BANK ONE CORP
Form 10-Q
August 12, 2002

BANK ONE CORPORATION
INDEX TO FINANCIAL REVIEW

FIVE QUARTER SUMMARY OF SELECTED FINANCIAL INFORMATION

BANK ONE CORPORATION and Subsidiaries

	Three Months Ended			
(In millions, except ratios and per share data)	June 30 2002 (3)	March 31 2002 (3)	December 31 2001	Septembe
INCOME STATEMENT DATA				

Total revenue, net of interest expense	$ 4,274	$ 4,152	$ 4,207	$ 4
Net interest income--				
fully taxable-equivalent ("FTE") basis	2,078	2,235	2,273	2
Noninterest income	2,232	1,952	1,972	1
Provision for credit losses	607	665	765	
Noninterest expense	2,438	2,345	2,706	2
Income before cumulative effect of change				
in accounting principle	843	787	541	
Net income	843	787	541	
PER COMMON SHARE DATA				
Income before cumulative effect of change				
in accounting principle:				
Basic	$ 0.72	$ 0.67	$ 0.46	$
Diluted	0.71	0.67	0.46	
Net income:				
Basic	$ 0.72	$ 0.67	$ 0.46	$
Diluted	0.71	0.67	0.46	
Cash dividends declared	0.21	0.21	0.21	
Book value	18.37	17.81	17.33	1
BALANCE SHEET DATA - ENDING BALANCES				
Loans:				
Managed	$205,442	$209,519	$218,102	$222
Reported	147,728	152,126	156,733	164
Deposits	157,518	158,803	167,530	162
Long-term debt (1)	43,756	44,194	43,418	44
Total assets:				
Managed	306,140	297,998	306,304	310
Reported	270,343	262,947	268,954	270
Common stockholders' equity	21,563	20,913	20,226	20
Total stockholders' equity	21,563	20,913	20,226	20
CREDIT QUALITY RATIOS				
Net charge-offs to average loans-managed (2)	2.73%	2.82%	2.84%	
Allowance to period end loans	3.06	2.97	2.89	
Nonperforming assets to related assets	2.65	2.58	2.35	
FINANCIAL PERFORMANCE:				
Return on average assets	1.32%	1.21%	0.80%	
Return on average common equity	15.7	15.3	10.5	
Net interest margin:				
Managed	5.12	5.35	5.20	
Reported	3.69	3.91	3.84	
Efficiency ratio:				
Managed	47.6	46.6	53.5	
Reported	56.6	56.0	63.7	
Employees	73,579(4)	73,864(4)	73,519	75

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FIVE QUARTER SUMMARY OF SELECTED FINANCIAL INFORMATION - CONTINUED
BANK ONE CORPORATION and Subsidiaries

Three Months Ended

(In millions, except ratios and per share data)	June 30 2002 (3)	March 31 2002 (3)	December 31 2001	Septe
CAPITAL RATIOS				
Risk-based capital:				
Tier 1	9.4%	9.0%	8.6%	
Total	13.0	12.7	12.2	
Tangible common equity/tangible managed assets	6.3	6.2	5.9	
COMMON STOCK DATA				
Average shares outstanding:				
Basic	1,174	1,170	1,166	
Diluted	1,184	1,179	1,174	
Stock price, quarter-end	$ 38.48	$ 41.78	$ 39.05	

(1) Includes trust preferred capital securities.
(2) Quarterly results include $1 million, $1 million, $14 million, $14 million and $24 million, respectively, of charge-offs which are not so classified in the Corporation's GAAP financials 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 performance of the portfolio. In the Corporation's financial statements, these items result in a higher provision in excess of net charge-offs.
(3) Results include the effects of the consolidation of Paymentech, Inc. and Anexsys, LLC.
(4) Includes the addition of employees due to the consolidation of Paymentech and Anexsys.

FIVE QUARTER SUMMARY OF OTHER FINANCIAL DATA

The Corporation's consolidated operating financial results and ratios are as follows:

	Three Months Ended (2)			
(In millions, except ratios and per share data)	June 30 2002 (1)	March 31 2002 (1)	December 31 2001	S
Operating income	$ 803	$ 787	$ 765	
Operating earnings per share-diluted	$ 0.68	$ 0.67	$ 0.65	
Return on average assets	1.26%	1.21%	1.14%	
Return on average common equity	14.9	15.3	14.9	
Net interest margin:				
Managed	5.12	5.35	5.20	
Reported	3.69	3.91	3.84	
Efficiency ratio:				
Managed	48.9	46.6	46.5	
Reported	58.0	56.0	55.4	

(1) Results include the effects of the consolidation of Paymentech and Anexsys.
(2) These results and ratios exclude restructuring-related charges and reversals for all periods and June 30, 2001 excludes the cumulative effect

of a change in accounting principle.

SUMMARY OF OPERATING RESULTS

Operating income for BANK ONE CORPORATION and its subsidiaries ("Bank One" or the "Corporation") was $803 million, or $0.68 per diluted share, for the second quarter 2002 compared to $706 million, or $0.60 per diluted share, in the second quarter 2001, excluding restructuring reversals and the 2001 accounting change. Bank One reported 2002 second quarter net income of $843 million, or $0.71 per diluted share, including a $40 million after tax benefit from reversals of prior restructuring charges. This is compared to reported net income of $664 million, or $0.56 per diluted share, including a $44 million after tax charge for the cumulative effect of an accounting change in the prior year quarter.

For the first half of 2002, operating income totaled $1.6 billion, or $1.35 per diluted share, compared to $1.4 billion, or $1.18 per diluted share, in the prior year. Reported net income for the first half of 2002 was $1.6 billion, or $1.38 per diluted share, compared to $1.3 billion, or $1.14 per diluted share, a year ago.

Net interest income of $2.0 billion in the second quarter 2002 and $4.2 billion for the six months ended June 30, 2002 remained relatively unchanged when compared to the prior year periods. Decreases resulting from intentional reductions in certain segments of the loan portfolio and a decline in deposits of large commercial customers, were offset by increases in Retail core deposits and the benefit of lower interest rates which reduced the Corporation's funding costs.

Reported noninterest income increased $441 million in the second quarter and $786 million in the first six months of 2002 compared to the prior year periods. These increases are primarily due to the addition of the Wachovia credit card business in the third quarter of 2001, the consolidation of Paymentech beginning January 1, 2002, increased annuity and mutual fund sales, growth in the loan syndication and asset-backed finance businesses, and net gains on investment securities. Net investment securities gains were $97 million, which included a $261 million gain on sale of the interest in the GE Monogram joint venture, partially offset by net writedowns of $164 million in the investment securities and principal investments portfolios.

Total noninterest expense increased from the year-ago quarter and six months by $192 million and $301 million, respectively. These increases were primarily the result of the consolidations of Paymentech and Anexsys, $89 million in expenses for terminating and renegotiating certain vendor contracts, increased marketing expenditures, and general costs associated with the Corporation's conversion efforts. Salaries and employee benefits included $12 million of expense related to adopting the fair value method of accounting for stock-based compensation.

Provision for credit losses was $607 million for the second quarter and $1.3 billion for the first six months of 2002, compared to $540 million and $1.1 billion for 2001, respectively. Since the fourth quarter of 2001, the Corporation has experienced lower net charge-offs, resulting in a reduction of provision for credit losses in the current quarter. Lower credit card delinquencies also contributed to the recent provision reduction.

BALANCE SHEET ANALYSIS

The Corporation's loan portfolio was $147.7 billion at June 30, 2002 compared with $152.1 billion at March 31, 2002, a decrease of $4.4 billion. Retail loans totaled $66.3 billion at June 30, 2002 compared with $67.6 billion at March 31, 2002, a decrease of $1.3 billion due to the intentional reduction of certain segments of the auto lease and brokered home equity portfolios. Commercial banking loans totaled $64.9 billion at June 30, 2002 compared to $69.0 billion at March 31, 2002, a decrease of $4.2 billion, or 6%. Managed reductions of $2.5 billion and $1.4 billion in commercial and commercial real estate loans, respectively, reflect the conscious management of credit risk in the current economic environment. Credit Card loans totaled $9.1 billion at June 30, 2002 compared to $7.4 billion at March 31, 2002, an increase of $1.7 billion or 23%, reflecting renewed organic growth in the portfolio. During the quarter, 1.28 million accounts were opened, an increase of 36% compared to first quarter 2002.

At June 30, 2002 investment securities totaled $65.7 billion compared with $58.7 billion at March 31, 2002. This increase of $7.0 billion, or 12%, was driven by a $4.9 billion, or 20% increase in U.S. government agencies, and an increase of $3.1 billion, or 91%, in other debt securities, primarily asset-backed securities. Partially offsetting these increases was a decrease of $634 million, or 16% in equity securities and the previously mentioned writedowns in the investment securities and principal investments portfolios which management believes will help reduce the volatility of future earnings.

Total deposits at June 30, 2002 were $157.5 billion compared to $158.8 billion at March 31, 2002 a decrease of $1.3 billion, or 1%. Demand deposits totaled $26.8 billion at June 30, 2002 compared to $29.1 billion at March 31, 2002 a decrease of $2.3 billion, or 8%. Time deposits totaled $34.7 billion at June 30, 2002 compared to $36.2 billion at March 31, 2002, a decrease of $1.6 billion, or 4%, primarily due to a decrease in lower yielding CDs. This decrease was partially offset by an increase of $1.2 billion, or 9%, in foreign office deposits.

Other short-term borrowings, which consists primarily of short-term bank notes, totaled $9.8 billion at June 30, 2002 compared to $5.5 billion at March 31, 2002 an increase of $4.3 billion, or 78%. Federal funds purchased and securities sold under repurchase agreements totaled $16.7 billion at June 30, 2002 compared to $15.2 billion at March 31, 2002 an increase of $1.6 billion, or 10%.

BUSINESS SEGMENT RESULTS AND OTHER DATA

The Corporation is managed on a line of business basis. The business segments' financial results presented reflects the current organization of the Corporation. For a detailed discussion of the various business activities of Bank One's business segments, see pages 27-40 of the Corporation's 2001 Annual Report.

The following table summarizes certain financial information by line of business for the periods indicated:

	Operating Income (Loss)	Average Manag

Three Months Ended June 30	(In millions) 2002	2001	(In billi 2002
Retail	$ 348	$ 313	$ 70
Commercial Banking	144	197	94
Credit Card	296	193	70
Investment Management	115	83	9
Corporate	(100)	(80)	48
Total business segment operating income, net of tax	$ 803	$ 706	$ 291

	Operating Income (Loss) (In millions)		Average Manag (In billi
Six Months Ended June 30	2002	2001	2002
Retail	$ 691	$ 654	$ 72
Commercial Banking	287	393	97
Credit Card	535	341	71
Investment Management	229	165	8
Corporate	(152)	(168)	48
Total business segment operating income, net of tax	$ 1,590	$ 1,385	$ 296

The information provided in the line of business tables beginning with the caption entitled "Financial Performance" are included herein for analytical purposes only and are based on management information systems, assumptions and methodologies that are under continual review.

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Retail

Retail provides a broad range of financial products and services, including deposits, investments, loans, insurance, and interactive banking to consumers and small business customers.

	Three Months Ended June 30				Six Months E	
			Change			
	2002	2001	Amount	%	2002	200
(Dollars in millions)						
Net interest income-FTE	$ 1,203	$ 1,219	$ (16)	(1)%	$ 2,458	$ 2,51
Banking fees and commissions (1)	113	111	2	2	231	23
Credit card revenue (2)	44	41	3	7	84	7
Service charges on deposits (3)	196	197	(1)	(1)	397	38
Trading (4)	(4)	-	(4)	N/M	(5)	
Other income	7	8	(1)	(13)	11	2
Noninterest income	356	357	(1)	-	718	71

Total revenue	1,559	1,576	(17)	(1)	3,176	3,23
Provision for credit losses	215	200	15	8	482	44
Salaries and employee benefits	358	381	(23)	(6)	722	74
Other expense	449	505	(56)	(11)	907	1,02
Noninterest expense	807	886	(79)	(9)	1,629	1,76
Pretax operating income-FTE	537	490	47	10	1,065	1,02
Tax expense and FTE adjustment	189	177	12	7	374	37
Operating income	$ 348	$ 313	$ 35	11	$ 691	$ 65
Restructuring-related charges (reversals), net of tax	(11)	(2)	(9)	N/M	(11)	(
Net income	$ 359	$ 315	$ 44	14	$ 702	$ 65

Retail - continued

	Three Months Ended June 30				Six Mont	
			Change			
	2002	2001	Amount	Percent	2002	2001
FINANCIAL PERFORMANCE:						
Return on equity (5)	23%	21%	2%		22%	22
Efficiency ratio (5)	52	56	(4)		51	55
Headcount--full-time	32,610	35,322	(2,712)	(8)%		
ENDING BALANCES (in billions):						
Small business commercial	$ 10.0	$ 9.8	$ 0.2	2		
Home equity	29.7	30.3	(0.6)	(2)		
Vehicles:						
Loans	13.6	14.1	(0.5)	(4)		
Leases	4.7	7.3	(2.6)	(36)		
Other personal	8.3	10.9	(2.6)	(24)		
Total loans	66.3	72.4	(6.1)	(8)		
Assets	69.6	76.1	(6.5)	(9)		
Demand deposits	26.2	24.1	2.1	9		
Savings	37.9	33.8	4.1	12		
Time	24.6	29.7	(5.1)	(17)		
Total deposits	88.7	87.6	1.1	1		
Equity	6.2	6.2	-	-		
AVERAGE BALANCES (in billions):						
Small business commercial	$ 10.0	$ 9.6	$ 0.4	4	$ 10.0	$ 9.4
Home equity	29.8	30.5	(0.7)	(2)	29.9	30.8

Vehicles:						
Loans	13.6	14.1	(0.5)	(4)	13.5	14.2
Leases	5.0	7.6	(2.6)	(34)	5.4	7.9
Other personal	8.4	10.9	(2.5)	(23)	9.2	11.1
Total loans	66.8	72.7	(5.9)	(8)	68.0	73.4
Assets	70.2	76.6	(6.4)	(8)	71.6	77.4
Demand deposits	25.9	23.8	2.1	9	25.5	23.8
Savings	37.8	33.5	4.3	13	37.5	33.0
Time	24.9	30.6	(5.7)	(19)	25.1	31.3
Total deposits	88.6	87.9	0.7	1	88.1	88.1
Equity	6.2	6.1	0.1	2	6.2	6.0
CREDIT QUALITY (in millions):						
Net charge-offs:						
Small business commercial	$ 23	$ 17	$ 6	35	$ 37	$ 27
Home equity	102	93	9	10	232	166
Vehicles:						
Loans (6)	42	52	(10)	(19)	108	112
Leases	15	20	(5)	(26)	45	49
Other personal	34	19	15	79	60	53
Total consumer (6)	193	184	9	5	445	380
Total net charge-offs (6)	216	201	15	7	482	407

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Retail - continued

	Three Months Ended June 30				Six
			Change		
	2002	2001	Amount	Percent	2002
CREDIT QUALITY - continued (in millions):					
Net charge-off ratios:					
Small business commercial	0.92%	0.71%	0.21%		0.74%
Home equity	1.37	1.22	0.15		1.55
Vehicles:					
Loans (6)	1.24	1.47	(0.23)		1.60
Leases	1.20	1.07	0.13		1.67
Other personal	1.62	0.70	0.92		1.30
Total consumer (6)	1.36	1.17	0.19		1.53
Total net charge-offs (6)	1.29	1.11	0.18		1.42
Nonperforming assets:					
Small business commercial	$ 287	$ 245	$ 42	17%	

Consumer (7)	1,062	804	258	32	
Total nonperforming loans	1,349	1,049	300	29	
Other, including Other Real Estate Owned ("OREO")	168	69	99	N/M	
Total nonperforming assets	1,517	1,118	399	36	
Allowance for credit losses	$ 1,029	$ 938	$ 91	10	
Allowance to period-end loans	1.55%	1.30%	0.25%		
Allowance to nonperforming loans	76%	89%	(13)		
Nonperforming assets to related assets	2.28%	1.54%	0.74		
DISTRIBUTION:					
Number of banking centers	1,773	1,808	(35)	(2)	
Number of ATMs	4,956	5,703	(747)	(13)	
Number of on-line customers (in thousands)	1,269	1,035	234	23	
Number of households (in thousands)	7,102	7,499	(397)	(5)	
Number of business customers (in thousands)	488	530	(42)	(8)	
Number of debit cards issued (in thousands)	4,492	4,378	114	3	
INVESTMENTS:					
Investment sales volume (in millions)	$ 1,451	$ 1,141	$ 310	27	$ 2,828

N/M-Not meaningful.

(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) Trading includes trading and foreign exchange.

(5) Ratios are based on operating income.

(6) Second quarter 2002 and 2001 results include $1 million and $24 million, respectively, of charge-offs which are not so classified in the Corporation's GAAP financials 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 results in a higher provision in excess of net charge-offs.

(7) Includes consumer balances that are placed on nonaccrual status when the collection of contractual principal or interest becomes 90 days past due.

Quarterly Results

Retail had second quarter operating income of $348 million, up $35 million, or 11%, from the year-ago quarter, primarily reflecting lower noninterest expense. Operating income was up $5 million, or 1%, from the first quarter of 2002 due to lower provision and expense, partially offset by the reduction in seasonal revenue from tax refund anticipation lending.

Net interest income declined $16 million, or 1%, from the year-ago quarter due to the intentional reduction of certain segments of the auto lease and brokered home equity portfolios. Average core deposits increased $6 billion, or

11%, driving deposit revenue growth that nearly equaled the decline in loan revenue. Noninterest income was $356 million, relatively unchanged from the year-ago quarter, reflecting continued strong growth in the sale of mutual funds and annuities offset by lower mortgage origination fees.

Noninterest expense was $807 million, down $79 million, or 9%, from the year-ago quarter, driven by lower staffing levels, the absence of goodwill amortization and lower expense due to completed systems conversions.

The provision for credit losses was $215 million, up $15 million, or 8%, from the prior year due to increased net charge-offs in other personal and home equity loans. Compared to the first quarter of 2002, provision expense was down $52 million or 19%, due to lower net charge-offs in virtually all loan portfolios.

Nonperforming assets were $1.5 billion, up $399 million, or 36%, from the year-ago quarter, due to increases in home equity loans. Nonperforming assets declined $44 million, or 3%, from the prior quarter.

Year-to-Date Results

Retail had year to date operating income of $691 million, up $37 million, or 6%, from the year ago period largely due to lower noninterest expense.

Net interest income declined $60 million, or 2%, driven by the intentional reduction of certain segments of the auto lease and broker home equity portfolios. Noninterest income was $718 million, relatively unchanged from last year.

Noninterest expense declined $137 million, or 8%, driven by lower staffing levels and the absence of goodwill amortization.

The provision for credit losses was $482 million, up $38 million, or 9%, from the prior year due primarily to higher net charge-offs in home equity loans partially offset by the absence of reserve increases. Nonperforming assets were $1.5 billion, up $399 million, or 36%, from the year-ago quarter, due to increases in home equity loans.

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 Banking customers.

	Three Months Ended June 30				Six Months	
			Change			
	2002 (8)	2001	Amount	%	2002 (8)	2
(Dollars in millions)						
Net interest income-FTE	$ 598	$ 699	$ (101)	(14)%	$ 1,253	$ 1,
Banking fees and commissions	224	183	41	22	399	
Credit card revenue	20	22	(2)	(9)	34	

Service charges on deposits	173	149	24	16	357	
Fiduciary and investment management fees (9)	-	(1)	1	N/M	(1)	
Investment securities losses	(1)	-	(1)	N/M	(1)	
Trading	81	67	14	21	107	
Other income (loss)	(43)	(42)	(1)	(2)	(70)	
Noninterest income	454	378	76	20	825	
Total revenue	1,052	1,077	(25)	(2)	2,078	2,
Provision for credit losses	274	240	34	14	555	
Salaries and employee benefits (12)	261	252	9	4	520	
Other expense (12)	331	308	23	7	632	
Noninterest expense	592	560	32	6	1,152	1,
Pretax operating income-FTE	186	277	(91)	(33)	371	
Tax expense and FTE adjustment	42	80	(38)	(48)	84	
Operating income	$ 144	$ 197	$ (53)	(27)	$ 287	$
Restructuring-related charges (reversals), net of tax	(3)	-	(3)	N/M	(3)	
Net income	$ 147	$ 197	$ (50)	(25)	$ 290	$
Memo: Revenue by activity (10):						
Lending-related revenue	437	510	(73)	(14)	849	1,
Global Treasury Services	399	393	6	2	828	
Capital Markets (11)	196	166	30	18	364	
Other	20	8	12	N/M	37	
FINANCIAL PERFORMANCE:						
Return on equity (5)	8%	11%	(3)%		8%	
Efficiency ratio (5)	56	52	4		55	
Headcount-full-time (12):						
Corporate Banking (including Capital Markets)	2,315	2,899	(584)	(20)		
Middle Market	3,023	3,388	(365)	(11)		
Global Treasury Services	3,299	3,072	227	7		
Operations, Technology, and other Administration	2,270	2,201	69	3		
Total headcount-full-time	10,907	11,560	(653)	(6)		

Commercial Banking - continued

	Three Months Ended June 30				Six Months	
			Change			
	2002 (8)	2001	Amount	Percent	2002 (8)	2001
ENDING BALANCES (in billions):						
Loans	$ 64.9	$ 80.2	$ (15.3)	(19)%		

Assets	94.3	109.4	(15.1)	(14)		
Demand deposits	24.2	22.1	2.1	10		
Savings	2.8	2.9	(0.1)	(3)		
Time	8.7	8.2	0.5	6		
Foreign offices	8.4	9.9	(1.5)	(15)		
Total deposits	44.1	43.1	1.0	2		
Equity	7.4	7.3	0.1	1		
AVERAGE BALANCES (in billions):						
Loans	$ 67.0	$ 82.7	$ (15.7)	(19)	$ 69.1	$ 84.9
Assets	94.4	109.7	(15.3)	(14)	96.8	109.9
Demand deposits	22.4	20.8	1.6	8	22.5	20.6
Savings	2.8	2.7	0.1	4	2.9	2.7
Time	9.7	6.6	3.1	47	13.5	6.3
Foreign offices	8.3	9.5	(1.2)	(13)	8.2	8.3
Total deposits	43.2	39.6	3.6	9	47.1	37.9
Equity	7.4	7.3	0.1	1	7.4	7.3
CREDIT QUALITY (in millions):						
Net Commercial Banking charge-offs	$ 274	$ 239	$ 35	15	$ 555	$ 488
Net Commercial Banking charge-off ratio	1.64%	1.16%	0.48%		1.61%	1.15%
Nonperforming assets:						
Commercial Banking nonperforming loans	$ 2,297	$ 1,753	$ 544	31		
Other, including OREO	30	18	12	67		
Total nonperforming assets	2,327	1,771	556	31		
Allowance for credit losses	$ 3,071	$ 3,067	$ 4	-		
Allowance to period-end loans	4.73%	3.82%	0.91%			
Allowance to nonperforming loans	134	175	(41)			
Nonperforming assets to related assets	3.58	2.21	1.38			
CORPORATE BANKING (in billions):						
Loans-ending balance	$ 31.8	$ 43.3	$ (11.5)	(27)		
-average balance	33.3	45.7	(12.4)	(27)	34.7	47.8
Deposits-ending balance	$ 22.9	$ 23.1	$ (0.2)	(1)		
-average balance	21.7	20.8	0.9	4	25.4	19.4
Credit quality (in millions):						
Net charge-offs	$ 168	$ 155	$ 13	8	$ 331	$ 341
Net charge-off ratio	2.02%	1.36%	0.66%		1.91%	1.43%
Nonperforming loans	$ 1,161	$ 1,050	$ 111	11		
Nonperforming loans to total loans	3.65%	2.42%	1.23%			
SYNDICATIONS:						
Lead arranger deals:						
Volume (in billions)	$ 18.1	$ 12.8	$ 5.3	41	$ 33.0	$ 27.3
Number of transactions	70	56	14	25	115	105

Commercial Banking - continued

	Three Months Ended June 30				Six Mont	
			Change			
	2002 (8)	2001	Amount	Percent	2002 (8)	2001

SYNDICATIONS - continued

League table standing-rank	4	4	-	-		
League table standing-market share	5%	3%	2%			
MIDDLE MARKET BANKING (in billions):						
Loans--ending balance	$ 33.1	$ 36.9	$ (3.8)	(10)%		
--average balance	33.7	37.0	(3.3)	(9)	34.4	37.1
Deposits--ending balance	21.2	20.0	1.2	6		
--average balance	21.5	18.9	2.6	14	21.7	18.5
Credit quality (in millions):						
Net charge-offs	$ 106	$ 84	$ 22	26	$ 224	$ 147
Net charge-off ratio	1.26%	0.91%	0.35%		1.30%	0.79
Nonperforming loans	$1,136	$ 703	$ 433	62		
Nonperforming loans to total loans	3.43%	1.91%	1.53%			

For additional footnote detail see page 7.

(8) Results include the effect of consolidating Anexsys, which had an immaterial impact on revenue and expense and no impact on net income for the three months ended June 30, 2002 or the year to date.

(9) Fiduciary and investment management fees include asset management fees, personal trust fees, other trust fees and advisory fees.

(10) Prior periods have been adjusted to conform to the current organization.

(11) Capital markets includes trading revenues and underwriting, syndicated lending and advisory fees.

(12) Prior period data has been adjusted for the transfer of the National Retail Lockbox Operations and Cash Vault Services business from Commercial to Corporate.

Quarterly Results

Commercial Banking had second quarter operating income of $144 million, down $53 million, or 27%, from the year-ago quarter. Results reflected lower net interest income, a higher provision for credit losses and higher noninterest expense, partially offset by higher noninterest income. Operating income was essentially unchanged from the previous quarter, reflecting higher revenue, offset by higher noninterest expense.

Net interest income of $598 million declined $101 million, or 14%, driven by a reduction in average loans of $15.7 billion, or 19%, from the year-ago quarter. Net interest income declined $57 million, or 9%, from the previous quarter due to a $7.9 billion reduction in average deposits (primarily due to several large commercial customer balances that fluctuate quarter to quarter) and a reduction in average loans of $4.1 billion.

Noninterest income was $454 million, up $76 million, or 20%, from the second quarter of 2001. Banking fees and commissions increased $41 million, or 22%, primarily due to growth in the loan syndication and asset-backed finance businesses. Service charges on deposits increased $24 million, or 16%, from the year-ago quarter as Global Treasury Services clients shifted their payment method to fees due to the lower value of their compensating deposit balances. Trading revenue increased $14 million, or 21%, reflecting an increase in the fair value of credit derivatives used to manage credit risk, partially offset by lower fixed income trading. Other income/loss was essentially unchanged from the year-ago quarter, but declined $16 million from the previous quarter, primarily due to $20 million of writedowns on loans accounted for as held for sale.

Noninterest expense was $592 million, up $32 million, or 6%, from the year-ago quarter, which included $18 million from the consolidation of Anexsys in the first quarter of 2002, as well as higher technology expenses.

Corporate Banking net charge-offs were $168 million, or 2.02% of average loans, up from 1.36% a year-ago and 1.81% in the first quarter. Second quarter net charge-offs included $36 million of loans sold or initially reclassified to held for sale, compared to $68 million in the year-ago quarter and $63 million in the first quarter. Middle Market net charge-offs were $106 million, or 1.26% of average loans, up from 0.91% in the year-ago quarter and down from 1.34% in the first quarter.

The allowance for credit losses at June 30, 2002, was $3.1 billion, unchanged from the first quarter, and represented 4.73% of period-end loans. Nonperforming loans at June 30, 2002, were $2.3 billion, up $40 million, or 2%, from the first quarter, driven by an increase of $49 million, or 5%, in Middle Market nonperforming loans.

Year-to-Date Results

Commercial Banking had year-to-date operating income of $287 million, down $106 million, or 27%, from the prior year. Results reflected lower net interest income, a higher provision for credit losses and higher noninterest expense, partially offset by higher noninterest income.

Net interest income was $1.3 billion, down $161 million, or 11%, from the prior year, driven by a reduction in average loans of $15.8 billion, or 19%, primarily in Corporate Banking.

Noninterest income was $825 million, up $60 million, or 8%, from the first half of 2001. Banking fees and commissions increased $53 million, or 15%, primarily due to growth in the asset-backed finance, loan syndication and debt underwriting businesses. Service charges on deposits increased $76 million, or 27%, as Global Treasury Services clients shifted their payment method to fees due to the lower value of their compensating deposit balances. Trading revenue decreased $37 million, or 26%, primarily due to lower fixed income and foreign exchange trading. Other income (loss) deteriorated $22 million, or 46%, primarily due to writedowns in loans held for sale.

Noninterest expense was $1.2 billion, up $27 million, or 2%, from the prior year, which included $34 million from the consolidation of Anexsys effective January 1, 2002.

The provision for credit losses was $555 million, up $51 million or 10%, from 2001. Total net charge-offs were $555 million in the first half of 2002, including $118 million for loans sold and initially reclassified to held for sale, compared to $157 million in the first half of 2001. This represented 1.61% of average loans, up from 1.15% in the prior year. Nonperforming loans at June 30, 2002 were $2.3 billion, up $544 million, or 31%, from the prior year period driven by a $433 million, or 62%, increase in Middle Market nonperforming loans.

Credit Card

Credit Card is the third largest credit card provider in the United States and the largest VISA(R) credit card issuer in the world with $67 billion in managed credit card receivables.

	Three Months Ended June 30				Six Mont	
			Change			
	2002 (13)	2001	Amount	%	2002 (13)	2001
(Dollars in millions-managed basis)						
Net interest income--FTE	$ 1,526	$ 1,458	$ 68	5%	$3,081	$2,849
Banking fees and commissions	17	22	(5)	(23)	42	47
Credit card revenue	441	278	163	59	836	525
Other income (loss)	28	36	(8)	(22)	10	73
Noninterest income	486	336	150	45	888	645
Total revenue	2,012	1,794	218	12	3,969	3,494
Provision for credit losses	926	962	(36)	(4)	1,869	1,912
Salaries and employee benefits	142	124	18	15	288	253
Other expense	462	398	64	16	937	783
Noninterest expense	604	522	82	16	1,225	1,036
Pretax operating income--FTE	482	310	172	55	875	546
Tax expense and FTE adjustment	186	117	69	59	340	205
Operating income	$ 296	$ 193	$ 103	53	$ 535	$ 341
Restructuring-related charges (reversals), net of tax	(12)	-	(12)	N/M	(12)	-
Net income	$ 308	$ 193	$ 115	60	$ 547	$ 341
Memo: Net securitization gains (amortization)	(13)	(19)	6	32	(44)	(20
FINANCIAL PERFORMANCE:						
% of average outstandings:						
Net interest income--FTE	9.29%	9.25%	0.04%		9.40%	8.94
Provision for credit losses	5.64	6.11	(0.47)		5.70	6.00
Noninterest income	2.96	2.13	0.83		2.71	2.02
Risk adjusted margin	6.61	5.27	1.34		6.41	4.96
Noninterest expense	3.68	3.31	0.37		3.74	3.25
Pretax income--FTE	2.93	1.97	0.96		2.67	1.71
Operating income	1.80	1.22	0.58		1.63	1.07
Restructuring-related charges (reversals), net of tax	(0.07)	-	(0.07)		(0.04)	-
Net income	1.87	1.22	0.65		1.67	1.07
Return on equity (5)	19	12	7		17	11
Efficiency ratio (5)	30	29	1		31	30
Headcount--full-time	10,298	10,785	(487)	(5)		
ENDING BALANCES (in billions):						
Owned-held in portfolio	$ 5.1	$ 2.8	2.3	82		

Owned-held for sale	4.0	3.4	0.6	18
Seller's interest	21.9	17.0	4.9	29
Loans on balance sheet	31.0	23.2	7.8	34
Securitized loans	35.8	39.8	(4.0)	(10)
Managed loans	66.8	63.0	3.8	6
Assets	69.8	64.9	4.9	8
Equity	6.4	6.3	0.1	2

Credit Card - continued

	Three Months Ended June 30				
			Change		
	2002 (13)	2001	Amount	Percent	20
(Managed basis)					
AVERAGE BALANCES (in billions):					
Owned	$ 8.5	$ 6.0	$ 2.5	42%	$ 7
Seller's interest	21.9	16.6	5.3	32	22
Loans on balance sheet	30.4	22.6	7.8	35	30
Securitized	35.5	40.6	(5.1)	(13)	36
Loans	65.9	63.2	2.7	4	66
Assets	70.0	65.3	4.7	7	70
Equity	6.4	6.3	0.1	2	6
CREDIT QUALITY (in millions):					
Net charge-offs:					
Credit card-managed	$ 926	$ 962	$ (36)	(4)	$ 1,8
Net charge-off ratios:					
Credit card-managed	5.62%	6.09%	(0.47)%		5.
12-month lagged (14)	5.86	5.82	0.04		5.
Delinquency ratio:					
30+ days	3.83	4.10	(0.27)		
90+ days	1.72	1.78	(0.06)		
Allowance for credit losses	$ 396	$ 197	$ 199	N/M	
Allowance to period-end owned loans (15)	4.35%	3.18%	1.17%		
OTHER DATA:					
Charge volume (in billions)	$ 38.4	$ 34.4	$ 4.0	12	$ 72
New accounts opened (in thousands)	1,283	1,003	280	28	2,2
Credit cards issued (in thousands)	53,346	50,449	2,897	6	
Number of FirstUSA.com customers (in millions)	2.6	2.6	-	-	
Paymentech:					
Bank card volume (in millions)	$ 30,076	$ 28,603	$ 1,473	5	$58,0

For additional footnote detail see page 7 and 11.

(13) Results include the effect of consolidating Paymentech beginning in the first quarter of 2002. The impact to second quarter and year to date results was to increase net interest income by $3 million and $6 million,

noninterest income by $76 million and $153 million, expense by $67 million and $137 million, respectively; there was no impact on net income.

(14) 2002 ratios include Wachovia net charge-offs but exclude Wachovia 2001 loans.

(15) Excluding loans held for sale, the allowance to period end loans would have been 7.74% in the second quarter of 2002 and 7.10% in the second quarter of 2001.

Quarterly Results

Credit Card had second quarter operating income of $296 million, up $103 million, or 53%, from the year-ago quarter, reflecting lower net credit losses, lower operating expenses and the addition of the Wachovia business. Operating income improved $57 million, or 24%, from the first quarter due to a gain on the sale of a portfolio, increased securitization activity, lower credit costs and lower operating expenses. The 2002 results reflected the consolidation of the Corporation's interest in Paymentech, a leading merchant processor, which was recorded under the equity method of accounting prior to 2002. Year-over-year, this consolidation increased certain balance sheet categories, noninterest income by $76 million, and noninterest expense by $67 million, but had no impact on net income.

Managed loans were $66.8 billion at June 30, 2002, up $3.8 billion, or 6%, from the year-ago period, including the addition of the Wachovia business. Managed loans increased $2.0 billion, or 3%, from March 31, 2002. Credit Card opened 1.28 million new accounts during the quarter, a 28% increase from the year-ago quarter and the highest level in nearly three years.

Total revenue was $2.0 billion for the quarter, up $218 million, or 12%, from one year ago, mostly driven by the addition of the Wachovia business and the consolidation of Paymentech.

Noninterest expense totaled $604 million, up $82 million, or 16%, from the year-ago quarter, reflecting the Paymentech consolidation, higher marketing expense and the addition of the Wachovia business, partially offset by lower processing costs.

The managed provision for credit losses was $926 million, a decrease of $36 million, or 4%, from the year-ago quarter. Second quarter results included the provision for credit losses on the Wachovia business, which were not included in the year-ago quarter. The managed charge-off rate was 5.62%, compared to 6.09% in the year-ago quarter and 5.69% in the first quarter. The managed 30-day delinquency rate was 3.83%, down from 4.10% in the year-ago quarter and 4.27% in the first quarter.

Year-to-Date Results

Credit Card had operating income of $535 million for the 2002 period, up $194 million, or 57%, from the 2001 period, reflecting lower net credit losses and the addition of the Wachovia business.

Total revenue was $4.0 billion for the 2002 period, up $475 million, or 14%, from the 2001 period, driven by the addition of the Wachovia business, the consolidation of Paymentech, the benefit of lower interest rates and a gain on the sale of a portfolio, partially offset by lower volume-related revenue.

Noninterest expense totaled $1.2 billion for the 2002 period, up $189 million, or 18%, from the 2001 period, reflecting the Paymentech consolidation, higher marketing expense and the addition of the Wachovia business, partially offset by lower processing costs.

The managed provision for credit losses was $1.9 billion for the 2002 period, a $43 million, or 2%, decrease from the 2001 period, reflecting lower losses.

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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.

	Three Months Ended June 30				
			Change		
	2002	2001	Amount	%	2002
(Dollars in millions)					
Net interest income-FTE	$ 105	$ 107	$ (2)	(2)%	$ 220
Banking fees and commissions	142	119	23	19	274
Service charges on deposits	4	4	-	-	9
Fiduciary and investment management fees	187	184	3	2	377
Other income	9	1	8	N/M	11
Noninterest income	342	308	34	11	671
Total revenue	447	415	32	8	891
Provision for credit losses	-	13	(13)	N/M	5
Salaries and employee benefits	138	145	(7)	(5)	280
Other expense	125	123	2	2	240
Noninterest expense	263	268	(5)	(2)	520
Pretax operating income-FTE	184	134	50	37	366
Tax expense and FTE adjustment	69	51	18	35	137
Operating income	$ 115	$ 83	$ 32	39	$ 229
Restructuring-related (reversals) charges, net of tax	(1)	-	(1)	N/M	(1)
Net income	$ 116	$ 83	$ 33	40	$ 230
Memo: Insurance revenues	$ 116	$ 103	$ 13	12	$ 239
FINANCIAL PERFORMANCE:					
Return on equity (5)	42%	33%	9%		42%
Efficiency ratio (5)	59	65	(6)	58	66
Headcount--full-time	5,936	6,371	(435)	(7)	
ENDING BALANCES (in billions):					
Loans	$ 7.1	$ 7.1	$ -	-	

Assets	8.5	8.4	0.1	1	
Demand deposits	2.4	2.3	0.1	4	
Savings	3.9	2.5	1.4	56	
Time	3.2	3.3	(0.1)	(3)	
Foreign offices	0.3	0.1	0.2	N/M	
Total deposits	9.8	8.2	1.6	20	
Equity	1.1	1.0	0.1	10	
AVERAGE BALANCES (in billions):					
Loans	$ 7.0	$ 6.9	$ 0.1	1	$ 7.0
Assets	8.5	8.1	0.4	5	8.4
Demand deposits	2.0	1.9	0.1	5	2.0
Savings	4.0	2.7	1.3	48	3.9
Time	3.4	3.3	0.1	3	3.3
Foreign offices	0.2	0.2	-	-	0.2
Total deposits	9.6	8.1	1.5	19	9.4
Equity	1.1	1.0	0.1	10	1.1

Investment Management - continued

	Three Months Ended June 30				Six Mont	
			Change			
	2002	2001	Amount	Percent	2002	2001
CREDIT QUALITY (in millions):						
Net charge-offs:						
Commercial	$ (1)	$ 10	$ (11)	N/M	$ 1	$ 10
Consumer	1	3	(2)	(67)	4	3
Total net charge-offs	-	13	(13)	N/M	5	13
Net charge-off ratios:						
Commercial	-0.18%	1.07%	(1.25)%		0.05%	0.61
Consumer	0.13	0.37	(0.24)		0.21	0.17
Total net charge-off ratio	-	0.75	(0.75)		0.14	0.38
Nonperforming assets:						
Commercial	$ 33	$ 37	$ (4)	(11)%		
Consumer	5	5	-	-		
Total nonperforming loans	38	42	(4)	(10)		
Other, including OREO	1	-	1	-		
Total nonperforming assets	39	42	(3)	(7)		
Allowance for credit losses	$ 25	$ 25	$ -	-		
Allowance to period-end loans	0.35%	0.35%	-			
Allowance to nonperforming loans	66	60	6			
Nonperforming assets to related assets	0.55	0.59	(0.04)			

ASSETS UNDER MANAGEMENT				
ENDING BALANCES (in billions):				
Mutual funds	$ 90.2	$ 74.4	$ 15.8	21
Other	55.8	57.9	(2.1)	(4)
Total	146.0	132.3	13.7	10
By type:				
Money market	$ 62.8	$ 47.8	$ 15.0	31
Equity	42.2	49.8	(7.6)	(15)
Fixed income	41.0	34.7	6.3	18
Total	146.0	132.3	13.7	10
By channel: (10)				
Private Client Services	$ 46.4	$ 52.1	$ (5.7)	(11)
Retail Brokerage	7.2	7.3	(0.1)	(1)
Institutional	63.4	56.4	7.0	12
Commercial Cash Sweep	9.2	8.9	0.3	3
Capital Markets	3.7	0.5	3.2	N/M
External (16)	7.5	1.2	6.3	N/M
All other direct (17)	8.6	5.9	2.7	46
Total	146.0	132.3	13.7	10
Morningstar Rankings: (18)				
% of 4 and 5 ranked funds	51%	54%	(3)%	
% of 3+ ranked funds	91	95	(4)	
TRUST ASSETS ENDING BALANCES:				
Trust assets under administration (in billions)	$334.8	$342.3	$ (7.5)	(2)

Investment Management - continued

	Three Months Ended June 30				
			Change		
	2002	2001	Amount	Percent	200
CORPORATE TRUST SECURITIES ENDING BALANCES:					
Corporate trust securities under administration (in billions)	$1,094.7	$892.3	$202.4	23	
RETAIL BROKERAGE:					
Mutual fund sales (in millions)	$ 637	$ 559	$ 78	14%	$1,21
Annuity sales	814	582	232	40	1,61
Total sales	1,451	1,141	310	27	2,82
Number of customers--end of period (10) (in thousands)	667	618	49	8	

Market value customer assets--end of period (in billions):					
Brokerage	16.2	16.8	(0.6)	(4)	
Annuity account value (in billions)	10.2	7.6	2.6	34	
Total market value (10)	26.4	24.4	2.0	8	
Number of registered sales representatives	761	704	57	8	
Number of licensed retail bankers	3,131	2,904	227	8	
PRIVATE CLIENT SERVICES:					
Number of Private Client advisors	668	682	(14)	(2)	
Number of Private Client offices	105	105	-	-	
Market value customer assets--end of period (10) (in billions)	$ 66.4	$ 76.0	$ (9.6)	(13)	
Ending balances (in billions):					
Loans	$ 7.0	$ 6.9	$ 0.1	1	
Deposits	8.2	6.6	1.6	24	
Average balances (in billions):					
Loans	$ 6.9	$ 6.9	$ -	-	$ 6.
Deposits	8.4	6.9	1.5	22	8.

For additional footnote detail see pages 7, 11 and 14.

(16) Includes broker/dealers, trust companies, and registered investment advisors that sell, or offer, One Group funds.
(17) One Group funds invested in other One Group funds and other mutual funds sub-advised.
(18) Morningstar changed the rating process effective June 30, 2002 with no prior period restatements.

Quarterly Results

Investment Management had second quarter operating income of $115 million, up $32 million, or 39%, from the year-ago quarter, driven by higher revenue, lower provision and reduced expenses. Compared to the first quarter of 2002, operating income increased $1 million, or 1%.

Assets under management at quarter-end were $146 billion, up $13.7 billion, or 10%, from a year ago. One Group(R) mutual fund assets grew to $90.2 billion in the second quarter, up $15.8 billion, or 21%, year-over-year. The increase was primarily due to significant growth in money market assets.

One Group funds performance remained strong during the second quarter. Based on one-year Lipper rankings, 45% of client assets were in funds rated in the top quartile, up from 33% in the first quarter, and 74% of assets were in funds rated in the top two quartiles, up from 70% in the first quarter.

Revenue increased $32 million, or 8%, year-over-year to $447 million, primarily driven by the 27% increase in the sale of mutual funds and annuities to retail clients and the 10% growth in assets under management. Additionally, effective April 1 the distribution function for the One Group funds was brought in house, resulting in an increase in revenue and corresponding increase in expense of $9 million.

Noninterest expense was $263 million, down $5 million, or 2%, from a year ago, driven primarily by lower compensation costs, partially offset by higher commission costs. Overall headcount was down 7%, however the number of registered sales representatives increased 8%, driving higher retail brokerage sales production.

Year-to-Date Results

Investment Management reported year-to-date operating income of $229 million, up $64 million, or 39%, from the year-ago period, driven by higher revenue, lower provision and reduced expenses.

Year-to-date revenue increased $65 million, or 8%, from the year-ago period to $891 million, primarily driven by the 24% increase in the sale of mutual funds and annuities to retail clients and the 10% growth in assets under management. Additionally, effective April 1st the distribution company for the One Group funds was in-sourced resulting in an increase in revenue and corresponding increase in expense of $9 million.

Noninterest expense was $520 million, down $25 million, or 5%, from the year-ago period, driven primarily by lower compensation costs, partially offset by higher commission costs.

Corporate

Corporate includes Treasury, fixed income and principal investment portfolios, unallocated corporate expenses, and any gains or losses from corporate transactions.

	Three Months Ended June 30				Six Mont	
			Change			
	2002	2001	Amount	%	2002	2001
(Dollars in millions)						
Net interest income (expense)-FTE (19)	$ (96)	$ (240)	$ 144	60%	$(137)	$(441
Banking fees and commissions	(4)	(1)	(3)	N/M	(9)	(8
Credit card revenue	1	(2)	3	N/M	-	(1
Service charges on deposits	3	7	(4)	(57)	6	8
Fiduciary and investment management fees	1	1	-	-	1	1
Investment securities gains (losses)	97	69	28	(41)	79	(28
Trading	(7)	(7)	-	-	(16)	(17
Other income (loss)	53	63	(10)	(16)	113	206
Noninterest income (20)	144	130	14	11	174	161
Total revenue (loss)	48	(110)	158	N/M	37	(280
Provision for credit losses	-	-	-	-	15	-
Salaries and employee benefits	202	170	32	19	387	294
Other expense	33	(97)	130	N/M	(67)	(221
Noninterest expense (21)	235	73	162	N/M	320	73

Pretax operating loss-FTE	(187)	(183)	(4)	(2)	(298)	(353
Tax expense (benefit) and FTE adjustment	(87)	(103)	16	16	(146)	(185
Operating income (loss)	$ (100)	$ (80)	$ (20)	(25)	$(152)	$(168
Restructuring-related charges (reversals), net of tax	(13)	-	(13)	N/M	(13)	-
Net income (loss)	$ (87)	$ (80)	$ (7)	(9)	$(139)	$(168
FINANCIAL PERFORMANCE:						
Headcount--full-time (12)	13,828	14,453	(625)	(4)		
ENDING BALANCES (in billions):						
Loans	$ 0.3	$ 0.7	$ (0.4)	(57)		
Assets	63.9	53.5	10.4	19		
Memo:						
Treasury securities	38.4	28.2	10.2	36		
Principal investments	2.4	3.4	(1.0)	(29)		
Deposits	14.9	25.4	(10.5)	(41)		
Equity	0.5	(1.5)	2.0	N/M		
AVERAGE BALANCES (in billions):						
Loans	$ 0.4	$ 0.9	$ (0.5)	(56)	$ 0.4	$ 0.6
Assets	48.3	49.1	(0.8)	(2)	48.2	46.8
Deposits	14.2	26.2	(12.0)	(46)	15.1	27.0
Equity	0.5	(1.6)	2.1	N/M	0.2	(1.7

For additional footnote detail see pages 7, 11, 14 and 18.

(19) Net interest income primarily includes Treasury results and interest spread on investment related activities.

(20) Noninterest income primarily includes the gains and losses from investment activities and other corporate transactions.

(21) Noninterest expense primarily includes corporate expenses not allocated to the lines of business.

Quarterly Results

Corporate had an operating loss of $100 million in the second quarter, compared with an operating loss of $80 million in the 2001 second quarter and $52 million in the 2002 first quarter.

Net interest expense was $96 million in the second quarter, down $144 million from the year-ago quarter. The improvement reflected lower interest rates, which reduced the Corporation's funding costs. The $55 million increase from the previous quarter was predominately associated with transactions executed to reduce the Corporation's earnings sensitivity to rising interest rates.

Noninterest income of $144 million was up $14 million, or 11%, from the year-ago quarter and $114 million higher than the previous quarter. Net investment securities gains were $97 million, which included a $261 million gain on sale of GE Monogram, partially offset by net writedowns in the investment securities and principal investments portfolios. These results represented an improvement of $28 million, or 41%, from the year-ago quarter and $115 million from the previous quarter.

Provision for other loan assets was zero, compared to $15 million in the previous quarter.

Unallocated corporate expenses were $235 million, compared to $73 million in the year-ago quarter and $85 million in the previous quarter. The current quarter included $89 million of expenses related to terminating and renegotiating certain vendor contracts.

Salaries and employee benefits for the second quarter 2002 included $12 million expense related to adopting the fair value method of accounting for stock option and stock purchase plans. For the six months ended June 30, 2002, the net income and fully-diluted earnings per share impacts were $8 million and $0.01, respectively. (The impact on the first quarter 2002 is immaterial as annual stock option awards were granted in April.) The full year 2002 net income and earnings per share impacts are estimated to be $28 million and $0.02, respectively, based upon the following assumptions:

	Pro-forma 2002 Estimate (27)
Net options granted or expected to be granted in 2002 (22)	19.4 million
Estimated fair value per option (23)	$8.22 - $13.23
Fair value to be recognized in compensation expense over the vesting period (primarily 5 years (24))	$243 million
Straight-line amortization period (24)	5 years
Estimated 2002 annual compensation expense (25)	$44 million
Estimated 2002 net income impact (26)	$28 million
Estimated fully-diluted net income per share impact	$0.024

Assuming Bank One were to continue activity in its stock-based plans at comparable levels for the next six years and assuming all fair value and vesting assumptions remain essentially unchanged, then in 2007 the impact would be approximately:

	Pro-forma 2007 Estimate (27)
Estimated 2007 annual compensation expense (25)	$250 million
Estimated 2007 net income impact	$150 million
Estimated fully-diluted net income per share impact	$ 0.13

(22) Options granted are net of expected forfeitures based upon Bank One's historical experience and will change over time due to actual experience. Under the terms of the stock option plan, up to 2% of the outstanding common shares are authorized for issuance per year, or 24 million shares in 2002, and unused awards may be carried over to future years.

(23) Fair values vary for stock options and employee stock purchase plans primarily due to varying assumptions. The fair value estimate for the April

2002 stock option grant was $13.23 per option. Fair values are estimated using the Black-Scholes option pricing model. Management will refine the methodology of calculating fair value for new grants and consider the market value of comparable traded securities.

(24) Stock options generally vest pro-rata over 5 years. Shares purchased under the employee stock purchase plan, estimated to be 2 million shares, have an 18-24 month vesting period.

(25) Assumes amortization begins at the time of grant in the quarter issued.

(26) 2001 Annual Report disclosure includes pro-forma impacts for all outstanding options. Under the requirements of SFAS 123, the fair value method of accounting may only be applied to new option grants.

(27) The pro-forma information may not be representative of the actual impact in current and future years.

Year-to-Date Results

Corporate had an operating loss of $152 million, down $16 million, or 10%, from the prior year.

Net interest expense was $137 million, down $304 million, or 69%, from the prior year, driven by lower interest rates that positively impacted the Corporation's funding costs.

Noninterest income was $174 million, up $13 million, or 8%, from the prior year. Net investment securities gains were $79 million, up $107 million from the prior year, driven by the gain on sale of GE Monogram, partially offset by net writedowns in the investment securities and principal investments portfolios. Other income was $113 million, down $93 million, or 45%, from the prior year. The first half of 2001 included $73 million in gains from the sale of the Corporation's portion of the controlling equity position in EquiServe Limited Partnership and from the sale of the Corporation's investment in Star Systems, an ATM network.

Provision for other loan assets in the first half of 2002 was $15 million, compared to zero in the prior year.

Unallocated corporate expenses were $320 million, up $247 million, from the prior year. The first half of 2002 included $89 million of expenses related to terminating and renegotiating certain vendor contracts and $12 million of expense related to adopting the fair value method of accounting for stock option and stock purchase plans.

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:

	Three Months Ended June 30				Six M	
			Change			
	2002	2001	Amount	%	2002	20
(Dollars in millions)						
Managed:						
Net interest income-FTE basis	$ 3,336	$ 3,244	$ 92	3%	$ 6,875	$ 6,5
Average earning assets	261,560	279,561	(18,001)	(6)	264,964	280,7
Net interest margin	5.12%	4.65%	0.47%		5.23%	4.
Reported:						
Net interest income-FTE basis	$ 2,078	$ 2,085	$ (7)	-	$ 4,313	$ 4,3
Average earning assets	226,005	238,971	(12,966)	(5)	228,894	240,6
Net interest margin	3.69%	3.50%	0.19%		3.80%	3.

The year over year improvement in net interest income and the margin was due to lower interest rates and improved balance sheet profitability. This reflected an increase in the percentage of funding provided by consumer deposits and net free funds, a reduction in low margin commercial loans, and an increase in credit card assets.

Noninterest Income

The components of managed noninterest income for the periods indicated are:

	Three Months Ended June 30				Six Mont	
			Change			
	2002	2001	Amount	%	2002	2001
(Dollars in millions)						
Banking fees and commissions	$ 492	$ 431	$ 61	14%	$ 937	$ 842
Credit card revenue	506	338	168	50	954	645
Service charges on deposits	376	360	16	4	769	691
Fiduciary and investment management fees	188	184	4	2	377	371
Investment securities gains (losses)	96	69	27	39	78	(27
Trading	70	61	9	15	86	126
Other income	54	65	(11)	(17)	75	253
Managed noninterest income	$1,782	$1,508	$ 274	18%	$3,276	$2,901

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 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.

Banking fees and commissions increased from the year-ago quarter and prior six months by $61 million and $95 million, respectively. These increases were primarily the result of increased annuity and mutual fund sales, as well as from the growth in the loan syndication and asset-backed finance businesses.

Managed credit card revenue in the second quarter of 2002 increased $168 million, or 50%, over the prior year period and by $309 million, or 48%, for the first six months of 2002 over the prior year six months. These increases were primarily due to the addition of the Wachovia business in the third quarter of 2001 and the consolidation of Paymentech beginning January 1, 2002.

Service charges on deposits increased $16 million for the second quarter of 2002 compared to the year-ago period and by $78 million for the first six months of 2002. These increases primarily reflected improvement in Global Treasury Services volumes and pricing, and clients shifting their payment method to fees due to the lower value of their compensating deposit balances.

Net investment securities gains were $96 million for the second quarter of 2002, compared to $69 million in the year ago quarter. The current period includes the gain on sale of GE Monogram, partially offset by net writedowns in the investment securities and principal investment portfolios.

Trading produced gains of $70 million in the second quarter compared to $61 million in the second quarter of 2001 reflecting an increase in the fair value of credit derivatives used to manage credit risk, partially offset by lower fixed income trading. For the first six months of 2002, trading revenue declined $40 million from the same period in the prior year primarily due to lower fixed income and foreign exchange trading.

Other income for the six months ended June 30, 2002 decreased $178 million, or 70%, compared to the same period in the prior year. This decrease primarily resulted from the consolidation of Paymentech and gains on the sale of ownership interests in EquiServe Limited Partnership and Star Systems recognized in the prior year period.

Noninterest Expense

The components of noninterest expense for the periods indicated are:

	Three Months Ended June 30				Six Mont	
			Change			
	2002	2001	Amount	%	2002	2001
(Dollars in millions)						
Salaries and employee benefits:						
Salaries	$ 941	$ 929	$ 12	1%	$ 1,861	$ 1,8
Employee benefits	160	143	17	12	336	2
Total salaries and employee						

benefits	1,101	1,072	29	3	2,197	2,0
Occupancy	170	164	6	4	328	3
Equipment	99	119	(20)	(17)	202	2
Outside service fees and processing	372	313	59	19	672	5
Marketing and development	264	210	54	26	522	4
Telecommunication	134	95	39	41	235	2
Other intangible amortization	29	19	10	53	62	
Goodwill amortization	-	18	(18)	N/M	-	
Other expense	332	299	33	11	628	6
Total noninterest expense before merger and restructuring-related charges	2,501	2,309	192	8	4,846	4,5
Merger and restructuring-related charges (reversals)	(63)	(3)	(60)	N/M	(63)	
Total noninterest expense	2,438	2,306	132	6	4,783	4,5
Employees (1)	73,579	78,491	(4,912)	(6)	73,579	78,4
Efficiency ratio--managed basis	47.6%	48.5%	(0.9)%		47.1%	48

Components of noninterest expense that are primarily related to a single business segment are discussed within that business segment.

Salaries and employee benefits in the second quarter and for the first six months of 2002 increased 3% and 5%, respectively from the year-ago periods. These increases were due to increased incentive compensation and the consolidations of Paymentech and Anexsys, partially offset by savings from reduced headcount. Salaries and employee benefits for the second quarter and year to date 2002 also included $12 million expense related to adopting the fair value method of accounting for stock option and stock purchase plans.

Outside service fees and processing expense increased $59 million in the second quarter and $103 million in the first six months of 2002 compared to the prior year periods. Telecommunication expense increased $39 million in the second quarter and $31 million in the first six months of 2002 compared to the prior year periods. The increases in these expenses were primarily the result of terminating and renegotiating certain vendor contracts. Also contributing to the increase in outside service fees and processing expenses for the first six months of 2002 were increased contract programming charges related to the Corporation's conversion efforts.

Marketing and development expense increased in the second quarter and first six months of 2002 by 26% and 24%, respectively, compared to the prior year periods primarily due to increased advertising expenditures for Credit Card and certain Retail products.

Other intangible amortization in the second quarter and first six months increased $10 million and $23 million, respectively, compared to the prior year periods primarily due to the amortization of purchased credit card relationships associated with the addition of the Wachovia business. Additionally, the Corporation no longer amortizes goodwill in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" and thus did not incur any goodwill amortization expense in the first six months of 2002.

Other operating expense in the second quarter and the first six months of 2002 increased compared to the year-ago periods by $33 million, or 11%, and $15 million, or 2%, respectively, primarily due to conversion costs. The Corporation successfully completed the Michigan and Florida conversion during the second quarter, and hopes to complete the Illinois conversion by the end of 2002.

Applicable Income Taxes

The Corporation's income before income taxes and applicable income tax expense and effective tax rate for each of the periods indicated are:

	Three Months Ended June 30		Six Mont
(Dollars in millions)	2002	2001	2002
Income before income taxes and cumulative effect of change in accounting principle	$1,229	$1,000	$2,371
Applicable income taxes	386	292	741
Effective tax rate	31.4%	29.2%	31.3%

Applicable income tax expense for both periods included benefits for tax-exempt income, tax-advantaged investments and general business tax credits, offset by the effect of nondeductible expenses.

RISK MANAGEMENT

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.

The following discussion of the Corporation's risk management processes focuses primarily on developments since March 31, 2001. The Corporation's risk management processes for liquidity, market, credit and operational risks have not substantially changed from year-end and are described in detail in the Corporation's 2001 Annual Report, beginning on page 47.

At June 30, 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	S & P	Moody's

The Corporation (parent)	A-1	P-1	A	Aa3
Principal banks	A-1	P-1	A+	Aa2

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.

Value-At-Risk-Trading Activities

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.

For trading portfolios, value-at-risk measures the maximum fair value the Corporation could lose on a trading position, excluding credit derivatives, given a specified confidence level and time horizon. Value-at-risk limits and exposure 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.

The value-at-risk in the Corporation's trading portfolio was as follows (excluding credit derivatives with a notional amount of $5.4 billion and $4.5 billion at June 30, 2002 and March 31, 2002, respectively. See a discussion of credit derivatives on page 35):

(In millions)		Second Quarter 2002			
	At June 30, 2002	Average	High	Low	At March 31, 2002
Risk type					
Interest rate	$ 11	$ 11	$ 12	$ 10	$ 12
Currency exchange rate	1	-	3	-	1
Equity	1	1	1	-	1
Diversification benefit	(1)	-	N/A	N/A	(1)

Aggregate portfolio market risk	$ 12	$ 12	$ 14	$ 11	$ 13

Interest rate risk was the predominant type of market risk incurred during the second quarter of 2002. At June 30, 2002, approximately 85% of primary market risk exposures were related to interest rate risk. Exchange rate, equity and commodity risks accounted for 15% of primary market risk exposures.

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. 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.

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 plus or minus 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 pre-tax earnings sensitivity profile as of June 30, 2002 and March 31, 2002 is as follows:

	Immediate Change in Rates	
(In millions)	-100 bp	+100 bp
June 30, 2002	$ (112)	$ (52)
March 31, 2002	$ 1	$ (152)

Management regularly reviews alternative strategies to manage the Corporation's exposure to interest rate movements under a wide range of market based outcomes, balancing the risks and returns against the cost of incremental strategies. During the quarter, the Corporation's earnings sensitivity to rising interest rates declined, in part

due to a change in the market's expectations for future interest rate movements and the resultant effect on balance sheet cash flows and trends.

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.

CREDIT PORTFOLIO COMPOSITION

Selected Statistical Information

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

(Dollars in millions)	June 30 2002	March 31 2002	December 31 2001	September 30 2001	June 3 200
Loans outstanding	$ 147,728	$ 152,126	$ 156,733	$ 164,251	$ 166,57
Average loans	149,674	154,942	160,150	165,416	169,14
Nonperforming loans (1)	3,720	3,737	3,551	3,112	2,85
Other, including OREO	204	197	137	116	9
Nonperforming assets	3,924	3,934	3,688	3,228	2,95
Allowance for credit losses	4,521	4,520	4,528	4,479	4,22
Net charge-offs	607	663	717	566	51
Nonperforming assets to related assets	2.65%	2.58%	2.35%	1.96%	1.7
Allowance to period end loans (2)	3.06	2.97	2.89	2.73	2.5
Allowance to nonperforming loans (3)	122	121	128	144	14
Net charge-offs to average loans	1.62	1.71	1.79	1.37	1.2
Allowance to net charge-offs	186	170	158	198	20

(1) Includes loans held for sale of $107 million and $66 million at June 30, 2002 and March 31, 2002, respectively. For December 31, 2001, September 30, 2001 and June 30, 2001 there were no nonperforming loans included in loans held for sale.
(2) Excluding loans held for sale, the allowance to period end loans would have been 3.19%, 3.06%, 2.97%, 2.81% and 2.61% at June 30, 2002, March 31, 2002, December 31, 2001, September 30, 2001 and June 30, 2001, respectively.
(3) Excluding loans held for sale, the allowance to nonperforming loans would have been 125%, 123%, 128%, 144% and 148% at June 30, 2002, March 31, 2002, December 31, 2001, September 30, 2001 and June 30, 2001, respectively.

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Loan Composition

The Corporation's managed and reported loan portfolios for the periods indicated are as follows:

	June 30, 2002		March 31, 2002		December 31, 2001		September 2001
(Dollars in millions)	Amount	%(1)	Amount	%(1)	Amount	%(1)	Amount

Retail:							
Small business commercial	$ 10,027	5%	$ 9,992	5%	$ 9,947	5%	$ 9,966
Home equity	29,699	14	29,891	14	30,268	14	30,712
Vehicles:							
Loans	13,584	7	13,644	7	13,481	6	13,497
Leases	4,722	2	5,431	3	6,155	3	6,855
Other personal	8,238	4	8,604	4	9,779	4	9,941
Total Retail	66,270	32	67,562	33	69,630	32	70,971
Commercial Banking:							
Corporate Banking:							
Commercial and industrial	17,912	9	20,226	10	22,268	10	25,287
Commercial real estate	8,433	4	8,731	4	8,975	4	9,391
Lease financing	4,758	3	4,774	2	4,669	2	4,536
Other	670	-	975	-	731	-	1,279
Total Corporate Banking	31,773	16	34,706	16	36,643	16	40,493
Middle Market:							
Commercial and industrial	29,337	14	29,515	14	31,076	14	32,325
Commercial real estate	2,421	1	3,516	2	3,472	2	3,233
Lease financing	1,092	1	1,156	1	1,053	1	1,049
Other	251	-	141	-	294	-	300
Total Middle Market	33,101	16	34,328	17	35,895	17	36,907
Total Commercial Banking	64,874	32	69,034	33	72,538	33	77,400
IMG and Corporate	7,469	3	8,134	4	7,779	4	7,480
Credit Card:							
Owned-held in portfolio	5,115	3	4,777	3	5,040	2	4,757
Owned-held for sale	4,000	2	2,619	1	1,746	1	3,643
Securitized:							
Seller's interest retained (2)	21,897	11	22,343	10	24,019	11	18,397
Sold loans	35,797	17	35,050	16	37,350	17	39,956
Managed credit card (3)	66,809	33	64,789	30	68,155	31	