BANK ONE CORP
Form 10-Q
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BANK ONE CORPORATION
INDEX TO FINANCIAL REVIEW

FIVE QUARTER SUMMARY OF SELECTED FINANCIAL INFORMATION
Bank One Corporation and Subsidiaries

(In millions, except per share data, ratios, and headcount)	**Three Months Ended June 30 2003**	**March 31 2003**	**December 31 2002**	**September 30 2002**	**June 30 2002**
INCOME STATEMENT DATA:					
Total revenue, net of interest expense	**$ 4,108**	$ 3,977	$ 4,232	$ 4,185	$ 4,280
Net interest income	**1,981**	1,992	2,156	2,197	2,042
Net interest income- fully taxable-equivalent basis ("FTE") (1)	**2,020**	2,029	2,192	2,235	2,078
Noninterest income	**2,127**	1,985	2,076	1,988	2,238
Provision for credit losses	**461**	496	628	587	607
Noninterest expense	**2,425**	2,320	2,390	2,420	2,444
Net income	**856**	818	842	823	843
PER COMMON SHARE DATA:					
Net income:					
Basic	$ **0.76**	$ 0.71	$ 0.73	$ 0.71	$ 0.72
Diluted	**0.75**	0.71	0.72	0.70	0.71
Cash dividends declared	**0.21**	0.21	0.21	0.21	0.21
Book value	**19.70**	19.44	19.28	18.79	18.37
BALANCE SHEET DATA - ENDING BALANCES:					
Loans	$ **144,583**	$ 144,747	$ 148,125	$ 150,389	$ 147,728
Total assets	**299,463**	287,864	277,383	274,187	270,343
Deposits	**172,015**	167,075	170,008	164,036	157,518
Long-term debt (2)	**46,070**	44,950	43,234	42,481	43,756
Common stockholders' equity	**22,257**	22,316	22,440	21,925	21,563
Total stockholders' equity	**22,257**	22,316	22,440	21,925	21,563
CREDIT QUALITY RATIOS:					
Annualized net charge-offs to average loans	**1.35%**	1.35%	1.65%	1.55%	1.62%
Allowance to period end loans	**3.35**	3.31	3.20	3.17	3.19
Nonperforming assets to related assets (3)	**2.28**	2.38	2.38	2.48	2.65
FINANCIAL PERFORMANCE:					
Return on average assets	**1.24%**	1.22%	1.24%	1.24%	1.32%
Return on average common equity	**15.3**	14.7	15.0	14.8	15.7
Net interest margin	**3.38**	3.46	3.67	3.84	3.69
Efficiency ratio	**58.5**	57.8	56.0	57.3	56.6
CAPITAL RATIOS:					
Risk-based capital:					
Tier 1	**9.7%**	10.0%	9.9%	9.5%	9.4%
Total	**13.6**	13.8	13.7	13.0	13.0
Leverage	**8.7**	8.9	8.9	9.0	9.1
COMMON STOCK DATA:					
Average shares outstanding:					
Basic	**1,132**	1,148	1,157	1,162	1,174
Diluted	**1,140**	1,156	1,166	1,171	1,184
Stock price, quarter-end	**$ 37.18**	$ 34.62	$ 36.55	$ 37.40	$ 38.48
Headcount	**72,323**	74,077	73,685	73,535	73,579

(1) Net interest income-FTE includes tax equivalent adjustments of $39 million, $37 million, $36 million, $38 million and $36 million for the quarters ended June 30, 2003, March 31, 2003, December 31, 2002, September 30, 2002 and June 30, 2002, respectively.

(2) Includes trust preferred capital securities.

(3) Related assets consist of loans outstanding, including loans held for sale, and other real estate owned.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Generally accepted accounting principles are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of Bank One Corporation and its subsidiaries (the Corporation) 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 Notes to the Consolidated Financial Statements in the Corporation s 2002 Annual Report on pages 84-108. Certain policies are considered 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. For a discussion of applying critical accounting policies, see Application of Critical Accounting Policies beginning on page 35 in the Corporation s 2002 Annual Report.

SUMMARY OF RESULTS
(All comparisons are to the same period in the prior year unless otherwise specified.)

Net income was $856 million, or $0.75 per diluted share. This compares to net income of $803 million, or $0.68 per diluted share, excluding the $40 million after-tax benefit from a restructuring charge reversal in the second quarter of 2002. Including this benefit, the prior year s net income was $843 million, or $0.71 per diluted share. For the first half of 2003, net income totaled $1.7 billion, or $1.46 per diluted share. This compares to net income of $1.6 billion, or $1.35 per diluted share, excluding the $40 million after-tax benefit from a restructuring charge reversal in the second quarter of 2002. Including this benefit, the prior year s net income for the first half of the year was $1.6 billion, or $1.38 per diluted share.

Net Interest Income

Net interest income represents the spread on interest earning assets over interest bearing liabilities, as well 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 income was $2.0 billion, a decrease of $61 million, or 3%. Net interest margin decreased to 3.38% from 3.69%. For the first six months of 2003, net interest income was $4.0 billion, a decrease of $269 million, or 6%. Net interest margin for the same period decreased to 3.42% from 3.80%. For both the second quarter and the first half of 2003, approximately half of the decline in net interest income and margin resulted from actions taken in 2002 to position the Corporation more defensively against the possibility of rising interest rates. In 2002, the Corporation extended the duration of liabilities and repositioned the treasury investment portfolio, which reduced net interest income in 2003 due to the lower rate environment. Also contributing to the decreases were intentional reductions during 2002 in the Commercial Banking loan portfolio and throughout the period in certain Retail loan portfolios, with a modest impact due to yield compression in Card Services. See Note 7 for further details of the components of net interest income.

Noninterest Income

Noninterest income of $2.1 billion decreased $111 million, and as a percentage of total revenue decreased to 51.8% from 52.3%. For the first half of 2003, noninterest income of $4.1 billion decreased $95 million. For both periods, these decreases were primarily due to losses on the credit derivatives hedge portfolio and lower income derived from securitized loans. Partially offsetting the losses and lower income were net investment securities gains. The components of noninterest income for the periods indicated were:

	Three Months Ended June 30				Six Months Ended June 30			
			Change				Change	
(Dollars in millions)	**2003**	**2002**	**Amount**	**Percent**	**2003**	**2002**	**Amount**	**Percent**
Banking fees and commissions	$ **458**	$ 493	$ (35)	(7)%	$ **898**	$ 951	$ (53)	(6)%
Credit card revenue	**911**	962	(51)	(5)	**1,762**	1,871	(109)	(6)
Service charges on deposits	**413**	376	37	10	**796**	769	27	4

	Three Months Ended June 30				Six Months Ended June 30			
Fiduciary and investment management fees	**186**	188	(2)	(1)	**372**	377	(5)	(1)
Investment securities gains	**152**	96	56	58	**221**	78	143	N/M
Trading gains (losses)	**(76)**	74	(150)	N/M	**(72)**	91	(163)	N/M
Other income	**83**	49	34	69	**135**	70	65	93
Total noninterest income	**$ 2,127**	$ 2,238	$ (111)	(5)	**$ 4,112**	$ 4,207	$ (95)	(2)
Noninterest income to total revenue	**51.8%**	52.3%	(0.5)%		**50.9%**	49.8%	1.1%	

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Quarterly Results

Banking fees and commissions of $458 million decreased $35 million, or 7%. Lower premiums from credit insurance products, lower fees resulting from the intentional reduction of non-branded ATM machines and the elimination of the teller service fee were the primary drivers of this decrease. Partially offsetting the decrease was an increase in fixed income and asset-backed origination fees.

Credit card revenue of $911 million decreased $51 million, or 5%, primarily driven by lower yields earned on securitized loans, partially offset by higher interchange fees from increased card usage and increased securitization activity.

Service charges on deposits of $413 million increased $37 million, or 10%. This increase resulted from higher Retail deposit service charges and higher global treasury services revenue.

Net securities gains from treasury activities and the investment portfolios were $152 million, compared to net securities gains of $96 million. The prior year included the $261 million gain on the sale of the GE Monogram joint venture. Valuation adjustments included in each period s net securities gains were primarily a result of changes in the value of the publicly traded equity market, the interest rate environment and economic conditions.

In the second quarter, trading produced losses of $76 million, a decrease of $150 million. This decrease resulted from the fair value decline in credit derivatives used to hedge the commercial loan portfolio and limit exposures to specific credits, partially offset by increased derivatives trading revenue.

Other income increased by $34 million, or 69%. The primary driver of this increase was gains on sales of loans totaling $14 million in the current quarter compared to losses of $22 million in the year ago quarter.

Year-to-Date Results

Banking fees and commissions of $898 million decreased $53 million, or 6%. This decrease was the result of lower premiums from credit insurance products and lower fees from the intentional reduction of non-branded ATM machines, partially offset by an increase in fixed income and asset-backed origination fees and higher syndication fees.

Credit card revenue of $1.8 billion decreased $109 million, or 6%. This decrease was primarily driven by lower income earned on securitized loans, modestly offset by higher interchange fees from increased card usage volume.

Service charges on deposits of $796 million increased $27 million, or 4%. This increase stemmed from higher Retail deposit service charges.

Net securities gains from treasury activities and the investment portfolios were $221 million, compared to net securities gains of $78 million. The prior year included the $261 million gain on the sale of the GE Monogram joint venture. Valuation adjustments included in each period s net securities gains were primarily a result of changes in the value of the publicly traded equity market, the interest rate environment and economic conditions.

Trading losses of $72 million decreased $163 million. This decrease was primarily the result of losses on credit derivatives used to hedge the commercial loan portfolio and limit exposures to specific credits, partially offset by greater derivatives and foreign exchange trading revenue.

Other income of $135 million increased $65 million, or 93%, primarily the result of an increase in new securitization deals and gains associated with the sale of commercial loans and other assets.

Noninterest Expense

Total noninterest expense of $2.4 billion decreased $19 million, including a $63 million benefit from a restructuring charge reversal in the year ago quarter. Excluding this benefit, noninterest expense decreased $82 million, or 3%. The components of noninterest expense for the periods indicated were:

	Three Months Ended June 30				Six Months Ended June 30			
			Change				Change	
(Dollars in millions)	2003	2002	Amount	Percent	2003	2002	Amount	Percent
Salaries and employee benefits:								
Salaries	**$ 1,048**	$ 941	$ 107	11%	**$ 2,040**	$ 1,861	$ 179	10%
Employee benefits	**176**	160	16	10	**367**	336	31	9
Total salaries and employee benefits	**1,224**	1,101	123	11	**2,407**	2,197	210	10
Occupancy	**166**	170	(4)	(2)	**331**	328	3	1
Equipment	**118**	99	19	19	**229**	202	27	13
Outside service fees and processing	**289**	372	(83)	(22)	**566**	672	(106)	(16)
Marketing and development	**215**	265	(50)	(19)	**441**	536	(95)	(18)
Telecommunication	**55**	134	(79)	(59)	**103**	235	(132)	