

BANK ONE CORP  
Form 10-Q  
November 06, 2003

**BANK ONE CORPORATION  
INDEX TO FINANCIAL REVIEW**

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

Three Months Ended

| <i>(In millions, except per share data, ratios, and headcount)</i> | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|--|----------------------|-----------------|------------------|---------------------|----------------------|
| <b>INCOME STATEMENT DATA:</b>                                      |                      |                 |                  |                     |                      |
| Total revenue, net of interest expense                             | \$ 4,084             | \$ 4,072        | \$ 3,943         | \$ 4,197            | \$ 4,154             |
| Net interest income  | 2,086                | 1,970           | 1,984            | 2,144               | 2,188                |
| Net interest income-<br>fully taxable-equivalent basis ("FTE") (1) | 2,127                | 2,009           | 2,021            | 2,180               | 2,226                |
| Noninterest income   | 1,998                | 2,102           | 1,959            | 2,053               | 1,966                |
| Provision for credit losses  | 416                  | 461             | 496              | 628                 | 587                  |
| Noninterest expense  | 2,421                | 2,403           | 2,297            | 2,371               | 2,404                |
| <b>Income from continuing operations, net of taxes</b>             | <b>874</b>           | <b>847</b>      | <b>811</b>       | <b>832</b>          | <b>813</b>           |
| <b>Income from discontinued operations, net of taxes (2)</b>       | <b>9</b>             | <b>9</b>        | <b>7</b>         | <b>10</b>           | <b>10</b>            |
| <b>Net income</b>  | <b>883</b>           | <b>856</b>      | <b>818</b>       | <b>842</b>          | <b>823</b>           |
| <b>PER COMMON SHARE DATA:</b>                                      |                      |                 |                  |                     |                      |
| Basic earnings per share   |                      |                 |                  |                     |                      |
| Income from continuing operations, net                             | \$ 0.78              | \$ 0.75         | \$ 0.70          | \$ 0.72             | \$ 0.70              |
| Income from discontinued operations, net                           | 0.01                 | 0.01            | 0.01             | 0.01                | 0.01                 |
| Net income   | \$ 0.79              | \$ 0.76         | \$ 0.71          | \$ 0.73             | \$ 0.71              |
| Diluted earnings per share   |                      |                 |                  |                     |                      |
| Income from continuing operations, net                             | 0.78                 | 0.74            | 0.70             | 0.71                | 0.69                 |
| Income from discontinued operations, net                           | 0.01                 | 0.01            | 0.01             | 0.01                | 0.01                 |
| Net income   | \$ 0.79              | \$ 0.75         | \$ 0.71          | \$ 0.72             | \$ 0.70              |
| Cash dividends declared  | 0.25                 | 0.21            | 0.21             | 0.21                | 0.21                 |
| Book value   | 20.05                | 19.70           | 19.44            | 19.28               | 18.79                |
| <b>BALANCE SHEET DATA - ENDING BALANCES:</b>                       |                      |                 |                  |                     |                      |
| Loans  | \$ 141,710           | \$ 144,583      | \$ 144,747       | \$ 148,125          | \$ 150,389           |
| Total assets   | 290,006              | 299,463         | 287,864          | 277,383             | 274,187              |
| Deposits   | 163,411              | 172,015         | 167,075          | 170,008             | 164,036              |
| Long-term debt (3)   | 44,225               | 46,070          | 44,950           | 43,234              | 42,481               |
| Common stockholders' equity  | 22,411               | 22,257          | 22,316           | 22,440              | 21,925               |
| Total stockholders' equity   | 22,411               | 22,257          | 22,316           | 22,440              | 21,925               |
| <b>CREDIT QUALITY RATIOS:</b>                                      |                      |                 |                  |                     |                      |
| Annualized net charge-offs to average loans                        | 1.50%                | 1.35%           | 1.35%            | 1.65%               | 1.55%                |
| Allowance to period end loans                                      | 3.34                 | 3.35            | 3.31             | 3.20                | 3.17                 |
| Nonperforming assets to related assets (4)                         | 2.06                 | 2.28            | 2.38             | 2.38                | 2.48                 |
| <b>FINANCIAL PERFORMANCE:</b>                                      |                      |                 |                  |                     |                      |
| Return on average assets   | 1.24%                | 1.24%           | 1.22%            | 1.24%               | 1.24%                |
| Return on average common equity                                    | 15.8                 | 15.3            | 14.7             | 15.0                | 14.8                 |
| Net interest margin  | 3.45                 | 3.37            | 3.45             | 3.65                | 3.83                 |
| Efficiency ratio (5)   | 58.7                 | 58.5            | 57.7             | 56.0                | 57.3                 |
| <b>CAPITAL RATIOS:</b>   |                      |                 |                  |                     |                      |
| Risk-based capital:  |                      |                 |                  |                     |                      |
| Tier 1   | 9.8%                 | 9.7%            | 10.0%            | 9.9%                | 9.5%                 |
| Total  | 13.5                 | 13.6            | 13.8             | 13.7                | 13.0                 |

## Three Months Ended

|                             | 8.4      | 8.7      | 8.9      | 8.9      | 9.0      |
|-----------------------------|----------|----------|----------|----------|----------|
| Leverage                    |          |          |          |          |          |
| <b>COMMON STOCK DATA:</b>   |          |          |          |          |          |
| Average shares outstanding: |          |          |          |          |          |
| Basic                       | 1,115    | 1,132    | 1,148    | 1,157    | 1,162    |
| Diluted                     | 1,124    | 1,140    | 1,156    | 1,166    | 1,171    |
| Stock price, quarter-end    | \$ 38.65 | \$ 37.18 | \$ 34.62 | \$ 36.55 | \$ 37.40 |
| Headcount                   | 71,240   | 72,323   | 74,077   | 73,685   | 73,535   |

- (1) Net interest income-FTE includes tax equivalent adjustments of \$41 million, \$39 million, \$37 million, \$36 million and \$38 million for the quarters ended September 30, 2003, June 30, 2003, March 31, 2003, December 31, 2002 and September 30, 2002, respectively.
- (2) As a result of the Corporation's announced agreement to sell its corporate trust services business, the results of these operations are reported as discontinued.
- (3) Includes trust preferred securities.
- (4) Related assets consist of loans outstanding, including loans held for sale, and other real estate owned.
- (5) The efficiency ratio is based on income from continuing operations. Prior periods have been recalculated to conform with the current period presentation.

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## FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis included herein contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, Bank One Corporation and its subsidiaries (the Corporation) may make or approve certain statements in future filings with the Securities and Exchange Commission (the 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.

Words such as believes, anticipates, expects, intends, plans, estimates, targeted and similar expressions are intended to identify forward-looking statements but are not the only means to identify these statements.

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.
- Competitive pressures among financial services companies may increase significantly.
- 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, the Public Company Accounting Oversight Board 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.

## APPLICATION OF CRITICAL ACCOUNTING POLICIES

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Generally accepted accounting principles are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of the Corporation must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. Changes in such estimates may have a significant impact on the financial statements. 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. 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 the assumptions used to value the August 2003 stock option grant see Note 12, Stock-Based Compensation. 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.)

This quarter the Corporation purchased key business components of Zurich Life, a U.S. life and annuity operation of Zurich Financial Services Group. For a discussion of this purchase, see page 56. The results of operations for Zurich Life from September 1 to September 30, 2003 are included in the Corporation's consolidated financial statements for the three and nine months ended September 30, 2003.

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Net income was \$883 million, or \$0.79 per diluted share. This compares to net income of \$823 million, or \$0.70 per diluted share. For the nine months ended September 30, 2003, net income totaled \$2.6 billion, or \$2.25 per diluted share. This compares to net income of \$2.5 billion, or \$2.08 per diluted share.

### Net Interest Income

Net interest income represents the spread on interest earning assets over interest bearing liabilities, including loan fees, cash interest collections on nonaccrual loans, dividend income, interest reversals, and income or expense on derivatives used to manage interest rate risk. Net interest income was \$2.1 billion, a decrease of \$102 million, or 5%. Net interest margin decreased to 3.45% from 3.83%. For the first nine months of 2003, net interest income was \$6.0 billion, a decrease of \$371 million, or 6%. Net interest margin for the same period decreased to 3.42% from 3.80%. For both the third quarter and the first nine months of 2003, the decline in net interest income and margin generally resulted from actions taken in 2002 to position the balance sheet more defensively for 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. See Note 8, Interest Income and Interest Expense, for further details of the components of net interest income.

### Noninterest Income

Noninterest income of \$2.0 billion increased \$32 million, and as a percentage of total revenue increased to 48.9% from 47.3%. This increase was primarily due to net gains in the investment portfolio, higher capital markets revenue and higher deposit service charges, offset by losses on the credit derivatives hedge portfolio.

For the first nine months of 2003, noninterest income of \$6.1 billion was essentially flat. Losses on the credit derivatives hedge portfolio and lower income derived from securitized loans, were mostly offset by the net gains from investment securities. The components of noninterest income for the periods indicated were:

| <i>(Dollars in millions)</i>             | Three Months Ended September 30 |        |        |         | Nine Months Ended September 30 |          |         |         |
|--|---------------------------------|--------|--------|---------|--------------------------------|----------|---------|---------|
|  | 2003                            | 2002   | Change |         | 2003                           | 2002     | Change  |         |
|  |                                 |        | Amount | Percent |                                |          | Amount  | Percent |
| Banking fees and commissions             | \$ 441                          | \$ 410 | \$ 31  | 8%      | \$ 1,339                       | \$ 1,363 | \$ (24) | (2)%    |
| Credit card revenue                      | 974                             | 976    | (2)    | -       | 2,736                          | 2,847    | (111)   | (4)     |
| Service charges on deposits              | 433                             | 409    | 24     | 6       | 1,229                          | 1,178    | 51      | 4       |
| Fiduciary and investment management fees | 164                             | 159    | 5      | 3       | 485                            | 488      | (3)     | (1)     |
| Investment securities gains (losses)     | 68                              | (29)   | 97     | N/M     | 289                            | 49       | 240     | N/M     |
| Trading gains (losses)                   | 23                              | 143    | (120)  | (84)    | (49)                           | 234      | (283)   | N/M     |

### Noninterest Income

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|                                     | Three Months Ended September 30 |          |       |     | Nine Months Ended September 30 |          |         |     |
|-------------------------------------|---------------------------------|----------|-------|-----|--------------------------------|----------|---------|-----|
| Other income (loss)                 | (105)                           | (102)    | (3)   | (3) | 30                             | (32)     | 62      | N/M |
| Total noninterest income            | \$ 1,998                        | \$ 1,966 | \$ 32 | 2   | \$ 6,059                       | \$ 6,127 | \$ (68) | (1) |
| Noninterest income to total revenue | 48.9%                           | 47.3%    | 1.6%  |     | 50.1%                          | 48.9%    | 1.2%    |     |

### Quarterly Results

Banking fees and commissions of \$441 million increased \$31 million, or 8%. Increased asset-backed, syndication and fixed income origination fees, premiums and commissions on insurance products related to the Zurich Life acquisition, and improved investment sales in the Retail line of business were the primary drivers of this increase. Partially offsetting these were lower fees resulting from the elimination of teller service fees.

Service charges on deposits of \$433 million increased \$24 million, or 6%, resulting from higher Retail deposit service charges.

Net securities gains from the investment portfolios were \$68 million, compared to net securities losses of \$29 million, an increase of \$97 million. This increase primarily arose from the sale by One Equity Partners LLC of its controlling interest in Ability One Products Corp. and the overall performance of the principal investments portfolio, partially offset by security losses in the treasury investment portfolio.

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In the third quarter, trading produced gains of \$23 million, a decrease of \$120 million, or 84%, from trading gains of \$143 million. This decrease resulted from the decline in the fair value of the credit derivatives portfolio, which is used to hedge the commercial loan portfolio and limit exposures to specific credits, partially offset by increased derivatives trading revenue.

### Year-to-Date Results

Banking fees and commissions of \$1.3 billion decreased \$24 million, or 2%. This decrease was the result of lower fees from the intentional reduction of non-branded ATM machines and elimination of the teller service fee, partially offset by the increase in asset-backed origination fees.

Credit card revenue of \$2.7 billion decreased by \$111 million, or 4%, driven by a lower margin on securitized loans, offset by higher interchange fees from increased card usage volume.

Service charges on deposits of \$1.2 billion increased by \$51 million, or 4%. This increase stemmed from higher Retail deposit service charges.

Net investment securities gains from treasury activities and the principal investment portfolios were \$289 million, an increase of \$240 million. This increase was primarily a result of a gain on the sale of an investment held in the principal investment portfolio. Valuation adjustments included in each period's net securities gains were a result of changes in the value of principal investments, the interest rate environment and economic conditions.

Trading losses of \$49 million decreased \$283 million from trading gains of \$234 million. This decrease was primarily the result of losses on the credit derivatives portfolio used to hedge the commercial loan portfolio and limit exposures for specific credits, partially offset by greater interest rate derivatives and foreign exchange trading revenue.

Other income of \$30 million increased \$62 million, primarily the result of gains associated with the sale of commercial loans and securities acquired in satisfaction of debt, and an increase in securitization activity.

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**Noninterest Expense**

Total noninterest expense of \$2.4 billion increased \$17 million. The components of noninterest expense for the periods indicated were:

| <i>(Dollars in millions)</i>  | Three Months Ended September 30 |                 |              |          | Nine Months Ended September 30 |                 |                |            |
|---|---------------------------------|-----------------|--------------|----------|--------------------------------|-----------------|----------------|------------|
|   | 2003                            | 2002            | Change       |          | 2003                           | 2002            | Change         |            |
|   |                                 |                 | Amount       | Percent  |                                |                 | Amount         | Percent    |
| Salaries and employee benefits:   |                                 |                 |              |          |                                |                 |                |            |
| Salaries  | \$ 1,031                        | \$ 962          | \$ 69        | 7%       | \$ 3,053                       | \$ 2,806        | \$ 247         | 9%         |
| Employee benefits   | 162                             | 159             | 3            | 2        | 526                            | 491             | 35             | 7          |
| <b>Total salaries and employee benefits</b>                             | <b>1,193</b>                    | <b>1,121</b>    | <b>72</b>    | <b>6</b> | <b>3,579</b>                   | <b>3,297</b>    | <b>282</b>     | <b>9</b>   |
| Occupancy   | 175                             | 158             | 17           | 11       | 505                            | 485             | 20             | 4          |
| Equipment   | 119                             | 107             | 12           | 11       | 347                            | 308             | 39             | 13         |
| Outside service fees and processing                                     | 290                             | 302             | (12)         | (4)      | 838                            | 969             | (131)          | (14)       |
| Marketing and development   | 253                             | 292             | (39)         | (13)     | 694                            | 828             | (134)          | (16)       |
| Telecommunication   | 58                              | 74              | (16)         | (22)     | 160                            | 308             | (148)          | (48)       |
| Intangible amortization   | 34                              | 32              | 2            | 6        | 98                             | 94              | 4              | 4          |
| Other expense   | 299                             | 318             | (19)         | (6)      | 900                            | 949             | (49)           | (5)        |
| <b>Total noninterest expense before restructuring-related reversals</b> | <b>2,421</b>                    | <b>2,404</b>    | <b>17</b>    | <b>1</b> | <b>7,121</b>                   | <b>7,238</b>    | <b>(117)</b>   | <b>(2)</b> |
| Restructuring-related reversals   | -                               | -               | -            | -        | -                              | (63)            | 63             | N/M        |
| <b>Total noninterest expense</b>  | <b>\$ 2,421</b>                 | <b>\$ 2,404</b> | <b>\$ 17</b> | <b>1</b> | <b>\$ 7,121</b>                | <b>\$ 7,175</b> | <b>\$ (54)</b> | <b>(1)</b> |
| Headcount   | 71,240                          | 73,535          | (2,295)      | (3)      |                                |                 |                |            |
| Efficiency ratio  | 58.7%                           | 57.3%           | 1.4%         |          | 58.3%                          | 56.7%           | 1.6%           |            |

Quarterly Results

Salaries and employee benefits increased \$72 million, or 6%. Higher volume-based commissions incurred by Retail and increased stock option expense for the Corporation contributed to increased compensation levels. Stock option expense includes a new grant for 2003 as well as the amortization expense of the 2002 grant. Overall employee benefits expense also increased. These increases were partially offset by a reduction in headcount.

Occupancy expense increased \$17 million, or 11%. A combination of increased rent and other occupancy expenses, as well as branch expansion costs incurred by Retail, were the main contributing factors.

Equipment expense increased \$12 million, or 11%, as additional depreciation expense was incurred on fixed assets acquired in the Corporation's systems conversion efforts.

Marketing and development expense decreased \$39 million, or 13%. This decrease was primarily the result of lower advertising expenditures for Card Services, partially offset by an increase in Retail's marketing spend.

Telecommunications expense decreased \$16 million, or 22%, as the Corporation realized cost savings related to terminated and renegotiated vendor contracts.

Other expense decreased \$19 million, or 6%. Lower operating and fraud costs were the main drivers of this decrease, partially offset by increased expenses related to the acquisition of Zurich Life. Other expense includes freight and postage expense of \$62 million and \$63 million for 2003 and 2002, respectively.

Year-to-Date Results

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Salaries and employee benefits increased \$282 million, or 9%. This increase resulted from higher base and incentive compensation and benefits expense, partially offset by a reduction in headcount. The expense related to the fair value method of accounting for stock option and stock purchase plans for the nine months ended 2003 and 2002 amounted to \$50 million and \$28 million, respectively. The Corporation adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, in 2002.

Occupancy expense increased \$20 million, or 4%. A combination of increased rent and other occupancy expenses, as well as branch expansion costs incurred by Retail, were the main contributing factors.

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Equipment expense increased \$39 million, or 13%, as additional depreciation expense was incurred on fixed assets acquired in the Corporation's systems conversion efforts.

Outside service fees and processing expense decreased \$131 million, or 14%. The Corporation continued to experience operational efficiencies resulting from renegotiated vendor contracts and the Corporation's systems conversion efforts.

Marketing and development expense decreased \$134 million, or 16%. This decrease was primarily the result of lower advertising expenditures for Card Services, partially offset by an increase in Retail's marketing spend.

Telecommunications expense decreased \$148 million, or 48%, as the Corporation realized cost savings as a result of the terminated and renegotiated vendor contracts.

Other expense decreased \$49 million, or 5%, while reinvestment in the Corporation's infrastructure continued. This decrease was a result of lower operating and fraud expenses, partially offset by increased expenses related to the acquisition of Zurich Life. Other expense includes freight and postage expense of \$186 million and \$193 million for 2003 and 2002, respectively.

The year-ago period contained a benefit of \$63 million for restructuring charge reversals.

### Provision for Credit Losses

Provision for credit losses was \$416 million for the third quarter and \$1.4 billion for the first nine months of 2003, compared to \$587 million and \$1.9 billion for 2002, respectively. These decreases were mainly the result of improving credit quality. For the three- and nine-month periods ended September 30, 2003, Commercial Banking continued to experience a reduction in the size of its loan portfolio. This, along with continued improvement in credit quality, led to the decision to release \$150 million and \$245 million of corporate banking credit loss reserves through the provision for credit losses for the three and nine-month periods, respectively. These reserve releases were partially offset by an increased provision in the current quarter in Card Services resulting from slightly higher losses, and an increase in provision of \$85 million in the second quarter of 2003 in the Corporate line of business related to the change in the overall risk profile of the non-core portfolios.

### Applicable Income Taxes

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

| <i>(Dollars in millions)</i>                            | Three Months Ended September 30 |          | Nine Months Ended September 30 |          |
|---|---------------------------------|----------|--------------------------------|----------|
|   | 2003                            | 2002     | 2003                           | 2002     |
| Income from continuing operations before income taxes   | \$ 1,247                        | \$ 1,163 | \$ 3,605                       | \$ 3,504 |
| Applicable income taxes                                 | 373                             | 350      | 1,073                          | 1,080    |
| Effective tax rate                                      | 30%                             | 30%      | 30%                            | 31%      |
| Income from discontinued operations before income taxes | \$ 14                           | \$ 15    | \$ 39                          | \$ 45    |
| Applicable income taxes                                 | 5                               | 5        | 14                             | 16       |
| Effective tax rate                                      | 36%                             | 33%      | 36%                            | 36%      |
| Income before income taxes                              | \$ 1,261                        | \$ 1,178 | \$ 3,644                       | \$ 3,549 |
| Applicable income taxes                                 | 378                             | 355      | 1,087                          | 1,096    |
| Effective tax rate                                      | 30%                             | 30%      | 30%                            | 31%      |

### Applicable Income Taxes

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

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## 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. For a detailed discussion of the various business activities of the Corporation's business segments, see pages 38-51 of the Corporation's 2002 Annual Report.

As a result of the Corporation's announced agreement to sell its corporate trust services business, the results of these operations have been transferred from the Investment Management line of business to the Corporate line of business and are reported as discontinued operations for the current and prior periods.

The following table summarizes income (loss) from continuing operations by line of business for the periods indicated:

| <i>(In millions)</i>              | Three Months Ended September 30 |        | Nine Months Ended September 30 |          |
|-----------------------------------|---------------------------------|--------|--------------------------------|----------|
|                                   | 2003                            | 2002   | 2003                           | 2002     |
| Retail                            | \$ 392                          | \$ 361 | \$ 1,160                       | \$ 1,096 |
| Commercial Banking                | 361                             | 179    | 827                            | 469      |
| Card Services                     | 285                             | 298    | 812                            | 845      |
| Investment Management (1)         | 91                              | 79     | 240                            | 264      |
| Corporate                         | (255)                           | (104)  | (507)                          | (250)    |
| Income from continuing operations | \$ 874                          | \$ 813 | \$ 2,532                       | \$ 2,424 |

- (1) Prior period data has been adjusted for the transfer of corporate trust services from Investment Management to the Corporate line of business where it is now reported as discontinued operations (see page 27).

## BUSINESS SEGMENT RESULTS AND OTHER DATA

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

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### Retail

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

| <i>(Dollars in millions)</i> | Three Months Ended September 30 |      |        |         | Nine Months Ended September 30 |      |        |         |
|------------------------------|---------------------------------|------|--------|---------|--------------------------------|------|--------|---------|
|                              | 2003                            | 2002 | Change |         | 2003                           | 2002 | Change |         |
|                              |                                 |      | Amount | Percent |                                |      | Amount | Percent |
| Income Statement Data:       |                                 |      |        |         |                                |      |        |         |

### INCOME STATEMENT DATA:

### Applicable Income Taxes



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|   | Three Months Ended September 30 |               |              |           | Nine Months Ended September 30 |                 |              |           |
|---|---------------------------------|---------------|--------------|-----------|--------------------------------|-----------------|--------------|-----------|
| Net interest income-FTE (1) (2)   | \$ 1,102                        | \$ 1,067      | \$ 35        | 3%        | \$ 3,301                       | \$ 3,208        | \$ 93        | 3%        |
| Banking fees and commissions (3)  | 170                             | 170           | -            | -         | 534                            | 562             | (28)         | (5)       |
| Credit card revenue (4)   | 53                              | 51            | 2            | 4         | 165                            | 143             | 22           | 15        |
| Service charges on deposits (5)   | 242                             | 213           | 29           | 14        | 671                            | 610             | 61           | 10        |
| Other income  | 28                              | 2             | 26           | N/M       | 43                             | 26              | 17           | 65        |
| <b>Total noninterest income</b>   | <b>493</b>                      | <b>436</b>    | <b>57</b>    | <b>13</b> | <b>1,413</b>                   | <b>1,341</b>    | <b>72</b>    | <b>5</b>  |
| <b>Total revenue, net of interest expense</b>                           | <b>1,595</b>                    | <b>1,503</b>  | <b>92</b>    | <b>6</b>  | <b>4,714</b>                   | <b>4,549</b>    | <b>165</b>   | <b>4</b>  |
| Provision for credit losses   | 139                             | 114           | 25           | 22        | 363                            | 360             | 3            | 1         |
| Salaries and employee benefits  | 390                             | 377           | 13           | 3         | 1,183                          | 1,140           | 43           | 4         |
| Other expense   | 449                             | 439           | 10           | 2         | 1,341                          | 1,330           | 11           | 1         |
| <b>Total noninterest expense before restructuring-related reversals</b> | <b>839</b>                      | <b>816</b>    | <b>23</b>    | <b>3</b>  | <b>2,524</b>                   | <b>2,470</b>    | <b>54</b>    | <b>2</b>  |
| Restructuring-related reversals   | -                               | -             | -            | -         | -                              | (18)            | 18           | N/M       |
| <b>Total noninterest expense</b>  | <b>839</b>                      | <b>816</b>    | <b>23</b>    | <b>3</b>  | <b>2,524</b>                   | <b>2,452</b>    | <b>72</b>    | <b>3</b>  |
| Income before income taxes  | 617                             | 573           | 44           | 8         | 1,827                          | 1,737           | 90           | 5         |
| Applicable income taxes   | 225                             | 212           | 13           | 6         | 667                            | 641             | 26           | 4         |
| <b>Net income (6)</b>   | <b>\$ 392</b>                   | <b>\$ 361</b> | <b>\$ 31</b> | <b>9%</b> | <b>\$ 1,160</b>                | <b>\$ 1,096</b> | <b>\$ 64</b> | <b>6%</b> |

**FINANCIAL PERFORMANCE:**

|                                 |        |        |         |      |     |     |    |  |
|---------------------------------|--------|--------|---------|------|-----|-----|----|--|
| Return on average common equity | 33%    | 30%    | 3%      |      | 32% | 31% | 1% |  |
| Efficiency ratio                | 53     | 54     | (1)     |      | 54  | 54  | -  |  |
| Headcount                       | 30,867 | 32,753 | (1,886) | (6)% |     |     |    |  |

**ENDING BALANCES:**

|                            |               |               |              |          |  |  |  |  |
|----------------------------|---------------|---------------|--------------|----------|--|--|--|--|
| Small business commercial  | \$ 10,122     | \$ 9,899      | \$ 223       | 2%       |  |  |  |  |
| Home equity                | 25,252        | 18,696        | 6,556        | 35       |  |  |  |  |
| Vehicle                    | 13,841        | 15,001        | (1,160)      | (8)      |  |  |  |  |
| Other personal loans       | 6,199         | 7,118         | (919)        | (13)     |  |  |  |  |
| <b>Total loans (7) (8)</b> | <b>55,414</b> | <b>50,714</b> | <b>4,700</b> | <b>9</b> |  |  |  |  |
| Assets                     | 58,080        | 54,174        | 3,906        | 7        |  |  |  |  |
| Demand deposits            | 29,642        | 26,607        | 3,035        | 11       |  |  |  |  |
| Savings                    | 40,581        | 38,130        | 2,451        | 6        |  |  |  |  |
| <b>Total deposits</b>      | <b>88,839</b> | <b>87,737</b> | <b>1,102</b> | <b>1</b> |  |  |  |  |
| Equity                     | 4,774         | 4,774         | -            | -        |  |  |  |  |

**AVERAGE BALANCES:**

|                           |               |               |              |           |               |               |              |           |
|---------------------------|---------------|---------------|--------------|-----------|---------------|---------------|--------------|-----------|
| Small business commercial | \$ 10,126     | \$ 9,891      | \$ 235       | 2%        | \$ 10,031     | \$ 9,846      | \$ 185       | 2%        |
| Home equity               | 24,499        | 17,872        | 6,627        | 37        | 22,847        | 16,836        | 6,011        | 36        |
| Vehicle                   | 13,962        | 14,574        | (612)        | (4)       | 14,125        | 14,404        | (279)        | (2)       |
| Other personal loans      | 6,147         | 6,773         | (626)        | (9)       | 6,415         | 7,184         | (769)        | (11)      |
| <b>Total loans (7)</b>    | <b>54,734</b> | <b>49,110</b> | <b>5,624</b> | <b>11</b> | <b>53,418</b> | <b>48,270</b> | <b>5,148</b> | <b>11</b> |
| Assets                    | 57,467        | 52,688        | 4,779        | 9         | 56,263        | 51,948        | 4,315        | 8         |

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|                 | Three Months Ended September 30 |        |         |      | Nine Months Ended September 30 |        |         |      |
|-----------------|---------------------------------|--------|---------|------|--------------------------------|--------|---------|------|
| Demand deposits | <b>29,632</b>                   | 26,085 | 3,547   | 14   | <b>28,686</b>                  | 25,726 | 2,960   | 12   |
| Savings         | <b>40,354</b>                   | 38,095 | 2,259   | 6    | <b>40,015</b>                  | 37,677 | 2,338   | 6    |
| Core deposits   | <b>69,986</b>                   | 64,180 | 5,806   | 9    | <b>68,701</b>                  | 63,403 | 5,298   | 8    |
| Time            | <b>18,985</b>                   | 23,759 | (4,774) | (20) | <b>20,079</b>                  | 24,643 | (4,564) | (19) |
| Total deposits  | <b>88,971</b>                   | 87,939 | 1,032   | 1    | <b>88,780</b>                  | 88,046 | 734     | 1    |
| Equity          | <b>4,774</b>                    | 4,774  | -       | -    | <b>4,774</b>                   | 4,774  | -       | -    |

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Retail continued

|   | Three Months Ended September 30 |        |         |        | Nine Months Ended September 30 |       |         |       |
|---|---------------------------------|--------|---------|--------|--------------------------------|-------|---------|-------|
|   | 2003                            | 2002   | Change  |        | 2003                           | 2002  | Change  |       |
| Amount  |                                 |        | Percent | Amount |                                |       | Percent |       |
| <i>(Dollars in millions)</i>                      |                                 |        |         |        |                                |       |         |       |
| <b>CREDIT QUALITY:</b>                            |                                 |        |         |        |                                |       |         |       |
| Net charge-offs:                                  |                                 |        |         |        |                                |       |         |       |
| Small business commercial                         | \$ 14                           | \$ 14  | \$ -    | 0%     | \$ 41                          | \$ 46 | \$ (5)  | (11)% |
| Home equity                                       | 47                              | 24     | 23      | 96     | 100                            | 74    | 26      | 35    |
| Vehicle   | 56                              | 53     | 3       | 6      | 149                            | 159   | (10)    | (6)   |
| Other personal loans                              | 27                              | 26     | 1       | 4      | 69                             | 81    | (12)    | (15)  |
| Total net charge-offs                             | <b>144</b>                      | 117    | 27      | 23     | <b>359</b>                     | 360   | (1)     | -     |
| Annualized net charge-off ratios:                 |                                 |        |         |        |                                |       |         |       |
| Small business commercial                         | <b>0.55%</b>                    | 0.57%  | (0.02)% |        | <b>0.54%</b>                   | 0.62% | (0.08)% |       |
| Home equity                                       | <b>0.77</b>                     | 0.54   | 0.23    |        | <b>0.58</b>                    | 0.59  | (0.01)  |       |
| Vehicle   | <b>1.60</b>                     | 1.45   | 0.15    |        | <b>1.41</b>                    | 1.47  | (0.06)  |       |
| Other personal loans                              | <b>1.76</b>                     | 1.54   | 0.22    |        | <b>1.43</b>                    | 1.50  | (0.07)  |       |
| Total net charge-offs                             | <b>1.05</b>                     | 0.95   | 0.10    |        | <b>0.90</b>                    | 0.99  | (0.09)  |       |
| Nonperforming assets:                             |                                 |        |         |        |                                |       |         |       |
| Commercial  | \$ 268                          | \$ 273 | \$ (5)  | (2)%   |                                |       |         |       |
| Consumer (9)                                      | <b>305</b>                      | 304    | 1       | -      |                                |       |         |       |
| Total nonperforming loans (9) (10)                | <b>573</b>                      | 577    | (4)     | (1)    |                                |       |         |       |
| Other, including other real estate owned ("OREO") | <b>117</b>                      | 180    | (63)    | (35)   |                                |       |         |       |
| Total nonperforming assets                        | <b>690</b>                      | 757    | (67)    | (9)    |                                |       |         |       |
| Allowance for credit losses                       | \$ 683                          | \$ 681 | \$ 2    | -      |                                |       |         |       |
| Allowance to period end loans (8)                 | <b>1.29%</b>                    | 1.41%  | (0.12)% |        |                                |       |         |       |
| Allowance to nonperforming loans (9) (10)         | <b>120</b>                      | 119    | 1       |        |                                |       |         |       |
| Nonperforming assets to related assets (11)       | <b>1.24</b>                     | 1.49   | (0.25)  |        |                                |       |         |       |

**DISTRIBUTION:**

Number of:

|  |              |       |     |    |
|--|--------------|-------|-----|----|
| Banking centers                                | <b>1,810</b> | 1,779 | 31  | 2% |
| ATMs   | <b>4,350</b> | 4,122 | 228 | 6  |
| Relationship bankers                           | <b>3,139</b> | 2,591 | 548 | 21 |
| On-line customers <i>(in thousands)</i>        | <b>2,184</b> | 1,326 | 858 | 65 |
| Personal demand accounts <i>(in thousands)</i> | <b>4,684</b> | 4,339 | 345 | 8  |
| Business demand accounts <i>(in thousands)</i> | <b>508</b>   | 491   | 17  | 3  |
| Debit cards issued <i>(in thousands)</i>       | <b>5,104</b> | 4,609 | 495 | 11 |

Retail continued

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Three Months Ended September 30

Nine Months Ended September 30

## RETAIL BROKERAGE:

|   | Three Months Ended September 30 |              |            |           | Nine Months Ended September 30 |              |            |          |
|---|---------------------------------|--------------|------------|-----------|--------------------------------|--------------|------------|----------|
| Mutual fund sales   | \$ 671                          | \$ 575       | \$ 96      | 17%       | \$ 2,022                       | \$ 1,792     | \$ 230     | 13%      |
| Annuity sales   | 895                             | 752          | 143        | 19        | 2,420                          | 2,363        | 57         | 2        |
| <b>Total investment sales volume</b>                                | <b>1,566</b>                    | <b>1,327</b> | <b>239</b> | <b>18</b> | <b>4,442</b>                   | <b>4,155</b> | <b>287</b> | <b>7</b> |
| Market value customer assets - end of period ( <i>in billions</i> ) | \$ 31.9                         | \$ 26.7      | \$ 5.2     | 19%       |                                |              |            |          |
| Number of customers - end of period ( <i>in thousands</i> )         | 707                             | 676          | 31         | 5         |                                |              |            |          |
| Number of dedicated investment sales representatives                | 902                             | 828          | 74         | 9         |                                |              |            |          |

N/M Not meaningful.

- (1) Net interest income is presented rather than gross interest income and gross interest expense because the Corporation relies primarily on net interest income to assess the performance of the segment and make resource allocations.
- (2) Net interest income-FTE includes tax equivalent adjustments of \$6 million for the three months ended September 30, 2003 and 2002, respectively. For the nine months ended September 30, 2003 and 2002, tax equivalent adjustments were \$17 million and \$16 million, respectively.
- (3) Banking fees and commissions include insurance premiums, documentary fees, commitment fees, annuity and mutual fund commissions, leasing fees, safe deposit fees, official check fees, ATM interchange and miscellaneous other fee revenue.
- (4) Credit card revenue includes credit card fees in both the Card Services and Commercial lines of business, 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) Net income before restructuring-related reversals, net of \$7 million tax, was \$1,085 million for the nine months ended September 30, 2002.
- (7) Certain loans, previously classified as other personal loans, were reclassified into loan categories which are more reflective of management's view of the underlying loan characteristics. Prior period balances have been adjusted to conform to the current period presentation.
- (8) Loans include loans held for sale of \$2,480 million and \$2,517 million at September 30, 2003 and 2002, respectively. These amounts are not included in allowance for credit losses coverage statistics.
- (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 includes loans held for sale of \$2 million and \$3 million at September 30, 2003 and 2002, respectively. These amounts are not included in allowance for credit losses coverage statistics.
- (11) Related assets consist of loans outstanding, including loans held for sale, and other real estate owned.

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## Retail continued

### Quarterly Results

Retail net income was \$392 million, up \$31 million, or 9%.

Total revenue, net of interest expense increased \$92 million, or 6%, to \$1.6 billion. Net interest income was \$1.1 billion, up \$35 million, or 3%, primarily from growth in home equity loans and core deposits, partially offset by spread compression and lower time deposits. Noninterest income was \$493 million, up \$57 million, or 13%, driven by higher mortgage-related revenue, deposit service charges, and investment sales. Partially offsetting these increases were the impact of the VISA® card interchange rate settlement and the elimination of the teller service and online bill-pay fees.

Noninterest expense was \$839 million, up 3%, or \$23 million, primarily due to increased marketing spend and volume-based commissions, as well as branch expansion costs, partially offset by improved efficiencies in operating expenses.

The provision for credit losses was \$139 million, up 22%, or \$25 million, driven primarily by continued growth in the loan portfolios. As a percentage of average loans, net charge-offs were 1.05%, up from 0.95%, primarily due to the sale of a small non-relationship portfolio.

The allowance for credit losses of \$683 million represented 1.29% of period-end loans. Nonperforming assets were \$690 million, down 9%, driven by a decrease in other real estate owned.

### Year-To-Date Results

Retail continued

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Retail year-to-date net income was \$1.2 billion, up \$75 million, or 7% (excluding the \$11 million after-tax benefit from a restructuring charge reversal in the prior year).

Total revenue, net of interest expense increased 4% to \$4.7 billion. Net interest income was \$3.3 billion, up 3%, primarily from growth in home equity loans and core deposits, partially offset by spread compression and lower time deposits. Noninterest income was \$1.4 billion, up 5%, as a result of higher deposit service charges, debit card revenue, and mortgage-related activity. Partially offsetting these increases were the intentional reduction of non-branded ATM machines and the elimination of the teller service and online bill-pay fees as well as the impact of the VISA interchange settlement.

Noninterest expense increased \$54 million, or 2% (excluding the \$18 million pre-tax benefit from the restructuring charge reversal in the prior year), primarily due to increased collection expenses, marketing spend, benefit costs, volume-based commissions and incentive compensation. This increase was partially offset by lower fraud and operating expenses as well as other expense improvements.

The provision for credit losses was \$363 million, up \$3 million, or 1%, driven by continued growth in the loan portfolios, partially offset by credit quality improvements in the vehicle and small business commercial portfolios. As a percentage of average loans, net charge-offs were 0.90%, down from 0.99%.

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**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, middle market banking and governmental customers.

| <i>(Dollars in millions)</i>  | Three Months Ended September 30 |               |               |            | Nine Months Ended September 30 |               |               |            |
|---|---------------------------------|---------------|---------------|------------|--------------------------------|---------------|---------------|------------|
|   | 2003                            | 2002          | Change        |            | 2003                           | 2002          | Change        |            |
|   |                                 |               | Amount        | Percent    |                                |               | Amount        | Percent    |
| <b>INCOME STATEMENT DATA:</b>   |                                 |               |               |            |                                |               |               |            |
| Net interest income-FTE (1) (12)  | \$ 576                          | \$ 605        | \$ (29)       | (5)%       | \$ 1,719                       | \$ 1,858      | \$ (139)      | (7)%       |
| Banking fees and commissions (3)  | 198                             | 175           | 23            | 13         | 623                            | 574           | 49            | 9          |
| Credit card revenue (4)   | 27                              | 21            | 6             | 29         | 77                             | 55            | 22            | 40         |
| Service charges on deposits (5)   | 186                             | 188           | (2)           | (1)        | 546                            | 545           | 1             | -          |
| Fiduciary and investment management fees (13)                           | -                               | -             | -             | -          | -                              | (1)           | 1             | N/M        |
| Investment securities gains (losses)                                    | 31                              | (12)          | 43            | N/M        | 29                             | (13)          | 42            | N/M        |
| Trading gains (losses) (14)   | 30                              | 143           | (113)         | (79)       | (28)                           | 250           | (278)         | N/M        |
| Other income (loss)   | (11)                            | (78)          | 67            | 86         | 7                              | (148)         | 155           | N/M        |
| <b>Total noninterest income</b>   | <b>461</b>                      | <b>437</b>    | <b>24</b>     | <b>5</b>   | <b>1,254</b>                   | <b>1,262</b>  | <b>(8)</b>    | <b>(1)</b> |
| <b>Total revenue, net of interest expense</b>                           | <b>1,037</b>                    | <b>1,042</b>  | <b>(5)</b>    | <b>-</b>   | <b>2,973</b>                   | <b>3,120</b>  | <b>(147)</b>  | <b>(5)</b> |
| Provision for credit losses   | (51)                            | 237           | (288)         | N/M        | 87                             | 792           | (705)         | (89)       |
| Salaries and employee benefits  | 296                             | 269           | 27            | 10         | 868                            | 789           | 79            | 10         |
| Other expense   | 286                             | 315           | (29)          | (9)        | 881                            | 947           | (66)          | (7)        |
| <b>Total noninterest expense before restructuring-related reversals</b> | <b>582</b>                      | <b>584</b>    | <b>(2)</b>    | <b>-</b>   | <b>1,749</b>                   | <b>1,736</b>  | <b>13</b>     | <b>1</b>   |
| Restructuring-related reversals   | -                               | -             | -             | -          | -                              | (4)           | 4             | N/M        |
| <b>Total noninterest expense</b>  | <b>582</b>                      | <b>584</b>    | <b>(2)</b>    | <b>-</b>   | <b>1,749</b>                   | <b>1,732</b>  | <b>17</b>     | <b>1</b>   |
| Income before income taxes  | 506                             | 221           | 285           | N/M        | 1,137                          | 596           | 541           | 91         |
| Applicable income taxes   | 145                             | 42            | 103           | N/M        | 310                            | 127           | 183           | N/M        |
| <b>Net income (15)</b>  | <b>\$ 361</b>                   | <b>\$ 179</b> | <b>\$ 182</b> | <b>N/M</b> | <b>\$ 827</b>                  | <b>\$ 469</b> | <b>\$ 358</b> | <b>76</b>  |

Memo-Revenue by activity:

Retail continued

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|   | Three Months Ended September 30 |          |           |       | Nine Months Ended September 30 |          |           |       |
|---|---------------------------------|----------|-----------|-------|--------------------------------|----------|-----------|-------|
|   |                                 |          |           |       |                                |          |           |       |
| Lending-related revenue                           | \$ 454                          | \$ 390   | \$ 64     | 16%   | \$ 1,318                       | \$ 1,239 | \$ 79     | 6%    |
| Credit derivative hedge portfolio                 | (51)                            | 101      | (152)     | N/M   | (248)                          | 101      | (349)     | N/M   |
| Global treasury services                          | 405                             | 426      | (21)      | (5)   | 1,190                          | 1,254    | (64)      | (5)   |
| Capital markets (16)                              | 234                             | 154      | 80        | 52    | 688                            | 518      | 170       | 33    |
| Other   | (5)                             | (29)     | 24        | 83    | 25                             | 8        | 17        | N/M   |
| <b>FINANCIAL PERFORMANCE:</b>                     |                                 |          |           |       |                                |          |           |       |
| Return on average common equity                   | 19%                             | 10%      | 9%        |       | 15%                            | 8%       | 7%        |       |
| Efficiency ratio                                  | 56                              | 56       | -         |       | 59                             | 56       | 3         |       |
| Efficiency ratio excluding credit hedge portfolio | 53                              | 62       | (9)       |       | 54                             | 57       | (3)       |       |
| Headcount:  |                                 |          |           |       |                                |          |           |       |
| Corporate banking                                 |                                 |          |           |       |                                |          |           |       |
| (including capital markets)                       | 2,624                           | 2,306    | 318       | 14%   |                                |          |           |       |
| Middle market                                     | 2,551                           | 2,942    | (391)     | (13)  |                                |          |           |       |
| Global treasury services                          | 3,234                           | 3,403    | (169)     | (5)   |                                |          |           |       |
| Operations, technology, and other administration  | 1,930                           | 1,967    | (37)      | (2)   |                                |          |           |       |
| Total headcount                                   | 10,339                          | 10,618   | (279)     | (3)   |                                |          |           |       |
| <b>ENDING BALANCES:</b>                           |                                 |          |           |       |                                |          |           |       |
| Loans (17)  | \$ 54,493                       | \$62,991 | \$(8,498) | (13)% |                                |          |           |       |
| Assets  | 102,410                         | 95,649   | 6,761     | 7     |                                |          |           |       |
| Demand deposits                                   | 27,287                          | 24,514   | 2,773     | 11    |                                |          |           |       |
| Savings   | 11,269                          | 7,981    | 3,288     | 41    |                                |          |           |       |
| Time  | 1,024                           | 9,678    | (8,654)   | (89)  |                                |          |           |       |
| Foreign offices                                   | 11,619                          | 9,400    | 2,219     | 24    |                                |          |           |       |
| Total deposits                                    | 51,199                          | 51,573   | (374)     | (1)   |                                |          |           |       |
| Equity  | 7,409                           | 7,365    | 44        | 1     |                                |          |           |       |
| <b>AVERAGE BALANCES:</b>                          |                                 |          |           |       |                                |          |           |       |
| Loans   | \$ 55,090                       | \$63,684 | \$(8,594) | (13)% | \$ 57,681                      | \$67,238 | \$(9,557) | (14)% |
| Assets  | 100,545                         | 92,709   | 7,836     | 8     | 97,340                         | 95,423   | 1,917     | 2     |
| Demand deposits                                   | 25,929                          | 21,728   | 4,201     | 19    | 24,315                         | 22,281   | 2,034     | 9     |
| Savings   | 10,983                          | 7,636    | 3,347     | 44    | 10,106                         | 2,859    | 7,247     | N/M   |
| Time  | 2,968                           | 8,787    | (5,819)   | (66)  | 4,834                          | 13,484   | (8,650)   | (64)  |
| Foreign offices                                   | 10,413                          | 8,932    | 1,481     | 17    | 9,960                          | 8,467    | 1,493     | 18    |
| Total deposits                                    | 50,293                          | 47,083   | 3,210     | 7     | 49,215                         | 47,091   | 2,124     | 5     |
| Equity  | 7,409                           | 7,365    | 44        | 1     | 7,409                          | 7,365    | 44        | 1     |

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Commercial Banking continued

| (Dollars in millions)           | Three Months Ended September 30 |          |          |         | Nine Months Ended September 30 |        |          |         |
|---------------------------------|---------------------------------|----------|----------|---------|--------------------------------|--------|----------|---------|
|                                 | 2003                            | 2002     | Change   |         | 2003                           | 2002   | Change   |         |
|                                 |                                 |          | Amount   | Percent |                                |        | Amount   | Percent |
| <b>CREDIT QUALITY:</b>          |                                 |          |          |         |                                |        |          |         |
| Net charge-offs                 | \$ 99                           | \$ 237   | \$ (138) | (58)%   | \$ 332                         | \$ 792 | \$ (460) | (58)%   |
| Annualized net charge-off ratio | 0.72%                           | 1.49%    | (0.77)%  |         | 0.77%                          | 1.57%  | (0.80)%  |         |
| Nonperforming assets:           |                                 |          |          |         |                                |        |          |         |
| Nonperforming loans (18)        | \$ 1,387                        | \$ 2,040 | \$ (653) | (32)%   |                                |        |          |         |
| Other, including OREO           | 40                              | 27       | 13       | 48      |                                |        |          |         |
| Total nonperforming assets      | 1,427                           | 2,067    | (640)    | (31)    |                                |        |          |         |

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|   | Three Months Ended September 30 |           |            |       | Nine Months Ended September 30 |           |            |       |
|---|---------------------------------|-----------|------------|-------|--------------------------------|-----------|------------|-------|
| Allowance for credit losses                 | 2,826                           | 3,071     | (245)      | (8)   |                                |           |            |       |
| Allowance to period end loans (17)          | 5.23%                           | 4.89%     | 0.34%      |       |                                |           |            |       |
| Allowance to nonperforming loans (18)       | 204                             | 157       | 47         |       |                                |           |            |       |
| Nonperforming assets to related assets (11) | 2.62                            | 3.28      | (0.66)     |       |                                |           |            |       |
| <b>CORPORATE BANKING:</b>                   |                                 |           |            |       |                                |           |            |       |
| Loans-ending balance                        | \$ 27,375                       | \$ 31,152 | \$ (3,777) | (12)% |                                |           |            |       |
| -average balance                            | 27,544                          | 31,600    | (4,056)    | (13)  | \$ 29,047                      | \$ 33,484 | \$ (4,437) | (13)  |
| Deposits-ending balance                     | 24,414                          | 28,803    | (4,389)    | (15)  |                                |           |            |       |
| -average balance                            | 25,221                          | 25,871    | (650)      | (3)   | 25,415                         | 25,406    | 9          | -     |
| Credit quality:                             |                                 |           |            |       |                                |           |            |       |
| Net charge-offs                             | 56                              | 160       | (104)      | (65)  | 200                            | 491       | (291)      | (59)  |
| Annualized net charge-off ratio             | 0.81%                           | 2.03%     | (1.22)%    |       | 0.92%                          | 1.95%     | (1.03)%    |       |
| Nonperforming loans                         | \$ 526                          | \$ 1,010  | \$ (484)   | (48)  |                                |           |            |       |
| Nonperforming loans to total loans          | 1.92%                           | 3.24%     | (1.32)%    |       |                                |           |            |       |
| <b>SYNDICATIONS:</b>                        |                                 |           |            |       |                                |           |            |       |
| Lead arranger deals:                        |                                 |           |            |       |                                |           |            |       |
| Volume (in billions)                        | \$ 15.3                         | \$ 11.6   | \$ 3.7     | 32%   | \$ 46.0                        | \$ 44.6   | \$ 1.4     | 3%    |
| Number of transactions                      | 76                              | 69        | 7          | 10    | 217                            | 184       | 33         | 18    |
| League table standing-rank                  | 4                               | 4         | -          | -     |                                |           |            |       |
| League table standing-market share          | 7%                              | 6%        | 1%         |       | 7%                             | 6%        | 1%         |       |
| <b>MIDDLE MARKET BANKING:</b>               |                                 |           |            |       |                                |           |            |       |
| Loans-ending balance                        | \$ 27,118                       | \$ 31,839 | \$ (4,721) | (15)% |                                |           |            |       |
| -average balance                            | 27,546                          | 32,084    | (4,538)    | (14)  | \$ 28,634                      | \$ 33,754 | \$ (5,120) | (15)  |
| Deposits-ending balance                     | 26,785                          | 22,770    | 4,015      | 18    |                                |           |            |       |
| -average balance                            | 25,072                          | 21,212    | 3,860      | 18    | 23,800                         | 21,685    | 2,115      | 10    |
| Credit quality:                             |                                 |           |            |       |                                |           |            |       |
| Net charge-offs                             | 43                              | 77        | (34)       | (44)% | 132                            | 301       | (169)      | (56)% |
| Annualized net charge-off ratio             | 0.62%                           | 0.96%     | (0.34)%    |       | 0.61%                          | 1.19%     | (0.58)%    |       |
| Nonperforming loans                         | \$ 861                          | \$ 1,030  | \$ (169)   | (16)% |                                |           |            |       |
| Nonperforming loans to total loans          | 3.18%                           | 3.24%     | (0.06)%    |       |                                |           |            |       |

For additional footnote detail see page 9.

- (12) Net interest income-FTE includes tax equivalent adjustments of \$28 million and \$24 million for the three months ended September 30, 2003 and 2002, respectively. For the nine months ended September 30, 2003 and 2002, tax equivalent adjustments were \$76 million and \$68 million, respectively.
- (13) Fiduciary and investment management fees include asset management fees, personal trust fees, other trust fees and advisory fees.
- (14) Trading gains (losses) primarily includes realized and unrealized mark-to-market changes from trading assets, derivative financial instruments and foreign exchange products.
- (15) Net income before restructuring-related reversals, net of \$1 million tax, was \$466 million for the nine months ended September 30, 2002.
- (16) Capital markets includes trading income and underwriting, syndicated lending and advisory fees.
- (17) Loans include loans held for sale of \$471 million and \$230 million at September 30, 2003 and 2002, respectively. These amounts are not included in allowance for credit losses coverage statistics.
- (18) Nonperforming loans include loans held for sale of \$3 million and \$90 million at September 30, 2003 and 2002, respectively. These amounts are not included in allowance for credit losses coverage statistics.

Quarterly Results

Commercial Banking net income increased \$182 million to \$361 million. Excluding the \$95 million after-tax reduction in the allowance for credit losses, net income was \$266 million, up 49% from \$179 million, driven by substantially improved credit quality and significant growth in capital markets. These improvements were partially offset by declining loan volumes and deposit margin compression.

**Commercial Banking continued**

Net interest income decreased 5% to \$576 million, reflecting a 13% reduction in average loan volume and compression in deposit spreads in the low interest rate environment. These decreases were partially offset by improvement in loan spreads, particularly in corporate banking. Loan balances continued to decline, reflecting decreased demand for financing. Despite declines in corporate banking loan balances, investment grade

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commitments increased in the current quarter. Middle market loan demand, however, lagged due to lower utilization and tightened credit standards.

Noninterest income was \$461 million, which included the \$51 million negative impact of the credit derivatives hedge portfolio and the offsetting positive impact of \$51 million from the sale of loans and securities primarily acquired in satisfaction of debt. Noninterest income of \$437 million in the prior year included a \$101 million positive impact from the credit derivatives hedge portfolio and a \$23 million loss on the sale of loans and securities acquired in satisfaction of debt. Excluding these items, the dramatic improvement was \$102 million, or 28%, driven by strong capital markets results, including greater derivatives trading revenue and higher asset-backed, syndication and fixed income origination fees.

Continued expense management efforts held noninterest expense relatively flat at \$582 million despite increased expenses related to stock options and employee benefits.

Credit quality continued to improve, as indicated by a \$138 million, or 58%, decline in net charge-offs.

The reduced size of the loan portfolio and the continued improvement in credit quality led to a \$245 million reduction in the allowance for credit losses. Nonperforming loans declined 32% to \$1.4 billion, reflecting declines of 48% in corporate banking and 16% in middle market banking.

### Year-To-Date Results

Commercial Banking reported net income of \$827 million, up \$358 million, or 76%. The current year included a \$156 million after-tax reduction in the allowance for credit losses and a \$158 million after-tax loss on the credit derivatives hedge portfolio. The prior year includes \$64 million of after-tax income on the credit derivatives hedge portfolio. Excluding the impact of these items in both periods, net income was \$829 million compared to \$405 million, an increase of 105%. This improvement was primarily driven by improved credit quality and strength in capital markets, partially offset by the impact of declining loan volumes and deposit margin compression.

Net interest income was \$1.7 billion, down \$139 million, or 7%, reflecting a 14% reduction in average loan volume and compressed deposit spreads due to falling interest rates, partially offset by improved loan spreads, particularly in corporate banking.

Noninterest income (excluding the impact of the credit derivatives hedge portfolio) was \$1.5 billion, an increase of \$341 million, or 29%, from the first three quarters of 2002. This increase was primarily driven by higher revenue from a number of capital markets activities, gains on sales of loans and securities acquired in satisfaction of debt in the current year compared to losses in the prior year, gains in tax-oriented investments and increased revenue from global treasury services.

Ongoing expense management efforts held noninterest expense fairly flat at \$1.7 billion, despite higher compensation-related expenses.

Credit quality improved significantly from 2002, as demonstrated by a \$460 million, or 58%, reduction in net charge-offs. The provision for credit losses of \$87 million also reflected a \$245 million reduction in the allowance for credit losses.

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### **Card Services**

Card Services offers customers co-brand, affinity and other credit cards, including cards related to leading corporations, financial institutions, universities, sports franchises and affinity organizations. All of these cards carry the respective VISA or MasterCard® brand names.

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 4.7 million registered users of its website.

#### **Reported Basis**

| <i>(Dollars in millions)</i> | Three Months Ended September 30 |      |        |         | Nine Months Ended September 30 |      |        |         |
|------------------------------|---------------------------------|------|--------|---------|--------------------------------|------|--------|---------|
|                              | 2003                            | 2002 | Change |         | 2003                           | 2002 | Change |         |
|                              |                                 |      | Amount | Percent |                                |      | Amount | Percent |
|                              |                                 |      |        |         |                                |      |        |         |

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Three Months Ended September 30

Nine Months Ended September 30

**INCOME STATEMENT DATA:**

|                                       |        |        |       |      |          |        |        |      |
|---------------------------------------|--------|--------|-------|------|----------|--------|--------|------|
| Net interest income-FTE (1) (19) (20) | \$ 414 | \$ 359 | \$ 55 | 15%  | \$ 1,055 | \$ 878 | \$ 177 | 20%  |
| Banking fees and commissions (3)      | 5      | 13     | (8)   | (62) | 25       | 55     | (30)   | (55) |
| Credit card revenue (4) (20)          | 895    | 903    | (8)   | (1)  | 2,494    | 2,647  | (153)  | (6)  |
| Other income/(loss)                   | (12)   | (24)   | 12    | 50   | 18       | (14)   | 32     | N/M  |

|                          |     |     |     |   |       |       |       |     |
|--------------------------|-----|-----|-----|---|-------|-------|-------|-----|
| Total noninterest income | 888 | 892 | (4) | - | 2,537 | 2,688 | (151) | (6) |
|--------------------------|-----|-----|-----|---|-------|-------|-------|-----|

|  |       |       |      |     |       |       |       |      |
|--|-------|-------|------|-----|-------|-------|-------|------|
| Total revenue, net of interest expense | 1,302 | 1,251 | 51   | 4   | 3,592 | 3,566 | 26    | 1    |
| Provision for credit losses            | 246   | 148   | 98   | 66  | 589   | 363   | 226   | 62   |
| Salaries and employee benefits         | 157   | 151   | 6    | 4   | 466   | 439   | 27    | 6    |
| Other expense                          | 436   | 464   | (28) | (6) | 1,218 | 1,401 | (183) | (13) |

|  |     |     |      |     |       |       |       |     |
|--|-----|-----|------|-----|-------|-------|-------|-----|
| Total noninterest expense before restructuring-related reversals | 593 | 615 | (22) | (4) | 1,684 | 1,840 | (156) | (8) |
| Restructuring-related reversals                                  | -   | -   | -    | -   | -     | (19)  | 19    | N/M |

|                           |     |     |      |     |       |       |       |     |
|---------------------------|-----|-----|------|-----|-------|-------|-------|-----|
| Total noninterest expense | 593 | 615 | (22) | (4) | 1,684 | 1,821 | (137) | (8) |
|---------------------------|-----|-----|------|-----|-------|-------|-------|-----|

|                            |     |     |      |     |       |       |      |     |
|----------------------------|-----|-----|------|-----|-------|-------|------|-----|
| Income before income taxes | 463 | 488 | (25) | (5) | 1,319 | 1,382 | (63) | (5) |
| Applicable income taxes    | 178 | 190 | (12) | (6) | 507   | 537   | (30) | (6) |

|                 |        |        |         |      |        |        |         |      |
|-----------------|--------|--------|---------|------|--------|--------|---------|------|
| Net income (21) | \$ 285 | \$ 298 | \$ (13) | (4)% | \$ 812 | \$ 845 | \$ (33) | (4)% |
|-----------------|--------|--------|---------|------|--------|--------|---------|------|

|  |         |         |        |       |   |         |       |     |
|--|---------|---------|--------|-------|---|---------|-------|-----|
| Memo-Net securitization gains (amortization) | \$ (13) | \$ (11) | \$ (2) | (18)% | 5 | \$ (55) | \$ 60 | N/M |
|--|---------|---------|--------|-------|---|---------|-------|-----|

**FINANCIAL PERFORMANCE:**

|                                 |        |        |       |      |     |     |      |  |
|---------------------------------|--------|--------|-------|------|-----|-----|------|--|
| Return on average common equity | 18%    | 18%    | -%    |      | 17% | 18% | (1)% |  |
| Efficiency ratio                | 46     | 49     | (3)   |      | 47  | 51  | (4)  |  |
| Headcount                       | 10,366 | 10,508 | (142) | (1)% |     |     |      |  |

**ENDING BALANCES:**

|                    |          |          |          |      |  |  |  |  |
|--------------------|----------|----------|----------|------|--|--|--|--|
| Owned loans:       |          |          |          |      |  |  |  |  |
| Held in portfolio  | \$ 6,449 | \$ 6,751 | \$ (302) | (4)% |  |  |  |  |
| Held for sale (22) | 7,729    | 5,173    | 2,556    | 49   |  |  |  |  |

|   |        |        |         |     |  |  |  |  |
|---|--------|--------|---------|-----|--|--|--|--|
| Total owned loans                                 | 14,178 | 11,924 | 2,254   | 19  |  |  |  |  |
| Seller's interest and accrued interest receivable | 23,285 | 24,387 | (1,102) | (5) |  |  |  |  |

|                   |        |        |       |   |  |  |  |  |
|-------------------|--------|--------|-------|---|--|--|--|--|
| Total receivables | 37,463 | 36,311 | 1,152 | 3 |  |  |  |  |
| Assets            | 42,768 | 40,567 | 2,201 | 5 |  |  |  |  |
| Equity            | 6,361  | 6,361  | -     | - |  |  |  |  |

**AVERAGE BALANCES:**

|                   |          |          |        |     |          |          |          |     |
|-------------------|----------|----------|--------|-----|----------|----------|----------|-----|
| Owned loans:      |          |          |        |     |          |          |          |     |
| Held in portfolio | \$ 6,440 | \$ 5,883 | \$ 557 | 9%  | \$ 7,100 | \$ 5,421 | \$ 1,679 | 31% |
| Held for sale     | 10,001   | 4,640    | 5,361  | N/M | 7,213    | 3,323    | 3,890    | N/M |

|   |        |        |         |      |        |        |       |    |
|---|--------|--------|---------|------|--------|--------|-------|----|
| Total owned loans                                 | 16,441 | 10,523 | 5,918   | 56   | 14,313 | 8,744  | 5,569 | 64 |
| Seller's interest and accrued interest receivable | 21,829 | 24,236 | (2,407) | (10) | 23,839 | 22,897 | 942   | 4  |

|                   |        |        |       |    |        |        |       |    |
|-------------------|--------|--------|-------|----|--------|--------|-------|----|
| Total receivables | 38,270 | 34,759 | 3,511 | 10 | 38,152 | 31,641 | 6,511 | 21 |
| Assets            | 43,105 | 38,804 | 4,301 | 11 | 43,390 | 36,023 | 7,367 | 20 |
| Equity            | 6,361  | 6,361  | -     | -  | 6,361  | 6,361  | -     | -  |



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Card Services continued

| (Dollars in millions)                                    | Three Months Ended September 30 |           |          |         | Nine Months Ended September 30 |           |           |         |
|--|---------------------------------|-----------|----------|---------|--------------------------------|-----------|-----------|---------|
|  | 2003                            | 2002      | Change   |         | 2003                           | 2002      | Change    |         |
|  |                                 |           | Amount   | Percent |                                |           | Amount    | Percent |
| <b>CREDIT QUALITY:</b>                                   |                                 |           |          |         |                                |           |           |         |
| Net charge-offs  | \$ 211                          | \$ 131    | \$ 80    | 61%     | \$ 554                         | \$ 346    | \$ 208    | 60%     |
| Annualized net charge-off ratio                          | 5.13%                           | 4.99%     | 0.14%    |         | 5.16%                          | 5.30%     | (0.14)%   |         |
| Delinquency ratio:                                       |                                 |           |          |         |                                |           |           |         |
| 30+ days   | 3.82                            | 2.74      | 1.08     |         |                                |           |           |         |
| 90+ days   | 1.78                            | 1.11      | 0.67     |         |                                |           |           |         |
| Allowance for credit losses                              | \$ 431                          | \$ 396    | 35       | 9       |                                |           |           |         |
| Allowance to period end loans held in portfolio          | 6.68%                           | 5.87%     | 0.81%    |         |                                |           |           |         |
| <b>OTHER DATA:</b>                                       |                                 |           |          |         |                                |           |           |         |
| Charge volume (in billions)                              | \$ 42.8                         | \$ 39.5   | \$ 3.3   | 8%      | \$ 121.6                       | \$ 111.9  | \$ 9.7    | 9%      |
| New accounts opened (in thousands) (23)                  | 895                             | 2,005     | (1,110)  | (55)    | 3,693                          | 3,929     | (236)     | (6)     |
| Credit cards issued (in thousands)                       | 51,500                          | 48,952    | 2,548    | 5       |                                |           |           |         |
| Number of CardmemberServices.com customers (in millions) | 4.7                             | 3.0       | 1.7      | 57      |                                |           |           |         |
| Paymentech (in millions):                                |                                 |           |          |         |                                |           |           |         |
| Bank card volume   | \$ 39,271                       | \$ 30,711 | \$ 8,560 | 28%     | \$ 110,973                     | \$ 88,748 | \$ 22,225 | 25%     |
| Total transactions                                       | 1,417                           | 1,063     | 354      | 33      | 3,977                          | 3,019     | 958       | 32      |

For additional footnote detail see pages 9 and 12.

- (19) Net interest income-FTE did not have tax equivalent adjustments for the three and nine months ended September 30, 2003 and 2002, respectively.
- (20) On a reported basis, income earned on securitized loans is reported in credit card revenue and income earned on seller's interest is reported in net interest income. On a managed basis, net interest income, noninterest income and provision for credit losses are reported in their respective income statement lines.
- (21) Net income before restructuring-related reversals, net of \$7 million tax, was \$833 million for the nine months ended September 30, 2002.
- (22) On a reported basis, loans held for sale are not included in allowance for credit losses coverage statistics.
- (23) Net accounts opened includes originations, purchases and sales.

Quarterly Results Reported

Card Services net income was \$285 million, down 4%, as continued margin compression and the higher provision for credit losses offset the benefit of higher loan volume.

Total revenue increased 4% to \$1.3 billion. Net interest income increased 15% to \$414 million, reflecting higher owned loan balances, partially offset by modest margin compression. Average owned loan balances were \$16.4 billion, an increase of \$5.9 billion, or 56%, due to a lower percentage of seller's interest and accrued interest receivable to managed loans in the current period. End-of-period owned loans increased \$2.3 billion, or 19%. Noninterest income remained relatively flat at \$888 million, primarily driven by higher securitized and owned loans offset by lower margin earned on securitized loans.

Paymentech Inc., the Corporation's merchant card processor, reported an increase in total revenue of 18% to \$148 million, resulting from a 33% increase in total transactions and a 28% increase in bank card volume, driven primarily by the purchase of the Scotia Bank merchant acquirer business in the fourth quarter 2002.

Noninterest expense was \$593 million, a decline of 4%, due to reduced marketing expenses partially offset by higher Paymentech expenses.

Provision for credit losses was \$246 million, an increase of \$98 million, or 66%, which included a \$35 million increase in the allowance for credit losses. The net charge-off ratio was 5.13%, up from 4.99%. The 30-day delinquency ratio increased to 3.82% from 2.74%.

The Corporation believes that it is more meaningful to discuss credit performance on a managed basis as the on-balance sheet portfolio has a greater percentage of new originations and, therefore, is less seasoned. See the Managed Basis section below for this information.

**Card Services continued**Year-to-Date Results Reported

Card Services year-to-date net income was \$812 million, down 3% (excluding the \$12 million after-tax benefit from a restructuring charge reversal in the prior year) as continued margin compression and the higher provision for credit losses offset the benefit of higher loan volume and lower noninterest expense.

Total revenue increased 1% to \$3.6 billion. Net interest income increased 20% to \$1.1 billion, reflecting higher owned loan balances, partially offset by margin compression. Average owned loan balances were \$14.3 billion, an increase of \$5.6 billion, or 64%, due to a lower percentage of average securitized loans to average managed loans. Noninterest income decreased 6% to \$2.5 billion, primarily driven by lower margin earned on securitized loans partially offset by higher interchange fees from increased card usage volume and increased securitization activity. Noninterest income in both the current and prior year included modest gains from the sale of small portfolios.

Paymentech Inc., the Corporation's merchant card processor, reported an increase in total revenue of 17% to \$431 million, resulting from a 32% increase in total transactions and a 25% increase in bank card volume, driven primarily by the purchase of the Scotia Bank merchant acquirer business in the fourth quarter 2002.

Noninterest expense was \$1.7 billion, a decline of 8% (excluding the \$19 million pre-tax benefit from a restructuring charge reversal in the prior year) due to reduced marketing expenses and operational efficiencies partially offset by higher Paymentech expenses.

Provision for credit losses was \$589 million, an increase of \$226 million, or 62%. The net charge-off ratio was 5.16%, down from 5.30%.

The Corporation believes that it is more meaningful to discuss credit performance on a managed basis since the on-balance sheet portfolio has a greater percentage of new originations and, therefore, is less seasoned. See the Managed Basis section below for this information.

**Managed Basis**

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 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 included in credit card revenue. Credit card interest income and fees, 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 securitization as a secured financing transaction and assumes that receivables 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 43 of this report and Note 9, Credit Card Securitizations, on pages 94-95 of the Corporation's 2002 Annual Report for additional information related to the Corporation's securitization activity.

**Card Services continued**

The following table presents Card Services information on a managed basis.

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**Three Months Ended September 30**
**Nine Months Ended September 30**


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| (Dollars in millions)  | Three Months Ended September 30 |               |                |             | Nine Months Ended September 30 |               |                |             |
|--|---------------------------------|---------------|----------------|-------------|--------------------------------|---------------|----------------|-------------|
|  | 2003                            | 2002          | Change         |             | 2003                           | 2002          | Change         |             |
|  |                                 |               | Amount         | Percent     |                                |               | Amount         | Percent     |
| <b>INCOME STATEMENT DATA:</b>                                    |                                 |               |                |             |                                |               |                |             |
| Net interest income-FTE (1) (19) (20)                            | \$ 1,605                        | \$ 1,524      | \$ 81          | 5%          | \$ 4,570                       | \$ 4,605      | \$ (35)        | (1)%        |
| Banking fees and commissions (3)                                 | 5                               | 13            | (8)            | (62)        | 25                             | 55            | (30)           | (55)        |
| Credit card revenue (4) (20)                                     | 477                             | 460           | 17             | 4           | 1,331                          | 1,296         | 35             | 3           |
| Other income/(loss)  | (12)                            | (24)          | 12             | 50          | 18                             | (14)          | 32             | N/M         |
| <b>Total noninterest income</b>                                  | <b>470</b>                      | <b>449</b>    | <b>21</b>      | <b>5</b>    | <b>1,374</b>                   | <b>1,337</b>  | <b>37</b>      | <b>3</b>    |
| Total revenue, net of interest expense                           | 2,075                           | 1,973         | 102            | 5           | 5,944                          | 5,942         | 2              | -           |
| Provision for credit losses (20)                                 | 1,019                           | 870           | 149            | 17          | 2,941                          | 2,739         | 202            | 7           |
| Salaries and employee benefits                                   | 157                             | 151           | 6              | 4           | 466                            | 439           | 27             | 6           |
| Other expense  | 436                             | 464           | (28)           | (6)         | 1,218                          | 1,401         | (183)          | (13)        |
| Total noninterest expense before restructuring-related reversals | 593                             | 615           | (22)           | (4)         | 1,684                          | 1,840         | (156)          | (8)         |
| Restructuring-related reversals                                  | -                               | -             | -              | -           | -                              | (19)          | 19             | N/M         |
| <b>Total noninterest expense</b>                                 | <b>593</b>                      | <b>615</b>    | <b>(22)</b>    | <b>(4)</b>  | <b>1,684</b>                   | <b>1,821</b>  | <b>(137)</b>   | <b>(8)</b>  |
| Income before income taxes                                       | 463                             | 488           | (25)           | (5)         | 1,319                          | 1,382         | (63)           | (5)         |
| Applicable income taxes  | 178                             | 190           | (12)           | (6)         | 507                            | 537           | (30)           | (6)         |
| <b>Net income (21)</b>   | <b>\$ 285</b>                   | <b>\$ 298</b> | <b>\$ (13)</b> | <b>(4)%</b> | <b>\$ 812</b>                  | <b>\$ 845</b> | <b>\$ (33)</b> | <b>(4)%</b> |
| Memo-Net securitization gains (amortization)                     | \$ (13)                         | \$ (11)       | \$ (2)         | (18)        | \$ 5                           | \$ (55)       | \$ 60          | N/M         |
| <b>FINANCIAL PERFORMANCE:</b>                                    |                                 |               |                |             |                                |               |                |             |
| Percentage of average outstandings:                              |                                 |               |                |             |                                |               |                |             |
| Net interest income - FTE  | 8.57%                           | 8.87%         | (0.30)%        |             | 8.30%                          | 9.21%         | (0.91)%        |             |
| Provision for credit losses                                      | 5.44                            | 5.06          | .38            |             | 5.34                           | 5.48          | (0.14)         |             |
| Noninterest income   | 2.51                            | 2.61          | (0.10)         |             | 2.50                           | 2.67          | (0.17)         |             |
| Risk adjusted margin   | 5.64                            | 6.42          | (0.78)         |             | 5.46                           | 6.40          | (0.94)         |             |
| Noninterest expense  | 3.17                            | 3.58          | (0.41)         |             | 3.06                           | 3.64          | (0.58)         |             |
| Pretax income - FTE  | 2.47                            | 2.84          | (0.37)         |             | 2.40                           | 2.77          | (0.37)         |             |
| Net income   | 1.52                            | 1.73          | (0.21)         |             | 1.48                           | 1.69          | (0.21)         |             |
| Return on average common equity                                  | 18                              | 18            | -              |             | 17                             | 18            | (1)            |             |
| Efficiency ratio   | 29                              | 31            | (2)            |             | 28                             | 31            | (3)            |             |
| Headcount  | 10,366                          | 10,508        | (142)          | (1)%        |                                |               |                |             |
| <b>ENDING BALANCES:</b>  |                                 |               |                |             |                                |               |                |             |
| Held in portfolio  | \$ 6,449                        | \$ 6,751      | \$ (302)       | (4)%        |                                |               |                |             |
| Held for sale (22)   | 7,729                           | 5,173         | 2,556          | 49          |                                |               |                |             |
| Securitized  | 36,763                          | 32,858        | 3,905          | 12          |                                |               |                |             |
| Seller's interest and accrued interest receivable                | 23,285                          | 24,387        | (1,102)        | (5)         |                                |               |                |             |
| <b>Total loans</b>   | <b>74,226</b>                   | <b>69,169</b> | <b>5,057</b>   | <b>7</b>    |                                |               |                |             |
| Assets   | 79,531                          | 73,425        | 6,106          | 8           |                                |               |                |             |
| Equity   | 6,361                           | 6,361         | -              | -           |                                |               |                |             |
| <b>AVERAGE BALANCES:</b>   |                                 |               |                |             |                                |               |                |             |
| Held in portfolio  | \$ 6,440                        | \$ 5,883      | \$ 557         | 9%          | \$ 7,100                       | \$ 5,421      | \$ 1,679       | 31%         |

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|   | Three Months Ended September 30 |               |              |          | Nine Months Ended September 30 |               |              |           |
|---|---------------------------------|---------------|--------------|----------|--------------------------------|---------------|--------------|-----------|
| Held for sale                                     | 10,001                          | 4,640         | 5,361        | N/M      | 7,213                          | 3,323         | 3,890        | N/M       |
| Securitized                                       | 36,029                          | 33,442        | 2,587        | 8        | 35,424                         | 35,184        | 240          | 1         |
| Seller's interest and accrued interest receivable | 21,829                          | 24,236        | (2,407)      | (10)     | 23,839                         | 22,897        | 942          | 4         |
| <b>Total loans</b>                                | <b>74,299</b>                   | <b>68,201</b> | <b>6,098</b> | <b>9</b> | <b>73,576</b>                  | <b>66,825</b> | <b>6,751</b> | <b>10</b> |
| Assets  | 79,134                          | 72,246        | 6,888        | 10       | 78,814                         | 71,207        | 7,607        | 11        |
| Equity  | 6,361                           | 6,361         | -            | -        | 6,361                          | 6,361         | -            | -         |

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Card Services continued

|  | Three Months Ended September 30 |           |          |         | Nine Months Ended September 30 |           |           |         |
|--|---------------------------------|-----------|----------|---------|--------------------------------|-----------|-----------|---------|
|  | 2003                            | 2002      | Change   |         | 2003                           | 2002      | Change    |         |
| (Dollars in millions)                                    |                                 |           | Amount   | Percent |                                |           | Amount    | Percent |
| <b>CREDIT QUALITY:</b>                                   |                                 |           |          |         |                                |           |           |         |
| Net charge-offs  | \$ 984                          | \$ 853    | \$ 131   | 15%     | \$ 2,906                       | \$ 2,722  | \$ 184    | 7%      |
| Annualized net charge-off ratio                          | 5.30%                           | 5.00%     | 0.30%    |         | 5.27%                          | 5.43%     | (0.16)%   |         |
| 12 month lagged (24)                                     | 5.77                            | 5.12      | 0.65     |         | 5.80                           | 5.58      | .22       |         |
| Delinquency ratio:                                       |                                 |           |          |         |                                |           |           |         |
| 30+ days   | 3.98                            | 4.05      | (0.07)   |         |                                |           |           |         |
| 90+ days   | 1.85                            | 1.68      | 0.17     |         |                                |           |           |         |
| Allowance for credit losses                              | \$ 431                          | \$ 396    | 35       | 9       |                                |           |           |         |
| Allowance to period end loans held in portfolio          | 6.68%                           | 5.87%     | 0.81%    |         |                                |           |           |         |
| <b>OTHER DATA:</b>                                       |                                 |           |          |         |                                |           |           |         |
| Charge volume (in billions)                              | \$ 42.8                         | \$ 39.5   | \$ 3.3   | 8%      | \$ 121.6                       | \$ 111.9  | \$ 9.7    | 9%      |
| New accounts opened (in thousands) (23)                  | 895                             | 2,005     | (1,110)  | (55)    | 3,693                          | 3,929     | (236)     | (6)     |
| Credit cards issued (in thousands)                       | 51,500                          | 48,952    | 2,548    | 5       |                                |           |           |         |
| Number of CardmemberServices.com customers (in millions) | 4.7                             | 3.0       | 1.7      | 57      |                                |           |           |         |
| Paymentech (in millions):                                |                                 |           |          |         |                                |           |           |         |
| Bank card volume   | \$ 39,271                       | \$ 30,711 | \$ 8,560 | 28%     | \$ 110,973                     | \$ 88,748 | \$ 22,225 | 25%     |
| Total transactions                                       | 1,417                           | 1,063     | 354      | 33      | 3,977                          | 3,019     | 958       | 32      |

For additional footnote detail see pages 9, 12 and 15.

(24) 2002 ratio includes Wachovia net charge-offs but excludes Wachovia loans.

Quarterly Results Managed

Card Services net income was \$285 million, down 4%, as margin compression and the higher provision for credit losses offset the benefits of higher loan volume.

Total revenue increased 5% to \$2.1 billion. Net interest income increased 5% to \$1.6 billion, reflecting the effect of higher average loan balances, partially offset by modest margin compression. Average managed loans were \$74.3 billion, an increase of \$6.1 billion, or 9%. End-of-period loans increased \$5.1 billion, or 7%. Noninterest income increased 5% to \$470 million, primarily resulting from the benefit of increased charge volume. Charge volume increased 8% to \$42.8 billion.

Paymentech Inc., the Corporation's merchant card processor, reported an increase in total revenue of 18% to \$148 million, resulting from a 33% increase in total transactions and a 28% increase in bank card volume, driven primarily by the purchase of the Scotia Bank merchant acquirer business in the fourth quarter 2002.

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Noninterest expense was \$593 million, a decline of 4%, due to reduced marketing expenses partially offset by higher Paymentech expenses.

Provision for credit losses increased \$149 million, or 17%, to \$1.0 billion, primarily driven by higher managed loan balances, higher non-bankruptcy losses and a \$35 million increase in the allowance for credit losses. Credit ratios remained strong despite the increase in the managed net charge-off rate to 5.30% from the lower rate of 5.00%. The 30-day delinquency ratio decreased to 3.98% from 4.05%.

### Year-To-Date Results    Managed

Card Services year-to-date net income was \$812 million, down 3% (excluding the \$12 million after-tax benefit from a restructuring charge reversal in the prior year) as margin compression and the higher provision for credit losses offset the benefit of higher loan volume and lower noninterest expense.

Total revenue remained relatively flat at \$5.9 billion. Net interest income decreased 1% to \$4.6 billion, reflecting the impact of margin compression partially offset by higher average loan balances. Average managed loans were \$73.6 billion, an increase of \$6.8 billion, or 10%. Noninterest income increased 3% to \$1.4 billion primarily resulting from the benefit of increased charge volume and increased securitization activity. Charge volume increased 9% to \$121.6 billion. Noninterest income in both the current and prior year included modest gains from the sale of small portfolios.

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### **Card Services**    **continued**

Paymentech Inc., the Corporation's merchant card processor, reported an increase in total revenue of 17% to \$431 million, resulting from a 32% increase in total transactions and a 25% increase in bank card volume, driven primarily by the purchase of the Scotia Bank merchant acquirer business in the fourth quarter 2002.

Noninterest expense was \$1.7 billion, a decline of 8% (excluding the \$19 million pre-tax benefit from a restructuring charge reversal in the prior year) due to reduced marketing expenses and operational efficiencies partially offset by higher Paymentech expenses.

Provision for credit losses increased \$202 million, or 7%, to \$2.9 billion primarily driven by higher managed loan balances and an increase in the allowance for credit losses. The net charge-off rate was 5.27%, down from 5.43%.

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### **Card Services**    **continued**

The following table reconciles line items presented on a reported basis with those presented on a managed basis:

| <i>(in millions):</i>         | Three Months Ended September 30 |        | Nine Months Ended September 30 |          |
|-------------------------------|---------------------------------|--------|--------------------------------|----------|
|                               | 2003                            | 2002   | 2003                           | 2002     |
| <b>INCOME STATEMENT DATA:</b> |                                 |        |                                |          |
| Net interest income - FTE (1) |                                 |        |                                |          |
| Reported data for the period  | \$ 414                          | \$ 359 | \$ 1,055                       | \$ 878   |
| Securitization adjustments    | 1,191                           | 1,165  | 3,515                          | 3,727    |
| Managed net interest income   | 1,605                           | 1,524  | 4,570                          | 4,605    |
| Credit card revenue:          |                                 |        |                                |          |
| Reported data for the period  | \$ 895                          | \$ 903 | \$ 2,494                       | \$ 2,647 |
| Securitization adjustments    | (418)                           | (443)  | (1,163)                        | (1,351)  |
| Managed credit card revenue   | 477                             | 460    | 1,331                          | 1,296    |

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Three Months Ended September 30    Nine Months Ended September 30

Noninterest income:

|                              |        |        |          |          |
|------------------------------|--------|--------|----------|----------|
| Reported data for the period | \$ 888 | \$ 892 | \$ 2,537 | \$ 2,688 |
| Securitization adjustments   | (418)  | (443)  | (1,163)  | (1,351)  |

|                            |     |     |       |       |
|----------------------------|-----|-----|-------|-------|
| Managed noninterest income | 470 | 449 | 1,374 | 1,337 |
|----------------------------|-----|-----|-------|-------|

Total revenue, net of interest expense:

|                              |          |          |          |          |
|------------------------------|----------|----------|----------|----------|
| Reported data for the period | \$ 1,302 | \$ 1,251 | \$ 3,592 | \$ 3,566 |
| Securitization adjustments   | 773      | 722      | 2,352    | 2,376    |

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Managed total revenue, net of interest expense | 2,075 | 1,973 | 5,944 | 5,942 |
|--|-------|-------|-------|-------|

Provision for credit losses:

|                              |        |        |        |        |
|------------------------------|--------|--------|--------|--------|
| Reported data for the period | \$ 246 | \$ 148 | \$ 589 | \$ 363 |
| Securitization adjustments   | 773    | 722    | 2,352  | 2,376  |

|                                     |       |     |       |       |
|-------------------------------------|-------|-----|-------|-------|
| Managed provision for credit losses | 1,019 | 870 | 2,941 | 2,739 |
|-------------------------------------|-------|-----|-------|-------|

**ENDING BALANCES:**

Owned loans:

|                    |          |          |  |  |
|--------------------|----------|----------|--|--|
| Held in portfolio  | \$ 6,449 | \$ 6,751 |  |  |
| Held for sale (22) | 7,729    | 5,173    |  |  |

|                   |        |        |  |  |
|-------------------|--------|--------|--|--|
| Total owned loans | 14,178 | 11,924 |  |  |
|-------------------|--------|--------|--|--|

|   |        |        |  |  |
|---|--------|--------|--|--|
| Seller's interest and accrued interest receivable | 23,285 | 24,387 |  |  |
|---|--------|--------|--|--|

|                   |        |        |  |  |
|-------------------|--------|--------|--|--|
| Total receivables | 37,463 | 36,311 |  |  |
|-------------------|--------|--------|--|--|

|                   |        |        |  |  |
|-------------------|--------|--------|--|--|
| Securitized loans | 36,763 | 32,858 |  |  |
|-------------------|--------|--------|--|--|

|                     |        |        |  |  |
|---------------------|--------|--------|--|--|
| Total managed loans | 74,226 | 69,169 |  |  |
|---------------------|--------|--------|--|--|

Assets:

|                            |           |           |  |  |
|----------------------------|-----------|-----------|--|--|
| Reported                   | \$ 42,768 | \$ 40,567 |  |  |
| Securitization adjustments | 36,763    | 32,858    |  |  |

|                |        |        |  |  |
|----------------|--------|--------|--|--|
| Managed assets | 79,531 | 73,425 |  |  |
|----------------|--------|--------|--|--|

**AVERAGE BALANCES:**

Owned loans:

|                   |          |          |          |          |
|-------------------|----------|----------|----------|----------|
| Held in portfolio | \$ 6,440 | \$ 5,883 | \$ 7,100 | \$ 5,421 |
| Held for sale     | 10,001   | 4,640    | 7,213    | 3,323    |

|                   |        |        |        |       |
|-------------------|--------|--------|--------|-------|
| Total owned loans | 16,441 | 10,523 | 14,313 | 8,744 |
|-------------------|--------|--------|--------|-------|

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Seller's interest and accrued interest receivable | 21,829 | 24,236 | 23,839 | 22,897 |
|---|--------|--------|--------|--------|

|                   |        |        |        |        |
|-------------------|--------|--------|--------|--------|
| Total receivables | 38,270 | 34,759 | 38,152 | 31,641 |
|-------------------|--------|--------|--------|--------|

|                   |        |        |        |        |
|-------------------|--------|--------|--------|--------|
| Securitized loans | 36,029 | 33,442 | 35,424 | 35,184 |
|-------------------|--------|--------|--------|--------|

|                     |        |        |        |        |
|---------------------|--------|--------|--------|--------|
| Total managed loans | 74,299 | 68,201 | 73,576 | 66,825 |
|---------------------|--------|--------|--------|--------|

Total assets:

|                            |           |           |           |           |
|----------------------------|-----------|-----------|-----------|-----------|
| Reported                   | \$ 43,105 | \$ 38,804 | \$ 43,390 | \$ 36,023 |
| Securitization adjustments | 36,029    | 33,442    | 35,424    | 35,184    |

|                |        |        |        |        |
|----------------|--------|--------|--------|--------|
| Managed assets | 79,134 | 72,246 | 78,814 | 71,207 |
|----------------|--------|--------|--------|--------|

**CREDIT QUALITY:**

Net charge-offs:

|                            |        |        |        |        |
|----------------------------|--------|--------|--------|--------|
| Reported                   | \$ 211 | \$ 131 | \$ 554 | \$ 346 |
| Securitization adjustments | 773    | 722    | 2,352  | 2,376  |

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Three Months Ended September 30    Nine Months Ended September 30

|                         |     |     |       |       |
|-------------------------|-----|-----|-------|-------|
| Managed net charge-offs | 984 | 853 | 2,906 | 2,722 |
|-------------------------|-----|-----|-------|-------|

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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 services to institutions. As discussed in Note 3, Acquisitions, the Corporation acquired Zurich Life, a U.S. life and annuity operation. On July 24, 2003, the Corporation announced an agreement to sell the corporate trust services business, part of the Investment Management line of business. The sale price is approximately \$720 million, of which approximately 10% is contingent upon business retention. The sale includes corporate, municipal, structured finance and escrow businesses as well as the document custody and London corporate trust operations. The closing of the transaction is expected in the fourth quarter. As a result, corporate trust services was transferred to the Corporate line of business where it is reported as discontinued operations.

On September 17, 2003, the Corporation announced an agreement to purchase Security Capital Research & Management Incorporated, a recognized expert in developing real estate investment products, with approximately \$3.5 billion in assets under management. The transaction is expected to close in the fourth quarter.

|   | Three Months Ended September 30 |              |              |            | Nine Months Ended September 30 |               |                |             |
|---|---------------------------------|--------------|--------------|------------|--------------------------------|---------------|----------------|-------------|
|   | 2003                            | 2002 (25)    | Change       |            | 2003                           | 2002 (25)     | Change         |             |
|   |                                 |              | Amount       | Percent    |                                |               | Amount         | Percent     |
| <i>(Dollars in millions)</i>  |                                 |              |              |            |                                |               |                |             |
| <b>INCOME STATEMENT DATA:</b>   |                                 |              |              |            |                                |               |                |             |
| Net interest income-FTE (1) (26)  | \$ 115                          | \$ 89        | \$ 26        | 29%        | \$ 294                         | \$ 290        | \$ 4           | 1%          |
| Banking fees and commissions (3)  | 88                              | 63           | 25           | 40         | 224                            | 195           | 29             | 15          |
| Service charges on deposits (5)   | 5                               | 5            |              |            | 15                             | 14            | 1              | 7           |
| Fiduciary and investment management fees (13)                           | 156                             | 156          |              |            | 461                            | 481           | (20)           | (4)         |
| Other income  | 8                               |              | 8            | N/M        | 10                             | 9             | 1              | 11          |
| <b>Total noninterest income</b>   | <b>257</b>                      | <b>224</b>   | <b>33</b>    | <b>15</b>  | <b>710</b>                     | <b>699</b>    | <b>11</b>      | <b>2</b>    |
| <b>Total revenue, net of interest expense</b>                           | <b>372</b>                      | <b>313</b>   | <b>59</b>    | <b>19</b>  | <b>1,004</b>                   | <b>989</b>    | <b>15</b>      | <b>2</b>    |
| Provision for credit losses   | 4                               | 2            | 2            | N/M        | 12                             | 7             | 5              | 71          |
| Salaries and employee benefits  | 114                             | 107          | 7            | 7          | 330                            | 313           | 17             | 5           |
| Other expense   | 110                             | 77           | 33           | 43         | 280                            | 250           | 30             | 12          |
| <b>Total noninterest expense before restructuring-related reversals</b> | <b>224</b>                      | <b>184</b>   | <b>40</b>    | <b>22</b>  | <b>610</b>                     | <b>563</b>    | <b>47</b>      | <b>8</b>    |
| Restructuring-related reversals   |                                 |              |              |            |                                | (1)           | 1              | N/M         |
| <b>Total noninterest expense</b>  | <b>224</b>                      | <b>184</b>   | <b>40</b>    | <b>22</b>  | <b>610</b>                     | <b>562</b>    | <b>48</b>      | <b>9</b>    |
| Income before income taxes  | 144                             | 127          | 17           | 13         | 382                            | 420           | (38)           | (9)         |
| Applicable income taxes   | 53                              | 48           | 5            | 10         | 142                            | 156           | (14)           | (9)         |
| <b>Net income (27)</b>  | <b>\$ 91</b>                    | <b>\$ 79</b> | <b>\$ 12</b> | <b>15%</b> | <b>\$ 240</b>                  | <b>\$ 264</b> | <b>\$ (24)</b> | <b>(9)%</b> |
| <b>FINANCIAL PERFORMANCE:</b>   |                                 |              |              |            |                                |               |                |             |
| Return on average common equity   | 31%                             | 33%          | (2)%         |            | 31%                            | 37%           | (6)%           |             |
| Efficiency ratio  | 60                              | 59           | 1            |            | 61                             | 57            | 4              |             |
| Headcount   | 4,949                           | 4,300        | 649          | 15%        |                                |               |                |             |

**ENDING BALANCES:**

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|                          | Three Months Ended September 30 |          |          |      | Nine Months Ended September 30 |          |          |      |
|--------------------------|---------------------------------|----------|----------|------|--------------------------------|----------|----------|------|
|                          |                                 |          |          |      |                                |          |          |      |
| Loans                    | \$ 7,155                        | \$ 7,087 | \$ 68    | 1%   |                                |          |          |      |
| Commercial               | 3,153                           | 3,160    | (7)      |      |                                |          |          |      |
| Consumer                 | 4,002                           | 3,927    | 75       | 2    |                                |          |          |      |
| Assets                   | 15,656                          | 8,494    | 7,162    | 84   |                                |          |          |      |
| Demand deposits          | 971                             | 1,744    | (773)    | (44) |                                |          |          |      |
| Savings                  | 8,327                           | 6,068    | 2,259    | 37   |                                |          |          |      |
| Time                     | 621                             | 783      | (162)    | (21) |                                |          |          |      |
| Foreign offices          | 219                             | 239      | (20)     | (8)  |                                |          |          |      |
| Total deposits           | 10,138                          | 8,834    | 1,304    | 15   |                                |          |          |      |
| Equity                   | 1,553                           | 954      | 599      | 63   |                                |          |          |      |
| <b>AVERAGE BALANCES:</b> |                                 |          |          |      |                                |          |          |      |
| Loans                    | \$ 6,665                        | \$ 6,941 | \$ (276) | (4)% | \$ 6,666                       | \$ 6,963 | \$ (297) | (4)% |
| Commercial               | 2,996                           | 3,177    | (181)    | (6)  | 3,056                          | 3,244    | (188)    | (6)  |
| Consumer                 | 3,669                           | 3,764    | (95)     | (3)  | 3,610                          | 3,719    | (109)    | (3)  |
| Assets                   | 10,700                          | 8,312    | 2,388    | 29   | 9,119                          | 8,287    | 832      | 10   |
| Demand deposits          | 2,019                           | 1,604    | 415      | 26   | 1,843                          | 1,641    | 202      | 12   |
| Savings                  | 8,032                           | 5,913    | 2,119    | 36   | 7,664                          | 5,859    | 1,805    | 31   |
| Time                     | 633                             | 818      | (185)    | (23) | 689                            | 893      | (204)    | (23) |
| Foreign offices          | 165                             | 211      | (46)     | (22) | 169                            | 209      | (40)     | (19) |
| Total deposits           | 10,849                          | 8,546    | 2,303    | 27   | 10,365                         | 8,602    | 1,763    | 20   |
| Equity                   | 1,149                           | 954      | 195      | 20   | 1,020                          | 954      | 66       | 7    |

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Investment Management continued

|                                   | Three Months Ended September 30 |           |        |         | Nine Months Ended September 30 |           |        |         |
|-----------------------------------|---------------------------------|-----------|--------|---------|--------------------------------|-----------|--------|---------|
|                                   | 2003                            | 2002 (25) | Change |         | 2003                           | 2002 (25) | Change |         |
|                                   |                                 |           | Amount | Percent |                                |           | Amount | Percent |
| <i>(Dollars in millions)</i>      |                                 |           |        |         |                                |           |        |         |
| <b>CREDIT QUALITY:</b>            |                                 |           |        |         |                                |           |        |         |
| Net charge-offs:                  |                                 |           |        |         |                                |           |        |         |
| Commercial                        | \$ 5                            | \$ 1      | \$ 4   | N/M     | \$ 10                          | \$ 2      | \$ 8   | N/M     |
| Consumer                          | (1)                             | 1         | (2)    | N/M     | 2                              | 5         | (3)    | (60)    |
| Total net charge-offs             | 4                               | 2         | 2      | N/M     | 12                             | 7         | 5      | 71      |
| Annualized net charge-off ratios: |                                 |           |        |         |                                |           |        |         |
| Commercial                        | 0.67%                           | 0.13%     | 0.54%  |         | 0.44%                          | 0.08%     | 0.36%  |         |
| Consumer                          | (0.11)                          | 0.11      | (0.22) |         | 0.07                           | 0.18      | (0.11) |         |
| Total net charge-off ratio        | 0.24                            | 0.12      | 0.12   |         | 0.24                           | 0.13      | 0.11   |         |
| Nonperforming assets:             |                                 |           |        |         |                                |           |        |         |
| Commercial                        | \$ 60                           | \$ 39     | \$ 21  | 54      |                                |           |        |         |
| Consumer                          | 14                              | 8         | 6      | 75      |                                |           |        |         |
| Total nonperforming loans         | 74                              | 47        | 27     | 57      |                                |           |        |         |
| Other, including OREO             | 1                               | 1         |        |         |                                |           |        |         |



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|   | Three Months Ended September 30 |           |          |      | Nine Months Ended September 30 |          |          |      |
|---|---------------------------------|-----------|----------|------|--------------------------------|----------|----------|------|
| Total nonperforming assets                  | 75                              | 48        | 27       | 56   |                                |          |          |      |
| Allowance for credit losses                 | 40                              | 25        | 15       | 60   |                                |          |          |      |
| Allowance to period end loans               | 0.56%                           | 0.35%     | 0.21%    |      |                                |          |          |      |
| Allowance to nonperforming loans            | 54                              | 53        | 1        |      |                                |          |          |      |
| Nonperforming assets to related assets (11) | 1.05                            | 0.68      | 0.37     |      |                                |          |          |      |
| <b>ASSETS UNDER MANAGEMENT</b>              |                                 |           |          |      |                                |          |          |      |
| <b>ENDING BALANCES:</b>                     |                                 |           |          |      |                                |          |          |      |
| Mutual funds                                | \$ 100,646                      | \$ 91,534 | \$ 9,112 | 10%  |                                |          |          |      |
| Other                                       | 74,902                          | 57,462    | 17,440   | 30   |                                |          |          |      |
| Total assets                                | 175,548                         | 148,996   | 26,552   | 18   |                                |          |          |      |
| <b>By type:</b>                             |                                 |           |          |      |                                |          |          |      |
| Money market                                | 70,820                          | 68,632    | 2,188    | 3    |                                |          |          |      |
| Equity                                      | 42,150                          | 35,394    | 6,756    | 19   |                                |          |          |      |
| Fixed income                                | 62,578                          | 44,970    | 17,608   | 39   |                                |          |          |      |
| Total assets                                | 175,548                         | 148,996   | 26,552   | 18   |                                |          |          |      |
| <b>By channel:</b>                          |                                 |           |          |      |                                |          |          |      |
| Private client services                     | 42,970                          | 42,390    | 580      | 1    |                                |          |          |      |
| Retail brokerage                            | 8,139                           | 6,716     | 1,423    | 21   |                                |          |          |      |
| Institutional                               | 93,367                          | 70,196    | 23,171   | 33   |                                |          |          |      |
| Commercial cash sweep                       | 8,581                           | 8,579     | 2        |      |                                |          |          |      |
| Capital markets                             | 2,935                           | 4,724     | (1,789)  | (38) |                                |          |          |      |
| External (28)                               | 9,492                           | 8,417     | 1,075    | 13   |                                |          |          |      |
| All other direct (29)                       | 10,064                          | 7,974     | 2,090    | 26   |                                |          |          |      |
| Total assets                                | 175,548                         | 148,996   | 26,552   | 18   |                                |          |          |      |
| <b>Morningstar® Rankings:</b>               |                                 |           |          |      |                                |          |          |      |
| % of 4 and 5 ranked funds                   | 54%                             | 48%       | 6%       |      |                                |          |          |      |
| % of 3+ ranked funds                        | 88                              | 93        | (5)      |      |                                |          |          |      |
| <b>PRIVATE CLIENT SERVICES:</b>             |                                 |           |          |      |                                |          |          |      |
| Number of private client advisors           | 622                             | 675       | (53)     | (8)% |                                |          |          |      |
| Number of private client offices            | 89                              | 96        | (7)      | (7)  |                                |          |          |      |
| Total client assets-end of period (30)      | \$ 64,307                       | \$ 61,659 | \$ 2,648 | 4    |                                |          |          |      |
| <b>Ending balances</b>                      |                                 |           |          |      |                                |          |          |      |
| Loans                                       | 6,604                           | 7,036     | (432)    | (6)  |                                |          |          |      |
| Deposits                                    | 10,548                          | 8,312     | 2,236    | 27   |                                |          |          |      |
| <b>Average balances</b>                     |                                 |           |          |      |                                |          |          |      |
| Loans                                       | 6,492                           | 6,898     | (406)    | (6)  | \$ 6,582                       | \$ 6,913 | \$ (331) | (5)% |
| Deposits                                    | 10,125                          | 8,155     | 1,970    | 24   | 9,743                          | 8,172    | 1,571    | 19   |

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Investment Management continued

|                       | Three Months Ended September 30 |           |        |         | Nine Months Ended September 30 |           |        |         |
|-----------------------|---------------------------------|-----------|--------|---------|--------------------------------|-----------|--------|---------|
|                       |                                 |           | Change |         |                                |           | Change |         |
| (Dollars in millions) | 2003                            | 2002 (25) | Amount | Percent | 2003                           | 2002 (25) | Amount | Percent |
|                       |                                 |           |        |         |                                |           |        |         |

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|  | Three Months Ended September 30 |           |            |     | Nine Months Ended September 30 |        |       |     |
|--|---------------------------------|-----------|------------|-----|--------------------------------|--------|-------|-----|
| <b>INSURANCE GROUP</b>                           |                                 |           |            |     |                                |        |       |     |
| Gross revenue (31)                               | \$ 160                          | \$ 111    | \$ 49      | 44% | \$ 395                         | \$ 350 | \$ 45 | 13% |
| <b>Ending Balances:</b>                          |                                 |           |            |     |                                |        |       |     |
| Invested assets                                  | 6,000                           | 387       | 5,613      | N/M |                                |        |       |     |
| Policy loans                                     | 415                             |           | 415        | N/M |                                |        |       |     |
| Policies inforce - direct/assumed (in thousands) | 2,331                           | 1,232     | 1,099      | 89  |                                |        |       |     |
| Policies inforce - direct/assumed                | \$ 228,095                      | \$ 13,527 | \$ 214,568 | N/M |                                |        |       |     |
| Policies inforce - retained                      | 42,984                          | 13,526    | 29,458     | N/M |                                |        |       |     |
| Insurance policy and claims reserves             | \$ 6,496                        | \$ 212    | \$ 6,284   | N/M |                                |        |       |     |
| A.M. Best rating (32)                            | A                               |           | N/M        | N/M |                                |        |       |     |

For additional footnote detail see pages 9, 12 and 15.

- (25) Prior period data has been adjusted for the transfer of corporate trust services from Investment Management to the Corporate line of business where it is now reported as discontinued operations.
- (26) Net interest income-FTE did not have material tax equivalent adjustments for the three or nine months ended September 30, 2003 and 2002.
- (27) Net income before restructuring-related reversals was \$263 million for the nine months ended September 30, 2002.
- (28) Includes broker/dealers, trust companies, and registered investment advisors that sell, or offer, One Group funds.
- (29) One Group funds invested in other One Group funds and other mutual funds sub-advised.
- (30) Fiduciary, brokerage and other related assets (managed and non-managed).
- (31) Includes insurance-related revenues recorded in other lines of business.
- (32) A.M. Best maintained A ratings with developing implications.

Quarterly Results

Investment Management net income totaled \$91 million, an increase of \$12 million, or 15%, driven by the acquisition of Zurich Life, strong asset growth, and an improved market. Since Zurich Life closed effective September 1, only one month of earnings is included.

Assets under management increased \$26.6 billion, or 18%, to \$175.5 billion. Money market, equity, and fixed income assets increased 3%, 19%, and 39%, respectively. A significant portion of the increase was driven by the institutional and external channels, which collectively increased \$24.2 billion, or 31%. The Zurich Life acquisition represented \$5.4 billion of the fixed income and institutional increases. One Group mutual fund assets increased \$9.1 billion, or 10%, to \$100.6 billion.

Net interest income increased \$26 million, or 29%, to \$115 million, primarily attributable to Zurich Life. Additionally, continued strong average deposit growth of \$2.3 billion, or 27%, tempered by compressed margins, contributed to the increase.

Noninterest income increased \$33 million, or 15%, to \$257 million, primarily driven by the acquisition of Zurich Life. In addition, positive overall net fund flows, improved market conditions, and a more favorable mix toward long-term assets under management contributed to the increase.

Noninterest expense increased \$40 million, or 22%, to \$224 million, due also to Zurich Life. Additionally, slightly higher compensation costs and higher legal costs contributed to the overall increase.

The provision for credit losses was \$4 million, an increase of \$2 million, reflecting the deterioration in the credit quality of certain large loans.

On September 3, the New York Attorney General simultaneously filed and settled a complaint against a hedge fund alleging that the hedge fund had engaged in improper trading practices with certain mutual funds, including the One Group Funds. The Corporation is cooperating fully with the Attorney General, the Securities and Exchange Commission and other regulators in connection with inquiries into these practices, and is reviewing its mutual fund practices. To date, the Corporation has found no systemic problems. The Corporation continues to work towards assessing any financial impact to One Group investors from such practices and will make full restitution to One Group investors harmed as a result of improper conduct by any Bank One employee.

## Investment Management continued

Year-to-Date Results

Investment Management reported year-to-date net income of \$240 million, down \$24 million, or 9%, driven by higher revenue offset by higher expenses and increased provision for credit losses.

Year-to-date total revenue, net of interest expense, increased \$15 million, or 2%, to \$1 billion. The increase reflects a strong third quarter driven by the acquisition of Zurich Life, an improved market, and a more favorable mix toward long-term assets under management. The higher revenue was partially offset by a weaker market and mix in assets under management in the first and second quarters.

Noninterest expense was \$610 million, an increase of \$48 million, or 9%, principally driven by the acquisition of Zurich Life and higher legal and operating costs.

The provision for credit losses was \$12 million, an increase of \$5 million, reflecting deterioration in credit quality of certain large loans, and the absence of recoveries which occurred in the second quarter of 2002.

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**Corporate**

Corporate includes treasury activities, Corporate's investment portfolios, non-core portfolios transferred from the Retail line of business, corporate trust services transferred from the Investment Management line of business (reported as discontinued operations), other unallocated corporate expenses, and any gains or losses from corporate transactions. Information related to the non-core portfolios is included in the table below. See page 29 for financial information for the non-core portfolios on a stand-alone basis.

| <i>(Dollars in millions)</i>  | Three Months Ended September 30 |             |              |             | Nine Months Ended September 30 |            |              |             |
|---|---------------------------------|-------------|--------------|-------------|--------------------------------|------------|--------------|-------------|
|   | 2003                            | 2002 (25)   | Change       |             | 2003                           | 2002 (25)  | Change       |             |
|   |                                 |             | Amount       | Percent     |                                |            | Amount       | Percent     |
| <b>INCOME STATEMENT DATA:</b>   |                                 |             |              |             |                                |            |              |             |
| Net interest income (expense)-FTE (1) (33) (34)                         | \$ (80)                         | \$ 106      | \$ (186)     | N/M         | \$ (212)                       | \$ 286     | \$ (498)     | N/M         |
| Banking fees and commissions (3)  | (20)                            | (11)        | (9)          | (82)%       | (67)                           | (23)       | (44)         | N/M         |
| Credit card revenue (4)   | (1)                             | 1           | (2)          | N/M         | -                              | 2          | (2)          | N/M         |
| Service charges on deposits (5)   | -                               | 3           | (3)          | N/M         | (3)                            | 9          | (12)         | N/M         |
| Fiduciary and investment management fees (13)                           | 8                               | 3           | 5            | N/M         | 24                             | 8          | 16           | N/M         |
| Investment securities gains   | 37                              | (17)        | 54           | N/M         | 260                            | 62         | 198          | N/M         |
| Trading (losses)  | (7)                             | -           | (7)          | -           | (21)                           | (16)       | (5)          | (31)        |
| Other income/(losses)   | (118)                           | (2)         | (116)        | N/M         | (48)                           | 95         | (143)        | N/M         |
| <b>Total noninterest income (35)</b>                                    | <b>(101)</b>                    | <b>(23)</b> | <b>(78)</b>  | <b>N/M</b>  | <b>145</b>                     | <b>137</b> | <b>8</b>     | <b>6</b>    |
| <b>Total revenue, net of interest expense</b>                           | <b>(181)</b>                    | <b>83</b>   | <b>(264)</b> | <b>N/M</b>  | <b>(67)</b>                    | <b>423</b> | <b>(490)</b> | <b>N/M</b>  |
| Provision for credit losses   | 78                              | 86          | (8)          | (9)         | 322                            | 337        | (15)         | (4)         |
| Salaries and employee benefits  | 236                             | 217         | 19           | 9           | 732                            | 616        | 116          | 19          |
| Other expense   | (53)                            | (12)        | (41)         | N/M         | (178)                          | 13         | (191)        | N/M         |
| <b>Total noninterest expense before restructuring-related reversals</b> | <b>183</b>                      | <b>205</b>  | <b>(22)</b>  | <b>(11)</b> | <b>554</b>                     | <b>629</b> | <b>(75)</b>  | <b>(12)</b> |
| Restructuring-related reversals   | -                               | -           | -            | -           | -                              | (21)       | 21           | N/M         |
| <b>Total noninterest expense (36)</b>                                   | <b>183</b>                      | <b>205</b>  | <b>(22)</b>  | <b>(11)</b> | <b>554</b>                     | <b>608</b> | <b>(54)</b>  | <b>(9)</b>  |
| Loss before income tax benefit  | (442)                           | (208)       | (234)        | N/M         | (943)                          | (522)      | (421)        | (81)        |
| Applicable income tax benefit   | (187)                           | (104)       | (83)         | (80)        | (436)                          | (272)      | (164)        | (60)        |

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Three Months Ended September 30

Nine Months Ended September 30

|   |                 |         |          |       |                 |          |          |       |
|---|-----------------|---------|----------|-------|-----------------|----------|----------|-------|
| <b>Loss from continuing operations, net of tax benefit (37)</b> | <b>(255)</b>    | (104)   | (151)    | N/M   | <b>(507)</b>    | (250)    | (257)    | N/M   |
| Discontinued operations   |                 |         |          |       |                 |          |          |       |
| Income from discontinued operations                             | <b>14</b>       | 15      | (1)      | (7)   | <b>39</b>       | 45       | (6)      | (13)  |
| Applicable income taxes   | <b>5</b>        | 5       | -        | -     | <b>14</b>       | 16       | (2)      | (13)  |
| <b>Income from discontinued operations, net of taxes</b>        | <b>9</b>        | 10      | (1)      | (10)% | <b>25</b>       | 29       | (4)      | (14)% |
| <b>Net loss (37)</b>  | <b>\$ (246)</b> | \$ (94) | \$ (152) | N/M   | <b>\$ (482)</b> | \$ (221) | \$ (261) | N/M   |

**FINANCIAL PERFORMANCE:**

|           |               |        |       |      |
|-----------|---------------|--------|-------|------|
| Headcount | <b>14,719</b> | 15,356 | (637) | (4)% |
|-----------|---------------|--------|-------|------|

**ENDING BALANCES:**

|                     |                  |           |            |       |
|---------------------|------------------|-----------|------------|-------|
| Non-core portfolios | <b>\$ 10,403</b> | \$ 16,873 | \$ (6,470) | (38)% |
| Other loans         | <b>67</b>        | 800       | (733)      | (92)  |

|                  |               |        |         |      |
|------------------|---------------|--------|---------|------|
| Total loans (38) | <b>10,470</b> | 17,673 | (7,203) | (41) |
|------------------|---------------|--------|---------|------|

|        |               |        |         |     |
|--------|---------------|--------|---------|-----|
| Assets | <b>71,092</b> | 75,303 | (4,211) | (6) |
|--------|---------------|--------|---------|-----|

Memo-

|                            |               |        |       |    |
|----------------------------|---------------|--------|-------|----|
| Treasury investments (39)  | <b>40,545</b> | 36,021 | 4,524 | 13 |
| Principal investments (40) | <b>2,913</b>  | 2,371  | 542   | 23 |

|          |               |        |         |      |
|----------|---------------|--------|---------|------|
| Deposits | <b>13,235</b> | 15,892 | (2,657) | (17) |
|----------|---------------|--------|---------|------|

|        |              |       |       |     |
|--------|--------------|-------|-------|-----|
| Equity | <b>2,314</b> | 2,471 | (157) | (6) |
|--------|--------------|-------|-------|-----|

**AVERAGE BALANCES:**

|                     |                  |           |            |       |                  |           |            |       |
|---------------------|------------------|-----------|------------|-------|------------------|-----------|------------|-------|
| Non-core portfolios | <b>\$ 11,146</b> | \$ 17,644 | \$ (6,498) | (37)% | <b>\$ 12,775</b> | \$ 19,268 | \$ (6,493) | (34)% |
| Other loans         | <b>86</b>        | 250       | (164)      | (66)  | <b>211</b>       | 414       | (203)      | (49)  |

|             |               |        |         |      |               |        |         |      |
|-------------|---------------|--------|---------|------|---------------|--------|---------|------|
| Total Loans | <b>11,232</b> | 17,894 | (6,662) | (37) | <b>12,986</b> | 19,682 | (6,696) | (34) |
|-------------|---------------|--------|---------|------|---------------|--------|---------|------|

|        |               |        |       |   |               |        |       |   |
|--------|---------------|--------|-------|---|---------------|--------|-------|---|
| Assets | <b>71,392</b> | 70,025 | 1,367 | 2 | <b>71,053</b> | 68,902 | 2,151 | 3 |
|--------|---------------|--------|-------|---|---------------|--------|-------|---|

|          |               |        |         |      |               |        |         |      |
|----------|---------------|--------|---------|------|---------------|--------|---------|------|
| Deposits | <b>12,321</b> | 14,097 | (1,776) | (13) | <b>12,846</b> | 15,249 | (2,403) | (16) |
|----------|---------------|--------|---------|------|---------------|--------|---------|------|

|        |              |       |       |     |              |       |     |    |
|--------|--------------|-------|-------|-----|--------------|-------|-----|----|
| Equity | <b>2,519</b> | 2,627 | (108) | (4) | <b>2,886</b> | 2,062 | 824 | 40 |
|--------|--------------|-------|-------|-----|--------------|-------|-----|----|

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Corporate continued

Three Months Ended September 30

Nine Months Ended September 30

|  | Change |           |        |         | Change |           |        |         |
|--|--------|-----------|--------|---------|--------|-----------|--------|---------|
|  | 2003   | 2002 (25) | Amount | Percent | 2003   | 2002 (25) | Amount | Percent |

(Dollars in millions)

**CREDIT QUALITY:**

Net Charge-offs:

|                     |              |       |        |      |               |        |         |       |
|---------------------|--------------|-------|--------|------|---------------|--------|---------|-------|
| Non-core portfolios | <b>\$ 79</b> | \$ 84 | \$ (5) | (6)% | <b>\$ 264</b> | \$ 321 | \$ (57) | (18)% |
| Other loans         | <b>3</b>     | 2     | 1      | 50   | <b>3</b>      | 17     | (14)    | (82)  |

|             |           |    |     |     |            |     |      |      |
|-------------|-----------|----|-----|-----|------------|-----|------|------|
| Total loans | <b>82</b> | 86 | (4) | (5) | <b>267</b> | 338 | (71) | (21) |
|-------------|-----------|----|-----|-----|------------|-----|------|------|

|  |              |       |       |  |              |       |       |  |
|--|--------------|-------|-------|--|--------------|-------|-------|--|
| Non-core portfolios net charge-off ratio | <b>2.84%</b> | 1.90% | 0.94% |  | <b>2.76%</b> | 2.22% | 0.54% |  |
|--|--------------|-------|-------|--|--------------|-------|-------|--|

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Three Months Ended September 30

Nine Months Ended September 30

|  |        |        |          |       |
|--|--------|--------|----------|-------|
| Nonperforming assets:                  |        |        |          |       |
| Non-core portfolios                    | \$ 669 | \$ 849 | \$ (180) | (21)% |
| Other loans                            | 4      | 8      | (4)      | (50)  |
| <hr/>                                  |        |        |          |       |
| Total loans (41)                       | 673    | 857    | (184)    | (21)  |
| Other including OREO                   | 56     | 6      | 50       | N/M   |
| <hr/>                                  |        |        |          |       |
| Total nonperforming assets             | 729    | 863    | (134)    | (16)  |
| <hr/>                                  |        |        |          |       |
| Allowance for credit losses            | 394    | 345    | 49       | 14    |
| Allowance to period end loans (38)     | 3.77%  | 1.95%  | 1.82%    |       |
| Allowance to nonperforming loans (41)  | 59     | 40     | 19       |       |
| Nonperforming assets to related assets | 6.93   | 4.88   | 2.05     |       |

For additional footnote detail see pages 9, 12, 15 and 23.

(33) Net interest income (expense)-FTE includes tax equivalent adjustments of \$7 million and \$8 million for the three months ended September 30, 2003 and 2002, respectively. For the nine months ended September 30, 2003 and 2002, tax equivalent adjustments were \$24 million and \$25 million.

(34) Net interest income (expense)-FTE primarily includes treasury results and interest spread on investment-related activities.

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

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

(37) Net loss before restructuring-related reversals, net of \$8 million tax, was \$234 million for the nine months ended September 30, 2002.

(38) Loans include loans held for sale of \$18 million and \$24 million at September 30, 2003 and 2002, respectively. These amounts are not included in allowance for credit losses coverage statistics.

(39) Treasury investments may include U.S. government and agency debt securities, mortgage and other asset-backed securities and other fixed income investments.

(40) Principal investments include primarily private equity investments and venture capital fund investments.

(41) Nonperforming loans include loans held for sale of \$5 million at September 30, 2003. There were no loans held for sale included in nonperforming loans at September 30, 2002. This amount is not included in allowance for credit losses coverage statistics.

Corporate net loss for the third quarter and for the nine months ended September 30, 2003, included the following pre-tax components:

| <i>(In millions)</i>                      | Three months ended September 30, 2003 | Nine months ended September 30, 2003 |
|---|---------------------------------------|--------------------------------------|
| Treasury net interest expense             | \$ (85)                               | \$ (260)                             |
| Net gain on Corporate investment activity | 37                                    | 260                                  |
| Losses related to termination of debt     | (162)                                 | (162)                                |
| Corporate unallocated expenses            | (146)                                 | (420)                                |

Quarterly Results

Corporate net loss totaled \$246 million, compared with a net loss of \$94 million.

Excluding Non-core Portfolios and Discontinued Operations

Treasury net interest expense was \$85 million, an increase of \$124 million. In 2002, the Corporation extended liability duration and repositioned the treasury investment portfolio in order to position the balance sheet more defensively for rising interest rates.

**Corporate continued**

Net securities gains were \$37 million, as a result of both net gains in principal investments and net losses in the treasury investment portfolio. The principal investment portfolio gains were primarily driven by the sale of Ability One. This compares to net securities losses of \$17 million.

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The Corporation repaid certain floating rate debt and unwound related hedges leading to a \$162 million loss, which was recognized in other income.

Corporate expenses were \$146 million, compared to \$162 million.

### Non-core Portfolios

Net loss from the non-core portfolios was \$12 million compared with net income of \$11 million. See page 29 for financial information for the non-core portfolios on a stand-alone basis.

Average loan balances were \$11.1 billion, down 37%, as the portfolios continued to liquidate at a steady pace. Net interest income was \$91 million, down \$53 million, primarily due to this liquidation.

Provision for credit losses was \$74 million, down \$10 million. The net charge-off ratio increased to 2.84% from 1.90%.

### Discontinued Operations

As a result of the Corporation's announced agreement to sell its corporate trust services business to J.P. Morgan Chase & Co., the results of these operations have been transferred from the Investment Management Group to the Corporate line of business and reported as discontinued operations. The following table provides details of the impact of this business:

| <i>(Dollars in millions)</i> | Three Months Ended September 30 |       |        |         | Nine Months Ended September 30 |       |        |         |
|------------------------------|---------------------------------|-------|--------|---------|--------------------------------|-------|--------|---------|
|                              | 2003                            | 2002  | Change |         | 2003                           | 2002  | Change |         |
|                              |                                 |       | Amount | Percent |                                |       | Amount | Percent |
| Total revenues               | \$ 35                           | \$ 31 | \$ 4   | 13%     | \$ 105                         | \$ 96 | \$ 9   | 9%      |
| Total expenses (excl. taxes) | 21                              | 16    | 5      | 31      | 66                             | 51    | 15     | 29      |
| Pre-tax income               | 14                              | 15    | (1)    | (7)     | 39                             | 45    | (6)    | (13)    |
| Net income                   | 9                               | 10    | (1)    | (10)    | 25                             | 29    | (4)    | (14)    |
| Total assets                 | 92                              | 119   | (27)   | (23)    |                                |       |        |         |

### Year-to-Date Results

Corporate net loss totaled \$482 million, compared with a net loss of \$234 million (excluding the \$13 million after-tax benefit from a restructuring charge reversal in the prior year).

### Excluding Non-core Portfolios and Discontinued Operations

Treasury net interest expense was \$260 million, an increase of \$319 million. In 2002, the Corporation extended liability duration and repositioned the treasury investment portfolio in order to position the balance sheet more defensively for rising interest rates.

Net securities gains were \$260 million, as a result of net gains in principal investments and the treasury investment portfolio. This compares to net securities gains of \$62 million. The principal investment portfolio gains in the current year were primarily driven by the sale of Ability One. 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 principal investments, the interest rate environment and economic conditions.

The Corporation repaid certain floating rate debt and unwound related hedges leading to a \$162 million loss, which was recognized in other income.

**Corporate continued**

Corporate expenses were \$554 million, compared to \$629 million (excluding the \$21 million pre-tax benefit from a restructuring charge reversal). Corporate expenses for the second quarter of 2002 included \$89 million of expenses for the termination of certain vendor contracts, renegotiation of others and the bringing in-house of various network, technology and programming functions.

Non-core Portfolios

Net loss from the non-core portfolios was \$95 million, including the impact of an increase in the allowance for credit losses of \$85 million, down \$95 million. See page 29 for financial information for the non-core portfolios on a stand-alone basis.

Average loan balances were \$12.8 billion, down 34% as the portfolios continued to liquidate at a steady pace. Net interest income related to the non-core portfolios was \$308 million, down \$158 million, primarily due to this liquidation.

Provision for credit losses was \$319 million, relatively unchanged. Excluding the \$85 million that was added to the allowance for credit losses in the second quarter of 2003, provision for credit losses decreased \$84 million. The net charge-off ratio increased to 2.76% from 2.22%.

Noninterest expense for the non-core portfolios was \$134 million compared to \$145 million.

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**Non-core Portfolios**

The following table presents financial information for the non-core portfolios which were transferred from the Retail line of business to the Corporate line of business. This information is reflected in the Corporate line of business financial information.

| <i>(Dollars in millions)</i>                 | Three Months Ended September 30 |        |         |         | Nine Months Ended September 30 |        |          |         |  |
|--|---------------------------------|--------|---------|---------|--------------------------------|--------|----------|---------|--|
|  | 2003                            | 2002   | Change  |         | 2003                           | 2002   | Change   |         |  |
|  |                                 |        | Amount  | Percent |                                |        | Amount   | Percent |  |
| <b>INCOME STATEMENT DATA:</b>                |                                 |        |         |         |                                |        |          |         |  |
| Net interest income-FTE (1)                  | \$ 91                           | \$ 144 | \$ (53) | (37)%   | \$ 308                         | \$ 466 | \$ (158) | (34)%   |  |
| Noninterest income (loss)                    | 1                               | -      | 1       | -       | (4)                            | -      | (4)      | -       |  |
| Total revenue, net of interest expense       | 92                              | 144    | (52)    | (36)    | 304                            | 466    | (162)    | (35)    |  |
| Provision for credit losses                  | 74                              | 84     | (10)    | (12)    | 319                            | 320    | (1)      | -       |  |
| Salaries and employee benefits               | -                               | 4      | (4)     | N/M     | 9                              | 13     | (4)      | (31)    |  |
| Other expense                                | 37                              | 39     | (2)     | (5)     | 125                            | 132    | (7)      | (5)     |  |
| Total noninterest expense                    | 37                              | 43     | (6)     | (14)    | 134                            | 145    | (11)     | (8)     |  |
| Income (loss) before income taxes (benefits) | (19)                            | 17     | (36)    | N/M     | (149)                          | 1      | (150)    | N/M     |  |
| Applicable income taxes (benefits)           | (7)                             | 6      | (13)    | N/M     | (54)                           | 1      | (55)     | N/M     |  |
| Net income (loss)                            | \$ (12)                         | \$ 11  | \$ (23) | N/M     | \$ (95)                        | \$ -   | \$ (95)  | -       |  |
| <b>FINANCIAL PERFORMANCE:</b>                |                                 |        |         |         |                                |        |          |         |  |
| Return on average common equity              | (3)%                            | 3%     | (6)%    |         | (9)%                           | 0%     | (9)%     |         |  |
| Efficiency ratio                             | 40                              | 30     | 10      |         | 44                             | 31     | 13       |         |  |
| Headcount                                    | -                               | 300    | (300)   | N/M     | -                              | 300    | (300)    | N/M     |  |

**ENDING BALANCES:**

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|  | Three Months Ended September 30 |           |           |       | Nine Months Ended September 30 |           |           |         |
|--|---------------------------------|-----------|-----------|-------|--------------------------------|-----------|-----------|---------|
| Home equity                              | \$ 8,266                        | \$ 11,856 | \$(3,590) | (30)% |                                |           |           |         |
| Vehicle leases and other loans           | 2,137                           | 5,017     | (2,880)   | (57)  |                                |           |           |         |
| Total Loans (42)                         | 10,403                          | 16,873    | (6,470)   | (38)  |                                |           |           |         |
| Equity                                   | 1,415                           | 1,415     | -         | -     |                                |           |           |         |
| <b>AVERAGE BALANCES:</b>                 |                                 |           |           |       |                                |           |           |         |
| Home equity                              | \$ 8,817                        | \$ 12,301 | \$(3,484) | (28)% | \$ 9,886                       | \$ 13,256 | \$(3,370) | (25)%   |
| Vehicle leases and other loans           | 2,329                           | 5,343     | (3,014)   | (56)  | 2,889                          | 6,012     | (3,123)   | (52)    |
| Total Loans                              | 11,146                          | 17,644    | (6,498)   | (37)  | 12,775                         | 19,268    | (6,493)   | (34)    |
| Equity                                   | 1,415                           | 1,415     | -         | -     | 1,415                          | 1,415     | -         | -       |
| <b>CREDIT QUALITY:</b>                   |                                 |           |           |       |                                |           |           |         |
| Net charge-offs                          |                                 |           |           |       |                                |           |           |         |
| Home equity                              | \$ 62                           | \$ 68     | \$ (6)    | (9)%  | \$ 195                         | \$ 250    | \$ (55)   | \$ (22) |
| Vehicle leases and other loans           | 17                              | 16        | 1         | 6     | 69                             | 71        | (2)       | (3)     |
| Total net charge-offs                    | 79                              | 84        | (5)       | (6)   | 264                            | 321       | (57)      | (18)    |
| Annualized net charge-off ratios:        |                                 |           |           |       |                                |           |           |         |
| Home equity                              | 2.81                            | 2.21      | 0.60      |       | 2.63                           | 2.51      | 0.12      |         |
| Vehicle leases and other loans           | 2.92                            | 1.20      | 1.72      |       | 3.18                           | 1.57      | 1.61      |         |
| Total net charge-offs                    | 2.84                            | 1.90      | 0.94      |       | 2.76                           | 2.22      | 0.54      |         |
| Nonperforming assets:                    |                                 |           |           |       |                                |           |           |         |
| Nonperforming loans                      | \$ 669                          | \$ 849    | \$ (180)  | (21)  |                                |           |           |         |
| Other, including other real estate owned | 56                              | -         | 56        | -     |                                |           |           |         |
| Total nonperforming loans (43)           | 725                             | 849       | (124)     | (15)  |                                |           |           |         |
| Allowance for credit losses              | 391                             | 341       | 50        | 15    |                                |           |           |         |
| Allowance to period end loans (42)       | 3.77%                           | 2.02%     | 1.75%     |       |                                |           |           |         |
| Allowance to nonperforming loans (43)    | 59                              | 40        | 19        |       |                                |           |           |         |
| Nonperforming assets to related assets   | 6.93                            | 5.03      | 1.90      |       |                                |           |           |         |

For additional footnote detail see pages 9, 12, 15, 23 and 26.

- (42) Loans include loans held for sale of \$18 million and \$24 million at September 30, 2003 and 2002, respectively. These amounts are not included in allowance for credit losses coverage statistics.
- (43) Nonperforming loans include loans held for sale of \$5 million at September 30, 2003. This amount is not included in allowance for credit losses coverage statistics. There were no loans held for sale included in nonperforming loans at September 30, 2002.

BALANCE SHEET ANALYSIS

(All comparisons are to December 31, 2002, unless otherwise specified.)

Trading assets increased by \$6.4 billion to \$13.6 billion which was largely driven by an increase in purchased government securities. Additionally, overall volume in capital markets trading activity has increased.

Investment securities totaled \$76.1 billion compared with \$67.6 billion. This increase of \$8.5 billion, or 13%, was driven by increases of \$5.2 billion in other debt securities, \$4.1 billion in U.S. government agencies and \$2.8 billion in U.S. Treasuries. The completion of the Zurich Life acquisition in the third quarter added \$5.4 billion in investment securities. These increases also reflected the continued repositioning of the treasury investment portfolio in order to position the balance sheet more defensively for rising interest rates. Partially offsetting these increases was a decrease of \$5.3 billion, or 19%, in retained interests in securitized credit card receivables.



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The Corporation's loan portfolio was \$141.7 billion compared with \$148.1 billion, a decrease of \$6.4 billion, or 4%. Commercial Banking loans totaled \$54.5 billion compared to \$61.9 billion, a decrease of \$7.4 billion, or 12%. The non-core portfolios included in the Corporate line of business totaled \$10.4 billion, a decrease of \$4.9 billion, or 32%. This decrease reflected the continued run off of the non-core portfolios. Partially offsetting these decreases were higher loan balances in Retail and Card Services. Retail loans totaled \$55.4 billion compared with \$52.3 billion, an increase of \$3.1 billion, or 6%. The increase was due primarily to a \$4.4 billion, or 21%, growth in home equity loans, offset by a combined \$1.5 billion decrease in vehicle and other personal loans. Card Services loans totaled \$14.2 billion compared to \$11.6 billion, an increase of \$2.6 billion, or 22%.

Total deposits were \$163.4 billion compared to \$170.0 billion, a decrease of \$6.6 billion. During the third quarter the U.S. Treasury began to compensate the Corporation for services provided using special issue securities. Under this program, U.S. Treasury deposits and the securities are netted under a legal right of offset, resulting in reduced reported deposits. The balance of these deposits at December 31, 2002 was \$10.4 billion.

Insurance policy and claims reserves increased \$6.3 billion, to \$6.5 billion, as a result of the Zurich Life acquisition in the third quarter.

Treasury stock increased \$1.7 billion, reflecting the impact of the repurchase of over 53 million shares of the Corporation's stock under the stock repurchase programs. See page 48 for additional information on the stock repurchase program.

See page 46 for a discussion of expected adoption of Financial Accounting Standards Board ( FASB ) Interpretation No. 46, Consolidation of Variable Interest Entities, and related FASB Staff Positions ( FIN No. 46 ) as of December 31, 2003.

### RISK MANAGEMENT

Risk is an inherent part of the Corporation's business activity. 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 of volatility in any particular area on its operating results as a whole.

#### 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.

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- **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.

Additionally, as a result of the acquisition of Zurich Life, the Corporation assumed risk associated with insurance policy and claims reserves, which represent liabilities for insurance and annuity benefits expected to be paid. Such benefits are estimated based on a number of assumptions including mortality, morbidity, persistency and interest rates, and other assumptions based on the Corporation's experience.

The following discussion of the Corporation's risk management process focuses primarily on developments since December 31, 2002. The Corporation's risk management processes for credit, liquidity, market and operational risks have not substantially changed from year-end and are described in detail in the Corporation's 2002 Annual Report, beginning on page 56.

### LIQUIDITY RISK MANAGEMENT

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At September 30, 2003, 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     | F1    | A                     | Aa3     | A+    |
| Principal banks          | A-1             | P-1     | F1+   | A+                    | Aa2     | AA-   |

At September 30, 2003, the Corporation's principal insurance subsidiaries had the following financial strength ratings:

|                               | S & P (1) | Moody's | A.M. Best (2) |
|-------------------------------|-----------|---------|---------------|
| Principal Insurance Companies | A+        | A2      | A             |

(1) S&P rating is currently on negative outlook which indicates the potential direction of the principal insurance companies' ratings.

(2) A.M. Best maintained A ratings with developing implications.

### 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 in the Corporation's 2002 Annual Report on pages 61-62 provides an overview of the Corporation's 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, in the Corporation's 2002 Annual Report 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 providing 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.

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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.

#### 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 is not calculated for credit derivatives used to economically 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 in the Corporation's 2002 Annual Report on page 72. Likewise, value-at-risk calculations do not include the principal investments portfolio, which is carried at fair value with realized and unrealized gains and losses reported in noninterest income. However, foreign exchange exposures that arise from the principal investments portfolio are included in the value-at-risk calculations.

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

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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 one hundred overnight trading days.

The value-at-risk in the Corporation's trading portfolio was as follows (excluding credit derivatives used to economically hedge specific credits in the loan portfolio with a net notional amount of \$4.1 billion and \$5.3 billion at September 30, 2003 and June 30, 2003, respectively):

| (In millions)   | Third Quarter 2003    |              |              |              | June 30,<br>2003 |
|---|-----------------------|--------------|--------------|--------------|------------------|
|   | September 30,<br>2003 | Average      | High         | Low          |                  |
| <b>High Volume Capital Markets Trading<br/>Portfolios and Mortgage Pipeline (1)</b> |                       |              |              |              |                  |
| Risk type:  |                       |              |              |              |                  |
| Interest rate   | \$ 9                  | \$ 8         | \$ 10        | \$ 7         | \$ 9             |
| Commodity price   |                       |              |              |              |                  |
| Currency exchange rate  | 1                     |              | 1            |              |                  |
| Equity  |                       |              | 1            |              | 1                |
| Diversification benefit   |                       | 1            |              |              |                  |
| <b>Total</b>  | <b>10</b>             | <b>9</b>     | <b>10</b>    | <b>7</b>     | <b>10</b>        |
| <b>Other Trading Portfolios</b>   |                       |              |              |              |                  |
| Risk type:  |                       |              |              |              |                  |
| Interest rate   | 6                     | 6            | 6            | 6            | 6                |
| Currency exchange rate  | 4                     | 4            | 4            | 4            | 4                |
| <b>Aggregate trading portfolio market risk</b>                                      | <b>\$ 20</b>          | <b>\$ 19</b> | <b>\$ 20</b> | <b>\$ 17</b> | <b>\$ 20</b>     |

(1) Subject to backtesting.

Interest rate risk was the predominant type of market risk to which the Corporation was exposed during the third quarter of 2003. At September 30, 2003, approximately 75% of primary market risk exposures were related to interest rate risk. Currency exchange rate risk accounted for 25% of primary market risk exposures. Commodity and equity risk exposures were immaterial at quarter-end.

At September 30, 2003, aggregate portfolio market risk exposures were equal to those at June 30, 2003.

Value-at-risk levels are regularly backtested to validate the model by comparing predictions with actual results. For the three months ended September 30, 2003, backtesting results for the high volume capital markets portfolios and the mortgage pipeline appear in the following graph:

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 were no days during the third quarter 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.

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#### 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 repricing, option, and basis risks associated with on- and off-balance sheet positions. Repricing 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.

Based on immediate parallel shocks, the Corporation's measured benefit to rising rates and exposure to falling rates have declined in comparison to the second quarter. The Corporation's 12-month pretax earnings sensitivity profile was as follows:

| <i>(In millions)</i> | Immediate Change in Rates |         |          |
|----------------------|---------------------------|---------|----------|
|                      | +200 bp                   | +100 bp | -50 bp   |
| September 30, 2003   | \$ 40                     | \$ 86   | \$ (118) |
| June 30, 2003        | \$ 110                    | \$ 142  | \$ (234) |

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The drop in the measured benefit from rising interest rates reflects management's positioning of the balance sheet for a more prolonged period of stable rates, while maintaining a defensive bias against an unanticipated increase in interest rates. The change in risk reflects both an increase in long-term interest rates and the repositioning of the investment portfolio. The impact of the recent Zurich Life acquisition resulted in an insignificant change to the overall Corporate risk position.

#### CREDIT PORTFOLIO COMPOSITION

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**Selected Statistical Information**

The significant components of credit risk and the related ratios for the quarters indicated were as follows:

| <i>(Dollars in millions)</i>               | September 30<br>2003 | June 30<br>2003 | March 31<br>2002 | December 31<br>2002 | September 30<br>2002 |
|--|----------------------|-----------------|------------------|---------------------|----------------------|
| Loans outstanding (1)                      | \$ 141,710           | \$ 144,583      | \$ 144,747       | \$ 148,125          | \$ 150,389           |
| Average loans                              | 144,162              | 144,635         | 146,419          | 150,531             | 148,152              |
| Nonperforming loans (2)                    | 2,707                | 3,062           | 3,199            | 3,276               | 3,521                |
| Other, including other real estate owned   | 214                  | 245             | 254              | 251                 | 214                  |
| Nonperforming assets                       | 2,921                | 3,307           | 3,453            | 3,527               | 3,735                |
| Allowance for credit losses                | 4,374                | 4,498           | 4,526            | 4,525               | 4,518                |
| Net charge-offs                            | 540                  | 489             | 495              | 622                 | 573                  |
| Nonperforming assets to related assets (3) | 2.06%                | 2.28%           | 2.38%            | 2.38%               | 2.48%                |
| Allowance to period end loans (1)          | 3.34                 | 3.35            | 3.31             | 3.20                | 3.17                 |
| Allowance to nonperforming loans (2)       | 162                  | 147             | 142              | 139                 | 132                  |
| Annualized net charge-off ratio            | 1.50                 | 1.35            | 1.35             | 1.65                | 1.55                 |
| Allowance to annualized net charge-offs    | 203                  | 230             | 229              | 182                 | 197                  |

- (1) Loans include loans held for sale of \$10.7 billion, \$10.2 billion, \$7.9 billion, \$6.9 billion, and \$7.9 billion at September 30, 2003, June 30, 2003, March 31, 2003, December 31, 2002 and September 30, 2002, respectively. These amounts are not included in allowance for credit losses coverage statistics.
- (2) Nonperforming loans include loans held for sale of \$10 million, \$11 million, \$22 million, \$22 million and \$93 million at September 30, 2003, June 30, 2003, March 31, 2003, December 31, 2002 and September 30, 2002, respectively. These amounts are not included in allowance for credit losses coverage statistics.
- (3) Related assets consist of loans outstanding, including loans held for sale, and other real estate owned.

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**Loan Composition**

The following indicates the Corporation's loan portfolios:

| <i>(Dollars in millions)</i> | September 30, 2003 |           | June 30, 2003 |           | March 31, 2003 |           | December 31, 2002 |           | September 30, 2002 |           |
|------------------------------|--------------------|-----------|---------------|-----------|----------------|-----------|-------------------|-----------|--------------------|-----------|
|                              | Amount             | Percent   | Amount        | Percent   | Amount         | Percent   | Amount            | Percent   | Amount             | Percent   |
| <b>Retail: (1)</b>           |                    |           |               |           |                |           |                   |           |                    |           |
| Small business commercial    | \$ 10,122          | 7%        | \$ 10,050     | 7%        | \$ 9,946       | 7%        | \$ 9,921          | 7%        | \$ 9,899           | 7%        |
| Home equity                  | 25,252             | 18        | 23,863        | 16        | 21,688         | 15        | 20,853            | 14        | 18,696             | 12        |
| Vehicle                      | 13,841             | 10        | 13,873        | 10        | 14,223         | 10        | 14,661            | 10        | 15,001             | 10        |
| Other personal               | 6,199              | 4         | 5,919         | 4         | 6,378          | 4         | 6,869             | 4         | 7,118              | 5         |
| <b>Total Retail</b>          | <b>55,414</b>      | <b>39</b> | <b>53,705</b> | <b>37</b> | <b>52,235</b>  | <b>36</b> | <b>52,304</b>     | <b>35</b> | <b>50,714</b>      | <b>34</b> |
| <b>Commercial Banking:</b>   |                    |           |               |           |                |           |                   |           |                    |           |
| Corporate banking:           |                    |           |               |           |                |           |                   |           |                    |           |
| Commercial and industrial    | 13,956             | 10        | 15,309        | 11        | 16,679         | 12        | 17,866            | 12        | 17,388             | 12        |
| Commercial real estate       | 8,487              | 6         | 8,228         | 6         | 8,414          | 6         | 8,321             | 6         | 8,557              | 6         |
| Lease financing              | 4,145              | 3         | 4,177         | 3         | 4,250          | 3         | 4,358             | 3         | 4,693              | 3         |
| Other                        | 787                | 1         | 1,605         | -         | 553            | -         | 1,014             | -         | 514                | -         |
| Total corporate banking      | 27,375             | 20        | 29,319        | 20        | 29,896         | 21        | 31,559            | 21        | 31,152             | 21        |
| Middle market:               |                    |           |               |           |                |           |                   |           |                    |           |
| Commercial and industrial    | 23,889             | 17        | 25,346        | 18        | 26,199         | 18        | 26,983            | 18        | 28,086             | 18        |
| Commercial real estate       | 2,028              | 1         | 2,128         | 1         | 2,150          | 1         | 2,318             | 2         | 2,353              | 2         |
| Lease financing              | 869                | 1         | 923           | 1         | 943            | 1         | 1,008             | 1         | 1,039              | 1         |
| Other                        | 332                | -         | 59            | -         | 269            | -         | 27                | -         | 361                | -         |
| <b>Total middle market</b>   | <b>27,118</b>      | <b>19</b> | <b>28,456</b> | <b>20</b> | <b>29,561</b>  | <b>20</b> | <b>30,336</b>     | <b>21</b> | <b>31,839</b>      | <b>21</b> |
| <b>Total Commercial</b>      |                    |           |               |           |                |           |                   |           |                    |           |

Total Commercial

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|                    | September 30, 2003 |             | June 30, 2003     |             | March 31, 2003    |             | December 31, 2002 |             | September 30, 2002 |             |
|--------------------|--------------------|-------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|--------------------|-------------|
| Banking            | 54,493             | 39          | 57,775            | 40          | 59,457            | 41          | 61,895            | 42          | 62,991             | 42          |
| Card Services      | 14,178             | 10          | 14,090            | 10          | 12,387            | 9           | 11,581            | 8           | 11,924             | 8           |
| IMG (2)            | 7,155              | 5           | 6,579             | 5           | 6,663             | 5           | 6,942             | 5           | 7,087              | 5           |
| Corporate (2)      | 10,470             | 7           | 12,434            | 8           | 14,005            | 9           | 15,403            | 10          | 17,673             | 11          |
| <b>Total loans</b> | <b>\$ 141,710</b>  | <b>100%</b> | <b>\$ 144,583</b> | <b>100%</b> | <b>\$ 144,747</b> | <b>100%</b> | <b>\$ 148,125</b> | <b>100%</b> | <b>\$ 150,389</b>  | <b>100%</b> |

(1) Certain loans, previously classified as other personal loans, were reclassified into loan categories which are more reflective of management's view of the underlying loan characteristics. Prior period balances have been adjusted to conform to the current period presentation.

(2) Prior period data has been adjusted for the transfer of corporate trust services from Investment Management to the Corporate line of business.

Loans held for sale, which are classified as loans, are carried at lower of cost or fair value, totaled \$10.7 billion, \$10.2 billion, \$7.9 billion, \$6.9 billion and \$7.9 billion at September 30, 2003, June 30, 2003, March 31, 2003, December 31, 2002 and September 30, 2002, respectively. At September 30, 2003, loans held for sale included Card Services loans of \$7.7 billion, Retail loans of \$2.5 billion, Commercial Banking loans of \$471 million and Corporate loans of \$18 million.

### Commercial and Industrial Loans

At September 30, 2003, commercial and industrial loans totaled \$37.8 billion, and represented 69% of the Commercial Banking portfolio.

The following indicates the more significant borrower industry concentrations of the Commercial Banking commercial and industrial portfolio at:

|                                       | September 30, 2003 |             | June 30, 2003    |             | March 31, 2003   |             | December 31, 2002 |             |
|---------------------------------------|--------------------|-------------|------------------|-------------|------------------|-------------|-------------------|-------------|
| <i>(Dollars in millions)</i>          | Outstanding        | Percent (1) | Outstanding      | Percent (1) | Outstanding      | Percent (1) | Outstanding       | Percent (1) |
| Motor vehicles and parts/auto related | \$ 3,064           | 8.1%        | \$ 3,499         | 8.6%        | \$ 4,025         | 9.4%        | \$ 3,990          | 8.9%        |
| Wholesale trade                       | 2,754              | 7.3         | 2,955            | 7.3         | 3,499            | 8.2         | 3,558             | 7.9         |
| Oil and gas                           | 2,064              | 5.4         | 2,219            | 5.5         | 2,738            | 6.4         | 3,069             | 6.8         |
| Business finance and leasing          | 1,956              | 5.2         | 1,934            | 4.7         | 2,132            | 5.0         | 2,222             | 5.0         |
| Industrial materials                  | 1,784              | 4.7         | 1,945            | 4.8         | 2,338            | 5.4         | 2,471             | 5.5         |
| Other (2)                             | 26,223             | 69.3        | 28,103           | 69.1        | 28,146           | 65.6        | 29,539            | 65.9        |
| <b>Total</b>                          | <b>\$ 37,845</b>   | <b>100%</b> | <b>\$ 40,655</b> | <b>100%</b> | <b>\$ 42,878</b> | <b>100%</b> | <b>\$ 44,849</b>  | <b>100%</b> |

(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.

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### 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. At September 30, 2003, commercial real estate loans totaled \$10.5 billion, or 19%, of the Commercial Banking portfolio.

The majority of Commercial Real Estate loans are 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 September 30, 2003, National Commercial Real Estate Group's loan outstandings totaled \$8.5 billion, or 81%, of the commercial real estate portfolio.

The following indicates the commercial real estate loan portfolio by both collateral location and property type at:

|                                | September 30, 2003 |                      | June 30, 2003 |                      | March 31, 2003 |                      | December 31, 2002 |                      |
|--------------------------------|--------------------|----------------------|---------------|----------------------|----------------|----------------------|-------------------|----------------------|
| <i>(Dollars in millions)</i>   | Amount             | Percent of Portfolio | Amount        | Percent of Portfolio | Amount         | Percent of Portfolio | Amount            | Percent of Portfolio |
| <b>By Collateral Location:</b> |                    |                      |               |                      |                |                      |                   |                      |
| California                     | \$ 1,150           | 11%                  | \$ 1,072      | 10%                  | \$ 1,047       | 10%                  | \$ 1,109          | 10%                  |
| Michigan                       | 961                | 9                    | 1,062         | 10                   | 1,147          | 11                   | 1,118             | 11                   |
| Illinois                       | 902                | 9                    | 897           | 9                    | 943            | 9                    | 1,088             | 10                   |

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| <i>(Dollars in millions)</i>                 | September 30, 2003 |             | June 30, 2003    |             | March 31, 2003   |             | December 31, 2002 |             |
|--|--------------------|-------------|------------------|-------------|------------------|-------------|-------------------|-------------|
| Texas  | 891                | 8           | 856              | 8           | 845              | 8           | 824               | 8           |
| Ohio   | 794                | 8           | 813              | 8           | 839              | 8           | 848               | 8           |
| Arizona                                      | 609                | 6           | 598              | 6           | 709              | 7           | 741               | 7           |
| Louisiana                                    | 337                | 3           | 342              | 3           | 363              | 3           | 376               | 3           |
| Indiana                                      | 332                | 3           | 324              | 3           | 349              | 3           | 363               | 3           |
| Kentucky                                     | 326                | 3           | 350              | 3           | 347              | 3           | 369               | 3           |
| Colorado                                     | 281                | 3           | 257              | 3           | 260              | 3           | 288               | 3           |
| Other areas                                  | 1,294              | 12          | 1,465            | 14          | 1,530            | 14          | 1,563             | 15          |
| Unsecured                                    | 1,921              | 18          | 1,544            | 15          | 1,363            | 13          | 1,341             | 13          |
| Secured by other than commercial real estate | 717                | 7           | 776              | 8           | 822              | 8           | 611               | 6           |
| <b>Total commercial real estate</b>          | <b>\$ 10,515</b>   | <b>100%</b> | <b>\$ 10,356</b> | <b>100%</b> | <b>\$ 10,564</b> | <b>100%</b> | <b>\$ 10,639</b>  | <b>100%</b> |

**By Property Type:**

|                                       |                  |             |                  |             |                  |             |                  |             |
|---------------------------------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|
| Office                                | \$ 1,818         | 17%         | \$ 1,737         | 17%         | \$ 1,658         | 16%         | \$ 1,738         | 16%         |
| Apartment                             | 1,741            | 17          | 1,754            | 17          | 1,845            | 18          | 1,854            | 17          |
| Retail                                | 1,716            | 16          | 1,591            | 15          | 1,798            | 17          | 1,762            | 17          |
| Single family residential development | 1,293            | 12          | 1,253            | 12          | 1,184            | 11          | 1,137            | 11          |
| Industrial/warehouse                  | 1,116            | 11          | 1,100            | 11          | 1,192            | 11          | 1,161            | 11          |
| Residential lots                      | 500              | 5           | 579              | 6           | 539              | 5           | 543              | 5           |
| Hotels                                | 452              | 4           | 517              | 5           | 517              | 5           | 560              | 5           |
| Other commercial income producing     | 1,722            | 17          | 1,664            | 16          | 1,696            | 16          | 1,758            | 17          |
| Other residential developments        | 157              | 1           | 161              | 1           | 135              | 1           | 126              | 1           |
| <b>Total commercial real estate</b>   | <b>\$ 10,515</b> | <b>100%</b> | <b>\$ 10,356</b> | <b>100%</b> | <b>\$ 10,564</b> | <b>100%</b> | <b>\$ 10,639</b> | <b>100%</b> |

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ASSET QUALITY

**Nonperforming Assets**

The Corporation places loans on nonaccrual status as follows:

- Consumer loans are placed on nonaccrual status when the collection of contractual principal or interest becomes 90 days past due.
- Commercial loans are placed on nonaccrual status when the collection of contractual principal or interest is deemed doubtful, or the loan becomes 90 days or more past due and is not both well-secured and in the process of collection.
- Credit card receivables are charged-off rather than placed on nonaccrual status.

The following indicates the Corporation's nonperforming assets at:

| <i>(Dollars in millions)</i>             | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|--|----------------------|-----------------|------------------|---------------------|----------------------|
| Nonperforming loans:                     |                      |                 |                  |                     |                      |
| Retail                                   | \$ 573               | \$ 570          | \$ 558           | \$ 535              | \$ 577               |
| Commercial Banking:                      |                      |                 |                  |                     |                      |
| Corporate banking                        | 526                  | 705             | 814              | 873                 | 1,010                |
| Middle market banking                    | 861                  | 988             | 947              | 1,001               | 1,030                |
| <b>Total Commercial Banking</b>          | <b>1,387</b>         | <b>1,693</b>    | <b>1,761</b>     | <b>1,874</b>        | <b>2,040</b>         |
| IMG                                      | 74                   | 80              | 81               | 71                  | 47                   |
| Corporate                                | 673                  | 719             | 799              | 796                 | 857                  |
| <b>Total nonperforming loans (1)</b>     | <b>2,707</b>         | <b>3,062</b>    | <b>3,199</b>     | <b>3,276</b>        | <b>3,521</b>         |
| Other, including other real estate owned | 214                  | 245             | 254              | 251                 | 214                  |

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| <i>(Dollars in millions)</i>                          | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|---|----------------------|-----------------|------------------|---------------------|----------------------|
| Total nonperforming assets                            | \$ 2,921             | \$ 3,307        | \$ 3,453         | \$ 3,527            | \$ 3,735             |
| Nonperforming assets to related assets (2)            | 2.06%                | 2.28%           | 2.38%            | 2.38%               | 2.48%                |
| Loans 90-days or more past due and accruing interest: |                      |                 |                  |                     |                      |
| Card Services   | \$ 252               | \$ 209          | \$ 161           | \$ 160              | \$ 132               |
| Other   | -                    | -               | -                | 1                   | -                    |
| Total loans   | \$ 252               | \$ 209          | \$ 161           | \$ 161              | \$ 132               |

(1) Nonperforming loans include loans held for sale of \$10 million, \$11 million, \$22 million, \$22 million and \$93 million at September 30, 2003, June 30, 2003, March 31, 2003, December 31, 2002 and September 30, 2002, respectively.

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

The Corporation has established processes for identifying potential problem areas of the portfolio, which currently include commercial exposure to auto-related, airlines and the risk profile of non-core portfolios. The Corporation will continue to monitor and manage these potential risks. Concern remains for rising bankruptcy trends and the potential effect on the consumer portfolios.

In general, credit quality continued to improve during the third quarter as nonperforming loans declined \$355 million from the prior quarter, driven primarily by a \$306 million decline in Commercial Banking nonperforming loans. The 18% decline in Commercial Banking was a result of both an improving economic environment and risk management actions, including loan sales and management of individual credits, which has led to pay-offs, pay-downs and restructurings.

Nonperforming loans within Retail at September 30, 2003 were \$573 million, an increase of \$3 million from the prior quarter. Overall residential real estate nonperforming loans continue to improve as foreclosure inventories continue to decline. Home equity loans are written down to net realizable value of the collateral once a loan reaches 120 days delinquency. Due to the time necessary to complete foreclosure and acquire title, real estate loans remain in nonperforming status for an extended period. Corporate line of business nonperforming loans at September 30, 2003 totaled \$673 million and included \$669 million of nonperforming loans from the non-core portfolio.

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### 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.
- Closed end consumer loans are generally charged-off following a delinquency period of 120 days, or within 60 days for unsecured consumer loans after receipt of notification of bankruptcy. Closed-end consumer loans, such as auto loans and leases and home mortgage loans, are 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 quarterly periods indicated were as follows:

| <i>(Dollars in millions)</i> | September 30, 2003 |                 |                                | June 30, 2003   |                 |                                | March 31, 2003  |                 |                                |
|------------------------------|--------------------|-----------------|--------------------------------|-----------------|-----------------|--------------------------------|-----------------|-----------------|--------------------------------|
|                              | Net charge-offs    | Average balance | Annualized net charge-off rate | Net charge-offs | Average balance | Annualized net charge-off rate | Net charge-offs | Average balance | Annualized net charge-off rate |
| Retail                       | \$ 144             | \$ 54,734       | 1.05%                          | \$ 113          | \$ 52,893       | 0.85%                          | \$ 102          | \$ 52,610       | 0.78%                          |
| Commercial Banking:          |                    |                 |                                |                 |                 |                                |                 |                 |                                |
| Corporate banking            | 56                 | 27,544          | 0.81                           | 63              | 29,222          | 0.86                           | 81              | 30,405          | 1.07                           |
| Middle market banking        | 43                 | 27,546          | 0.62                           | 42              | 28,824          | 0.58                           | 47              | 29,551          | 0.64                           |



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|                  | September 30, 2003 |                   |              | June 30, 2003 |                   |              | March 31, 2003 |                   |              |
|------------------|--------------------|-------------------|--------------|---------------|-------------------|--------------|----------------|-------------------|--------------|
| Total Commercial |                    |                   |              |               |                   |              |                |                   |              |
| Banking          | 99                 | 55,090            | 0.72         | 105           | 58,046            | 0.72         | 128            | 59,956            | 0.85         |
| Card Services    | 211                | 16,441            | 5.13         | 182           | 14,090            | 5.17         | 161            | 12,364            | 5.24         |
| IMG (1)          | 4                  | 6,665             | 0.24         | 6             | 6,590             | 0.36         | 2              | 6,744             | 0.12         |
| Corporate (1)    | 82                 | 11,232            | 2.92         | 83            | 13,016            | 2.55         | 102            | 14,745            | 2.77         |
| <b>Total</b>     | <b>\$ 540</b>      | <b>\$ 144,162</b> | <b>1.50%</b> | <b>\$ 489</b> | <b>\$ 144,635</b> | <b>1.35%</b> | <b>\$ 495</b>  | <b>\$ 146,419</b> | <b>1.35%</b> |

| (Dollars in millions) | December 31, 2002 |                   |                                | September 30, 2002 |                   |                                |
|-----------------------|-------------------|-------------------|--------------------------------|--------------------|-------------------|--------------------------------|
|                       | Net charge-offs   | Average balance   | Annualized net charge-off rate | Net charge-offs    | Average balance   | Annualized net charge-off rate |
| Retail                | \$ 134            | \$ 51,683         | 1.04%                          | \$ 117             | \$ 49,110         | 0.95%                          |
| Commercial Banking:   |                   |                   |                                |                    |                   |                                |
| Corporate banking     | 148               | 31,508            | 1.88                           | 160                | 31,600            | 2.03                           |
| Middle market banking | 54                | 30,693            | 0.70                           | 77                 | 32,084            | 0.96                           |
| Total Commercial      |                   |                   |                                |                    |                   |                                |
| Banking               | 202               | 62,201            | 1.30                           | 237                | 63,684            | 1.49                           |
| Card Services         | 168               | 13,325            | 5.05                           | 131                | 10,523            | 4.99                           |
| IMG (1)               | 13                | 6,986             | 0.74                           | 2                  | 6,941             | 0.12                           |
| Corporate (1)         | 105               | 16,336            | 2.57                           | 86                 | 17,894            | 1.92                           |
| <b>Total</b>          | <b>\$ 622</b>     | <b>\$ 150,531</b> | <b>1.65%</b>                   | <b>\$ 573</b>      | <b>\$ 148,152</b> | <b>1.55%</b>                   |

(1) Prior period data has been adjusted for the transfer of the corporate trust services business from Investment Management to the Corporate line of business where it is now reported as discontinued operations.

Net charge-offs increased 10% during the third quarter of 2003 to \$540 million. The net charge-off ratio increased to 1.50% in the third quarter of 2003 from 1.35% in the second quarter of 2003.

Retail net charge-offs in the third quarter of 2003 totaled \$144 million, up from \$113 million in the second quarter of 2003. This increase reflected higher net charge-offs primarily due to the sale of a small non-relationship portfolio.

Commercial Banking net charge-offs in the third quarter of 2003 totaled \$99 million, down from \$105 million in the second quarter of 2003, reflecting both an improving economy and continued benefits from managements actions taken during 2001 and 2002. The net charge-off ratio was 0.72%, unchanged from the prior quarter. In spite of continuing improvement in credit quality, 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 and portfolio mix, among other things.

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On a reported basis, Card Services net charge-offs for the third quarter of 2003 totaled \$211 million, an increase of \$29 million from the second quarter, primarily resulting from growth of average total owned loans to \$16.4 billion from \$14.1 billion.

On a managed basis, Card Services third quarter of 2003 net charge-off ratio of 5.30% increased slightly from the previous quarter ratio of 5.21% due to slightly lower recoveries. 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 are adjusted to reduce credit risk. The managed credit card portfolio continued to reflect a well-seasoned portfolio that has good national geographic diversification.

Net charge-offs of the non-core portfolio totaled \$79 million in the third quarter compared to \$83 million in the second quarter.

Future charge-offs 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

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seasoning, interest rate movements, regulatory requirements 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.

**Loan Sales**

A summary of the Corporation's Commercial Banking loan sales, excluding trading, syndications, syndication-related activity and trade finance transactions, for the quarters indicated were as follows:

| <i>(In millions)</i>  | September 30<br>2003 | June 30<br>2003 | March 31<br>2002 | December 31<br>2002 | September 30<br>2002 |
|---|----------------------|-----------------|------------------|---------------------|----------------------|
| Loans sold and loans transferred<br>to loans held for sale:   |                      |                 |                  |                     |                      |
| Nonperforming loans   | \$ 132               | \$ 28           | \$ 75            | \$ 43               | \$ 129               |
| Other loans with credit related losses  | 121                  | 217             | 84               | 47                  | 65                   |
| Other loans   | 4                    | 41              | 73               | 69                  | 108                  |
| <b>Total</b>  | <b>\$ 257</b>        | <b>\$ 286</b>   | <b>\$ 232</b>    | <b>\$ 159</b>       | <b>\$ 302</b>        |
| Impact of sales, transfers to loans held<br>for sale and valuation adjustments<br>on held for sale: |                      |                 |                  |                     |                      |
| Charge-offs on loans sold and<br>transferred to held for sale:                                      |                      |                 |                  |                     |                      |
| Nonperforming loans   | \$ 22                | \$ 1            | \$ 10            | \$ -                | \$ 5                 |
| Other loans with credit related losses  | 11                   | 21              | 10               | 5                   | 6                    |
| <b>Total charge-offs to allowance</b>   | <b>33</b>            | <b>22</b>       | <b>20</b>        | <b>5</b>            | <b>11</b>            |
| Losses (gains) on loans sold and held for sale  | (25)                 | (14)            | (8)              | (3)                 | 12                   |
| <b>Total</b>  | <b>\$ 8</b>          | <b>\$ 8</b>     | <b>\$ 12</b>     | <b>\$ 2</b>         | <b>\$ 23</b>         |

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, any 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 on loan sales deemed to be from other than credit deterioration, gains on loan sales, and subsequent fair value adjustments on loans held for sale are reported as other noninterest income.

Loans classified as held for sale are carried at the lower of cost or market value. Accordingly, these loans are excluded from 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 probable loss estimates based on historical loss ratios, portfolio stress testing and management's judgment.

The changes in the Corporation's allowance for credit losses for the quarters indicated were as follows:

| <i>(In millions)</i>         | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|------------------------------|----------------------|-----------------|------------------|---------------------|----------------------|
| Balance, beginning of period | \$ 4,498             | \$ 4,526        | \$ 4,525         | \$ 4,518            | \$ 4,521             |
| Charge-offs:                 |                      |                 |                  |                     |                      |
| <b>Retail:</b>               |                      |                 |                  |                     |                      |
| Small business commercial    | 19                   | 21              | 18               | 32                  | 20                   |
| Home equity                  | 52                   | 32              | 29               | 19                  | 27                   |

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| <i>(In millions)</i>            | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|---------------------------------|----------------------|-----------------|------------------|---------------------|----------------------|
| Vehicle                         | 68                   | 62              | 61               | 83                  | 67                   |
| Other personal                  | 33                   | 28              | 29               | 27                  | 29                   |
| <b>Total Retail</b>             | <b>172</b>           | <b>143</b>      | <b>137</b>       | <b>161</b>          | <b>143</b>           |
| <b>Commercial Banking:</b>      |                      |                 |                  |                     |                      |
| Corporate banking:              |                      |                 |                  |                     |                      |
| Commercial and industrial       | 67                   | 75              | 55               | 74                  | 133                  |
| Commercial real estate          | 3                    | 3               | 6                | 6                   | 8                    |
| Lease financing                 | 6                    | 4               | 40               | 77                  | 31                   |
| <b>Total corporate banking</b>  | <b>76</b>            | <b>82</b>       | <b>101</b>       | <b>157</b>          | <b>172</b>           |
| Middle market:                  |                      |                 |                  |                     |                      |
| Commercial and industrial       | 49                   | 78              | 65               | 67                  | 71                   |
| Commercial real estate          | 5                    | 3               | 3                | -                   | 15                   |
| Lease financing                 | 4                    | 2               | 1                | 2                   | 4                    |
| <b>Total middle market</b>      | <b>58</b>            | <b>83</b>       | <b>69</b>        | <b>69</b>           | <b>90</b>            |
| <b>Total Commercial Banking</b> | <b>134</b>           | <b>165</b>      | <b>170</b>       | <b>226</b>          | <b>262</b>           |
| <b>Card Services</b>            | <b>234</b>           | <b>208</b>      | <b>175</b>       | <b>183</b>          | <b>142</b>           |
| <b>IMG</b>                      | <b>9</b>             | <b>8</b>        | <b>3</b>         | <b>15</b>           | <b>4</b>             |
| <b>Corporate</b>                | <b>93</b>            | <b>94</b>       | <b>112</b>       | <b>115</b>          | <b>97</b>            |
| <b>Total charge-offs</b>        | <b>642</b>           | <b>618</b>      | <b>597</b>       | <b>700</b>          | <b>648</b>           |

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| <i>(In millions)</i>            | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|---------------------------------|----------------------|-----------------|------------------|---------------------|----------------------|
| Recoveries:                     |                      |                 |                  |                     |                      |
| <b>Retail:</b>                  |                      |                 |                  |                     |                      |
| Small business commercial       | \$ 5                 | \$ 5            | \$ 7             | \$ 5                | \$ 6                 |
| Home equity                     | 5                    | 5               | 3                | 4                   | 3                    |
| Vehicle                         | 12                   | 16              | 14               | 14                  | 14                   |
| Other personal                  | 6                    | 4               | 11               | 4                   | 3                    |
| <b>Total Retail</b>             | <b>28</b>            | <b>30</b>       | <b>35</b>        | <b>27</b>           | <b>26</b>            |
| <b>Commercial Banking:</b>      |                      |                 |                  |                     |                      |
| Corporate banking:              |                      |                 |                  |                     |                      |
| Commercial and industrial       | 17                   | 17              | 20               | 8                   | 11                   |
| Commercial real estate          | 2                    | 1               | -                | 1                   | 1                    |
| Lease financing                 | 1                    | 1               | -                | -                   | -                    |
| <b>Total corporate banking</b>  | <b>20</b>            | <b>19</b>       | <b>20</b>        | <b>9</b>            | <b>12</b>            |
| Middle market:                  |                      |                 |                  |                     |                      |
| Commercial and industrial       | 14                   | 39              | 20               | 15                  | 12                   |
| Commercial real estate          | -                    | 1               | 1                | -                   | 1                    |
| Lease financing                 | 1                    | 1               | 1                | -                   | -                    |
| <b>Total middle market</b>      | <b>15</b>            | <b>41</b>       | <b>22</b>        | <b>15</b>           | <b>13</b>            |
| <b>Total Commercial Banking</b> | <b>35</b>            | <b>60</b>       | <b>42</b>        | <b>24</b>           | <b>25</b>            |
| <b>Card Services</b>            | <b>23</b>            | <b>26</b>       | <b>14</b>        | <b>15</b>           | <b>11</b>            |
| <b>IMG</b>                      | <b>5</b>             | <b>2</b>        | <b>1</b>         | <b>2</b>            | <b>2</b>             |
| <b>Corporate</b>                | <b>11</b>            | <b>11</b>       | <b>10</b>        | <b>10</b>           | <b>11</b>            |

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| <i>(In millions)</i>        | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|-----------------------------|----------------------|-----------------|------------------|---------------------|----------------------|
| Total recoveries            | 102                  | 129             | 102              | 78                  | 75                   |
| Net charge-offs:            |                      |                 |                  |                     |                      |
| Retail                      | 144                  | 113             | 102              | 134                 | 117                  |
| Commercial Banking          | 99                   | 105             | 128              | 202                 | 237                  |
| Card Services               | 211                  | 182             | 161              | 168                 | 131                  |
| IMG                         | 4                    | 6               | 2                | 13                  | 2                    |
| Corporate                   | 82                   | 83              | 102              | 105                 | 86                   |
| Total net charge-offs       | 540                  | 489             | 495              | 622                 | 573                  |
| Provision for credit losses | 416                  | 461             | 496              | 628                 | 587                  |
| Transfers                   | -                    | -               | -                | 1                   | (17)                 |
| Balance, end of period      | \$ 4,374             | \$ 4,498        | \$ 4,526         | \$ 4,525            | \$ 4,518             |

**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 the dates indicated were as follows:

| <i>(Dollars in millions)</i> | September 30,<br>2003 |         | June 30,<br>2003 |         | March 31,<br>2003 |         | December 31,<br>2002 |         | September 30,<br>2002 |         |
|------------------------------|-----------------------|---------|------------------|---------|-------------------|---------|----------------------|---------|-----------------------|---------|
|                              | Amount                | Percent | Amount           | Percent | Amount            | Percent | Amount               | Percent | Amount                | Percent |
| Retail                       | \$ 683                | 16%     | \$ 688           | 15%     | \$ 693            | 15%     | \$ 679               | 15%     | \$ 681                | 15%     |
| Commercial Banking:          |                       |         |                  |         |                   |         |                      |         |                       |         |
| Corporate banking            | 1,461                 | 33      | 1,611            | 36      | 1,706             | 38      | 1,706                | 38      | 1,706                 | 38      |
| Middle market                | 1,365                 | 31      | 1,365            | 30      | 1,365             | 30      | 1,365                | 30      | 1,365                 | 30      |
| Total Commercial Banking     | 2,826                 | 64      | 2,976            | 66      | 3,071             | 68      | 3,071                | 68      | 3,071                 | 68      |
| Card Services                | 431                   | 10      | 396              | 9       | 396               | 9       | 396                  | 9       | 396                   | 9       |
| IMG                          | 40                    | 1       | 40               | 1       | 40                | 1       | 40                   | 1       | 25                    | -       |
| Corporate                    | 394                   | 9       | 398              | 9       | 326               | 7       | 339                  | 7       | 345                   | 8       |
| Total composition            | \$ 4,374              | 100%    | \$ 4,498         | 100%    | \$ 4,526          | 100%    | \$ 4,525             | 100%    | \$ 4,518              | 100%    |

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**Components of Allowance for Credit Losses**

The Corporation determines allowance for credit losses 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 in the Corporation's 2002 Annual Report beginning on page 57.

The table below presents the components of the probable loss estimate at:

| <i>(In millions)</i> | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|----------------------|----------------------|-----------------|------------------|---------------------|----------------------|
| Asset specific       | \$ 469               | \$ 591          | \$ 692           | \$ 678              | \$ 756               |
| Expected loss        | 2,526                | 2,713           | 2,850            | 2,810               | 2,862                |
| Stress               | 1,379                | 1,194           | 984              | 1,037               | 900                  |
| Total components (1) | \$ 4,374             | \$ 4,498        | \$ 4,526         | \$ 4,525            | \$ 4,518             |

- (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 allowance for credit losses at September 30, 2003 totaled \$4.4 billion compared to \$4.5 billion at December 31, 2002. The reduction in the allowance reflects both the reduced size of the loan portfolio and the continued improvement in credit quality. The allowance for credit losses at September 30, 2003 represented 3.34% of period-end loans and 162% of nonperforming loans, compared to 3.20% and 139%, respectively, at December 31, 2002. The asset-specific and expected loss components of the allowance for credit losses decreased from the prior quarter reflecting credit quality improvement in the commercial loan portfolio. This was offset by an increase in the stress component of the allowance for credit losses reflecting management's ongoing assessment of the probable losses inherent in the portfolio. The allowance for credit losses established for specifically identified off-balance sheet lending exposures was not material at September 30, 2003.

## DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation uses a variety of derivative financial instruments in its trading activity, asset and liability management, to a lesser extent in its mortgage operations, and to manage certain currency translation exposures of foreign entities. These instruments include interest rate, currency, equity and commodity swaps, forwards, spot, futures, options, caps, floors, forward rate agreements, credit derivatives and other conditional or exchange contracts, and include both exchange-traded and over-the-counter contracts. A detailed discussion of accounting policies for trading and hedging derivative instruments is presented in the Corporation's 2002 Annual Report beginning on page 72.

### Trading Derivative Instruments

Derivative financial instruments used in trading include swaps, forwards, futures, options, and other conditional or exchange contracts in the interest rate, foreign exchange, credit, 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 also 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 underlying credit exposure is reflected in the allocated credit reserves. At September 30, 2003, the net notional amount of credit derivatives economically hedging commercial credit exposure totaled \$4.1 billion, and the related loss reported in trading was \$51 million for the third quarter of 2003.

### 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.

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### 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, which is reclassified into earnings in a manner consistent with the earnings pattern of the underlying hedged instrument or transaction. At September 30, 2003, the projected total amount of such reclassification into earnings over the next twelve months would be a decrease in net income of \$270 million after-tax (\$423 million pre-tax). 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 the Corporation's 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 classification into earnings, are subject to change. The maximum length of time for which exposure to the variability of future cash flows for forecasted transactions is hedged is 18 months. No events have occurred in 2003 that impacted earnings from the discontinuance of cash flow hedges due to the determination that a forecasted transaction is no longer likely to occur.

The amount of hedge ineffectiveness recognized for cash flow and fair value hedges for the nine months ended September 30, 2003 was a gain of \$23 million 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 hedges.

### Credit Exposure Resulting from Derivative Financial Instruments

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

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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 following indicates the impact of these master netting agreements at:

| <i>(In millions)</i>                              | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|---|----------------------|-----------------|------------------|---------------------|----------------------|
| Gross replacement cost                            | \$ 24,920            | \$ 27,967       | \$ 22,454        | \$ 22,066           | \$ 20,806            |
| Less: Adjustment due to master netting agreements | 19,317               | 22,624          | 17,897           | 17,793              | 16,601               |
| Balance sheet credit exposure                     | \$ 5,603             | \$ 5,343        | \$ 4,557         | \$ 4,273            | \$ 4,205             |

The credit risk associated with exchange-traded derivative financial instruments is limited to the relevant clearinghouse. Written options, including caps and floors, 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.

### LOAN SECURITIZATIONS AND OFF-BALANCE SHEET ACTIVITIES

#### Loan Securitizations

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 qualified special purpose entity ( QSPE ) that issues the securitized loans. 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 the 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 \$33 million and \$145 million at September 30, 2003 and December 31, 2002, respectively, and are classified on the balance sheet as other assets at amounts approximating fair value.

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The following comprised the Corporation's managed credit card loans at:

| <i>(In millions)</i>   | September 30<br>2003 | December 31<br>2002 |
|--|----------------------|---------------------|
| Owned credit card loans - held in portfolio                            | \$ 6,449             | \$ 7,592            |
| Owned credit card loans - held for sale                                | 7,729                | 3,989               |
| Seller's interest in credit card loans and accrued interest receivable | 23,285               | 28,526              |
| Total credit card receivables reflected on balance sheet               | 37,463               | 40,107              |
| Securities sold to investors and removed from balance sheet            | 36,763               | 33,889              |
| Managed credit card loans  | \$ 74,226            | \$ 73,996           |

For further discussion of the Corporation's loan securitization process and other related disclosures, see pages 74-77 and 94-95 of the Corporation's 2002 Annual Report.

#### 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 programs; 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 September 30, 2003 were as follows:

| <i>(In millions)</i>                                    | Amount of Commitment Expiration Per Period |                  |             |             |              |
|---|--|------------------|-------------|-------------|--------------|
|   | Total                                      | Less Than 1 Year | 1 - 3 Years | 3 - 5 Years | Over 5 Years |
| Unused credit card lines                                | \$ 351,649                                 | \$ 351,649       | \$ -        | \$ -        | \$ -         |
| Unused loan commitments                                 | 139,250                                    | 103,056          | 26,373      | 9,472       | 349          |
| Standby letters of credit and foreign office guarantees | 25,149                                     | 18,049           | 5,608       | 1,226       | 266          |
| Commercial letters of credit                            | 595  | 595              | -           | -           | -            |

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 September 30, 2003 were as follows:

| <i>(In millions)</i> | 2003   | 2004     | 2005     | 2006     | 2007     | 2008 and After | Total     |
|----------------------|--------|----------|----------|----------|----------|----------------|-----------|
| Long-term debt       | \$ 693 | \$ 6,434 | \$ 7,318 | \$ 8,576 | \$ 6,130 | \$ 15,021      | \$ 44,172 |
| Capital leases       | 2      | 8        | 8        | 9        | 10       | 16             | 53        |
| Operating leases     | 63     | 229      | 206      | 187      | 163      | 914            | 1,762     |
| Total                | \$ 758 | \$ 6,671 | \$ 7,532 | \$ 8,772 | \$ 6,303 | \$ 15,951      | \$ 45,987 |

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#### 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, receivables pools and other financial assets pursuant to agreements with customers. The multi-seller conduits 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 September 30, 2003, the Corporation administered multi-seller conduits with a total program limit of \$70 billion and with \$34 billion in commercial paper outstanding. The multi-seller conduits were rated at least A-1 by S&P, P-1 by Moody's and F1 by Fitch.

These multi-seller conduits are a type of variable interest entity (VIE), as defined by FIN No. 46. These entities historically have met all of the requirements to be accounted for as independent entities, and, prior to the issuance of FIN No. 46, were not required to be consolidated with the Corporation. Each of the multi-seller conduits administered by the Corporation prepares 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. As of the date hereof, the Corporation does not service these assets and does not transfer receivables originated by the Corporation 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. Three of the multi-seller conduits principally purchase interests in, or make loans secured by, trade receivables, auto loans and leases and credit card receivables. One conduit makes loans secured by portfolios of publicly rated marketable investment securities.

The commercial paper issued by the conduits is supported by deal-specific credit enhancement, which is structured to cover more than the expected losses on the pool of assets. The deal-specific credit enhancement is typically in the form of over-collateralization, 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 enhancements as a financial arrangement for the customer. As of September 30, 2003 and December 31, 2002, the Corporation provided such deal-specific enhancements to customers in the form of subordinated interests totaling \$154 million and \$203 million, respectively. These subordinated

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interest positions were included in loans on the Corporation's balance sheets as of September 30, 2003 and December 31, 2002.

For three of the multi-seller conduits, 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 conduits totaled \$1.0 billion as of both September 30, 2003 and December 31, 2002. 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 may draw on the liquidity facility to repay the maturing commercial paper. The liquidity facilities are typically in the form of asset purchase agreements structured such that the bank liquidity is provided by purchasing, or lending against, a pool of non-defaulted, performing assets. Additionally, program-wide liquidity facilities and lines of credit are provided by the Corporation and other financial institutions to the multi-seller conduits to facilitate access to the commercial paper markets.

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The total amount of deal-specific and program-wide liquidity facilities available to the multi-seller conduits, as well as the share of these facilities provided by the Corporation, are as follows at:

| <i>(Dollars in millions)</i> | September 30, 2003             |   |         | December 31, 2002              |   |         |
|------------------------------|--------------------------------|---|---------|--------------------------------|---|---------|
|                              | Total<br>Liquidity<br>Facility | Liquidity<br>Facility<br>provided by<br>the Corporation | Percent | Total<br>Liquidity<br>Facility | Liquidity<br>Facility<br>provided by<br>the Corporation | Percent |
| Total multi-seller conduits  | \$ 49,865                      | \$ 45,083   | 90%     | \$ 50,551                      | \$ 41,382   | 82%     |

The Corporation also provides deal-specific and program-wide liquidity facilities to conduits administered by other financial institutions totaling approximately \$4.9 billion as of September 30, 2003.

In accordance with FIN No. 46, the Corporation had been prepared to consolidate the assets, liabilities, and earnings associated with its asset-backed conduit business as of July 1, 2003. As a result of FASB's recent delay in the implementation date of FIN No. 46, the Corporation did not consolidate these entities, but expects to adopt FIN No. 46 as of December 31, 2003. Investors in the multi-seller conduits and investment vehicle anticipated to be consolidated have no recourse to the general assets of the Corporation. Refer to Note 2, "New Accounting Pronouncements," regarding the expected impact to the Corporation of consolidating certain asset-backed conduits under FIN No. 46, as currently drafted.

During the third quarter, banking regulators issued interim regulations that provide risk-based capital relief for certain assets that would be consolidated under FIN No. 46. Assuming the Corporation had adopted FIN 46 as it is currently written and consolidated certain asset-backed conduit entities, the balance sheet and earnings, and regulatory capital impact would have been as follows:

| <i>(Dollars in millions)</i>  | Consolidated Results                   |                                  |            |  |
|-------------------------------|--|----------------------------------|------------|--|
|                               | Incremental<br>Consolidation<br>Effect | Reported<br>September 30<br>2003 | Proforma   |  |
| Total assets                  | \$ 37,666                              | \$ 290,006                       | \$ 327,672 |  |
| Total net interest income-FTE | 7                                      | 2,127                            | 2,134      |  |
| Noninterest income            | 4                                      | 1,998                            | 2,002      |  |
| Noninterest expense           | 7                                      | 2,421                            | 2,428      |  |
| Net Income                    | 3                                      | 883                              | 886        |  |
| Tier 1 Capital                | %                                      | 9.8%                             | 9.8%       |  |
| Total Capital                 |  | 13.5                             | 13.5       |  |
| Leverage                      | (1.0)                                  | 8.4                              | 7.4        |  |

### Principal Investments and Joint Ventures

In the normal course of business, the Corporation makes direct and indirect investments in private equity, venture capital and other equity and



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debt assets. The investment strategy for the portfolio, primarily executed by One Equity Partners LLC (a wholly-owned consolidated subsidiary), is to focus on direct investments in high potential entities. Investments made include interests in Howaldtswerke-Deutsche Werft (HDW), the global leader in the design and manufacture of non-nuclear submarines, and in Polaroid, a leader in the instant imaging industry. At September 30, 2003, the principal investments portfolio totaled \$2.3 billion and commitments to fund additional investments totaled \$1.0 billion.

At September 30, 2003, the Corporation was not party to any material joint venture arrangements which were 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 \$3.0 billion and \$4.7 billion at September 30, 2003 and December 31, 2002, 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.

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## 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 48) 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 and related ratios were as follows at:

|   | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 | Well-Capitalized<br>Regulatory<br>Guidelines |
|---|----------------------|-----------------|------------------|---------------------|----------------------|--|
| Risk-based capital ratios:                      |                      |                 |                  |                     |                      |  |
| Tier 1  | 9.8%                 | 9.7%            | 10.0%            | 9.9%                | 9.5%                 | 6.0%   |
| Total   | 13.5                 | 13.6            | 13.8             | 13.7                | 13.0                 | 10.0   |
| Leverage ratio (1)                              | 8.4                  | 8.7             | 8.9              | 8.9                 | 9.0                  | N/A  |
| Common equity/assets                            | 7.7                  | 7.4             | 7.8              | 8.1                 | 8.0                  | N/A  |
| Tangible common equity/tangible reported assets | 6.8                  | 6.6             | 6.9              | 7.2                 | 7.2                  | N/A  |
| Tangible common equity/tangible managed assets  | 6.1                  | 5.9             | 6.2              | 6.4                 | 6.4                  | N/A  |
| Double leverage ratio                           | 108                  | 106             | 107              | 103                 | 104                  | N/A  |
| Dividend payout ratio                           | 30                   | 29              | 30               | 30                  | 30                   | N/A  |

(1) The minimum regulatory guideline is 3%.

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The components of the Corporation's regulatory risk-based capital and risk-weighted assets were as follows at:

| (In millions)                  | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|--------------------------------|----------------------|-----------------|------------------|---------------------|----------------------|
| Regulatory risk-based capital: |                      |                 |                  |                     |                      |
| Tier 1 capital                 | \$ 23,708            | \$ 23,721       | \$ 23,832        | \$ 23,918           | \$ 23,428            |
| Tier 2 capital                 | 9,180                | 9,316           | 9,035            | 9,201               | 8,650                |

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| <i>(In millions)</i>       | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|----------------------------|----------------------|-----------------|------------------|---------------------|----------------------|
| Total capital              | 32,888               | 33,037          | 32,867           | 33,119              | 32,078               |
| Total risk-weighted assets | \$ 243,130           | \$ 243,779      | \$ 238,529       | \$ 241,468          | \$ 247,050           |

In deriving Tier 1 and Total Capital, goodwill and other nonqualifying intangible assets were deducted at:

| <i>(In millions)</i>            | September 30<br>2003 | June 30<br>2003 | March 31<br>2003 | December 31<br>2002 | September 30<br>2002 |
|---------------------------------|----------------------|-----------------|------------------|---------------------|----------------------|
| Goodwill                        | \$ 2,005             | \$ 1,893        | \$ 1,894         | \$ 1,882            | \$ 1,829             |
| Other nonqualifying intangibles | 302                  | 303             | 239              | 256                 | 215                  |
| Subtotal                        | 2,307                | 2,196           | 2,133            | 2,138               | 2,044                |
| Qualifying intangibles          | 502                  | 474             | 402              | 415                 | 421                  |
| Total intangibles               | \$ 2,809             | \$ 2,670        | \$ 2,535         | \$ 2,553            | \$ 2,465             |

The insurance subsidiaries of the Corporation are subject to Risk-Based Capital ( RBC ) guidelines as established by the National Association of Insurance Commissioners ( NAIC ). The RBC requirements establish minimum levels of capital to be maintained and are used by the NAIC and states to identify companies subject to remedial action. At September 30, 2003, the statutory capital of all insurance subsidiaries was in excess of amounts that would require regulatory action.

See page 46 for a discussion of the 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 targeted in the range of 25% - 30% of earnings over time. On October 21, 2003, the Corporation declared its quarterly common cash dividend of \$0.25 per share, payable on January 1, 2004.

#### Double Leverage

Double leverage is the extent to which the Corporation's resources are used to finance investments in subsidiaries. Double leverage was 108% and 103% at September 30, 2003 and December 31, 2002, respectively. Trust Preferred Capital Securities of \$3.3 billion at September 30, 2003 and December 31, 2002 were included in capital for purposes of this calculation.

#### Stock Repurchase Program

On July 16, 2003, a new \$3.0 billion stock buyback program was approved and replaced amounts unused under the previous \$2.0 billion program. The timing of the purchases and the exact number of shares to be purchased will depend on market conditions. The buyback program does not include specific price targets or timetables and may be suspended at any time. In the third quarter of 2003, the Corporation purchased more than 13 million shares of common stock at an average cost of \$38.86 per share. For the first nine months of 2003, the Corporation purchased more than 53 million shares of common stock at an average cost of \$37.05 per share.

#### 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.

**CONSOLIDATED BALANCE SHEETS**  
**Bank One Corporation and Subsidiaries**

| <i>(Dollars in millions)</i>  | September 30<br>2003 | December 31<br>2002 | September 30<br>2002 |
|---|----------------------|---------------------|----------------------|
| <b>Assets</b>   |                      |                     |                      |
| Cash and due from banks   | \$ 16,814            | \$ 17,920           | \$ 21,699            |
| Interest-bearing due from banks   | 3,486                | 1,503               | 2,960                |
| Federal funds sold and securities purchased under resale agreements                     | 13,786               | 17,356              | 8,062                |
| Trading assets  | 13,626               | 7,190               | 6,367                |
| Derivative product assets   | 5,603                | 4,273               | 4,205                |
| Investment securities   | 76,145               | 67,643              | 66,129               |
| Loans (1)   | 141,710              | 148,125             | 150,389              |
| Allowance for credit losses   | (4,374)              | (4,525)             | (4,518)              |
| <b>Loans, net</b>   | <b>137,336</b>       | <b>143,600</b>      | <b>145,871</b>       |
| Other assets  | 23,210               | 17,898              | 18,894               |
| <b>Total assets</b>   | <b>\$ 290,006</b>    | <b>\$ 277,383</b>   | <b>\$ 274,187</b>    |
| <b>Liabilities</b>  |                      |                     |                      |
| Deposits:   |                      |                     |                      |
| Demand  | \$ 25,191            | \$ 34,325           | \$ 30,870            |
| Savings   | 96,170               | 88,934              | 85,245               |
| Time:   |                      |                     |                      |
| Under \$100,000   | 14,312               | 16,767              | 17,747               |
| \$100,000 and over  | 9,951                | 13,745              | 14,518               |
| Foreign offices   | 17,787               | 16,237              | 15,656               |
| <b>Total deposits</b>   | <b>163,411</b>       | <b>170,008</b>      | <b>164,036</b>       |
| Federal funds purchased and securities sold under repurchase agreements                 | 24,464               | 14,578              | 15,499               |
| Other short-term borrowings   | 11,098               | 12,306              | 12,810               |
| Long-term debt  | 44,225               | 43,234              | 42,481               |
| Insurance policy and claims reserves  | 6,496                | 226                 | 212                  |
| Derivative product liabilities  | 4,688                | 3,838               | 3,886                |
| Other liabilities   | 13,213               | 10,753              | 13,338               |
| <b>Total liabilities</b>  | <b>267,595</b>       | <b>254,943</b>      | <b>252,262</b>       |
| <b>Stockholders' Equity</b>   |                      |                     |                      |
| Common stock (\$0.01 par value; authorized 4,000,000,000;<br>issued 1,181,382,304)      | 12                   | 12                  | 12                   |
| Surplus   | 10,254               | 10,239              | 10,224               |
| Retained earnings   | 14,816               | 13,020              | 12,423               |
| Accumulated other adjustments to stockholders' equity                                   | (75)                 | (8)                 | 26                   |
| Deferred compensation   | (220)                | (157)               | (177)                |
| Treasury stock, at cost (63,458,348, 17,340,948 and 14,865,928<br>shares, respectively) | (2,376)              | (666)               | (583)                |
| <b>Total stockholders' equity</b>   | <b>22,411</b>        | <b>22,440</b>       | <b>21,925</b>        |
| <b>Total liabilities and stockholders' equity</b>                                       | <b>\$ 290,006</b>    | <b>\$ 277,383</b>   | <b>\$ 274,187</b>    |

(1) Includes loans held for sale of \$10.7 billion, \$6.9 billion and \$7.9 billion at September 30, 2003, December 31, 2002 and September 30, 2002, respectively.

The accompanying notes are an integral part of these consolidated statements.

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**CONSOLIDATED INCOME STATEMENTS**  
**Bank One Corporation and Subsidiaries**

| <i>(In millions, except per share data)</i>                             | Three Months Ended September 30 |              | Six Months Ended September 30 |               |
|---|---------------------------------|--------------|-------------------------------|---------------|
|   | 2003                            | 2002         | 2003                          | 2002          |
| <b>Net Interest Income:</b>   |                                 |              |                               |               |
| Interest income   | \$ 3,172                        | \$ 3,524     | \$ 9,489                      | \$ 10,452     |
| Interest expense  | 1,086                           | 1,336        | 3,449                         | 4,041         |
| <b>Total net interest income</b>  | <b>2,086</b>                    | <b>2,188</b> | <b>6,040</b>                  | <b>6,411</b>  |
| <b>Noninterest Income:</b>  |                                 |              |                               |               |
| Banking fees and commissions  | 441                             | 410          | 1,339                         | 1,363         |
| Credit card revenue   | 974                             | 976          | 2,736                         | 2,847         |
| Service charges on deposits   | 433                             | 409          | 1,229                         | 1,178         |
| Fiduciary and investment management fees                                | 164                             | 159          | 485                           | 488           |
| Investment securities gains (losses)                                    | 68                              | (29)         | 289                           | 49            |
| Trading gains (losses)  | 23                              | 143          | (49)                          | 234           |
| Other income (loss)   | (105)                           | (102)        | 30                            | (32)          |
| <b>Total noninterest income</b>   | <b>1,998</b>                    | <b>1,966</b> | <b>6,059</b>                  | <b>6,127</b>  |
| <b>Total revenue, net of interest expense</b>                           | <b>4,084</b>                    | <b>4,154</b> | <b>12,099</b>                 | <b>12,538</b> |
| Provision for credit losses   | 416                             | 587          | 1,373                         | 1,859         |
| <b>Noninterest Expense:</b>   |                                 |              |                               |               |
| Salaries and employee benefits  | 1,193                           | 1,121        | 3,579                         | 3,297         |
| Occupancy   | 175                             | 158          | 505                           | 485           |
| Equipment   | 119                             | 107          | 347                           | 308           |
| Outside service fees and processing                                     | 290                             | 302          | 838                           | 969           |
| Marketing and development   | 253                             | 292          | 694                           | 828           |
| Telecommunication   | 58                              | 74           | 160                           | 308           |
| Intangible amortization   | 34                              | 32           | 98                            | 94            |
| Other expense   | 299                             | 318          | 900                           | 949           |
| <b>Total noninterest expense before restructuring-related reversals</b> | <b>2,421</b>                    | <b>2,404</b> | <b>7,121</b>                  | <b>7,238</b>  |
| Restructuring-related reversals   | -                               | -            | -                             | (63)          |
| <b>Total noninterest expense</b>  | <b>2,421</b>                    | <b>2,404</b> | <b>7,121</b>                  | <b>7,175</b>  |
| <b>Income before income taxes</b>                                       | <b>1,247</b>                    | <b>1,163</b> | <b>3,605</b>                  | <b>3,504</b>  |
| Applicable income taxes   | 373                             | 350          | 1,073                         | 1,080         |
| <b>Income from continuing operations, net of taxes</b>                  | <b>874</b>                      | <b>813</b>   | <b>2,532</b>                  | <b>2,424</b>  |
| <b>Discontinued Operations:</b>   |                                 |              |                               |               |
| Income from discontinued operations                                     | 14                              | 15           | 39                            | 45            |
| Applicable income taxes   | 5                               | 5            | 14                            | 16            |
| <b>Income from discontinued operations, net of taxes</b>                | <b>9</b>                        | <b>10</b>    | <b>25</b>                     | <b>29</b>     |

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|   | Three Months Ended September 30 |             | Six Months Ended September 30 |             |
|---|---------------------------------|-------------|-------------------------------|-------------|
| <b>Net Income</b>   | \$ 883                          | \$ 823      | \$ 2,557                      | \$ 2,453    |
| <b>Net income attributable to common stockholders' equity</b> | \$ 883                          | \$ 823      | \$ 2,557                      | \$ 2,453    |
| <b>Basic earnings per share:</b>                              |                                 |             |                               |             |
| Income from continuing operations                             | \$ 0.78                         | \$ 0.70     | \$ 2.24                       | \$ 2.08     |
| Income from discontinued operations, net                      | 0.01                            | 0.01        | .02                           | .02         |
| <b>Net income</b>   | <b>0.79</b>                     | <b>0.71</b> | <b>2.26</b>                   | <b>2.10</b> |
| <b>Diluted earnings per share:</b>                            |                                 |             |                               |             |
| Income from continuing operations                             | \$ 0.78                         | \$ 0.69     | \$ 2.23                       | \$ 2.06     |
| Income from discontinued operations, net                      | 0.01                            | 0.01        | .02                           | .02         |
| <b>Net income</b>   | <b>0.79</b>                     | <b>0.70</b> | <b>2.25</b>                   | <b>2.08</b> |

The accompanying notes are an integral part of these consolidated statements.

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**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
Bank One Corporation and Subsidiaries

| (In millions)   | Common Stock | Surplus   | Retained Earnings | Accumulated Other Adjustments to Stockholders' Equity | Deferred Compensation | Treasury Stock | Total Stockholders' Equity |
|---|--------------|-----------|-------------------|---|-----------------------|----------------|----------------------------|
| <b>Balance-December 31, 2001</b>  | \$ 12        | \$ 10,311 | \$ 10,707         | \$ (65)   | \$ (121)              | \$ (618)       | \$ 20,226                  |
| Net income  |              |           | 2,453             |   |                       |                | 2,453                      |
| Change in fair value, investment securities-available for sale, net of taxes    |              |           |                   | 491   |                       |                | 491                        |
| Change in fair value of cash flow hedge derivatives, net of taxes               |              |           |                   | (399)   |                       |                | (399)                      |
| Translation loss, net of hedge results and taxes                                |              |           |                   | (1)   |                       |                | (1)                        |
| Net income and changes in accumulated other adjustments to stockholders' equity |              |           | 2,453             | 91  |                       |                | 2,544                      |
| Common stock cash dividends declared  |              |           | (737)             |   |                       |                | (737)                      |
| Net issuance of common stock  |              | (132)     |                   |   |                       | 35             | (97)                       |
| Restricted stock awards granted, net of forfeitures and amortization            |              |           |                   |   | (56)                  |                | (56)                       |
| Stock option grants   |              | 28        |                   |   |                       |                | 28                         |
| Other   |              | 17        |                   |   |                       |                | 17                         |
| <b>Balance-September 30, 2002</b>   | \$ 12        | \$ 10,224 | \$ 12,423         | \$ 26   | \$ (177)              | \$ (583)       | \$ 21,925                  |
| <b>Balance-December 31, 2002</b>  | \$ 12        | \$ 10,239 | \$ 13,020         | \$ (8)  | \$ (157)              | \$ (666)       | \$ 22,440                  |
| Net income  |              |           | 2,557             |   |                       |                | 2,557                      |

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| <i>(In millions)</i>   | Common<br>Stock | Surplus          | Retained<br>Earnings | Accumulated<br>Other<br>Adjustments to<br>Stockholders'<br>Equity | Deferred<br>Compensation | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|--|-----------------|------------------|----------------------|---|--------------------------|-------------------|----------------------------------|
| Change in fair value, investment securities-available for sale, net of taxes           |                 |                  |                      | (240)   |                          |                   | (240)                            |
| Change in fair value of cash-flow hedge derivatives, net of taxes                      |                 |                  |                      | 198   |                          |                   | 198                              |
| Minimum pension liability (1)  |                 |                  |                      | (30)  |                          |                   | (30)                             |
| Translation gain, net of hedge results and taxes                                       |                 |                  |                      | 5   |                          |                   | 5                                |
| <b>Net income and changes in accumulated other adjustments to stockholders' equity</b> |                 |                  | 2,557                | (67)  |                          |                   | 2,490                            |
| Common stock cash dividends declared   |                 |                  | (761)                |   |                          |                   | (761)                            |
| Net purchases of common stock  |                 | (34)             |                      |   |                          | (1,710)           | (1,744)                          |
| Restricted stock awards granted, net of forfeitures and amortization                   |                 |                  |                      |   | (63)                     |                   | (63)                             |
| Stock option grants  |                 | 50               |                      |   |                          |                   | 50                               |
| Other  |                 | (1)              |                      |   |                          |                   | (1)                              |
| <b>Balance-September 30, 2003</b>  | <b>\$ 12</b>    | <b>\$ 10,254</b> | <b>\$ 14,816</b>     | <b>\$ (75)</b>  | <b>\$ (220)</b>          | <b>\$ (2,376)</b> | <b>\$ 22,411</b>                 |

(1) Relates to the nonqualified pension plan.

The accompanying notes are an integral part of these consolidated statements.

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Bank One Corporation and Subsidiaries**

| <i>(In millions)</i>  | Nine Months Ended September 30 |          |
|---|--------------------------------|----------|
|   | 2003                           | 2002     |
| <b>Cash Flows from Operating Activities:</b>                                      |                                |          |
| Net income  | \$ 2,557                       | \$ 2,453 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |          |
| Depreciation and amortization   | 421                            | 388      |
| Provision for credit losses   | 1,373                          | 1,859    |
| Investment securities (gains), net  | (289)                          | (49)     |
| Change in net derivative product assets and liabilities                           | (231)                          | (96)     |
| Change in trading assets  | (6,436)                        | (198)    |
| Change in other assets  | (3,762)                        | 742      |
| Change in other liabilities   | 2,531                          | 1,650    |
| Restructuring reversals   |                                | (63)     |
| All other operating adjustments, net  | (312)                          | 283      |
| Net cash (used in) provided by operating activities                               | (4,148)                        | 6,969    |
| <b>Cash Flows from Investing Activities:</b>                                      |                                |          |
| Change in federal funds sold and securities under resale agreements               | 3,571                          | 1,285    |
| Securities available for sale:  |                                |          |

Nine Months Ended September 30

|   |                  |                  |
|---|------------------|------------------|
| Purchases   | (56,853)         | (45,746)         |
| Maturities  | 12,430           | 4,989            |
| Sales   | 35,828           | 36,390           |
| Credit card receivables securitized   | 9,800            | 3,500            |
| Change in loans   | 620              | 212              |
| Loan recoveries   | 334              | 286              |
| Additions to premises and equipment   | (953)            | (369)            |
| Proceeds from sales of premises and equipment                                     | 55               | 39               |
| Business acquisitions   | (352)            | -                |
| All other investing activities, net   | (78)             | 140              |
| <b>Net cash provided by investing activities</b>                                  | <b>4,402</b>     | <b>726</b>       |
| <b>Cash Flows from Financing Activities:</b>                                      |                  |                  |
| Change in deposits  | (6,681)          | (3,424)          |
| Change in federal funds purchased and securities sold under repurchase agreements | 9,886            | 1,772            |
| Change in other short-term borrowings   | (1,209)          | 2,564            |
| Proceeds from issuance of long-term debt  | 13,346           | 6,321            |
| Repayment of long-term debt   | (12,134)         | (7,754)          |
| Repurchase of treasury stock  | (1,974)          | (494)            |
| Cash dividends paid   | (725)            | (737)            |
| Proceeds from issuance of common and treasury stock                               | 90               | 265              |
| All other financing activities, net   | (11)             | 55               |
| <b>Net cash provided by (used in) financing activities</b>                        | <b>588</b>       | <b>(1,432)</b>   |
| Effect of exchange rate changes on cash and cash equivalents                      | 35               | (17)             |
| <b>Net increase in cash and cash equivalents</b>                                  | <b>877</b>       | <b>6,246</b>     |
| <b>Cash and cash equivalents at beginning of period</b>                           | <b>19,423</b>    | <b>18,413</b>    |
| <b>Cash and cash equivalents at end of period</b>                                 | <b>\$ 20,300</b> | <b>\$ 24,659</b> |
| <b>Other cash flow disclosures:</b>   |                  |                  |
| Interest paid   | \$ 3,778         | \$ 4,588         |
| Income taxes paid   | 903              | 664              |

The accompanying notes are an integral part of these consolidated statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Bank One Corporation and Subsidiaries

#### Note 1 Summary of Significant Accounting Policies

The consolidated financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America. Certain prior-period financial statement information has been reclassified to conform to the current quarter 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.

Although the interim amounts are unaudited, they do reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations for the interim periods. All such adjustments are of a normal, recurring nature. Because the results from commercial banking operations are so closely related and responsive to changes in economic conditions, fiscal policy and monetary policy, and because the results for the investment securities and trading portfolios are largely market-driven, the results for any interim period are not necessarily indicative of the results that can be expected for the entire year.

These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Corporation's 2002 Annual Report.

As described further in Note 3, Acquisitions, the Corporation purchased a life insurance and annuity company during the quarter and has adopted the following significant accounting policies relating to insurance activities:

#### **Insurance Policy and Claims Reserves**

Insurance policy and claims reserves for the insurance business acquired were initially recognized in purchase accounting at fair value. Fair value was determined based upon a number of assumptions including mortality, morbidity, expenses, persistency and interest rates (ranging from 3.0% to 6.2% with a weighted average of 4.6% for life insurance products and ranging from 2.5% to 6.5% with a weighted average of 4.3% for annuity products). On an on-going basis, the carrying value of the liabilities is adjusted for actual experience, with these changes reported in non-interest expense.

For new insurance policies written, life insurance policy liabilities represent the present value of future benefits and related expenses less the present value of future net premiums to be paid to, or on behalf of, policyholders. These liabilities are calculated using assumptions such as mortality, morbidity, expenses, persistency and interest rates, including a provision for unfavorable deviation. The assumptions are regularly reviewed, compared to actual experience and revised, as appropriate. Changes in life insurance reserves are included in non-interest expense in the period of change.

Annuity contract liabilities represent deposits received, net of withdrawals, and interest credited, net of expense charges.

#### **Insurance Revenues**

The Corporation recognizes fee revenue for issuing and administering annuity and other investment-type contracts, based upon contractual terms, when earned. Insurance premiums from long-duration contracts, principally life insurance, are recognized when due from policyholders. Premiums from short-duration insurance contracts are recognized over the contract term.

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#### **Separate Accounts**

Separate account assets and liabilities represent funds maintained in accounts to meet specific investment objectives of contract holders who bear the investment risk. Separate account assets and liabilities are carried at fair value and presented on a net basis in the Corporation's balance sheet, in accordance with FASB interpretation No. 39, Offsetting of Amounts Related to Certain Contracts (An interpretation of APB Opinion No. 10 and FASB Statement No. 105), if applicable netting criteria are met. Net income or loss accrues to, or is borne by the contract holders and is excluded from the Corporation's earnings. The Corporation recognizes fee income for administering separate accounts, when earned.

#### **Note 2 New Accounting Pronouncements**

##### **Consolidation of Variable Interest Entities ( VIEs )**

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 VIE. A VIE 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 are 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 was effective immediately for new entities that were created or acquired after January 31, 2003, and was to be effective on July 1, 2003 for entities in which the Corporation had a variable interest prior to February 1, 2003. On October 9, 2003, the FASB issued a deferral to December 31, 2003 of the implementation of FIN No. 46 for VIEs in existence prior to February 1, 2003. FIN No. 46 affects the Corporation's accounting and reporting for certain VIEs in which the Corporation holds one or more variable interests.

The Corporation's retained interests in its credit card securitizations and its investments in commercial mortgage-backed securities are exempt from the requirements of FIN No. 46.

As discussed on pages 44-46, the Corporation is an active participant in the asset-backed securities business where it helps to meet customers' financing needs by providing access to the commercial paper markets through special purpose entities known as multi-seller conduits. These multi-seller conduits are a type of VIE as defined by FIN No. 46. These entities historically have met the requirements to be treated as independent entities, and, prior to the issuance of FIN No. 46, were not required to be consolidated with the Corporation. The Corporation had previously announced its intent to consolidate certain VIEs related to its asset-backed conduit business in conjunction with the implementation of FIN No. 46. As a result of the Financial Accounting Standards Board's ( FASB ) deferral, the Corporation expects to consolidate or restructure



these entities in accordance with FIN No. 46 in the fourth quarter. During the third quarter, banking regulators issued interim regulations that provide risk-based capital relief for certain assets that would be consolidated under FIN No. 46.

Management has estimated the Corporation's maximum loss exposure to be \$141 million as of September 30, 2003. For a discussion of the potential balance sheet and earnings impact of consolidating certain asset-backed conduit entities in accordance with FIN No. 46, as it is currently written, see page 46.

#### **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 impacting the Corporation are financial and performance standby letters of credit. The required FIN No. 45 disclosure has been incorporated into Note 13, *Financial Guarantees*. The accounting requirements of FIN No. 45 became effective for the Corporation on January 1, 2003, on a prospective basis. The impact of adoption was not material to the Corporation's results of operations, financial position or cash flows.

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#### **Costs Associated with Exit or Disposal Activities**

In 2002, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS No. 146), which supercedes Emerging Issues Task Force 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. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The impact of adoption was not material to the Corporation's results of operations, financial position or cash flows.

#### **Derivative Instruments and Hedging Activities**

In April 2003, FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The Corporation adopted SFAS No. 149 on July 1, 2003. This adoption had an immaterial impact on the Corporation's operating results, financial position and statement of cash flows.

#### **Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity**

In May 2003, FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement modifies the accounting for certain financial instruments with characteristics of both liabilities and equity.

The Corporation adopted SFAS No. 150 effective July 1, 2003. Previously, guaranteed preferred beneficial interests in the Corporation's junior subordinated debt were classified as a separate liability, with distributions on these securities included in interest expense on long-term debt. Under SFAS No. 150, guaranteed preferred beneficial interest will be included as a component of long-term debt, with no change in the reporting of distributions.

#### **Note 3 Acquisitions**

On May 30, 2003, the Corporation announced an agreement to acquire for cash, key business components of Zurich Life, a U.S. life and annuity operation of Zurich Financial Services Group. The transaction closed effective September 1, 2003.

Zurich Life, based in Schaumburg, Illinois, is a leading underwriter of term life insurance serving consumers through both a national network of licensed brokers/insurance agents and the direct marketing platform of its Zurich Direct agency. It is also a significant underwriter of fixed and variable annuities, with a recognized expertise in the teachers' annuity market. It underwrites universal life and participates in the business-owned life insurance market. Zurich Life has regulatory and operating insurance authority in all 50 states.

Prior to the acquisition, Zurich Life was comprised of Federal Kemper Life Assurance Company, Kemper Investors Life Insurance Company, Zurich Life Insurance Company of America, Zurich Life Insurance Company of New York, Zurich Direct and their subsidiaries. In addition, Federal Kemper Life Assurance Company provides management services to Fidelity Life Association, a Mutual Legal Reserve Company.

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The results of operations of Zurich Life from September 1 to September 30, 2003 are reflected in the Corporation's consolidated financial statements for the three and nine months ended September 30, 2003. The acquisition expands the Corporation's existing insurance product offering.

At the date of acquisition, the Corporation recorded the assets acquired and liabilities assumed, including insurance policy and claims reserves, at fair value. The Corporation acquired total assets of approximately \$6.7 billion, consisting primarily of fixed income investment securities, and \$6.3 billion of insurance policy and claims reserves, and recorded approximately \$110 million in goodwill. In conjunction with the acquisition, the Corporation reinsured separate accounts of the seller, Zurich Financial Services Group, that are netted in the Corporation's balance sheet in accordance with FASB interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts* (An interpretation of APB Opinion No. 10 and FASB Statement No. 105).

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On September 17, 2003, the Corporation announced an agreement to purchase Security Capital Research & Management Incorporated, a recognized expert in developing real estate investment products, with approximately \$3.5 billion in assets under management. The transaction is expected to close in the fourth quarter.

### Note 4 Discontinued Operations

On July 24, 2003, the Corporation announced an agreement to sell the corporate trust services business. The sale price is approximately \$720 million, of which approximately 10% is contingent upon business retention. The sale includes the corporate, municipal, structured finance and escrow businesses as well as the document custody and London corporate trust operations. The closing of the transaction is expected to occur in the fourth quarter of this year.

Following the July 24, 2003 agreement to sell, the results of the corporate trust services business were reported in the Corporation's Consolidated Income Statements and Consolidated Statements of Cash Flows separately as discontinued operations. In addition, the results of these operations have been transferred from the Investment Management to the Corporate line of business where they are also reported separately as discontinued operations.

The following is summarized financial information for discontinued operations:

| <i>(In millions)</i>              | Three Months Ended September 30 |        | Nine Months Ended September 30 |       |
|-----------------------------------|---------------------------------|--------|--------------------------------|-------|
|                                   | 2003                            | 2002   | 2003                           | 2002  |
| Total revenues                    | \$ 35                           | \$ 31  | \$ 105                         | \$ 96 |
| Total expenses (excluding taxes)  | 21                              | 16     | 66                             | 51    |
| <b>Income before income taxes</b> | <b>14</b>                       | 15     | <b>39</b>                      | 45    |
| Applicable income taxes           | 5                               | 5      | 14                             | 16    |
| <b>Net Income</b>                 | <b>\$ 9</b>                     | \$ 10  | <b>\$ 25</b>                   | \$ 29 |
| Total assets                      | \$ 92                           | \$ 119 |                                |       |

### Note 5 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 plan.

| <i>(In millions, except per share data)</i>                           | Three Months Ended September 30 |        | Nine Months Ended September 30 |          |
|---|---------------------------------|--------|--------------------------------|----------|
|   | 2003                            | 2002   | 2003                           | 2002     |
| Net income available to common stockholders for basic and diluted EPS | \$ 883                          | \$ 823 | \$ 2,557                       | \$ 2,453 |
| Average shares outstanding  | 1,115                           | 1,162  | 1,131                          | 1,163    |
| Stock options   | 9                               | 9      | 7                              | 11       |

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Three Months Ended September 30    Nine Months Ended September 30

|   | 1,124   | 1,171   | 1,138   | 1,174   |
|---|---------|---------|---------|---------|
| Average shares outstanding assuming full dilution |         |         |         |         |
| Earnings per share:                               |         |         |         |         |
| Basic earnings per share                          |         |         |         |         |
| Income from continuing operations                 | \$ 0.78 | \$ 0.70 | \$ 2.24 | \$ 2.08 |
| Income from discontinued operations, net          | 0.01    | 0.01    | 0.02    | 0.02    |
| Net income  | 0.79    | 0.71    | 2.26    | 2.10    |
| Diluted earnings per share:                       |         |         |         |         |
| Income from continuing operations                 | 0.78    | 0.69    | 2.23    | 2.06    |
| Income from discontinued operations, net          | 0.01    | 0.01    | 0.02    | 0.02    |
| Net income  | 0.79    | 0.70    | 2.25    | 2.08    |

**Note 6 Restructuring-Related Activity**

Actions under the fourth quarter 2001 and the second quarter 2000 restructuring plans have been completed with only payments of identified obligations remaining, which consist primarily of lease obligations. Unpaid amounts at September 30, 2003 totaled \$67 million and \$36 million for these plans, respectively. These amounts will be paid as required over the remaining contractual obligation periods.

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**Note 7 Business Segments**

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 7.

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

|                           | Three Months Ended September 30                   |          |   |        |   |        | September 30 |            |
|---------------------------|---|----------|---|--------|---|--------|--------------|------------|
|                           | 2003  | 2002     | 2003  | 2002   | 2003  | 2002   | 2003         | 2002       |
| <i>(In millions)</i>      | Total Revenues-FTE from continuing operations (1) |          | Income Taxes on continuing operations Provision (Benefit) (1) |        | Income (Loss) from continuing operations, net |        | Total Assets |            |
| Retail                    | \$ 1,595  | \$ 1,503 | \$ 225  | \$ 212 | \$ 392  | \$ 361 | \$ 58,080    | \$ 54,174  |
| Commercial Banking        | 1,037   | 1,042    | 145   | 42     | 361   | 179    | 102,410      | 95,649     |
| Card Services             | 1,302   | 1,251    | 178   | 190    | 285   | 298    | 42,768       | 40,567     |
| Investment Management (2) | 372   | 313      | 53  | 48     | 91  | 79     | 15,656       | 8,494      |
| Corporate (2)             | (181)   | 83       | (187)   | (104)  | (255)   | (104)  | 71,092       | 75,303     |
| Total                     | \$ 4,125  | \$ 4,192 | \$ 414  | \$ 388 | \$ 874  | \$ 813 | \$ 290,006   | \$ 274,187 |

|                      | Nine Months Ended September 30                    |          |   |        |   |          |
|----------------------|---|----------|---|--------|---|----------|
|                      | 2003  | 2002     | 2003  | 2002   | 2003  | 2002     |
| <i>(In millions)</i> | Total Revenues-FTE from continuing operations (1) |          | Income Taxes on continuing operations Provision (Benefit) (1) |        | Income (Loss) from continuing operations, net |          |
| Retail               | \$ 4,714  | \$ 4,549 | \$ 667  | \$ 641 | \$ 1,160                                      | \$ 1,096 |

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Nine Months Ended September 30

|                           |                  |                  |                 |                 |                 |                 |
|---------------------------|------------------|------------------|-----------------|-----------------|-----------------|-----------------|
| Commercial Banking        | 2,973            | 3,120            | 310             | 127             | 827             | 469             |
| Card Services             | 3,592            | 3,566            | 507             | 537             | 812             | 845             |
| Investment Management (2) | 1,004            | 989              | 142             | 156             | 240             | 264             |
| Corporate (2)             | (67)             | 423              | (436)           | (272)           | (507)           | (250)           |
| <b>Total</b>              | <b>\$ 12,216</b> | <b>\$ 12,647</b> | <b>\$ 1,190</b> | <b>\$ 1,189</b> | <b>\$ 2,532</b> | <b>\$ 2,424</b> |

- (1) Total revenue-FTE and provision for (benefit of) income taxes include tax equivalent adjustments of \$41 million and \$38 million for three months ended September 30, 2003 and 2002, respectively. For the nine months ended September 30, 2003 and 2002, tax equivalent adjustments were \$117 million and \$109 million, respectively.
- (2) Amounts presented are for continuing operations. Refer to Note 4, Discontinued Operations, for information related to corporate trust services.

**Note 8 Interest Income and Interest Expense**

Details of interest income and interest expense for the periods indicated were as follows:

| (In millions)   | Three Months Ended September 30 |                 | Nine Months Ended September 30 |                 |
|---|---------------------------------|-----------------|--------------------------------|-----------------|
|   | 2003                            | 2002            | 2003                           | 2002            |
| <b>Interest Income:</b>   |                                 |                 |                                |                 |
| Loans, including fees   | \$ 2,207                        | \$ 2,453        | \$ 6,727                       | \$ 7,482        |
| Bank balances   | 6                               | 13              | 23                             | 6               |
| Federal funds sold and securities purchased under resale agreements     | 35                              | 36              | 121                            | 116             |
| Trading assets  | 99                              | 65              | 259                            | 190             |
| Investment securities   | 825                             | 957             | 2,359                          | 2,658           |
| <b>Total interest income</b>  | <b>3,172</b>                    | <b>3,524</b>    | <b>9,489</b>                   | <b>10,452</b>   |
| <b>Interest Expense:</b>  |                                 |                 |                                |                 |
| Deposits  | 483                             | 666             | 1,562                          | 2,081           |
| Federal funds purchased and securities sold under repurchase agreements | 70                              | 73              | 205                            | 208             |
| Other short-term borrowings   | 81                              | 76              | 258                            | 172             |
| Long-term debt  | 452                             | 521             | 1,424                          | 1,580           |
| <b>Total interest expense</b>   | <b>1,086</b>                    | <b>1,336</b>    | <b>3,449</b>                   | <b>4,041</b>    |
| <b>Net interest income</b>  | <b>2,086</b>                    | <b>2,188</b>    | <b>6,040</b>                   | <b>6,411</b>    |
| Provision for credit losses   | 416                             | 587             | 1,373                          | 1,859           |
| <b>Net interest income after provision for credit losses</b>            | <b>\$ 1,670</b>                 | <b>\$ 1,601</b> | <b>\$ 4,667</b>                | <b>\$ 4,552</b> |

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**Note 9 Investment Securities**

The summary of the Corporation's investment portfolio follows:

| (In millions)  | At September 30, 2003 |                        |                         |                         |
|--|-----------------------|------------------------|-------------------------|-------------------------|
|  | Amortized Cost        | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value (Book Value) |
| U.S. Treasury  | \$ 4,194              | \$ 27                  | \$ 61                   | \$ 4,160                |
| U.S. government agencies                             | 30,962                | 390                    | 194                     | 31,158                  |
| States and political subdivisions                    | 1,249                 | 63                     | 8                       | 1,304                   |
| Interests in credit card securitized receivables (1) | 22,906                | 155                    | -                       | 23,061                  |
| Other debt securities                                | 9,802                 | 151                    | 29                      | 9,924                   |
| Equity securities (1)                                | 4,216                 | 8                      | 6                       | 4,218                   |

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At September 30, 2003

|                                     |    |        |    |     |    |     |           |
|-------------------------------------|----|--------|----|-----|----|-----|-----------|
| Total available for sale securities | \$ | 73,329 | \$ | 794 | \$ | 298 | 78,825    |
|                                     |    |        |    |     |    |     | 2,320     |
| Principal and other investments (2) |    |        |    |     |    |     | 2,320     |
| Total investment securities         |    |        |    |     |    |     | \$ 76,145 |

At December 31, 2002

| <i>(In millions)</i>                                 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value (Book Value) |
|--|----------------|------------------------|-------------------------|-------------------------|
| 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 (1) | 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 September 30, 2002

| <i>(In millions)</i>                                 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value (Book Value) |
|--|----------------|------------------------|-------------------------|-------------------------|
| U.S. Treasury  | \$ 1,275       | \$ 31                  | \$ -                    | \$ 1,306                |
| U.S. government agencies                             | 28,140         | 697                    | 34                      | 28,803                  |
| States and political subdivisions                    | 1,152          | 60                     | -                       | 1,212                   |
| Interests in credit card securitized receivables (1) | 24,576         | 108                    | -                       | 24,684                  |
| Other debt securities                                | 5,491          | 55                     | 12                      | 5,534                   |
| Equity securities (1)                                | 2,942          | 1                      | 1                       | 2,942                   |
| Total available for sale securities                  | \$ 63,576      | \$ 952                 | \$ 47                   | 64,481                  |
| Principal and other investments (2)                  |                |                        |                         | 1,648                   |
| Total investment securities                          |                |                        |                         | \$ 66,129               |

(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 include investments accounted for at fair value consistent with specialized industry practice.

For the three months ended September 30, 2003, gross recognized gains and losses on available-for-sale investment securities were \$60 million and \$142 million, respectively. For the three months ended September 30, 2002, gross recognized gains and losses on available-for-sale investment securities were \$295 million and \$198 million, respectively.

For the nine months ended September 30, 2003, gross recognized gains and losses on available-for-sale investment securities were \$258 million and \$186 million, respectively. For the nine months ended September 30, 2002, gross recognized gains and losses on available-for-sale investment securities were \$761 million and \$429 million, respectively.

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**Note 10 Guaranteed Preferred Beneficial Interest in the Corporation's Junior Subordinated Debt included in Long-Term Debt**

The Corporation has sponsored ten trusts with a total aggregate issuance outstanding of \$3.3 billion at September 30, 2003 in trust preferred securities as follows:

| (Dollars in millions)                           | Trust Preferred    |                           |                       | Junior Subordinated Debt Owned by Trust |                    |                      |
|---|--------------------|---------------------------|-----------------------|---|--------------------|----------------------|
|   | 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<br>NBD Capital 1                  | January 31, 1997   | 250                       | 3-mo LIBOR plus 0.55% | 257.7                                   | February 1, 2027   | February 1, 2007     |
| First USA<br>Capital Trust I (2)                | December 20, 1996  | 200                       | 9.33%                 | 206.2                                   | January 15, 2027   | January 15, 2007     |
| First Chicago<br>NBD Institutional<br>Capital B | December 5, 1996   | 250                       | 7.75%                 | 257.7                                   | December 1, 2026   | December 1, 2006     |
| First Chicago<br>NBD Institutional<br>Capital A | December 3, 1996   | 500                       | 7.95%                 | 515.5                                   | 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 trust preferred 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.

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**Note 11 Supplemental Disclosures for Accumulated Other Adjustments to Stockholders' Equity**

Accumulated other adjustments to stockholders' equity were as follows:

| (In millions)   | Nine Months Ended September 30 |       |
|---|--------------------------------|-------|
|   | 2003                           | 2002  |
| Fair value adjustment on investment securities-available for sale:  |                                |       |
| Balance, beginning of period  | \$ 552                         | \$ 78 |
| Change in fair value, net of taxes of \$(116) and \$307 for the nine months ended September 30, 2003 and 2002, respectively           | (195)                          | 532   |
| Reclassification adjustment, net of tax benefits of \$26 and \$26 for the nine months ended September 30, 2003 and 2002, respectively | (45)                           | (41)  |
| Balance, end of period  | 312                            | 569   |

Fair value adjustment on derivative instruments-cash flow type hedges:

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|   | Nine Months Ended September 30 |              |
|---|--------------------------------|--------------|
| Balance, beginning of period  | (560)                          | (146)        |
| Net change in fair value associated with current period hedging activities, net of tax benefits of \$97 and \$368 for the nine months ended September 30, 2003 and 2002, respectively | (164)                          | (614)        |
| Reclassification into earnings, net of taxes of \$210 and \$129 for the nine months ended September 30, 2003 and 2002, respectively   | 362                            | 215          |
| <b>Balance, end of period</b>   | <b>(362)</b>                   | <b>(545)</b> |
| Accumulated translation adjustment:   |                                |              |
| Balance, beginning of period  | -                              | 3            |
| Translation gain (loss), net of hedge results and taxes   | 5                              | (1)          |
| <b>Balance, end of period</b>   | <b>5</b>                       | <b>2</b>     |
| Minimum pension liability (1):  |                                |              |
| Balance, beginning of period  | -                              | -            |
| Minimum pension loss, net of taxes  | (30)                           | -            |
| <b>Balance, end of period</b>   | <b>(30)</b>                    | <b>-</b>     |
| <b>Total accumulated other adjustments to stockholders' equity</b>  | <b>\$ (75)</b>                 | <b>\$ 26</b> |

(1) Relates to nonqualified pension plan.

**Note 12 Stock-Based Compensation**

The Corporation utilizes stock-based awards, including restricted shares and stock options, as part of its overall compensation program. In addition, the Corporation provides employees the opportunity to purchase its shares through an Employee Stock Purchase Plan.

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 primarily from three to five years. Therefore, the expense related to stock option compensation included in the determination of net income for 2003 and 2002 was 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 terms of the Corporation's August 2003 stock option grant differ from prior year grants. The contractual life of 2003 options granted is six years, the vesting period is three years with a two-year restriction on selling shares acquired through the exercise of the options granted.

The grant date fair values of stock options granted under the Corporation's stock option plan and the Employee Stock Purchase Plan were determined using the Black-Scholes option pricing model. The fair value estimate for the August 2003 stock option grant was \$6.91 per share.

The fair value for the August 2003 stock option grant was estimated using the following assumptions: expected dividend yield of 2.53%, expected volatility of 33.23%, risk-free interest rate of 2.49% and expected life of 3.3 years.

The net income and earnings per share implications if the fair value method had been applied to all awards vesting during the three and nine months ended September 30, 2003 and 2002 would have been as follows:

**Three Months Ended September 30    Nine Months Ended September 30**

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Three Months Ended September 30    Nine Months Ended September 30

(In millions, except per share data)

|   | 2003   | 2002   | 2003     | 2002     |
|---|--------|--------|----------|----------|
| Net income attributable to common stockholders' equity  | \$ 883 | \$ 823 | \$ 2,557 | \$ 2,453 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects  | 27     | 21     | 80       | 53       |
| Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards vesting during the period, net of related tax effects | 35     | 30     | 104      | 109      |
| Pro forma net income attributable to common stockholders' equity  | \$ 875 | \$ 814 | \$ 2,533 | \$ 2,397 |
| Earnings per share:   |        |        |          |          |
| Basic - as reported   | 0.79   | 0.71   | 2.26     | 2.10     |
| Basic - pro forma   | 0.78   | 0.70   | 2.24     | 2.06     |
| Diluted - as reported   | 0.79   | 0.70   | 2.25     | 2.08     |
| Diluted - pro forma   | 0.78   | 0.70   | 2.23     | 2.04     |

Other disclosures related to stock options have not materially changed from the disclosure provided in Note 19, Stock-Based Compensation of the Corporation's 2002 Annual Report on pages 100-101.

**Note 13-Financial Guarantees**

In the normal course of business, the Corporation is a party to financial instruments containing credit and/or market risks. 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. To mitigate credit risk for financial guarantees, the Corporation 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 following is a summary of financial instruments that are considered guarantees in accordance with FIN No. 45:

| (In millions)   | September 30, 2003 |                    | December 31, 2002 |                    |
|---|--------------------|--------------------|-------------------|--------------------|
|   | Contract Amount    | Carrying Value (3) | Contract Amount   | Carrying Value (3) |
| Standby letters of credit and foreign office guarantees (1) (2) | \$ 25,149          | \$ 281             | \$ 23,979         | \$ 218             |
| Loans sold with recourse  | 2,975              | 9                  | 4,742             | 10                 |
| Swap guarantees   | 278                | 7                  | 222               | 9                  |
| Asset purchase agreements (4)                                   | 2,262              | -                  | 2,453             | -                  |

- (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 \$21.8 billion and \$3.3 billion and \$20.4 billion and \$3.6 billion at September 30, 2003 and December 31, 2002, respectively.
- (2) Includes \$8.4 billion and \$7.1 billion at September 30, 2003 and December 31, 2002, respectively, 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 for inherent losses in accordance with FASB Statement No. 5, Accounting for Contingencies (SFAS No. 5). These amounts are reported in other liabilities except the SFAS No. 5 component related to standby letters of credit that is reported in the allowance for credit losses.
- (4) Certain asset purchase agreements entered into in conjunction with the Corporation's asset-backed conduit program 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 exposure, see page 44.

For a discussion of these types of agreements, see Financial Guarantees in the Corporation's 2002 Annual Report on page 103.

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.



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The following table summarizes the Corporation's inventory of sold put options as of September 30, 2003, in which it was probable that the counterparty owned the reference financial instrument:

| <i>(In millions)</i> | Contract<br>Amount | Carrying<br>Value |
|----------------------|--------------------|-------------------|
| Loans                | \$ 7,188           | \$ 113            |
| Commodities          | 198                | (8)               |
| Equities             | 81                 | (11)              |
| Other                | 2,035              | -                 |

### Note 14-Collateral Policy Related to Certain Asset Transfer Activity

The maximum outstanding amount of securities under resale agreements at any month end during the nine months ended September 30, 2003 and 2002 was \$15.4 billion and \$8.1 billion, respectively. The average outstanding amount of securities under resale agreements through September 30, 2003 and 2002 was \$10.2 billion and \$6.3 billion, respectively.

### Note 15 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 may be 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 also receives tax deficiency assessments from various taxing jurisdictions.

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.

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## SELECTED STATISTICAL INFORMATION Bank One Corporation and Subsidiaries

### Average Balances/Net Interest Margin/Rates

| <i>(Dollars in millions)</i>       | Three Months Ended |              |                 |                    |              |                 |
|------------------------------------|--------------------|--------------|-----------------|--------------------|--------------|-----------------|
|                                    | September 30, 2003 |              |                 | June 30, 2003      |              |                 |
|                                    | Average<br>Balance | Interest     | Average<br>Rate | Average<br>Balance | Interest     | Average<br>Rate |
| <b>Assets</b>                      |                    |              |                 |                    |              |                 |
| Short-term investments             | \$ 17,029          | \$ 41        | 0.96%           | \$ 17,775          | \$ 50        | 1.13%           |
| Trading assets (1)                 | 11,669             | 100          | 3.40            | 10,211             | 87           | 3.42            |
| Investment securities: (1)         |                    |              |                 |                    |              |                 |
| U.S. government agencies           | 36,937             | 366          | 3.93            | 33,356             | 336          | 4.04            |
| States and political subdivisions  | 1,278              | 21           | 6.52            | 1,237              | 21           | 6.81            |
| Other                              | 33,523             | 466          | 5.52            | 32,142             | 444          | 5.54            |
| <b>Total investment securities</b> | <b>71,738</b>      | <b>853</b>   | <b>4.72</b>     | <b>66,735</b>      | <b>801</b>   | <b>4.81</b>     |
| Loans (1) (2)                      | 144,162            | 2,219        | 6.11            | 144,635            | 2,231        | 6.19            |
| <b>Total earning assets</b>        | <b>244,598</b>     | <b>3,213</b> | <b>5.21</b>     | <b>239,356</b>     | <b>3,169</b> | <b>5.31</b>     |
| Allowance for credit losses        | (4,479)            |              |                 | (4,535)            |              |                 |
| Other assets - nonearning          | 43,090             |              |                 | 41,452             |              |                 |

Three Months Ended

|  |    |         |    |       |       |         |         |         |       |       |
|--|----|---------|----|-------|-------|---------|---------|---------|-------|-------|
| Total assets   | \$ | 283,209 |    |       | \$    | 276,273 |         |         |       |       |
| <b>Liabilities and Stockholders' Equity</b>                        |    |         |    |       |       |         |         |         |       |       |
| Interest-bearing deposits: (3)                                     |    |         |    |       |       |         |         |         |       |       |
| Savings  | \$ | 10,453  | \$ | 19    | 0.72% | \$      | 10,260  | \$      | 14    | 0.55% |
| Money market   |    | 64,728  |    | 154   | 0.94  |         | 62,881  |         | 171   | 1.09  |
| Time   |    | 25,014  |    | 251   | 3.98  |         | 27,104  |         | 274   | 4.05  |
| Foreign offices (4)  |    | 16,244  |    | 59    | 1.44  |         | 15,985  |         | 65    | 1.63  |
| Total deposits - interest-bearing                                  |    | 116,439 |    | 483   | 1.65  |         | 116,230 |         | 524   | 1.81  |
| Federal funds purchased and securities under repurchase agreements |    | 23,003  |    | 70    | 1.21  |         | 20,383  |         | 73    | 1.44  |
| Other short-term borrowings  |    | 11,216  |    | 81    | 2.87  |         | 13,413  |         | 90    | 2.69  |
| Long-term debt (5)   |    | 45,248  |    | 452   | 3.96  |         | 45,014  |         | 473   | 4.21  |
| Total interest-bearing liabilities                                 |    | 195,906 |    | 1,086 | 2.20  |         | 195,040 |         | 1,160 | 2.39  |
| Noninterest-bearing deposits                                       |    | 45,995  |    |       |       |         | 44,077  |         |       |       |
| Other liabilities  |    | 19,096  |    |       |       |         | 14,694  |         |       |       |
| Preferred stock  |    |         |    |       |       |         |         |         |       |       |
| Common stockholders' equity  |    | 22,212  |    |       |       |         | 22,462  |         |       |       |
| Total liabilities and equity                                       | \$ | 283,209 |    |       |       |         | \$      | 276,273 |       |       |
| Interest income/earning assets                                     |    |         | \$ | 3,213 | 5.21% |         | \$      | 3,169   | 5.31% |       |
| Interest expense/earning assets                                    |    |         |    | 1,086 | 1.76  |         |         | 1,160   | 1.94  |       |
| Net interest income/margin   |    |         | \$ | 2,127 | 3.45% |         | \$      | 2,009   | 3.37% |       |

- (1) Includes tax-equivalent adjustments based on federal income tax rate of 35%.
- (2) Nonperforming loans are included in average balances used to determine average rate.
- (3) On a consolidated basis, demand deposit balances are routinely swept overnight into money market deposits. On a line of business basis, balances are presented without the impact of sweeps. Certain prior period data has been adjusted to conform with current period presentation.
- (4) Includes international banking facilities deposit balances in domestic offices and balances of Edge Act and overseas offices.
- (5) Includes trust preferred securities.

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**SELECTED STATISTICAL INFORMATION**  
**Bank One Corporation and Subsidiaries**

## Average Balances/Net Interest Margin/Rates

Three Months Ended

| March 31, 2003  |          |              | December 31, 2002 |          |              | September 30, 2002 |          |              |
|-----------------|----------|--------------|-------------------|----------|--------------|--------------------|----------|--------------|
| Average Balance | Interest | Average Rate | Average Balance   | Interest | Average Rate | Average Balance    | Interest | Average Rate |
| \$ 17,672       | \$ 54    | 1.24%        | \$ 15,338         | \$ 48    | 1.24%        | \$ 9,484           | \$ 38    | 1.59%        |
| 8,414           | 74       | 3.57         | 6,995             | 67       | 3.80         | 6,426              | 66       | 4.07         |

Average Balances/Net Interest Margin/Rates

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Three Months Ended

|            |       |      |            |       |      |            |       |      |
|------------|-------|------|------------|-------|------|------------|-------|------|
| 29,030     | 280   | 3.91 | 28,549     | 338   | 4.70 | 30,331     | 401   | 5.25 |
| 1,169      | 20    | 6.94 | 1,177      | 20    | 6.74 | 1,171      | 21    | 7.11 |
| 34,851     | 481   | 5.60 | 34,350     | 521   | 6.02 | 35,230     | 558   | 6.28 |
| 65,050     | 781   | 4.87 | 64,076     | 879   | 5.44 | 66,732     | 980   | 5.83 |
| 146,419    | 2,315 | 6.41 | 150,531    | 2,477 | 6.53 | 148,152    | 2,478 | 6.64 |
| 237,555    | 3,224 | 5.50 | 236,940    | 3,471 | 5.81 | 230,794    | 3,562 | 6.12 |
| (4,558)    |       |      | (4,566)    |       |      | (4,533)    |       |      |
| 38,892     |       |      | 37,888     |       |      | 36,277     |       |      |
| \$ 271,889 |       |      | \$ 270,262 |       |      | \$ 262,538 |       |      |

|            |          |       |            |          |       |            |          |       |
|------------|----------|-------|------------|----------|-------|------------|----------|-------|
| \$ 9,662   | \$ 14    | 0.59% | \$ 10,076  | \$ 20    | 0.79% | \$ 9,953   | \$ 17    | 0.68% |
| 60,886     | 174      | 1.16  | 58,003     | 202      | 1.38  | 54,537     | 199      | 1.45  |
| 29,401     | 306      | 4.22  | 31,483     | 342      | 4.31  | 33,340     | 374      | 4.45  |
| 14,513     | 61       | 1.70  | 14,776     | 66       | 1.77  | 14,634     | 75       | 2.03  |
| 114,462    | 555      | 1.97  | 114,338    | 630      | 2.19  | 112,464    | 665      | 2.35  |
| 16,866     | 62       | 1.49  | 14,950     | 63       | 1.67  | 15,115     | 73       | 1.92  |
| 12,433     | 87       | 2.84  | 12,270     | 90       | 2.91  | 9,802      | 77       | 3.12  |
| 44,630     | 499      | 4.53  | 43,180     | 508      | 4.67  | 43,229     | 521      | 4.78  |
| 188,391    | 1,203    | 2.59  | 184,738    | 1,291    | 2.77  | 180,610    | 1,336    | 2.93  |
| 46,397     |          |       | 48,521     |          |       | 45,201     |          |       |
| 14,480     |          |       | 14,760     |          |       | 14,646     |          |       |
| 22,621     |          |       | 22,243     |          |       | 22,081     |          |       |
| \$ 271,889 |          |       | \$ 270,262 |          |       | \$ 262,538 |          |       |
|            | \$ 3,224 | 5.50% |            | \$ 3,471 | 5.81% |            | \$ 3,562 | 6.12% |
|            | 1,203    | 2.05  |            | 1,291    | 2.16  |            | 1,336    | 2.29  |
|            | \$ 2,021 | 3.45% |            | \$ 2,180 | 3.65% |            | \$ 2,226 | 3.83% |

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SELECTED STATISTICAL INFORMATION  
BANK ONE CORPORATION AND SUBSIDIARIES

Average Balances/Net Interest Margin/Rates

| (Dollars in millions)  | Nine Months Ended September 30 |          |              |                 |          |              |
|------------------------|--------------------------------|----------|--------------|-----------------|----------|--------------|
|                        | 2003                           |          |              | 2002            |          |              |
|                        | Average Balance                | Interest | Average Rate | Average Balance | Interest | Average Rate |
| <b>Assets</b>          |                                |          |              |                 |          |              |
| Short-term investments | \$ 17,490                      | \$ 145   | 1.11%        | \$ 10,770       | \$ 122   | 1.51%        |

Average Balances/Net Interest Margin/Rates

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Nine Months Ended September 30

|  |                   |                 |              |                   |                 |              |
|--|-------------------|-----------------|--------------|-------------------|-----------------|--------------|
| Trading assets (1)   | 10,110            | 261             | 3.45         | 6,536             | 191             | 3.91         |
| Investment securities: (1)   |                   |                 |              |                   |                 |              |
| U.S. government agencies   | 33,137            | 982             | 3.96         | 27,640            | 1,117           | 5.40         |
| States and political subdivisions                                  | 1,228             | 62              | 6.75         | 1,212             | 66              | 7.28         |
| Other  | 33,500            | 1,391           | 5.55         | 32,478            | 1,543           | 6.35         |
| <b>Total investment securities</b>                                 | <b>67,865</b>     | <b>2,435</b>    | <b>4.80</b>  | <b>61,330</b>     | <b>2,726</b>    | <b>5.94</b>  |
| Loans (1) (2)  | 145,064           | 6,765           | 6.24         | 150,898           | 7,522           | 6.66         |
| <b>Total earning assets</b>  | <b>240,529</b>    | <b>9,606</b>    | <b>5.34</b>  | <b>229,534</b>    | <b>10,561</b>   | <b>6.15</b>  |
| Allowance for credit losses  | (4,524)           |                 |              | (4,539)           |                 |              |
| Other assets - nonearning  | 41,160            |                 |              | 35,588            |                 |              |
| <b>Total assets</b>  | <b>277,165</b>    |                 |              | <b>260,583</b>    |                 |              |
| <b>Liabilities and Stockholders' Equity</b>                        |                   |                 |              |                   |                 |              |
| Interest-bearing deposits: (3)                                     |                   |                 |              |                   |                 |              |
| Savings  | \$ 10,128         | \$ 47           | 0.62         | \$ 11,217         | \$ 65           | 0.77         |
| Money market   | 58,319            | 499             | 1.14         | 56,127            | 569             | 1.36         |
| Time   | 27,157            | 831             | 4.09         | 35,404            | 1,233           | 4.66         |
| Foreign offices (4)  | 15,517            | 185             | 1.59         | 14,332            | 214             | 2.00         |
| <b>Total deposits - interest-bearing</b>                           | <b>111,121</b>    | <b>1,562</b>    | <b>1.88</b>  | <b>117,080</b>    | <b>2,081</b>    | <b>2.38</b>  |
| Federal funds purchased and securities under repurchase agreements | 20,106            | 205             | 1.36         | 14,947            | 208             | 1.86         |
| Other short-term borrowings  | 12,349            | 258             | 2.79         | 7,745             | 172             | 2.97         |
| Long-term debt (5)   | 44,966            | 1,424           | 4.23         | 43,374            | 1,580           | 4.87         |
| <b>Total interest-bearing liabilities</b>                          | <b>188,542</b>    | <b>3,449</b>    | <b>2.45</b>  | <b>183,146</b>    | <b>4,041</b>    | <b>2.95</b>  |
| Noninterest-bearing deposits                                       | 50,085            |                 |              | 41,908            |                 |              |
| Other liabilities  | 16,108            |                 |              | 14,013            |                 |              |
| Preferred stock  |                   |                 |              |                   |                 |              |
| Common stockholders' equity  | 22,430            |                 |              | 21,516            |                 |              |
| <b>Total liabilities and equity</b>                                | <b>\$ 277,165</b> |                 |              | <b>\$ 260,583</b> |                 |              |
| Interest income/earning assets                                     |                   | \$ 9,606        | 5.34%        |                   | \$ 10,561       | 6.15%        |
| Interest expense/earning assets                                    |                   | 3,449           | 1.92         |                   | 4,041           | 2.35         |
| <b>Net interest income/margin</b>                                  |                   | <b>\$ 6,157</b> | <b>3.42%</b> |                   | <b>\$ 6,520</b> | <b>3.80%</b> |

- (1) Includes tax-equivalent adjustments based on federal income tax rate of 35%.
- (2) Nonperforming loans are included in average balances used to determine average rate.
- (3) On a consolidated basis, demand deposit balances are routinely swept overnight into money market deposits. On a line of business basis, balances are presented without the impact of sweeps. Certain prior period data has been adjusted to conform with current period presentation.
- (4) Includes international banking facilities' deposit balances in domestic offices and balances of Edge Act and overseas offices.
- (5) Includes trust preferred securities.

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 accounting principles generally accepted in the United States of America, using management's best judgment and all information available.

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The condensed consolidated financial statements of the Corporation have been reviewed by KPMG LLP, independent public accountants. Their accompanying report is based upon a review conducted in accordance with standards established by the American Institute of Certified Public Accountants. 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 the 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 process for internal control over financial reporting, 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 accountants and the internal audit function directly provide reports on significant matters to the Audit and Risk Management Committee. The Corporation's independent accountants, 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 September 30, 2003. Based on this evaluation, the Principal Executive Officer and Principal Financial Officer each concludes that as of September 30, 2003, 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 decisions regarding required disclosure. There has been no change in the Corporation's internal control over financial reporting that occurred during the Corporation's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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

November 6, 2003

/s/ James Dimon

James Dimon  
Principal Executive Officer

/s/ Heidi Miller

Heidi Miller  
Principal Financial Officer

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The Board of Directors and Stockholders  
Bank One Corporation:

We have reviewed the accompanying consolidated balance sheets of Bank One Corporation and subsidiaries (the Corporation ) as of September 30, 2003 and 2002, the related consolidated income statements for the three and nine month periods ended September 30, 2003 and 2002, and the related consolidated statements of stockholders' equity and cash flows for the nine-month periods ended September 30, 2003 and 2002. These condensed consolidated financial statements are the responsibility of the Corporation's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

Chicago, Illinois  
November 6, 2003

/s/ KPMG LLP

KPMG LLP

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2003

OR

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-15323

BANK ONE CORPORATION

(exact name of registrant as specified in its charter)

DELAWARE

31-0738296

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

1 BANK ONE PLAZA CHICAGO, ILLINOIS 60670

(Address of principal executive offices) (Zip Code)

312-732-4000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether 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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 31, 2003.

| Class                         | Number of Shares Outstanding |
|-------------------------------|------------------------------|
| Common Stock \$0.01 par value | 1,117,904,788                |

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Form 10-Q Cross-Reference Index

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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PART II. OTHER INFORMATION



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ITEM 1. Legal Proceedings

None

ITEM 2. Changes in Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

Not applicable

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 5. Other Information

None

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibit 12 Statement regarding computation of ratios.

Exhibit 15 Letter of independent public accountants regarding unaudited interim financial information.

Exhibit 31 (a) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31 (b) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32(a) Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32 (b) Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) The Registrant filed the following Current Reports on Form 8-K during the quarter ended September 30, 2003.

| <u>Date</u>   | <u>Item Reported</u>  |
|---------------|---|
| July 16, 2003 | Registrant's July 16, 2003 news release announcing its 2003 second quarter earnings.  |
| July 18, 2003 | Transcript of Registrant's July 16, 2003 analyst's conference call discussing its 2003 second quarter earnings.   |
| July 24, 2003 | Registrant's July 24, 2003 joint news release with J.P. Morgan Chase & Co. announcing its agreement to sell its Corporate Trust Services business to JPMorgan Institutional Trust Services. |

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SIGNATURES

Pursuant to the requirements 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.

BANK ONE CORPORATION

Date November 6, 2003 /s/ James Dimon  
James Dimon  
Principal Executive Officer

Date November 6, 2003 /s/ Heidi Miller  
Heidi Miller  
Principal Financial Officer

Date November 6, 2003 /s/ Melissa J. Moore  
Melissa J. Moore  
Principal Accounting Officer

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**BANK ONE CORPORATION**

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description of Exhibit</u>   |
|-----------------------|---|
| 12                    | Statement regarding computation of ratios.  |
| 15                    | Letter of independent public accountants regarding unaudited interim financial information.         |
| 31 (a)                | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31 (b)                | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 (a)                | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32 (b)                | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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