturity and yield characteristics:

	Due in less than 1 year		Due in 1 year through 5 years		Due in 5 years through 10 years		Due after 10 years		Total	
	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield
(Dollars in millions)										
U.S. Treasury	$ 822	4.13%	$ 460	3.69%	$ 25	8.11%	$ 3	9.63%	$ 1,310	4.07%
U.S. government agencies	23	6.61	1,190	2.81	93	5.11	25,113	5.02	26,419	4.92
States and political subdivisions	124	4.88	253	5.12	280	4.40	459	4.84	1,116	4.80
Other debt securities	25,443	10.93	5,353	7.44	1,347	3.49	778	3.39	32,921	9.88
Total debt securities -at amortized cost	$26,412	10.69%	$7,256	6.36%	$1,745	3.79%	$26,353	4.97%	$61,766	7.54%
Total debt securities— -at fair value	$26,557		$7,309		$1,785		$26,987		$62,638	

The distribution of mortgage-backed securities and collateralized mortgage obligations is based on average expected maturities. Actual maturities could differ as issuers may have the right to call or prepay obligations.

Note 8 – Loans

Loan composition by line of business is as follows:

At December 31,	2002	2001
(In millions)		
Retail:		
Small business commercial	**$ 9,863**	$ 9,947
Home equity	**28,469**	25,143
Vehicles	**14,012**	13,481
Other personal	**8,491**	9,779
Core businesses	**60,835**	58,350
Brokered home equity discontinued	**3,242**	5,125
Vehicle leases	**3,596**	6,155
Home equity discontinued/ vehicle leases	**6,838**	11,280
Total consumer	**57,810**	59,683
Total Retail	**67,673**	69,630
Commercial Banking:		
Corporate banking:		
Commercial and industrial	**17,866**	22,268
Commercial real estate	**8,321**	8,975
Lease financing	**4,358**	4,669
Other	**1,014**	731
Total corporate banking	**31,559**	36,643
Middle market:		
Commercial and industrial	**26,983**	31,076
Commercial real estate	**2,318**	3,472
Lease financing	**1,008**	1,053
Other	**27**	294
Total middle market	**30,336**	35,895
Total Commercial Banking	**61,895**	72,538
Card Services	**11,581**	6,786
IMG and Corporate	**6,976**	7,779
Total loans	**148,125**	156,733
Less: Allowance for credit losses	**4,525**	4,528
Total loans, net	**$143,600**	$152,205

Loans are net of unearned income of $2.3 billion and $2.7 billion as of December 31, 2002, and 2001, respectively. Loans held for sale, which are carried at the lower of cost or market value, totaled $6.9 billion and $4.2 billion at December 31, 2002, and 2001, respectively.

The Corporation's primary goal in managing credit risk is to minimize the impact of default by an individual borrower or group of borrowers. As a result, the Corporation strives to maintain a loan portfolio that is diverse in terms of loan type, industry, borrower and geographic concentrations. As of December 31, 2002, and 2001, there were no significant loan concentrations with any single borrower, industry or geographic segment (see "Credit Portfolio Composition" on pages 63-66).

A loan is considered impaired when it is probable that all principal and interest amounts due will not be collected in accordance with the loan's contractual terms. Certain loans, such as loans carried at the lower of cost or fair value or small-balance homogeneous loans (e.g., credit card, home mortgages and installment credit) are exempt from impairment determinations for disclosure purposes. Impaired loans, accordingly, exclude commercial nonaccrual loans that are held for sale and consumer loans classified as nonaccrual. These loans totaled $1.1 billion at December 31, 2002 and 2001.

Impairment is recognized to the extent that the recorded investment of an impaired loan or pool of loans exceeds its value either based on the loan's underlying collateral or the calculated present value of projected cash flows discounted at the contractual interest rate. Loans having a significant recorded investment are measured on an individual basis, while loans not having a significant recorded investment are grouped and measured on a pool basis.

The Corporation's impaired loan information is as follows:

At December 31,	2002	2001
(In millions)		
Impaired loans with related allowance	**$2,183**	$2,487
Impaired loans with no related allowance [1]	**11**	—
Total impaired loans	**$2,194**	$2,487
Allowance on impaired loans [2]	**678**	731

At December 31,	2002	2001	2000
(In millions)			
Average balance of impaired loans	**$2,462**	$2,047	$1,335
Interest income recognized on impaired loans	**40**	41	31

(1) Impaired loans for which the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan do not require an allowance under SFAS No. 114, "Accounting by Creditors for Impairement of a loan – an amendment of FASB Statements No. 5 and 15."

(2) The allowance for impaired loans is included in the Corporation's overall allowance for credit losses.

Maturity Distribution and Interest Rate Sensitivity of Loans

A distribution of the maturity of loans by line of business and, for those loans due after one year, a breakdown between those loans that have floating interest rates and those that have predetermined interest rates at December 31, 2002, follows:

(In millions)	One Year or Less	One to Five Years	Over Five Years	Total
Retail:				
Small business commercial	$ 2,865	$ 4,337	$ 2,661	$ 9,863
Home equity	449	827	27,193	28,469
Vehicle	301	9,267	4,444	14,012
Other personal	3,016	1,168	4,307	8,491
Core businesses	6,631	15,599	38,605	60,835
Brokered home equity discontinued	348	9	2,885	3,242
Vehicle leases	1,215	2,381	—	3,596
Brokered home equity discontinued/vehicle leases	1,563	2,390	2,885	6,838
Total Retail	8,194	17,989	41,490	67,673
Commercial Banking:				
Corporate banking:				
Commercial and industrial	5,167	11,660	1,039	17,866
Commercial real estate	3,920	4,271	130	8,321
Lease financing	217	443	3,698	4,358
Other	1,014	—	—	1,014
Middle market:				
Commercial and industrial	13,345	11,685	1,953	26,983
Commercial real estate	848	1,283	187	2,318
Lease financing	73	591	344	1,008
Other	27	—	—	27
Total Commercial Banking	24,611	29,933	7,351	61,895
Total [1]	$32,805	$47,922	$ 48,841	$129,568
Loans with floating interest rates		$24,612	$ 13,808	$ 38,420
Loans with predetermined interest rates		23,310	35,033	58,343
Total		$47,922	$ 48,841	$ 96,763

(1) Excludes Card Services, Investment Management Group and Corporate lines of business.

Foreign Outstandings

Foreign outstandings include loans, balances with banks, acceptances, securities, equity investments, accrued interest, other monetary assets and current credit exposure on derivative contracts. At year-end 2002, 2001 and 2000, there were no countries for which cross-border and net local country claims exceeded 1.0% of total assets.

At December 31, 2002, Japan and Germany were the only countries for which cross-border claims totaled between 0.75% and 1.0% of total assets. These outstandings totaled $4.5 billion in aggregate. At December 31, 2001, there were no countries for which cross-border and net local country claims totaled between 0.75% and 1.0% of total assets. At December 31, 2000, Germany was the only country for which cross-border and net local country claims totaled between 0.75% and 1.0% of total assets. These outstandings amounted to $2.5 billion.

Note 9 – Credit Card Securitizations

The Corporation transforms a substantial portion of its credit card receivables into securities, which are sold to investors – a process referred to as securitization. Securitization impacts the Corporation's consolidated balance sheet by removing those credit card receivables that have been sold and by reclassifying those credit card receivables whose nature has been transformed but retained in certificate form (referred to as "seller's interest") from loans to investments. Gain or loss on the sale of the credit card receivable depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. Gain or loss on the sale of the credit card receivables, net of amortization of transaction costs and amortization from securitization repayments, is reported in securitization income. Securitization also impacts the Corporation's consolidated income statement by reclassifying interest income and fees, interchange income, credit losses and recoveries related to securitized receivables as securitization income. Credit card interest income and fees, interchange income, credit losses and recoveries related to credit card receivables whose nature has been retained but converted to certificate form (seller's interest) are reclassified as investment income.

During 2002, the Corporation securitized approximately $6.8 billion in credit card receivables. Maturities of credit card securitizations during 2002 were $10.2 billion, with an additional $8.2 billion scheduled for 2003. During 2002 and 2001, the Corporation recognized $50 million and $62 million, respectively, in net securitization amortization in the consolidated income statement, including amortization of transaction costs, as the gain on securitization from new transactions was offset by amortization as investors in individual series were repaid.

A servicing asset or liability is not recognized in a credit card securitization (and thus not considered in the gain or loss computation) since the Corporation receives adequate compensation relative to current market servicing prices to service the receivables sold. Transaction costs in credit card securitizations are deferred and amortized over the life of the security as a reduction of noninterest income.

At December 31, 2002, and 2001, the estimated fair value of the interest-only strip associated with credit card securitizations was $205 million and $219 million, respectively, and the estimated fair value of the seller's interest was $28.1 billion and $23.9 billion, respectively. The interest-only strip and seller's interest are both recorded as investment securities. The investor portion of accrued interest receivable is recorded in other assets in 2002 and was $685 million and $810 million at December 31, 2002 and 2001, respectively.

Certain estimates are used in determining the fair value of the interest-only strip at both the date of securitization and the balance sheet date, including the excess spread, average receivable lives and the discount rate. The components of excess spread, which are estimated, include finance charge and fee revenue (excluding interchange income) generated by the securitized loans in excess of interest paid to investors, related net credit losses and contractual servicing fees. The resulting expected cash flows over the average lives of the receivables are discounted at a rate commensurate with the risk of the cash flows to determine the fair value. Such estimates and assumptions are subject to change, and accordingly, the Corporation may not recover all of the recorded investment of the interest-only strip (and thus be measured for impairment). The receivables in each trust have unique attributes and therefore the interest-only strip related to each trust is evaluated separately. The seller's interest resulting from credit card securitizations is recorded at fair value using a present value approach, with assumptions that are consistent with the valuation of the interest-only strip

The following represents the Corporation's key weighted-average assumptions used to estimate the fair value of the retained interests relating to credit card securitizations at December 31, 2002, and the pretax sensitivity of the fair values to immediate 10% and 20% adverse changes in these assumptions:

(Dollars in millions)	Interest-Only Strip(1)	Sellers Interest(2)	Total Retained Interests
Receivable Lives:			**0.5 years**
10% Adverse Change	$ 22.1	$ 14.3	36.4
20% Adverse Change	44.2	28.8	73.0
Excess Spread:			**1.22%**
10% Adverse Change	22.6	14.7	37.3
20% Adverse Change	45.2	29.4	74.6
Expected Net Credit Losses: (3)			**5.97%**
10% Adverse Change	93.3	67.5	160.8
20% Adverse Change	183.9	119.3	303.2
Discount Rate:			**10.00%**
10% Adverse Change	0.7	0.4	1.1
20% Adverse Change	1.4	0.9	2.3

(1) The effect of adverse changes in key assumptions on the fair value of the interest-only strip would be recorded in noninterest income.

(2) The effect of adverse changes in key assumptions on the fair value of the seller's interest is recorded in accumulated other adjustments to stockholders' equity, net of tax, unless the decline in value is deemed to be other than temporary, which would result in a charge to noninterest income upon recognition.

(3) Certain trust legal documents include finance charge and fee revenue reversals in the definition of net credit losses, resulting in a higher net credit loss rate for Trust purposes.

The sensitivity analysis illustrates the potential magnitude of significant adverse changes in key assumptions used in valuing the retained interests, and thus the potential impact to the Corporation's financial position and results of operations. However, the sensitivities of the fair values of the retained interests to changes in each key assumption may not be linear. Furthermore, the sensitivities for each key variable are calculated independently of changes in the other key variables. Therefore, the sensitivity analysis does not purport to present the maximum impairment loss that would result from 10% and 20% adverse changes in these assumptions. Actual experience observed may result in changes in multiple key assumptions concurrently, the magnitude of which on the fair value of the retained interests would be dependent on the relative change and the direction of change. In addition, the sensitivity analysis does not give effect to corrective action that management could and would take to mitigate the impact of adverse changes in key assumptions. The asset values of the retained interests are periodically reviewed for other-than-temporary impairment.

The key weighted-average economic assumptions and ranges of assumptions used to estimate the fair value of retained interests at the date of securitization (including transfer of new balances under revolving structures) for credit card securitizations occurring during 2002 were approximately the same as those used to value the retained interests at December 31, 2002.

Cash flows received from credit card securitization master trusts (i.e., QSPEs) during the years ended December 31 are as follows:

(In millions)	**2002**	2001	2000
Proceeds from reinvestment in revolving securitizations	**$60,633**	$72,206	$83,469
Proceeds from new securitizations	**6,775**	3,845	–
Servicing fees received	**505**	598	649
Cash flows received on retained interests [(1)]	**2,586**	2,577	2,224
Cash released from (used to fund) spread accounts	**13**	146	(32)

(1) Includes cash flows from interest-only strips as well as interchange fees received from securitized accounts.

For a detailed discussion of the Corporation's loan securitization process for credit card loans, see the "Loan Securitizations" section beginning on page 74.

Note 10 – Allowance for Credit Losses

Changes in the allowance for credit losses for the years ended December 31 are as follows:

(In millions)	**2002**	2001	2000
Balance, beginning of year	**$ 4,528**	$ 4,110	$ 2,285
Additions (deductions):			
Charge-offs	**(2,829)**	(2,630)	(1,667)
Recoveries	**364**	342	276
Net charge-offs	**(2,465)**	(2,288)	(1,391)
Provision for credit losses	**2,487**	2,510	3,398
Transfers [(1)]	**(25)**	196	(182)
Balance, end of year	**$ 4,525**	$ 4,528	$ 4,110

(1) Transfers to the allowance for credit losses in 2001 primarily represent the addition of the Wachovia credit card portfolio. Transfers from the allowance for credit losses for 2000 primarily represent allocable credit allowances associated with consumer loan sale transactions, including securitization transactions.

Note 11 – Long-Term Debt

Long-term debt consists of borrowings having an original maturity of greater than one year. Original issue discount and deferred issuance costs are amortized into interest expense over the terms of the related notes. Long-term debt at December 31, 2002 and 2001 is as follows:

(Dollars in millions)	Interest Rate	Maturities	**2002**	2001
Parent Company				
Senior debt:				
Medium-term notes	1.49–7.63%	2003–2008	**$11,973**	$14,387
Other	—	—	**6**	8
Subordinated debt:				
Notes	5.25–10.00%	2003–2027	**7,270**	6,920
Floating rate notes	Various	2003	**150**	150
Subsidiaries				
Bank notes	1.40–7.93%	2003–2007	**13,866**	12,933
Subordinated notes	6.00–8.25%	2003–2008	**1,590**	1,729
Capital leases	4.27–12.60%	2003–2011	**73**	66
Federal Home Loan Bank Advances	1.35–4.57%	2005–2007	**3,715**	2,000
Other	1.00–15.93%	2003–2018	**1,276**	1,910
Total long-term debt			**$39,919**	$40,103

Aggregate annual scheduled repayments of long-term debt at December 31, 2002 are as follows:

(In millions)	Total
2003	$ 7,846
2004	6,291
2005	6,622
2006	6,896
2007	4,542
Thereafter	7,722
Total	$39,919

Note 12 – Deposits and Short-Term Borrowings

Deposits

The maturity distribution of domestic time certificates of deposit of $100,000 and over and deposits in foreign offices, predominantly in amounts in excess of $100,000, at December 31, 2002 is as follows:

(Dollars in millions)	Amount	Percent
Domestic Time Certificates of Deposit of $100,000 and Over:		
Three months or less	$ 3,556	26%
Over three months to six months	2,317	18
Over six months to twelve months	1,352	10
Over twelve months	6,265	46
Total	$13,490	100%
Foreign Offices:		
Three months or less	$16,061	99%
Over three months to six months	63	—
Over six months to twelve months	82	1
Over twelve months	31	—
Total	$16,237	100%

The Corporation has an aggregate amount of domestic other time deposits of $100,000 and over of $255 million at December 31, 2002, which primarily mature within three months.

Short-Term Borrowings

Borrowings with original maturities of one year or less are classified as short-term. The following is a summary of short-term borrowings for the years ended December 31:

	At Year-End		For the Year		
(Dollars in millions)	Outstanding	Weighted-Average Rate	Daily Average Outstandings	Weighted-Average Rate	Highest Outstandings at Month End
2002:					
Federal funds purchased	**$ 3,833**	**1.02%**	**$ 4,400**	**1.63%**	**$ 6,086**
Securities sold under repurchase agreements	**10,745**	**1.11**	**10,548**	**1.55**	**12,730**
Bank notes	**8,519**	**1.57**	**4,960**	**2.11**	**9,733**
Commercial paper	**567**	**1.65**	**485**	**2.26**	**567**
Other short-term borrowings	**3,220**	**1.41**	**3,441**	**2.61**	**5,310**
Total short-term borrowings	**$26,884**	**1.28%**	**$23,834**	**1.85%**(1)	
2001:					
Federal funds purchased	$ 3,171	1.62%	$ 5,121	4.32%	$ 6,353
Securities sold under repurchase agreements	10,557	1.43	11,543	3.57	13,386
Bank notes	4,529	3.07	8,267	5.48	13,047
Commercial paper	828	1.58	1,968	4.75	2,634
Other short-term borrowings	4,898	1.60	3,273	3.68	4,629
Total short-term borrowings	$23,983	1.83%	$30,172	4.31%(1)	
2000:					
Federal funds purchased	$ 5,253	5.89%	$ 6,281	6.13%	$ 9,663
Securities sold under repurchase agreements	6,867	6.01	12,680	5.96	17,609
Bank notes	12,426	6.71	12,298	6.50	13,327
Commercial paper	3,048	6.62	3,137	5.94	3,303
Other short-term borrowings	2,529	6.22	3,543	6.27	6,861
Total short-term borrowings	$30,123	6.36%	$37,939	6.19%(1)	

(1) The Corporation uses interest rate swaps to hedge certain short-term borrowings in its asset and liability management activities. The overall weighted average rate, including the effects of derivative contracts was 2.24%, 4.28% and 6.26% at December 31, 2002, 2001 and 2000, respectively.

Note 13 – Guaranteed Preferred Beneficial Interest in the Corporation's Junior Subordinated Debt

The Corporation has sponsored ten trusts with a total aggregate issuance outstanding of $3.3 billion at December 31, 2002, in trust preferred securities as follows:

	Trust Preferred			Junior Subordinated Debt Owned by Trust		
(Dollars in millions)	Issuance Date	Initial Liquidation Value	Distribution Rate	Initial Principal Amount	Maturity	Redeemable Beginning
Capital VI	September 28, 2001	$525	7.20%	$541.2	October 15, 2031	October 15, 2006
Capital V	January 30, 2001	300	8.00%	309.3	January 30, 2031	January 30, 2006
Capital IV	August 30, 2000	160	3-mo LIBOR plus 1.50%	164.9	September 1, 2030	September 1, 2005
Capital III	August 30, 2000	475	8.75%	489.7	September 1, 2030	See (1) below.
Capital II	August 8, 2000	280	8.50%	288.7	August 15, 2030	August 15, 2005
Capital I	September 20, 1999	575	8.00%	592.8	September 15, 2029	September 20, 2004
First Chicago NBD Capital 1	January 31, 1997	250	3-mo LIBOR plus 0.55%	257.7	February 1, 2027	February 1, 2007
First USA Capital Trust I (2)	December 20, 1996	200	9.33%	206.2	January 15, 2027	January 15, 2007
First Chicago NBD Institutional Capital A	December 3, 1996	500	7.95%	515.5	December 1, 2026	December 1, 2006
First Chicago NBD Institutional Capital B	December 5, 1996	250	7.75%	257.7	December 1, 2026	December 1, 2006

(1) Redeemable at any time subject to approval by the Federal Reserve Board.

(2) The Corporation paid a premium of $36 million to repurchase $193 million of these securities in 1997.

These trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment. Distributions on these securities are included in interest expense on long-term debt. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds thereof in junior subordinated debentures of the Corporation, the sole asset of each trust. The preferred trust securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly-owned by the Corporation. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Corporation making payment on the related junior subordinated debentures. The Corporation's obligations under the junior subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Corporation of each respective trust's obligations under the trust securities issued by each respective trust. See Note 15 "Dividends and Capital Restrictions" for discussion of the restrictions on the ability of the Corporation to obtain funds from its subsidiaries.

Note 14 – Stock Dividends and Preferred Stock

The Corporation is authorized to issue 50 million shares of preferred stock with a par value of $0.01 per share. On November 1, 2001, the Corporation redeemed all outstanding preferred stock with cumulative and adjustable dividends, Series B and C, totaling $190 million. The redemption price for both the Series B and C preferred stock was $100 per share, plus accrued and unpaid dividends totaling $1.00 per share and $1.083 per share, respectively. At December 31, 2000, the Corporation had outstanding 1,191,000 and 713,800 shares of Series B and C preferred stock with a stated value of $100 per share and a carrying value of $119 million and $71 million, respectively. The dividend rate on each of the cumulative adjustable rate series was based on a stated value and adjusted quarterly, based on a formula that considers the interest rates for selected short- and long-term U.S. Treasury securities prevailing at the time the rate is set.

Note 15 – Dividends and Capital Restrictions

The Corporation's national bank subsidiaries are subject to statutory limitations on their ability to pay dividends. Dividends cannot exceed the level of undivided profits. In addition, a national bank cannot declare a dividend, without regulatory approval, in an amount in excess of its net income for the current year and the combined net profits for the preceding two years. State bank subsidiaries may also be subject to limitations on dividend payments.

Based on these statutory requirements, the bank affiliates could have declared aggregate additional dividends of up to approximately $4.0 billion without regulatory approval at January 1, 2003. The payment of dividends by any bank may also be affected by other factors, such as the maintenance of adequate capital.

The bank affiliates are subject to various regulatory capital requirements that require them to maintain minimum ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Failure to meet minimum capital requirements results in certain regulatory actions that could have a direct material effect on the bank affiliates' financial statements. As of December 31, 2002, management believed that each of the bank affiliates met all applicable capital adequacy requirements and are correctly categorized as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that categorization that management believes have changed the institution's category.

The actual and required capital amounts and ratios for the Corporation and its principal banking subsidiaries are presented as follows:

(Dollars in millions)	Tier 1 Capital	Total Capital	Risk-Weighted Assets	Adjusted Average Assets	Tier 1 Capital(1) Ratio	Total Capital(1) Ratio	Tier 1 Leverage(2) Ratio
December 31, 2002							
The Corporation (consolidated)	**$23,918**	**$33,119**	**$241,468**	**$267,321**	**9.9%**	**13.7%**	**8.9%**
Bank One, N.A. (Chicago)	**16,888**	**23,360**	**173,725**	**211,067**	**9.7**	**13.4**	**8.0**
Bank One, N.A. (Columbus)	**3,164**	**5,162**	**42,193**	**57,244**	**7.5**	**12.2**	**5.5**
Bank One, Delaware N.A. (3)	**2,630**	**2,756**	**17,748**	**16,213**	**14.8**	**15.5**	**16.2**
December 31, 2001							
The Corporation (consolidated)	$21,749	$30,840	$253,330	$264,720	8.6%	12.2%	8.2%
Bank One, N.A. (Chicago) (4)	15,407	22,971	181,450	207,017	8.5	12.7	7.4
Bank One, N.A. (Columbus)	2,915	4,594	42,165	45,286	6.9	10.9	6.4
Bank One, Delaware N.A. (3)	2,099	2,253	13,645	14,737	15.4	16.5	14.2
Well capitalized ratios (5)					6.0%	10.0%	5.0% (6)
Minimum capital ratios (5)					4.0	8.0	3.0

(1) Tier 1 Capital or Total Capital, as applicable, divided by risk-weighted assets. Risk-weighted assets include assets and off-balance sheet positions, weighted by the type of instruments and the risk weight of the counterparty, collateral, or guarantor.

(2) Tier 1 Capital divided by adjusted average quarterly assets (net of allowance for loan losses, goodwill and certain intangible assets).

(3) Formerly First USA Bank, N.A.

(4) Restated to show the effect of the 2002 mergers with Bank One, Michigan, Bank One, Indiana, N.A., Bank One, Wisconsin, Bank One, Colorado, N.A., Bank One, Illinois, N.A. and American National Bank & Trust.

(5) As defined by the regulations issued by the Federal Reserve Board, the FDIC and the OCC.

(6) Represents requirements for bank subsidiaries pursuant to regulations issued under the Federal Deposit Insurance Corporation Improvement Act. There is no Tier 1 Leverage component in the definition of a well-capitalized bank holding company.

Federal banking law restricts each bank subsidiary from extending credit to the Corporation in excess of 10% of the subsidiary's capital stock and surplus, as defined. Any such extensions of credit are subject to strict collateral requirements.

Note 16 – Supplemental Disclosures for Statements of Cash Flows

During 2000, the Corporation transferred $6.5 billion of investment securities available for sale to trading securities. This transfer was for capital management purposes.

Loans transferred to other real estate owned totaled $414 million, $162 million, and $131 million in 2002, 2001, and 2000, respectively. During 2000, the Corporation recognized several non-cash charges to earnings for significant items. Several of these items will not result in future cash outflows while other items represent future uses of cash. See tables 1 and 2 on pages 52–53 for a detailed listing of significant items.

Note 17 – Supplemental Disclosures for Accumulated Other Adjustments to Stockholders' Equity

Accumulated other adjustments to stockholders' equity are as follows:

(In millions)	**2002**	2001	2000
Fair value adjustment on investment securities–available for sale:			
Balance, beginning of year	**$ 78**	$ (15)	$(271)
Change in fair value, net of taxes of $323, $86 and $(6) for the year ended December 31, 2002, 2001 and 2000, respectively	**560**	158	(5)
Reclassification adjustment, net of taxes of $(50), $(38) and $151 for the year ended December 31, 2002, 2001 and 2000, respectively	**(86)**	(65)	261
Balance, end of year	**552**	78	(15)
Fair value adjustment on derivative instruments–cash flow type hedges:			
Balance, beginning of period	**(146)**	—	—
Transition adjustment at January 1, 2001, net of tax benefit of $56	**—**	(98)	—
Net change in fair value associated with current period hedging activities, net of tax benefits of $425 and $70 for the year ended December 31, 2002 and 2001, respectively	**(711)**	(139)	—
Net reclassification into earnings, net of taxes of $178 and $49 for the year ended December 31, 2002 and 2001, respectively [1]	**297**	91	—
Balance, end of year	**(560)**	(146)	—
Accumulated translation adjustment:			
Balance, beginning of period	**3**	10	8
Translation gain (loss), net of hedge results and taxes	**(3)**	(7)	2
Balance, end of year	**—**	3	10
Total accumulated other adjustments to stockholders' equity	**$ (8)**	$ (65)	$ (5)

(1) During 2001, $89 million after-tax of the transition adjustment recorded at January1, 2001, was reclassified into earnings.

Note 18 – Employee Benefits

(a) Pension Plans

The Corporation's qualified plans' change in benefit obligation, change in plan assets and funded status are as follows:

(In millions)	**2002**	2001
Change in benefit obligation:		
Benefit obligation, January 1	**$2,297**	$2,248
Service cost	**101**	92
Interest cost	**166**	168
EGTRRA adjustment [1]	**—**	7
Actuarial loss	**182**	108
Benefits paid	**(327)**	(326)
Benefit obligation, December 31	**$2,419**	$2,297
Change in plan assets:		
Fair value of plan assets, January 1	**$2,747**	$3,134
Actual loss on plan assets	**(219)**	(114)
Corporation contribution	**280**	53
Benefits paid	**(327)**	(326)
Fair value of plan assets, December 31	**$2,481**	$2,747
Funded status	**$ 62**	$ 450
Unrecognized net actuarial loss	**829**	156
Unrecognized prior service cost	**20**	24
Prepaid pension costs, December 31	**$ 911**	$ 630

(1) The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) contained various provisions relating to the operations of qualified pension plans. Increases to the benefit limits and the limit on pensionable earnings caused a shift in pension obligation from the non-qualified to the qualified plan.

Plan assets include approximately 1.0 million shares of the Corporation's common stock with a fair value of approximately $38 million and $40 million at December 31, 2002, and 2001, respectively.

The net periodic pension expense (benefit) for 2002, 2001 and 2000 for the Corporation's qualified and nonqualified pension plans is as follows:

(In millions)	**2002**	2001	2000
Service cost-benefits earned during the period	**$ 104**	$ 96	$ 110
Interest cost on benefit obligation	**173**	177	194
Expected return on plan assets	**(272)**	(287)	(300)
Amortization of prior service costs	**9**	8	9
Recognized actuarial (gain) loss	**5**	(1)	(11)
Amortization of transition assets	**—**	(7)	(13)
Net periodic pension expense (benefit)	**$ 19**	$ (14)	$ (11)

The accrued pension cost for the Corporation's nonqualified supplemental pension plans was $44 million and $39 million at December 31, 2002, and 2001, respectively. Such plans are unfunded.

The assumptions used in determining the Corporation's benefit obligation and net periodic pension cost for both qualified and nonqualified supplemental pension plans are as follows:

For The Year Ended December 31,	2003	**2002**	2001	2000
Actuarial assumptions:				
Weighted-average discount rate for benefit obligation	6.50% [1]	**6.50%**	7.00%	7.50%
Weighted-average rate of compensation increase	4.25%	**4.25%**	4.25%	4.25%
Expected long-term rate of return on plan assets	7.50%	**8.50%**	9.50%	9.50%

(1) Rate currently expected at December 31, 2003.

(b) Postretirement Benefits Other Than Pensions

The Corporation sponsors postretirement life insurance plans and provides health care benefits for certain retirees and grandfathered employees when they retire. The postretirement life insurance benefit is noncontributory, while the health care benefits are contributory.

The Corporation's postretirement benefit plans' change in benefit obligation, change in plan assets and funded status are as follows:

(In millions)	**2002**	2001
Change in benefit obligation:		
Benefit obligation, January 1	**$ 233**	$ 195
Interest cost	**15**	14
Actuarial loss	**24**	48
Benefits paid	**(20)**	(24)
Benefit obligation, December 31	**$ 252**	$ 233
Change in plan assets:		
Fair value of plan assets, January 1	**$ —**	$ —
Implementation of retiree VEBA	**76**	—
Actual return on plan assets	**6**	—
Employer contribution	**18**	24
Benefits paid	**(20)**	(24)
Fair value of plan assets, December 31	**$ 80**	$ —
Funded status	**$(172)**	$(233)
Unrecognized net actuarial loss	**85**	67
Unrecognized prior service cost	**(12)**	(25)
Accrued postretirement costs, December 31	**$ (99)**	$(191)

Net periodic cost for postretirement health care and life insurance benefits during 2002, 2001 and 2000 includes the following:

(In millions)	**2002**	2001	2000
Interest cost on accumulated postretirement benefit obligation	**$ 15**	$ 14	$ 13
Amortization of prior service costs	**(12)**	(12)	(12)
Expected return on plan assets	**(3)**	—	—
Recognized actuarial loss	**3**	—	—
Curtailment	**—**	—	1
Net periodic postretirement cost	**$ 3**	$ 2	$ 2

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.50% at December 31, 2002, and 7.00% at December 31, 2001.

The expected long-term rate of return on plan assets was 5.40% in 2002. For measurement purposes, an annual rate of increase of 10.00% was assumed for 2002 in the cost of covered health care benefits; this range was assumed to decrease to 5.00% in the years 2010 and thereafter. These assumptions have a significant effect on the amounts reported. Accordingly, the effect of a 1.00% change in the assumed health care cost trend rates is as follows:

(In millions)	1% increase	1% decrease
Effect on 2002 service and interest cost components	$ 1.0	$(0.9)
Effect on December 31, 2002, accumulated postretirement benefit obligation	$16.7	$(14.6)

(c) 401(k) Plan

The Corporation sponsored a 401(k) plan that covered substantially all of its employees. The expense related to this plan was $98 million in 2002, $95 million in 2001 and $137 million in 2000.

Note 19 – Stock-Based Compensation

The Corporation utilizes several types of stock-based awards as part of its overall compensation program. In addition, the Corporation provides employees the opportunity to purchase its shares through its Employee Stock Purchase Plan. The Corporation's stock-based compensation plans provide for granting of awards to purchase or receive common shares and include limits as to the aggregate number of shares available for grants and the total number of shares available for grants of stock awards in any one year. Compensation cost charged against income for the Corporation's stock-based compensation plans was $118 million for 2002, $70 million for 2001 and $59 million for 2000.

(a) Restricted Shares

Restricted shares granted to key officers of the Corporation require them to continue employment for a stated number of years from the grant date before restrictions on the shares lapse. The market value of the restricted shares as of the date of grant is amortized to compensation expense as earned over the restriction period. Holders of restricted stock receive dividends and have the right to vote the shares.

(b) Stock Options

The Corporation's stock option plans generally provide that the exercise price of any stock option may not be less than the closing price of the common stock on the trading day preceding the date of grant of the common stock.

Options granted under the Corporation's stock-based compensation program generally vest ratably over a five-year period and have a term of ten years. Certain option grants include the right to receive additional option grants ("reload" or "restorative" options) in an amount equal to the number of common shares used to satisfy the exercise price and applicable withholding taxes. Upon grant, reload options assume the same remaining term as the related original option and vest six months from the date of grant.

Summarized stock option activity for 2002, 2001 and 2000, respectively, and details of the Corporation's stock options outstanding at December 31, 2002, follows:

	2002		2001		2000	
(Shares in thousands)	**Shares**	**Wtd. Avg. Exercise Price**	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Outstanding at January 1	**90,482**	**$35.72**	77,315	$34.17	44,630	$40.88
Granted	**20,063**	**40.95**	23,573	37.73	42,659	27.25
Exercised	**(10,223)**	**26.60**	(7,262)	25.09	(2,089)	19.66
Forfeited	**(4,210)**	**41.16**	(3,144)	36.72	(7,885)	38.56
Outstanding at December 31	**96,112**	**$37.57**	90,482	$35.72	77,315	$34.17
Exercisable at December 31	**58,037**	**$36.84**	45,525	$36.30	25,503	$36.41

	Options Outstanding			Options Exercisable	
(Shares in thousands) Range of Exercise Prices	**Number Outstanding Dec. 31, 2002**	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Life	**Number Exercisable Dec. 31, 2002**	Wtd. Avg. Exercise Price
Less than $20.00	**1,220**	$16.52	1.3 years	**1,220**	$16.52
$20.01 – $25.00	**2,597**	24.54	2.9	**2,597**	24.54
$25.01 – $30.00	**23,932**	26.67	12.2	**21,952**	26.51
$30.01 – $35.00	**4,785**	32.72	6.2	**3,008**	32.46
$35.01 – $40.00	**26,151**	37.88	7.6	**9,037**	37.87
$40.01 – $45.00	**18,385**	41.35	9.1	**1,181**	43.31
$45.01 – $55.00	**15,236**	49.63	8.9	**15,236**	49.63
Greater than $55.00	**3,806**	59.12	5.2	**3,806**	59.12
Total	**96,112**	$37.57	8.9 years	**58,037**	$36.84

(c) Employee Stock Purchase Plan

The Corporation sponsors an Employee Stock Purchase Plan designed to encourage employee stock ownership. This plan generally allows eligible employees to purchase shares of the Corporation's common stock at a 15% discount from the market price at the beginning of an offering or the market price at the end of such offering, whichever is lower. During the current two-year offering period, an employee is allowed to make deposits of up to 20% of their earnings (up to a designated maximum) on an annual basis to an interest-bearing savings account to purchase the number of shares permissible under the plan. The maximum number of shares each participant may purchase cannot exceed the contribution limit divided by the applicable purchase price on the offering date.

Shares purchased by the participant are subject to a one-year holding period and cannot be sold or transferred for one year after the purchase date. Upon adoption of SFAS No. 123 in 2002, the Corporation prospectively recognizes compensation expense over the offering period equal to the estimated fair value of the projected shares to be purchased by the employee.

(d) Fair Value of Stock-Based Compensation

The grant date fair values of stock options granted under the Corporation's various stock option plans and the Employee Stock Purchase Plan were estimated using the Black-Scholes option-pricing model. This model was developed to estimate the fair value of traded options, which have different characteristics than employee stock options. In addition, changes to the subjective input assumptions can result in materially different fair market value estimates. Therefore, the Black-Scholes model may not necessarily provide a reliable single measure of the fair value of employee stock options and purchase rights.

Summarized stock-based compensation grants and their related weighted-average grant-date fair values for the years ended December 31 follows:

	2002		2001		2000	
(Shares in thousands)	**Number of Shares**	**Wtd. Avg. Grant Date Fair Value Per Share**	Number of Shares	Wtd. Avg. Grant Date Fair Value Per Share	Number of Shares	Wtd. Avg. Grant Date Fair Value Per Share
Stock option plans	**20,063**	**$12.68**	23,573	$13.34	42,659	$ 9.80
Restricted shares	**3,488**	**37.68**	2,065	37.68	4,517	27.85
Employee Stock Purchase Plan	**3,300**[1]	**11.48**	2,483	9.68	2,122	3.27

(1) Estimated number of shares that employees would purchase under the 2002 plan.

The following assumptions were used to determine the Black-Scholes weighted-average grant date fair value of options granted during 2002, 2001 and 2000:

	Stock Option Plans			Employee Stock Purchase Plans		
Weighted-Average Assumptions:	**2002**	2001	2000	**2002**	2001	2000
Expected dividend yield	**1.97%**	2.29%	4.29%	**2.18%**	2.30%	2.58%
Expected volatility	**35.84**	36.85	42.29	**32.46**	33.80	39.63
Risk-free interest rate	**4.34**	5.02	6.43	**2.75**	2.61	6.22
Expected life (in years)	**4.88**	4.64	9.26	**1.98**	1.50	0.50

Note 20 – Income Taxes

The components of total applicable income tax expense (benefit) in the consolidated income statement for the years ended December 31 follows:

(In millions)	**2002**	2001	2000
Income tax expense:			
Current:			
Federal	**$1,208**	$ 797	$ 571
Foreign	**7**	11	32
State	**144**	115	26
Total	**1,359**	923	629
Deferred:			
Federal	**138**	194	(1,151)
Foreign	**1**	5	(7)
State	**(30)**	(4)	(40)
Total	**109**	195	(1,198)
Applicable income taxes (benefit)	**$1,468**	$1,118	$ (569)

The tax effects of fair value adjustments on securities available for sale, foreign currency translation adjustments and certain tax benefits related to stock options are recorded directly to stockholders' equity. The net tax (benefit) charge recorded directly to stockholders' equity was $(28) million in 2002, $(47) million in 2001 and $107 million in 2000.

A reconciliation of expected income tax expense at the federal statutory rate of 35% to the Corporation's applicable income tax expense (benefit) and effective tax rate follows:

(Dollars in millions)	**2002**		2001		2000	
Statutory tax rate	**$1,667**	**35.0%**	$1,330	35.0%	$(378)	35.0%
Increase (decrease) resulting from:						
State income taxes,						
net of federal income tax benefit	**74**	**1.6**	72	1.9	(4)	0.3
Tax-exempt interest	**(50)**	**(1.1)**	(56)	(1.5)	(57)	5.3
Tax credits	**(287)**	**(6.1)**	(231)	(6.1)	(179)	16.6
Goodwill	**—**	**—**	23	0.6	25	(2.3)
Cash surrender value of life insurance	**(54)**	**(1.1)**	(57)	(1.5)	(56)	5.2
Other, net	**118**	**2.5**	37	1.0	80	(7.4)
Applicable income taxes (benefit)	**$1,468**	**30.8%**	$1,118	29.4%	$(569)	52.7%

A net deferred tax liability is included in other liabilities in the consolidated balance sheet as a result of temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their related tax bases. The components of the net deferred tax liability for the years ended December 31 follows:

(In millions)	**2002**	2001
Deferred tax liabilities:		
Deferred income on lease financing	**$4,042**	$4,242
Prepaid pension costs	**315**	216
Deferred fee income	**461**	333
Other	**176**	198
Gross deferred tax liabilities	**4,994**	4,989
Deferred tax assets:		
Allowance for credit losses	**1,691**	1,744
Purchased intangibles	**289**	227
Deferred compensation	**257**	302
Other	**678**	812
Gross deferred tax assets	**2,915**	3,085
Net deferred tax liability	**$2,079**	$1,904

As of December 31, 2002, the Corporation has foreign tax credit carryforwards totaling $33 million. These credits will expire after 2005 if not used. Management believes that it is more likely than not that these credits will be used within the carryforward period.

Note 21 – Lease Commitments

The Corporation has entered into a number of operating lease agreements for premises and equipment. The minimum annual rental commitments under these leases are as follows:

(In millions)	
2003	$ 239
2004	228
2005	205
2006	187
2007	160
2008 and thereafter	843
Total	$1,862

Rental income from premises leased to others in the amount of $78 million in 2002, $77 million in 2001, and $80 million in 2000 has reduced occupancy expense. Rental expense under operating leases approximated $328 million in 2002, $332 million in 2001, and $384 million in 2000.

Note 22 – Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Corporation is a party to financial instruments containing credit and/or market risks that are not required to be reflected in the balance sheet. These financial instruments are primarily credit-related instruments. The Corporation has risk management policies to identify, monitor and limit exposure to credit, liquidity and market risks.

The following disclosures represent the Corporation's credit exposure, assuming that every counterparty to financial instruments with off-balance sheet credit risk fails to perform completely according to the terms of the contracts, and that the collateral and other security, if any, proves to be of no value to the Corporation.

This note does not address the amount of market losses the Corporation would incur if future changes in market prices make financial instruments with off-balance sheet market risk less valuable or more onerous. For a more detailed discussion of off-balance sheet activities see the "Off-Balance Sheet Activities" section beginning on page 75.

(a) Collateral and Other Security Arrangements

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, the Corporation generally determines the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness. The Corporation may also receive comfort letters and oral assurances. The amount and type of collateral held to reduce credit risk varies but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in the Corporation's possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is requested when appropriate. Credit derivatives and credit insurance have also been purchased to further reduce the credit risk inherent in these contracts.

(b) Credit-Related Financial Instruments

Summarized credit-related financial instruments, including both commitments to extend credit and letters of credit are as follows:

For The Year Ended December 31,	2002	2001
(In billions)		
Unused credit card lines	**$337.5**	$299.3
Unused loan commitments	**134.8**	148.2
Commercial letters of credit	**0.5**	0.6

Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

Credit card lines allow customers to use a credit card to buy goods or services and to obtain cash advances. However, the Corporation has the right to change or terminate any terms or conditions of a customer's credit card account, upon notification to the customer. Loan commitments are agreements to make or acquire a loan or lease as long as the agreed-upon terms (e.g., expiry, covenants or notice) are met. The Corporation's commitments to purchase or extend loans help its customers meet their liquidity needs.

Commercial letters of credit are issued or confirmed to ensure payment of customers' payables or receivables in short-term international trade transactions. Generally, drafts will be drawn when the underlying transaction is consummated as intended. However, the short-term nature of this instrument serves to mitigate the risk associated with these contracts.

(c) Financial Guarantees

The following is a summary of instruments that are considered financial guarantees in accordance with FIN No. 45:

At December 31,	2002		2001	
(In billions)	**Contract Amount**	**Carrying Value**[3]	Contract Amount	Carrying Value[3]
Standby letters of credit and foreign office guarantees [1] [2]	**$24.0**	**$0.2**	$19.4	$0.2
Loans sold with recourse	**4.7**	**—**	8.3	—
Swap guarantees	**0.2**	**—**	0.2	—
Asset purchase agreements[4]	**2.5**	**—**	2.6	—

(1) The contract amount of financial standby letters of credit and foreign office guarantees and performance standby letters of credit and foreign office guarantees totaled $20.4 billion and $3.6 billion and $15.6 billion and $3.8 billion at December 31, 2002 and 2001, respectively.

(2) Includes $7.1 billion at December 31, 2002, and $3.4 billion at December 31, 2001, participated to other institutions.

(3) The carrying value of financial guarantees includes amounts deferred and recognized in income over the life of the contract and amounts accrued for inherent losses in accordance with FASB Statement No. 5, "Accounting for Contingencies" ("FAS No. 5"). These amounts are generally reported in other liabilities, except the FAS No. 5 component related to standby letters of credit that is reported in the allowance for credit losses. See page 68, "Allowance for Credit Losses", for more information.

(4) Certain asset purchase agreements entered into in conjunction with the Corporation's asset backed finance conduit programs qualify as financial guarantees under this new accounting guidance due to the specific structure of certain of these agreements. For additional discussion of the asset purchase agreements and the related off-balance sheet exposures, see pages 75–77.

Standby letters of credit and foreign office guarantees are issued in connection with agreements made by customers to counterparties. If the customer fails to comply with the agreement, the counterparty may enforce the standby letter of credit or foreign office guarantee as a remedy. Credit risk arises from the possibility that the customer may not be able to repay the Corporation for standby letters of credit or foreign office guarantees.

The Corporation occasionally sells or securitizes loans with limited recourse. The recourse provisions require the Corporation to repurchase loans at par plus accrued interest upon a credit-related triggering event. Exposure to credit losses from these arrangements has been reduced with the purchase of credit insurance contracts that cover the majority of expected losses. Although expected losses are covered by insurance, the maximum exposure to credit losses is approximately the contract amount stated above.

The Corporation also sells put options that are considered a form of financial guarantee when the counterparties that purchase the contracts actually own the reference financial instrument (generally loans, commodities and equities). A put option sold by the Corporation provides the counterparty the right to sell (i.e., "put") the reference asset to the Corporation at a pre-determined price. The following table summarizes the Corporation's inventory of sold put options as of December 31, 2002, in which it is probable that the counterparty owns the reference financial instrument:

(In millions)	Contract Amount	Carrying Value
Loans	$1,371	$ 0.7
Commodities	351	7.7
Equities	50	13.2
Other	23	—

In the ordinary course of its business, the Corporation enters into contracts that contain indemnification provisions. These provisions require the Corporation to make payments to another party in the event that certain events occur. Many of these provisions call for the Corporation to indemnify the other party against loss in the event that the Corporation fails to perform its own obligations under the contract. These performance guarantees are not subject to disclosure. Other types of indemnification agreements that function as financial guarantees are considered to have remote risk of loss, historical loss experience is negligible and maximum exposure to loss is not possible to estimate due to the pervasive, yet low risk, nature of these agreements.

Note 23 – Fair Value of Financial Instruments

The Corporation is required to disclose the estimated fair value of its financial instruments in accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." These disclosures do not attempt to estimate or represent the Corporation's fair value as a whole. The disclosure excludes assets and liabilities that are not financial instruments as well as the significant unrecognized value associated with core deposits and credit card relationships.

Fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Estimated fair value amounts in theory represent the amounts at which financial instruments could be exchanged or settled in a current transaction between willing parties. In practice, however, this may not be the case due to inherent limitations in the methodologies and assumptions used to estimate fair value. For example, quoted market prices may not be realized because the financial instrument may be traded in a market that lacks liquidity; or a fair value derived using a discounted cash flow approach may not be the amount realized because of the subjectivity involved in selecting the underlying assumptions, such as projecting cash flows or selecting a discount rate. The fair value amount also may not be realized because it ignores transaction costs and does not include potential tax effects. The Corporation does not plan to dispose of, either through sale or settlement, the majority of its financial instruments at these estimated fair values.

	2002		2001	
(In millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and other short-term financial instruments (a)	**$ 37,001**	**$ 37,001**	$ 28,017	$ 28,017
Trading assets (a)	**7,190**	**7,190**	6,167	6,167
Investment securities (b)	**67,643**	**67,643**	60,883	60,883
Loans (c)	**148,125**	**146,649**	156,733	154,619
Allowance for credit losses	**(4,525)**	**—**	(4,528)	—
Loans, net	**143,600**	**146,649**	152,205	154,619
Derivative product assets (f)	**4,273**	**4,273**	3,225	3,225
Financial instruments in other assets (a)	**1,315**	**1,315**	1,459	1,459
Financial liabilities:				
Deposits (d)	**170,008**	**171,312**	167,530	168,414
Securities sold not yet purchased (a)	**1,957**	**1,957**	1,237	1,237
Other short-term financial instruments (a)	**25,149**	**25,149**	23,003	23,003
Long-term debt [(1)] (e)	**43,234**	**46,090**	43,418	44,521
Derivative product liabilities (f)	**3,838**	**3,838**	2,574	2,574
Financial instruments in other liabilities (a)	**930**	**930**	1,273	1,273

(1) Includes trust preferred capital securities.

Estimated fair values are determined as follows:

(a) Financial Instruments Whose Carrying Value Approximates Fair Value

A financial instrument's carrying value approximates its fair value when the financial instrument has an immediate or short-term maturity (generally one year or less), or is carried at fair value. Quoted market prices or dealer quotes typically are used to estimate fair values of trading securities and securities sold under repurchase agreements.

(b) Investment Securities

Quoted market prices typically are used to estimate the fair value of debt investment securities. Quoted market prices for similar securities are used to estimate fair value when a quoted market price is not available for a specific debt investment security. See Note 1(f) "Investment Securities" on pages 84–85 for the methodologies used to determine the fair value of equity investment securities.

(c) Loans

The loan portfolio was segmented based on loan type, credit quality and repricing characteristics. Carrying values are used to estimate fair values of certain variable rate loans with no significant credit concerns and frequent repricing. A discounted cash flow method was used to estimate the fair value of other loans. Discounting was based on the contractual cash flows, and discount rates typically are based on the year-end yield curve plus a spread that reflects pricing on loans with similar characteristics. If applicable, prepayment assumptions are factored into the fair value determination based on historical experience and current economic and lending conditions.

Commitments to extend credit and letters of credit typically result in loans with a market interest rate when funded. The recorded book value of deferred fee income approximates the fair value.

(d) Deposits

The amount payable on demand at the report date is used to estimate the fair value of demand and savings deposits with no defined maturity. A discounted cash flow method is used to estimate the fair value of fixed-rate time deposits. Discounting was based on the contractual cash flows and the current rates at which similar deposits with similar remaining maturities would be issued, adjusted for servicing costs. Typically, the carrying value is used to estimate the fair value of floating-rate time deposits.

(e) Long-Term Debt

Quoted market prices or the discounted cash flow method was used to estimate the fair value of the Corporation's fixed-rate long-term debt. Discounting was based on the contractual cash flows and the current rates at which debt with similar terms could be issued. Typically, the carrying value is used to estimate the fair value of floating-rate long-term debt.

(f) Derivative Product Assets and Liabilities

Quoted market prices or valuation models that incorporate current market data inputs are used to estimate the fair value of derivative product assets and liabilities.

Note 24 – Related Party Transactions

Certain executive officers, directors and their related interests are loan customers of the Corporation. These loans in the aggregate were less than 5% of stockholders' equity at December 31, 2002, and 2001.

Note 25 – Pledged Assets

Assets having a book value of $56.9 billion as of December 31, 2002, and $70.3 billion as of December 31, 2001, were pledged as collateral for repurchase agreements, certain derivative instrument transactions, governmental and trust department deposits in accordance with federal and state requirements, and for other purposes required by law. The assets pledged generally were comprised of investment securities and loans. Of the total collateral pledged as of December 31, 2002, $3.2 billion of collateral, which was comprised of securities posted as collateral for repurchase agreements, were permitted to be sold or repledged by the secured party. The Corporation does not issue equity puts.

The Corporation's bank affiliates are required to maintain average noninterest-bearing cash balances, in accordance with Federal Reserve Board regulations. The average required reserve balances were $2.5 billion in 2002 and $2.3 billion in 2001.

Note 26 – Collateral Policy Related to Certain Asset Transfer Activity

It is the Corporation's policy to take possession of securities purchased under agreements to resell in order to secure the risk of counterparty nonperformance on a transaction. The Corporation monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest, and adjusts the level of collateral as necessary. With respect to securities lent, the Corporation receives collateral to secure the risk of counterparty nonperformance in the form of cash or other collateral, in an amount generally in excess of the fair value of the lent securities. The Corporation monitors the fair value of the securities lent on a daily basis, and additional cash or securities are obtained as necessary. At December 31, 2002, and 2001, the fair value of collateral accepted by the Corporation in connection with these activities was $7.0 billion and $6.3 billion, respectively, of which, $6.6 billion and $5.9 billion, respectively, had been sold or repledged as of the balance sheet date.

The maximum outstanding amount of securities under resale agreements at any month end during 2002 and 2001, was $8.1 billion and $8.5 billion, respectively. The average oustanding amount of securities under resale agreements during 2002 and 2001 was $6.5 billion and $7.1 billion, respectively.

Note 27 – Contingent Liabilities

The Corporation and certain of its subsidiaries have been named as defendants in various legal proceedings, including certain class actions, arising out of the normal course of business or operations. In certain of these proceedings, which are based on alleged violations of consumer protection, securities, banking, insurance and other laws, rules or principles, substantial money damages are asserted against the Corporation and its subsidiaries. Since the Corporation and certain of its subsidiaries, which are regulated by one or more federal and state regulatory authorities, are the subject of numerous examinations and reviews by such authorities, the Corporation also is and will be, from time to time, normally engaged in various disagreements with regulators, related primarily to its financial services businesses. The Corporation has also received certain tax deficiency assessments. In view of the inherent difficulty of predicting the outcome of such matters, the Corporation cannot state what the eventual outcome of pending matters will be; however, based on current knowledge and after consultation with counsel, management does not believe that liabilities arising from these matters, if any, will have a material adverse effect on the consolidated financial position or results of operations of the Corporation.

Note 28 – Parent Company Only Condensed Financial Statements

Condensed Balance Sheets

At December 31,	2002	2001
(In millions)		
Assets		
Cash and due from banks:		
Bank subsidiaries	**$ 6**	$ 2
Interest-bearing due from banks:		
Bank subsidiaries	**7,128**	7,345
Securities purchased under resale agreements	**50**	30
Trading assets	**—**	5
Investment securities	**20**	17
Loans and receivables—subsidiaries:		
Bank subsidiaries	**5,304**	6,171
Nonbank subsidiaries	**7,096**	7,940
Investment in subsidiaries:		
Bank subsidiaries	**24,943**	22,670
Nonbank subsidiaries	**1,630**	1,630
Other assets	**834**	1,179
Total assets	**$47,011**	$46,989
Liabilities and Stockholders' Equity		
Short-term borrowings:		
Nonbank subsidiaries	**$ 63**	$ 68
Other	**457**	546
Long-term debt:		
Nonbank subsidiaries	**3,411**	3,419
Other	**19,407**	21,465
Other liabilities	**1,233**	1,265
Total liabilities	**24,571**	26,763
Stockholders' equity	**22,440**	20,226
Total liabilities and stockholders' equity	**$47,011**	$46,989

Condensed Income Statements

For The Year Ended December 31,	2002	2001	2000
(In millions)			
Operating Income			
Dividends:			
Bank subsidiaries	**$1,634**	$1,645	$ 1,775
Nonbank subsidiaries	**57**	209	762
Interest income:			
Bank subsidiaries	**289**	655	822
Nonbank subsidiaries	**316**	381	513
Other	**1**	3	22
Other income (loss):			
Bank subsidiaries	**1**	5	7
Other	**(11)**	(2)	19
Total operating income	**2,287**	2,896	3,920
Operating Expense			
Interest expense:			
Nonbank subsidiaries	**253**	234	161
Other	**943**	1,308	1,556
Merger and restructuring-related charges (reversals)	**(12)**	(12)	140
Salaries and employee benefits	**—**	(1)	52
Professional fees and services	**—**	2	4
Other expense	**5**	34	255
Total operating expense	**1,189**	1,565	2,168
Income before income taxes and cumulative effect of change in accounting principle and equity in undistributed net income (loss) of subsidiaries	**1,098**	1,331	1,752
Applicable income tax benefit	**(224)**	(202)	(197)
Income before cumulative effect of change in accounting principle and equity in undistributed net income (loss) of subsidiaries	**1,322**	1,533	1,949
Equity in undistributed net income (loss) of subsidiaries:			
Bank subsidiaries	**2,181**	1,300	(1,835)
Nonbank subsidiaries	**(208)**	(151)	(625)
Income (loss) before cumulative effect of change in accounting principle	**3,295**	2,682	(511)
Cumulative effect of change in accounting principle, net of taxes of ($25)	**—**	(44)	—
Net income (loss)	**$3,295**	$2,638	$ (511)

Note 29 – Continued–Parent Company Only Condensed Financial Statements

Condensed Statements of Cash Flows

For The Year Ended December 31,	**2002**	2001	2000
(In millions)			
Cash Flows from Operating Activities:			
Net income (loss)	**$ 3,295**	$ 2,638	$(511)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in net income of subsidiaries	**(3,664)**	(3,003)	(77)
Cumulative effect of accounting change of subsidiaries	**—**	69	—
Dividends received from subsidiaries	**1,691**	1,854	2,537
Other operating adjustments	**1,123**	68	83
Net cash provided by operating activities	**2,445**	1,626	2,032
Cash Flows from Investing Activities:			
Net decrease (increase) in loans to subsidiaries	**1,550**	(435)	2,296
Net increase in capital investments in subsidiaries	**(262)**	(412)	(668)
Purchase of investment securities—available for sale	**(15)**	(79)	(1,095)
Proceeds from sales and maturities of investment securities—available for sale	**16**	189	1,321
Other, net	**(19)**	(30)	29
Net cash provided by (used in) investing activities	**1,270**	(767)	1,883
Cash Flows from Financing Activities:			
Net decrease in commercial paper and short-term borrowings	**(100)**	(624)	(181)
Proceeds from issuance of long-term debt	**1,854**	6,414	3,964
Redemption and repayment of long-term debt	**(4,375)**	(5,495)	(2,216)
Dividends paid	**(982)**	(991)	(1,222)
Proceeds from issuance of common and treasury stock	**292**	191	152
Purchase of treasury stock	**(617)**	(78)	(3)
Payment for redemption of preferred stock	**—**	(190)	—
Net cash (used in) provided by financing activities	**(3,928)**	(773)	494
Net (decrease) increase in cash and cash equivalents	**(213)**	86	4,409
Cash and cash equivalents at beginning of year	**7,347**	7,261	2,852
Cash and cash equivalents at end of year	**$ 7,134**	$ 7,347	$ 7,261
Other cash-flow disclosures:			
Interest paid	**$ 1,246**	$ 1,501	$ 1,620
Income tax received	**(539)**	(374)	(139)

Overnight money market loans, short-term investments and other sources of liquid assets exceeded the amount of commercial paper issued at December 31, 2001.

Note 30 – Quarterly Financial Data (Unaudited)

	2002[4][5]				2001			
	Fourth	**Third**	**Second**	**First**	Fourth	Third	Second	First
(In millions, except per share data, ratios, and headcount)								
Income Statement Data:								
Total revenue, net of interest expense	**$ 4,225**	**$ 4,180**	**$ 4,274**	**$ 4,152**	$ 4,207	$ 4,016	$ 3,846	$ 3,792
Net interest income– fully taxable-equivalent ("FTE") basis [1]	**2,192**	**2,235**	**2,078**	**2,235**	2,273	2,193	2,085	2,218
Noninterest income	**2,069**	**1,983**	**2,232**	**1,952**	1,972	1,853	1,791	1,607
Provision for credit losses	**628**	**587**	**607**	**665**	765	620	540	585
Noninterest expense	**2,383**	**2,415**	**2,438**	**2,345**	2,706	2,303	2,306	2,236
Income before cumulative effect of change in accounting principle	**842**	**823**	**843**	**787**	541	754	708	679
Net income	**842**	**823**	**843**	**787**	541	754	664	679
Per Common Share Data:								
Income before cumulative effect of change in accounting principle:								
Basic	**$ 0.73**	**$ 0.71**	**$ 0.72**	**$ 0.67**	$ 0.46	$ 0.64	$ 0.60	$ 0.58
Diluted	**0.72**	**0.70**	**0.71**	**0.67**	0.46	0.64	0.60	0.58
Net income:								
Basic	**$ 0.73**	**$ 0.71**	**$ 0.72**	**$ 0.67**	$ 0.46	$ 0.64	$ 0.57	$ 0.58
Diluted	**0.72**	**0.70**	**0.71**	**0.67**	0.46	0.64	0.56	0.58
Cash dividends declared	**0.21**	**0.21**	**0.21**	**0.21**	0.21	0.21	0.21	0.21
Book value	**19.28**	**18.79**	**18.37**	**17.81**	17.33	17.30	16.49	16.20
Balance Sheet Data – Ending Balances:								
Loans	**$148,125**	**$150,389**	**$147,728**	**$152,126**	$156,733	$164,251	$166,576	$171,427
Total assets	**277,383**	**274,187**	**270,343**	**262,947**	268,954	270,252	272,412	274,352
Deposits	**170,008**	**164,036**	**157,518**	**158,803**	167,530	162,385	164,299	163,555
Long-term debt [2]	**43,234**	**42,481**	**43,756**	**44,194**	43,418	44,361	41,693	42,197
Common stockholders' equity	**22,440**	**21,925**	**21,563**	**20,913**	20,226	20,192	19,261	18,876
Total stockholders' equity	**22,440**	**21,925**	**21,563**	**20,913**	20,226	20,382	19,451	19,066
Credit Quality Ratios:								
Net charge-offs to average loans	**1.65%**	**1.55%**	**1.62%**	**1.71%**	1.79%	1.37%	1.22%	1.13%
Allowance to period end loans	**3.20**	**3.17**	**3.19**	**3.06**	2.97	2.82	2.62	2.52
Nonperforming assets to related assets [3]	**2.38**	**2.48**	**2.65**	**2.58**	2.35	1.96	1.77	1.55
Financial Performance Ratios:								
Return on average assets	**1.24%**	**1.24%**	**1.32%**	**1.21%**	0.80%	1.13%	0.99%	1.02%
Return on average common equity	**15.0**	**14.8**	**15.7**	**15.3**	10.5	15.0	13.9	14.6
Net interest margin	**3.67**	**3.84**	**3.69**	**3.91**	3.84	3.70	3.50	3.71
Efficiency ratio	**55.9**	**57.3**	**56.6**	**56.0**	63.7	56.9	59.5	58.5
Capital Ratios:								
Risk-based capital:								
Tier 1	**9.9%**	**9.5%**	**9.4%**	**9.0%**	8.6%	8.4%	8.2%	7.8%
Total	**13.7**	**13.0**	**13.0**	**12.7**	12.2	11.7	11.6	11.2
Leverage	**8.9**	**9.0**	**9.1**	**8.6**	8.2	8.1	8.0	7.7
Common Stock Data:								
Average shares outstanding:								
Basic	**1,157**	**1,162**	**1,174**	**1,170**	1,166	1,168	1,166	1,163
Diluted	**1,166**	**1,171**	**1,184**	**1,179**	1,174	1,176	1,176	1,173
Stock price:								
High	**$ 40.05**	**$ 41.20**	**$ 42.53**	**$ 42.45**	$ 39.85	$ 38.95	$ 39.60	$ 39.85
Low	**32.59**	**32.90**	**37.02**	**34.56**	28.00	28.00	33.61	33.49
Close	**36.55**	**37.40**	**38.48**	**41.78**	39.05	31.47	35.80	36.18
Headcount	**73,685**	**73,535**	**73,579**	**73,864**	73,519	75,801	78,491	79,157

(1) Net interest income-FTE includes taxable equivalent adjustments of $36 million, $38 million, $36 million and $35 million for quarters ended December 31, 2002, September 30, 2002, June 30, 2002 and March 31, 2002, respectively. Net interest income-FTE includes taxable equivalent adjustments of $38 million, $30 million, $30 million and $33 million for quarters ended December 31, 2001, September 30, 2001, June 30, 2001 and March 31, 2001, respectively.

(2) Includes trust preferred capital securities.

(3) Related assets consist of loans outstanding, including loans held for sale, and other real estate owned.

(4) 2002 includes the addition of employees due to the consolidation of Paymentech, Inc. and Anexsys, LLC.

(5) Results include the effect of the consolidation of Paymentech, Inc. and Anexsys, LLC.

Management of BANK ONE CORPORATION and its subsidiaries (the "Corporation") is responsible for the preparation, integrity and fair presentation of its published financial reports. These reports include consolidated financial statements that have been prepared in accordance with generally accepted accounting principles in the United States of America, using management's best judgment and all information available.

The consolidated financial statements of the Corporation have been audited by KPMG LLP, independent public accountants. Their accompanying report is based upon an audit conducted in accordance with standards established by the American Institute of Certified Public Accountants, including the related review of internal accounting controls and financial reporting matters. The Audit and Risk Management Committee of the Board of Directors, which consists solely of outside directors, meets at least quarterly with the independent auditors, Corporate Audit and representatives of management to discuss, among other things, accounting and financial reporting matters.

Management of the Corporation is responsible for establishing and maintaining disclosure controls and procedures to ensure that information required to be disclosed in reports filed or submitted under Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. In addition to disclosure controls and procedures, management of the Corporation is responsible for establishing and maintaining an effective internal control structure, which provides reasonable, but not absolute, assurance of the safeguarding of assets against unauthorized acquisition, use or disposition. The Corporation maintains systems of controls that it believes are reasonably designed to provide management with timely and accurate information about the operations of the Corporation. This process is supported by an internal audit function along with the ongoing appraisal of controls by the Audit and Risk Management Committee. Both the Corporation's independent auditors and the internal audit function directly provide reports on significant matters to the Audit and Risk Management Committee. The Corporation's independent auditors, the internal audit function and the Audit and Risk Management Committee have free access to each other. Disclosure controls and procedures, internal controls, systems and corporate-wide processes and procedures are continually evaluated and enhanced.

Management of the Corporation evaluated its disclosure controls and procedures as of December 31, 2002. Based on this evaluation, the Principal Executive Officer and Principal Financial Officer each concludes that as of December 31, 2002, the Corporation maintained effective disclosure controls and procedures in all material respects, including those to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and is accumulated and communicated to management, including the Principal Executive Officer and the Principal Financial Officer, as appropriate to allow for timely disclosure. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to our most recent evaluation.

The Corporation is dedicated to maintaining a culture that reflects the highest standards of integrity and ethical conduct when engaging in its business activities. Management of the Corporation is responsible for compliance with various federal and state laws and regulations, and the Corporation has established procedures that are designed to ensure that management's policies relating to conduct, ethics and business practices are followed on a uniform basis.

BANK ONE CORPORATION

James Dimon
Chairman and Chief Executive Officer

Heidi Miller
Executive Vice President and Chief Financial Officer

Chicago, Illinois
January 16, 2003

The Board of Directors and Stockholders
BANK ONE CORPORATION:

We have audited the accompanying consolidated balance sheets of Bank One Corporation and subsidiaries ("the Corporation") as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The accompanying consolidated statements of income, stockholders' equity, and cash flows of the Corporation for the year ended December 31, 2000 have been audited by the Corporation's predecessor auditors, who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated January 17, 2001.

We conducted our audits 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. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2002 and 2001, 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.

Chicago, Illinois
January 16, 2003

Common Stock and Stockholder Data: (1) (2)	2002	2001	2000	1999	1998
Market price:					
High for the year	**$42.53**	$39.85	$38.81	$63.13	$64.78
Low for the year	**32.59**	28.00	24.25	29.98	37.58
At year-end	**36.55**	39.05	36.63	32.00	51.06
Book value (at year-end)	**19.28**	17.33	15.90	17.34	17.31
Dividend payout ratio	**30%**	38%	N/M	57%	58%
Financial Ratios:					
Net income (loss) as a percentage of: (3)					
Average stockholders' equity	**15.2%**	13.4%	(2.6)%	17.0%	15.8%
Average common stockholders' equity	**15.2**	13.5	(2.6)	17.2	15.9
Average total assets	**1.3**	1.0	(0.2)	1.4	1.3
Average earning assets	**1.4**	1.1	(0.2)	1.6	1.5
Stockholders' equity at year-end as a percentage of:					
Total assets at year-end	**8.1**	7.5	6.9	7.5	7.9
Total loans at year-end	**15.1**	12.9	10.7	12.3	13.2
Total deposits at year-end	**13.2**	12.1	11.2	12.4	12.7
Average stockholders' equity as a percentage of:					
Average total assets	**8.2**	7.3	7.2	8.0	8.2
Average loans	**14.4**	11.6	11.4	13.0	12.7
Average deposits	**13.6**	12.0	12.0	13.2	13.1
Income to fixed charges: (4)					
Excluding interest on deposits	**2.8x**	2.0x	0.8x	2.3x	2.3x
Including interest on deposits	**1.9x**	1.4x	0.9x	1.6x	1.5x

N/M Not meaningful.

(1) There were 103,589 registered common stockholders of record as of December 31, 2002.

(2) The principal market for the Corporation's common stock is the New York Stock Exchange. The Corporation's common stock is also listed on the Chicago Stock Exchange.

(3) Does not include a deduction for preferred dividends.

(4) Results for the year ended December 31, 2000, were insufficient to cover fixed charges. The coverage deficiency was approximately $1.2 billion.

Corporate Headquarters

Bank One Corporation
1 Bank One Plaza
Chicago, IL 60670
(312) 732-4000

Company Information

Information on Bank One products and services is available on the Internet at the following websites:

www.bankone.com
Bank One's primary website

www.onegroup.com
Bank One's proprietary family of mutual funds

www.oneinvest.com
Bank One's online investment services and securities trading

www.cardmemberservices.com
Bank One's credit card company

Financial Information

Bank One annual reports, earnings and news releases, 10-K and 10-Q reports, and other financial information can be obtained by visiting the "About Bank One" section of our website at www.bankone.com.

You can also obtain the most recent financial information on Bank One by phoning our toll-free Corporate News and Shareholder Information Service at 877-ONE-FACT (877-663-3228).

Investor Relations

Analysts, portfolio managers, and other investors seeking additional financial information are welcome to contact:

Investor Relations
Bank One Corporation
1 Bank One Plaza
Mail Code IL1-0738
Chicago, IL 60670-0738
(312) 732-4812

Shareholder Relations and Information

Shareholders with questions regarding their stockholder account, dividends, stock transfer, lost certificates, or changes of address should contact the transfer agent at the address and applicable phone number below.

EquiServe Trust Company, N.A.
P.O. Box 43069
Providence, RI 02940-3069
Telephone:
Inside the United States: (888) 764-5592
Outside the United States: (781) 575-2723
TDD/TTY (for the hearing impaired): (800) 952-9245
Internet: www.equiserve.com

Stock Listing

The common stock is listed on the New York and Chicago stock exchanges and trades under the ticker symbol ONE.

Dividend Information

Dividends on the common stock, if declared by the Board of Directors, customarily are paid on January 1, April 1, July 1, and October 1.

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on Tuesday, April 15, 2003, at 9:30 a.m. (Chicago Time) in the Bank One Auditorium, located in the Plaza area of the corporate headquarters at 1 Bank One Plaza in Chicago.

Independent Public Accountants

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601

Bank One will send its Annual Report on Form 10-K for 2002 filed with the Securities and Exchange Commission without charge to any shareholder who requests a copy in writing. Please send requests to: Bank One Corporation, Attn: Investor Relations, 1 Bank One Plaza, Mail Code IL1-0738, Chicago, IL 60670-0738.

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