BANK ONE CORP
Form 10-Q
August 08, 2003

BANK ONE CORPORATION
INDEX TO FINANCIAL REVIEW

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

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

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

(2) Includes trust preferred capital securities.

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

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Generally accepted accounting principles are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of Bank One Corporation and its subsidiaries (the Corporation) must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of the Corporation s significant accounting policies, see Notes to the Consolidated Financial Statements in the Corporation s 2002 Annual Report on pages 84-108. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. Management has reviewed the application of these policies with the Audit and Risk Management Committee of the Corporation s Board of Directors. For a discussion of applying critical accounting policies, see Application of Critical Accounting Policies beginning on page 35 in the Corporation s 2002 Annual Report.

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

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

Net Interest Income

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

Noninterest Income

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

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

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

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Quarterly Results

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

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

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

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

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

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

Year-to-Date Results

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

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

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

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

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

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

Noninterest Expense

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

	Three Months Ended June 30				Six Months Ended June 30			
			Change				Change	
(Dollars in millions)	2003	2002	Amount	Percent	2003	2002	Amount	Percent
Salaries and employee benefits:								
Salaries	**$ 1,048**	$ 941	$ 107	**11%**	**$ 2,040**	$ 1,861	$ 179	**10%**
Employee benefits	**176**	160	16	10	**367**	336	31	9
Total salaries and employee benefits	**1,224**	1,101	123	11	**2,407**	2,197	210	10
Occupancy	**166**	170	(4)	(2)	**331**	328	3	1
Equipment	**118**	99	19	19	**229**	202	27	13
Outside service fees and processing	**289**	372	(83)	(22)	**566**	672	(106)	(16)
Marketing and development	**215**	265	(50)	(19)	**441**	536	(95)	(18)
Telecommunication	**55**	134	(79)	(59)	**103**	235	(132)	(56)
Other intangible amortization	**32**	29	3	10	**64**	62	2	3
Other expense	**326**	337	(11)	(3)	**604**	637	(33)	(5)
Total noninterest expense before restructuring-related charges (reversals)	**2,425**	2,507	(82)	(3)	**4,745**	4,869	(124)	(3)
Restructuring-related charges (reversals)	**-**	(63)	63	N/M	**-**	(63)	63	N/M
Total noninterest expense	**$ 2,425**	$ 2,444	$ (19)	(1)	**$ 4,745**	$ 4,806	$ (61)	(1)
Headcount	**72,323**	73,579	(1,256)	(2)				
Efficiency ratio	**58.5%**	56.6%	1.9%		**58.1%**	56.4%	1.7%	

<u>Quarterly Results</u>

Salaries and employee benefits increased $123 million, or 11%. This increase was due to higher base and incentive compensation, as well as higher benefit expenses, partially offset by a 2% reduction in headcount.

Equipment expense increased $19 million, or 19%, primarily due to increased depreciation expense on fixed assets acquired in the Corporation s systems conversion efforts.

Outside service fees and processing expense decreased $83 million, or 22%. The prior year period included termination and renegotiation fees for certain vendor contracts and various servicing and contract programming charges for the Corporation s systems conversion efforts.

Marketing and development expense decreased $50 million, or 19%, primarily due to decreased advertising expenditures for Card Services.

Telecommunications expense decreased $79 million, or 59%, due to the absence of servicing expenses resulting from terminating and renegotiating certain vendor contracts.

Other expense decreased $11 million, primarily related to lower operating and fraud expenses. Other expense includes freight and postage expense of $61 million and $63 million for 2003 and 2002, respectively.

Year-to-Date Results

Salaries and employee benefits increased $210 million, or 10%, due to higher base and incentive compensation and benefit expenses, 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 six months ended 2003 and 2002 was $29 million and $12 million, respectively. The Corporation adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, in 2002.

Equipment expense increased $27 million, or 13%, primarily due to higher depreciation expense on fixed assets acquired in the Corporation s systems conversion efforts.

Outside service fees and processing expense decreased $106 million, or 16%, as the Corporation continued to experience operational efficiencies resulting from renegotiated vendor contracts and the Corporation s systems conversion efforts.

Marketing and development expense decreased $95 million, or 18%, primarily due to lower advertising expenditures related to Card Services.

Telecommunications expense decreased $132 million, or 56%, as a result of cost savings incurred through terminated and renegotiated vendor contracts.

Other expense decreased $33 million, or 5%, despite continued reinvestment in the Corporation s infrastructure. This was a result of lower operating and fraud expenses. Other expense includes freight and postage expense of $123 million and $131 million for 2003 and 2002, respectively.

Provision for Credit Losses

Provision for credit losses was $461 million for the second quarter and $957 million for the first six months of 2003, compared to $607 million and $1.3 billion, respectively, for 2002. These decreases were mainly a result of improving credit quality. During the quarter, Commercial Banking also experienced a continued reduction in the size of its loan portfolio. This, along with improved credit quality, led to the decision to reduce Commercial Banking s allowance for credit losses by $95 million. This decrease in the allowance for credit losses was partially offset by an increase of $85 million in the Corporate line of business related to the change in the overall risk profile of the non-core portfolios. These portfolios are discussed on pages 6 and 23-26.

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:

	Three Months Ended June 30		**Six Months Ended June 30**	
(Dollars in millions)	**2003**	**2002**	**2003**	**2002**
Income before income taxes	**$1,222**	$1,229	**$2,383**	$2,371
Applicable income taxes	**366**	386	**709**	741
Effective tax rate	**30%**	31%	**30%**	31%

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.

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.

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

	Three Months Ended June 30		Six Months Ended June 30	
(In millions)	**2003**	**2002**	**2003**	**2002**
Retail	**$ 373**	$ 371	**$ 768**	$ 735
Commercial Banking	**249**	147	**466**	290
Card Services	**279**	308	**527**	547
Investment Management	**85**	103	**165**	204
Corporate	**(130)**	(86)	**(252)**	(146)
Net income	**$ 856**	$ 843	**$ 1,674**	$ 1,630

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.

In the second quarter of 2003, the Corporation ceased origination of wholesale first mortgage and brokered home equity loans to focus on direct lending. In order to more clearly report the results of the core Retail businesses separate from the non-core businesses, the following portfolios were transferred to the Corporate line of business:

(In millions)	**June 30 2003**
Brokered home equity:	
Previously reported as discontinued	**$ 2,467**
Remaining portfolio	**6,618**
Auto lease (and related portfolios)	**2,906**
Total transferred portfolios	**$11,991**

The Corporation is currently evaluating its alternatives with respect to these portfolios. All prior period data for the Retail and Corporate lines of business has been adjusted to reflect the transfer of these portfolios. See page 26 for a supplemental table of the transferred portfolios included in the Corporate line of business.

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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.

	Three Months Ended June 30				Six Months Ended June 30			
			Change				Change	
(Dollars in millions)	**2003**	**2002 (1)**	**Amount**	**Percent**	**2003**	**2002 (1)**	**Amount**	**Percent**
INCOME STATEMENT DATA:								
Net interest income-FTE (2) (3)	**$ 1,077**	$ 1,048	$ 29	3%	**$ 2,199**	$ 2,141	$ 58	3%
Banking fees and commissions (4)	**175**	187	(12)	(6)	**364**	392	(28)	(7)
Credit card revenue (5)	**59**	49	10	20	**112**	92	20	22

	Three Months Ended June 30				Six Months Ended June 30			
Service charges on deposits (6)	**225**	196	29	15	**429**	397	32	8
Other income	**2**	13	(11)	(85)	**15**	24	(9)	(38)
Total noninterest income	**461**	445	16	4	**920**	905	15	2
Total revenue, net of interest expense	**1,538**	1,493	45	3	**3,119**	3,046	73	2
Provision for credit losses	**108**	107	1	1	**224**	246	(22)	(9)
Salaries and employee benefits	**407**	379	28	7	**793**	763	30	4
Other expense	**435**	437	(2)	-	**892**	891	1	-
Total noninterest expense before restructuring-related charges (reversals)	**842**	816	26	3	**1,685**	1,654	31	2
Restructuring-related charges (reversals)	**-**	(18)	18	N/M	**-**	(18)	18	N/M
Total noninterest expense	**842**	798	44	6	**1,685**	1,636	49	3
Income before income taxes	**588**	588	-	-	**1,210**	1,164	46	4
Applicable income taxes	**215**	217	(2)	(1)	**442**	429	13	3
Net income (7)	**$ 373**	$ 371	$ 2	1%	**$ 768**	$ 735	$ 33	4%
FINANCIAL PERFORMANCE:								
Return on average common equity	**31%**	31%	0%		**32%**	31%	1%	
Efficiency ratio	**55**	53	2		**54**		54	-
Headcount	**31,812**	33,160	(1,348)	(4)%				
ENDING BALANCES:								
Small business commercial	**$ 9,775**	$ 9,568	$ 207	2%				
Home equity	**23,715**	16,825	6,890	41				
Vehicle	**13,313**	13,583	(270)	(2)				
Other personal	**6,902**	7,733	(831)	(11)				
Total loans (8)	**53,705**	47,709	5,996	13				
Assets	**56,900**	51,408	5,492	11				
Demand deposits	**29,280**	26,224	3,056	12				
Savings	**40,066**	37,865	2,201	6				
Core deposits	**69,346**	64,089	5,257	8				
Time	**19,486**	24,623	(5,137)	(21)				
Total deposits	**88,832**	88,712	120	-				
Equity	**4,774**	4,774	-	-				
AVERAGE BALANCES:								
Small business commercial	**$ 9,724**	$ 9,534	$ 190	2%	**$ 9,695**	$ 9,489	$ 206	2%
Home equity	**22,659**	16,459	6,200	38	**21,857**	16,201	5,656	35
Vehicle	**13,402**	13,549	(147)	(1)	**13,602**	13,534	68	1
Other personal loans	**7,108**	7,904	(796)	(10)	**7,596**	8,616	(1,020)	(12)
Total loans	**52,893**	47,446	5,447	11	**52,750**	47,840	4,910	10
Assets	**56,261**	51,063	5,198	10	**55,929**	51,040	4,889	10
Demand deposits	**28,809**	25,921	2,888	11	**28,206**	25,544	2,662	10
Savings	**40,107**	37,806	2,301	6	**39,842**	37,464	2,378	6
Core deposits	**68,916**	63,727	5,189	8	**68,048**	63,008	5,040	8
Time	**20,095**	24,822	(4,727)	(19)	**20,635**	25,092	(4,457)	(18)
Total deposits	**89,011**	88,549	462	1	**88,683**	88,100	583	1
Equity	**4,774**	4,774	-	-	**4,774**	4,774	-	-

Retail continued

(Dollars in millions)	Three Months Ended June 30 2003	2002 (1)	Change Amount	Change Percent	Six Months Ended June 30 2003	2002 (1)	Change Amount	Change Percent
CREDIT QUALITY								
Net charge-offs:								
Small business commercial	**$ 16**	$ 18	$ (2)	(11)%	**$ 27**	$ 32	$ (5)	(16)%
Home equity	**27**	19	8	42	**53**	50	3	6
Vehicle	**46**	41	5	12	**93**	106	(13)	(12)
Other personal loans	**24**	29	(5)	(17)	**42**	55	(13)	(24)
Total net charge-offs	**113**	107	6	6	**215**	243	(28)	(12)
Annualized net charge-off ratios:								
Small business commercial	**0.66%**	0.76%	(0.10)%		**0.56%**	0.67%	(0.11)%	
Home equity	**0.48**	0.46	0.02		**0.48**	0.62	(0.14)	
Vehicle	**1.37**	1.21	0.16		**1.37**	1.57	(0.20)	
Other personal loans	**1.35**	1.47	(0.12)		**1.11**	1.28	(0.17)	
Total net charge-offs	**0.85**	0.90	(0.05)		**0.82**	1.02	(0.20)	
Nonperforming assets:								
Commercial	**$ 255**	$ 251	$ 4	2%				
Consumer (9)	**315**	289	26	9				
Total nonperforming loans (9) (10)	**570**	540	30	6				
Other, including other real estate owned ("OREO")	**218**	168	50	30				
Total nonperforming assets	**788**	708	80	11				
Allowance for credit losses	**$ 688**	$ 684	$ 4	1				
Allowance to period end loans (8)	**1.33%**	1.48%	(0.15)%					
Allowance to nonperforming loans (9) (10)	**121**	127	(6)					
Nonperforming assets to related assets (11)	**1.46**	1.48	(0.02)					
DISTRIBUTION:								
Number of:								
Banking centers	**1,803**	1,773	30	2				
ATMs	**4,093**	4,956	(863)	(17)				
Relationship bankers	**2,823**	2,333	490	21				
On-line customers *(in thousands)*	**1,922**	1,269	653	51				
Personal demand accounts *(in thousands)*	**4,541**	4,304	237	6				
Business demand accounts *(in thousands)*	**501**	492	9	2				
Debit cards issued *(in thousands)*	**4,946**	4,492	454	10				
RETAIL BROKERAGE:								
Mutual fund sales	**$ 774**	$ 637	$ 137	22	**$ 1,351**	$ 1,217	$ 134	11
Annuity sales	**759**	814	(55)	(7)	**1,525**	1,611	(86)	(5)
Total investment sales volume	**1,533**	1,451	82	6	**2,876**	2,828	48	2
Market value customer assets - end of period *(in billions)*	**$ 30.5**	$ 26.4	$ 4.1	16%				
Number of customers - end of period *(in thousands)*	**694**	667	27	4				
Number of dedicated investment sales representatives	**874**	761	113	15				

N/M Not meaningful.

(1) Prior period data has been adjusted for the transfer of the non-core portfolios from the Retail line of business to the Corporate line of business.
(2) 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.
(3) Net interest income-FTE includes tax equivalent adjustments of $6 million and $5 million for the three months ended June 30, 2003 and 2002, respectively. For the six months ended June 30, 2003 and 2002, tax equivalent adjustments were $11 million and $10 million, respectively.
(4) Banking fees and commissions include insurance fees, documentary fees, commitment fees, annuity and mutual fund commissions, leasing fees, safe deposit fees, official check fees, ATM interchange and miscellaneous other fee revenue.
(5) 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.
(6) Service charges on deposits include deficient balance fees, non-sufficient funds/overdraft fees and other service related fees.
(7) Net income before restructuring-related reversals, net of $7 million tax, was $360 million and $724 million for the three and six months ended June 30, 2002, respectively.
(8) Loans include loans held for sale of $2,067 million and $1,572 million at June 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 June 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.

Retail continued

Quarterly Results

Retail net income was $373 million, up $13 million, or 4% (excluding the $11 million after-tax benefit from a restructuring charge reversal in the prior year).

Total revenue, net of interest expense increased 3% to $1.5 billion. Net interest income was $1.1 billion, up 3%, primarily from growth in home equity loans and core deposits, partially offset by lower time deposits and spread compression. Noninterest income was $461 million, up 4%, as higher deposit service charges, debit card revenue, and investment sales were partially offset by the intentional reduction of non-branded ATM machines and the elimination of the teller service fee.

Noninterest expense was $842 million, up 3% (excluding the $18 million pre-tax benefit from the restructuring charge reversal in the prior year), primarily due to increased incentive compensation and commissions, as well as higher benefit costs. This increase was partially offset by lower fraud and other operating expenses.

The provision for credit losses of $108 million was relatively unchanged as higher net charge-offs in the real estate and vehicle portfolios were offset by lower net charge-offs in tax-refund anticipation and small business loans. As a percentage of average loans, net charge-offs were 0.85%, down from 0.90%.

The allowance for credit losses of $688 million represented 1.33% of period-end loans. Nonperforming assets were $788 million, up 11% from the prior year.

Year-To-Date Results

Retail year-to-date net income was $768 million, up $44 million, or 6% (excluding the $11 million after-tax benefit from a restructuring charge reversal in the prior year).

Total revenue, net of interest expense increased 2% to $3.1 billion. Net interest income was $2.2 billion, up 3%, primarily from growth in home equity loans and core deposits, partially offset by lower time deposits and spread compression. Noninterest income was $920 million, up 2%, as higher deposit service charges, debit card revenue, and revenues generated from the sale of student loans were partially offset by the intentional reduction of non-branded ATM machines.

Noninterest expense increased $31 million, or 2% (excluding the $18 million pre-tax benefit from the restructuring charge reversal in the prior year), primarily due to increased collections expenses, benefit costs, incentive compensation and production related expenses. This increase was partially offset by lower fraud and other operating expenses as well as other expense improvements.

The provision for credit losses was $224 million, down $22 million, or 9%, due primarily to net charge-off improvements in the vehicle, small business commercial, and tax related portfolios, partially offset by increases in home equity. As a percentage of average loans, net charge-offs were 0.82%, down from 1.02%.

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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 and middle market banking customers.

	Three Months Ended June 30				Six Months Ended June 30			
			Change				Change	
(Dollars in millions)	2003	2002	Amount	Percent	2003	2002	Amount	Percent
INCOME STATEMENT DATA:								
Net interest income-FTE (3) (12)	**$ 574**	$ 598	$ (24)	(4)%	**$ 1,143**	$ 1,253	$ (110)	(9)%
Banking fees and commissions (4)	**234**	224	10	4	**425**	399	26	7
Credit card revenue (5)	**27**	20	7	35	**50**	34	16	47
Service charges on deposits (6)	**185**	173	12	7	**360**	357	3	1
Fiduciary and investment management fees (13)	**(1)**	-	(1)	-	**-**	(1)	1	N/M
Investment securities losses	**(2)**	(1)	(1)	N/M	**(2)**	(1)	(1)	N/M
Trading gains (losses) (14)	**(75)**	81	(156)	N/M	**(58)**	107	(165)	N/M
Other income (loss)	**8**	(43)	51	N/M	**18**	(70)	88	N/M
Total noninterest income	**376**	454	(78)	(17)	**793**	825	(32)	(4)
Total revenue, net of interest expense	**950**	1,052	(102)	(10)	**1,936**	2,078	(142)	(7)
Provision for credit losses	**10**	274	(264)	(96)	**138**	555	(417)	(75)
Salaries and employee benefits	**295**	261	34	13	**572**	520	52	10
Other expense	**305**	331	(26)	(8)	**595**	632	(37)	(6)
Total noninterest expense before restructuring-related charges (reversals)	**600**	592	8	1	**1,167**	1,152	15	1
Restructuring-related charges (reversals)	**-**	(4)	4	N/M	**-**	(4)	4	N/M
Total noninterest expense	**600**	588	12	2	**1,167**	1,148	19	2
Income before income taxes	**340**	190	150	79	**631**	375	256	68
Applicable income taxes	**91**	43	48	N/M	**165**	85	80	94
Net income (15)	**$ 249**	$ 147	$ 102	69	**$ 466**	$ 290	$ 176	61
Memo-Revenue by activity:								
Lending-related revenue	**$ 434**	$ 404	$ 30	7%	**$ 864**	$ 849	$ 15	2%
Credit derivative hedge portfolio	**(143)**	33	(176)	N/M	**(197)**	-	(197)	-
Global treasury services	**395**	399	(4)	(1)	**785**	828	(43)	(5)
Capital markets (16)	**253**	196	57	29	**454**	364	90	25
Other	**11**	20	(9)	(45)	**30**	37	(7)	(19)
FINANCIAL PERFORMANCE:								
Return on average common equity	**13%**	8%	5%		**13%**	8%	5%	
Efficiency ratio	**63**	56	7		**60**	55	5	
Efficiency ratio excluding credit hedge portfolio	**55**	58	(3)		**55**	55	-	
Headcount:								

	Three Months Ended June 30				Six Months Ended June 30			
Corporate banking (including capital markets)	**2,615**	2,315	300	13%				
Middle market	**2,491**	3,023	(532)	(18)				
Global treasury services	**3,239**	3,299	(60)	(2)				
Operations, technology, and other administration	**2,048**	2,270	(222)	(10)				
Total headcount	**10,393**	10,907	(514)	(5)				
ENDING BALANCES:								
Loans (17)	**$ 57,775**	$64,874	$ (7,099)	(11)%				
Assets	**108,226**	94,348	13,878	15				
Demand deposits	**30,324**	24,209	6,115	25				
Savings (18)	**9,332**	7,496	1,836	24				
Time (18)	**9,110**	4,019	5,091	N/M				
Foreign offices	**10,838**	8,409	2,429	29				
Total deposits	**59,604**	44,133	15,471	35				
Equity	**7,409**	7,365	44	1				
AVERAGE BALANCES:								
Loans	**$ 58,046**	$67,011	$ (8,965)	(13)%	**$58,996**	$69,046	$(10,050)	(15)%
Assets	**98,325**	94,423	3,902	4	**95,696**	96,794	(1,098)	(1)
Demand deposits	**24,402**	22,430	1,972	9	**23,496**	22,556	940	4
Savings (18)	**10,005**	7,416	2,589	35	**9,659**	2,900	6,759	N/M
Time (18)	**3,529**	5,083	(1,554)	(31)	**5,783**	13,404	(7,621)	(57)
Foreign offices	**10,443**	8,299	2,144	26	**9,729**	8,230	1,499	18
Total deposits	**48,379**	43,228	5,151	12	**48,667**	47,090	1,577	3
Equity	**7,409**	7,365	44	1	**7,409**	7,365	44	1

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Commercial Banking continued

	Three Months Ended June 30				Six Months Ended June 30			
			Change				Change	
(Dollars in millions)	2003	2002	Amount	Percent	2003	2002	Amount	Percent
CREDIT QUALITY								
Net charge-offs	**$ 105**	$ 274	$ (169)	(62)%	**$ 233**	$ 555	$ (322)	(58)%
Annualized net charge-off ratio	**0.72%**	1.64%	(0.92)%		**0.79%**	1.61%	(0.82)%	
Nonperforming assets:								
Nonperforming loans (19)	**$ 1,693**	$ 2,297	$ (604)	(26)%				
Other, including OREO	**22**	30	(8)	(27)				
Total nonperforming assets	**1,715**	2,327	(612)	(26)				
Allowance for credit losses	**2,976**	3,071	(95)	(3)				
Allowance to period end loans (17)	**5.18%**	4.74%	0.44%					
Allowance to nonperforming loans (19)	**176**	140	36					
Nonperforming assets to related assets (11)	**2.97**	3.58	(0.61)					
CORPORATE BANKING:								
Loans-ending balance	**$ 29,319**	$ 31,773	$ (2,454)	(8)%				
-average balance	**29,222**	33,322	(4,100)	(12)	**$ 29,809**	$ 34,600	$ (4,791)	(14)
Deposits-ending balance	**32,730**	22,929	9,801	43				
-average balance	**24,251**	21,729	2,522	12	**25,514**	25,394	120	-
Credit quality:								

	Three Months Ended June 30				Six Months Ended June 30			
Net charge-offs	**63**	168	(105)	(63)	**144**	331	(187)	(56)
Annualized net charge-off ratio	**0.86**%	2.02%	(1.16)%		**0.97%**	1.91%	(0.95)%	
Nonperforming loans	**$ 705**	$ 1,161	$ (456)	(39)				
Nonperforming loans to total loans	**2.40**%	3.65%	(1.25)%					
SYNDICATIONS:								
Lead arranger deals:								
Volume *(in billions)*	**$ 15.9**	$ 18.1	$ (2.2)	(12)%	**$ 30.7**	$ 33.0	$ (2.3)	(7)%
Number of transactions	**95**	70	25	36	**141**	115	26	23
League table standing-rank	**4**	4	-	-	**4**	4	-	-
League table standing-market share	**6**%	5%	1%		**6%**	5%	1%	
MIDDLE MARKET BANKING:								
Loans-ending balance	**$ 28,456**	$ 33,101	$ (4,645)	(14)%				
-average balance	**28,824**	33,689	(4,865)	(14)	**$ 29,187**	$ 34,446	$ (5,259)	(15)
Deposits-ending balance	**26,874**	21,204	5,670	27				
-average balance	**24,128**	21,499	2,629	12	**23,153**	21,696	1,457	7
Credit quality:								
Net charge-offs	**42**	106	(64)	(60)%	**89**	224	(135)	(60)%
Annualized net charge-off ratio	**0.58**%	1.26%	(0.68)%		**0.61%**	1.30%	(0.69)%	
Nonperforming loans	**$ 988**	$ 1,136	$ (148)	(13)%				
Nonperforming loans to total loans	**3.47**%	3.43%	0.04%					

For additional footnote detail see page 8.

(12) Net interest income-FTE includes tax equivalent adjustments of $25 million and $23 million for the three months ended June 30, 2003 and 2002, respectively. For the six months ended June 30, 2003 and 2002, tax equivalent adjustments were $48 million and $44 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 $144 million and $287 million for the three and six months ended June 30, 2002, respectively.
(16) Capital markets includes trading income and underwriting, syndicated lending and advisory fees.
(17) Loans include loans held for sale of $327 million and $202 million at June 30, 2003 and 2002, respectively. These amounts are not included in allowance for credit losses coverage statistics.
(18) Prior period amounts have been reclassified to conform to the current presentation.
(19) Nonperforming loans include loans held for sale of $6 million and $103 million at June 30, 2003 and 2002, respectively. These amounts are not included in allowance for credit losses coverage statistics.

Quarterly Results

Commercial Banking net income was $249 million, an increase of $105 million, or 73% (excluding the $3 million after-tax benefit from a restructuring charge reversal in the prior year).

Commercial Banking continued

The current period included a $143 million pre-tax loss on the credit derivatives hedge portfolio and the $95 million pre-tax reduction in allowance for credit losses. The prior year included a $33 million pre-tax gain on the credit derivatives hedge portfolio. Excluding the impact of the credit derivatives hedge portfolio and the allowance for credit losses release, net income was $280 million, an increase of $154 million. The improvement was driven by improved credit quality and strength in capital markets, partially offset by declining loan volumes and deposit margin compression.

Net interest income decreased 4% to $574 million, reflecting compressed deposit spreads from falling interest rates and a 13% reduction in average loan volume, partially offset by continued improvement in corporate banking and middle market loan spreads. In the corporate bank, loan volumes declined, reflecting decreased demand for financing as well as customers supporting their funding needs through public debt issuance.

Losses on the credit derivatives hedge portfolio negatively impacted trading income by $143 million in the current quarter, compared to a $33 million positive impact to trading income in the year-ago quarter. The current net notional amount of the credit derivatives hedge portfolio was $5.3 billion.

Noninterest income (excluding the impact of the credit derivatives hedge portfolio) was $519 million, an increase of $98 million, or 23%. This increase was primarily due to higher capital markets revenue, including fixed income and asset-backed originations and derivatives trading, gains on loan sales in the current quarter compared to losses in the prior year, and higher revenue from global treasury services.

Noninterest expense of $600 million was relatively flat. Expense management efforts during the past year held operating expenses relatively stable, despite higher compensation related expenses.

Credit quality continued to improve, as indicated by a $169 million, or 62%, decline in net charge-offs, as corporate banking gross charge-offs declined and middle market recoveries were higher than normal.

The improvement in credit quality and reduced size of the loan portfolio led to a $95 million reduction in the allowance for credit losses to $3.0 billion. Nonperforming loans declined 26% to $1.7 billion, reflecting declines of 39% in corporate banking and 13% in middle market banking.

Year-To-Date Results

Commercial Banking reported net income of $466 million, up $176 million, or 61%. The current year included a $197 million pre-tax loss on the credit derivatives hedge portfolio and a $95 million pre-tax reduction in the allowance for credit losses. Excluding the impact of the credit derivatives hedge portfolio and the allowance for credit losses release, net income was $531 million, an increase of $241 million. 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 $1.1 billion, down $110 million, or 9%, reflecting a 15% reduction in average loan volume and compressed deposit spreads due to falling interest rates, partially offset by improved loan spreads.

Noninterest income (excluding the impact of the credit derivatives hedge portfolio) was $990 million, an increase of $165 million, or 20%, from the first half of 2002. This increase was primarily driven by higher revenue from a number of capital markets activities, gains on loan sales 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 $1.2 billion, despite higher compensation related expenses.

Credit quality improved significantly from 2002, as demonstrated by a $322 million, or 58%, reduction in net charge-offs. The provision for credit losses was $138 million in 2003, and included a $95 million reduction in the allowance for credit losses.

Card Services

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

With more than 52 million cards in circulation, Card Services is the third-largest credit card provider in the United States and the largest VISA credit card issuer in the world. Card Services is also a leader in online card marketing and customer service, with more than 4.2 million registered users of its website.

Reported Basis

	Three Months Ended June 30			Six Months Ended June 30		
			Change			Change

	Three Months Ended June 30				Six Months Ended June 30			
(Dollars in millions)	2003	2002	Amount	Percent	2003	2002	Amount	Percent
INCOME STATEMENT DATA:								
Net interest income-FTE (3) (20) (21)	**$ 332**	$ 268	$ 64	24%	**$ 641**	$ 519	$ 122	24%
Banking fees and commissions (4)	**9**	17	(8)	(47)	**20**	42	(22)	(52)
Credit card revenue (5) (20)	**825**	891	(66)	(7)	**1,599**	1,744	(145)	(8)
Other income	**34**	28	6	21	**30**	10	20	N/M
Total noninterest income	**868**	936	(68)	(7)	**1,649**	1,796	(147)	(8)
Total revenue, net of interest expense	**1,200**	1,204	(4)	-	**2,290**	2,315	(25)	(1)
Provision for credit losses	**182**	118	64	54	**343**	215	128	60
Salaries and employee benefits	**156**	142	14	10	**309**	288	21	7
Other expense	**408**	462	(54)	(12)	**782**	937	(155)	(17)
Total noninterest expense before restructuring-related charges (reversals)	**564**	604	(40)	(7)	**1,091**	1,225	(134)	(11)
Restructuring-related charges (reversals)	**-**	(19)	19	N/M	**-**	(19)	19	N/M
Total noninterest expense	**564**	585	(21)	(4)	**1,091**	1,206	(115)	(10)
Income before income taxes	**454**	501	(47)	(9)	**856**	894	(38)	(4)
Applicable income taxes	**175**	193	(18)	(9)	**329**	347	(18)	(5)
Net income (22)	$ **279**	$ 308	$ (29)	(9)	$ **527**	$ 547	$ (20)	(4)
Memo-Net securitization gains (amortization)	$ **17**	$ (13)	$ 30	N/M	**18**	$ (44)	$ 62	N/M
FINANCIAL PERFORMANCE:								
Return on average common equity	**18%**	19%	(1)%		**17%**	17%	0%	
Efficiency ratio	**47**	49	(2)		**48**	52	(4)	
Headcount	**10,751**	10,298	453	4%				
ENDING BALANCES:								
Owned loans:								
Held in portfolio	**$ 6,308**	$ 5,115	$ 1,193	23%				
Held for sale (23)	**7,782**	4,000	3,782	95				
Total owned loans	**14,090**	9,115	4,975	55				
Seller's interest and accrued interest receivable	**24,414**	21,897	2,517	11				
Total receivables	**38,504**	31,012	7,492	24				
Assets	**43,597**	34,002	9,595	28				
Equity	**6,361**	6,361	-	-				
AVERAGE BALANCES:								
Owned loans:								
Held in portfolio	**$ 7,085**	$ 5,393	$ 1,692	31%	**$ 7,435**	$ 5,186	$ 2,249	43%
Held for sale (23)	**7,005**	3,066	3,939	N/M	**5,796**	2,654	3,142	N/M
Total owned loans	**14,090**	8,459	5,631	67	**13,231**	7,840	5,391	69
Seller's interest and accrued interest receivable	**23,281**	21,916	1,365	6	**24,861**	22,216	2,645	12
Total receivables	**37,371**	30,375	6,996	23	**38,092**	30,056	8,036	27
Assets	**42,886**	34,467	8,419	24	**43,529**	34,610	8,919	26
Equity	**6,361**	6,361	-	-	**6,361**	6,361	-	-

Card Services continued

	Three Months Ended June 30				Six Months Ended June 30			
			Change				Change	
(Dollars in millions)	2003	2002	Amount	Percent	2003	2002	Amount	Percent
CREDIT QUALITY:								
Net charge-offs	**$ 182**	$ 118	$ 64	54%	**$ 343**	$ 215	$ 128	60%
Annualized net charge-off ratio	**5.17%**	5.58%	(0.41)%		**5.18%**	5.48%	(0.30)%	
Delinquency ratio:								
30+ days	**3.22**	2.72	0.50					
90+ days	**1.49**	1.23	0.26					
Allowance for credit losses	**$ 396**	$ 396	-	-				
Allowance to period end loans held in portfolio	**6.28%**	7.74%	(1.46)%					
OTHER DATA:								
Charge volume *(in billions)*	**$ 40.5**	$ 38.4	$ 2.1	5%	**$ 78.8**	$ 72.4	$ 6.4	9%
New accounts opened *(in thousands)* (24)	**1,823**	983	840	85	**2,798**	1,924	874	45
Credit cards issued *(in thousands)*	**52,073**	48,788	3,285	7				
Number of CardmemberServices.com customers *(in millions)*	**4.2**	2.6	1.6	62				
Paymentech *(in millions)*:								
Bank card volume	**$ 37,258**	$ 30,076	$ 7,182	24	**$ 71,702**	$ 58,037	$ 13,665	24
Total transactions	**1,342**	1,016	326	32	**2,560**	1,956	604	31

Quarterly Results Reported

Card Services net income decreased 6% to $279 million (excluding the $12 million after-tax benefit from a restructuring charge reversal in the prior year), primarily resulting from the continued competitive pricing environment.

Total revenue, net of interest expense remained flat at $1.2 billion. Net interest income increased 24% to $332 million, reflecting higher owned loan balances, partially offset by the impact of lower, more competitive yields. Average owned loan balances were $14.1 billion, an increase of $5.6 billion, or 67%, due to a lower percentage of securitized loans to managed loans in the current period. End of period owned loans increased $5.0 billion, or 55%, from the prior year.

Noninterest income declined 7% to $868 million, primarily driven by lower yields earned on securitized loans partially offset by increased securitization activity and higher charge volume. 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 19% to $149 million, resulting from a 32% increase in total transactions and a 24% increase in bank card volume, driven primarily by the purchase of the Scotia Bank merchant acquirer business in the fourth quarter of 2002.

Noninterest expense was $564 million, a decline of 7% (excluding the $19 million pre-tax benefit from a restructuring charge reversal in the prior year), due to reduced marketing expenses. The Corporation reduced direct mail marketing expense but increased spending for existing customers.

Reported net charge-offs were $182 million, an increase of $64 million, or 54%. The reported net charge-off ratio was 5.17%, down from 5.58%. The reported 30-day delinquency ratio increased to 3.22% from 2.72% in the prior year.

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.

Year-to-Date Results Reported

Card Services year-to-date net income decreased 2% to $527 million (excluding the $12 million after-tax benefit from a restructuring charge reversal in the prior year), primarily resulting from the continued competitive pricing environment partially offset by reduced marketing expenses and expense management.

Total revenue, net of interest expense decreased 1% to $2.3 billion. Net interest income increased 24% to $641 million, reflecting higher owned loan balances, partially offset by the impact of lower, more competitive yields. Average owned loan balances were $13.2 billion, an increase of $5.4 billion, or 69%, due to a lower percentage of securitized loans to managed loans in the current period.

Card Services continued

Noninterest income declined 8% to $1.6 billion, primarily driven by lower yields earned on securitized loans and lower securitized loan balances partially offset by increased securitization activity and higher charge volume. 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 16% to $283 million, resulting from a 31% increase in total transactions and a 24% increase in bank card volume, driven primarily by the purchase of the Scotia Bank merchant acquirer business in the fourth quarter of 2002.

Noninterest expense was $1.1 billion, a decline of 11% (excluding the $19 million pre-tax benefit from a restructuring charge reversal in the prior year), due to reduced marketing expenses and operational efficiencies.

Reported net charge-offs were $343 million, an increase of $128 million, or 60%. The reported net charge-off ratio was 5.18%, down from 5.48%.

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 as securitization income in other income. Securitization also impacts the Corporation s consolidated income statement by reclassifying interest income and fees, interchange income, credit losses and recoveries related to securitized receivables as securitization income. Credit card interest income and fees, interchange income, credit losses and recoveries related to credit card receivables that have been converted to certificate form are reclassified as investment income in net interest income.

The Corporation evaluates its Card Services line of business trends on a managed basis, which treats the securitization as a secured financing transaction and assumes that receivables 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 41 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.

	Three Months Ended June 30				Six Months Ended June 30			
			Change				Change	
(Dollars in millions)	**2003**	**2002**	**Amount**	**Percent**	**2003**	**2002**	**Amount**	**Percent**
INCOME STATEMENT DATA:								
Net interest income-FTE (3) (20) (21)	**$ 1,488**	$ 1,526	$ (38)	(2)%	**$ 2,965**	$ 3,081	$ (116)	$ (4)
Banking fees and commissions (4)	**9**	17	(8)	(47)	**20**	42	(22)	(52)
Credit card revenue (5)	**438**	441	(3)	(1)	**854**	836	18	2
Other loss	**34**	28	6	21	**30**	10	20	N/M
Total noninterest income (21)	**481**	486	(5)	(1)	**904**	888	16	2
Total revenue, net of interest expense	**1,969**	2,012	(43)	(2)	**3,869**	3,969	(100)	(3)
Provision for credit losses (21)	**951**	926	25	3	**1,922**	1,869	53	3
Salaries and employee benefits	**156**	142	14	10	**309**	288	21	7
Other expense	**408**	462	(54)	(12)	**782**	937	(155)	(17)
Total noninterest expense before restructuring-related charges (reversals)	**564**	604	(40)	(7)	**1,091**	1,225	(134)	(11)
Restructuring-related charges (reversals)	**-**	(19)	19	N/M	**-**	(19)	19	N/M
Total noninterest expense	**564**	585	(21)	(4)	**1,091**	1,206	(115)	(10)
Income before income taxes	**454**	501	(47)	(9)	**856**	894	(38)	(4)
Applicable income taxes	**175**	193	(18)	(9)	**329**	347	(18)	(5)
Net income (22)	$ **279**	$ 308	$ (29)	(9)%	$ **527**	$ 547	$ (20)	(4)%
Memo-Net securitization gains (amortization)	$ **17**	$ (13)	$ 30	N/M	**$ 18**	$ (44)	$ 62	N/M
FINANCIAL PERFORMANCE:								
Percentage of average outstandings:								
Net interest income - FTE	**8.17%**	9.29%	(1.12)%		**8.17%**	9.40%	(1.23)%	
Provision for credit losses	**5.22**	5.64	(0.42)		**5.29**	5.70	(0.41)	
Noninterest income	**2.64**	2.96	(0.32)		**2.49**	2.71	(0.22)	
Risk adjusted margin	**5.59**	6.61	(1.02)		**5.37**	6.41	(1.04)	
Noninterest expense	**3.10**	3.56	(0.46)		**3.01**	3.68	(0.67)	
Pretax income - FTE	**2.49**	3.05	(0.56)		**2.36**	2.73	(0.37)	
Net income	**1.53**	1.87	(0.34)		**1.45**	1.67	(0.22)	
Return on average common equity	**18**	19	(1)		**17**	17	-	
Efficiency ratio	**29**	29	-		**28**	31	(3)	
Headcount	**10,751**	10,298	453	4%				
ENDING BALANCES:								
Held in portfolio	**$ 6,308**	$ 5,115	$ 1,193	23%				
Held for sale (23)	**7,782**	4,000	3,782	95				
Securitized	**35,832**	35,797	35	-				
Seller's interest and accrued interest receivable	**24,414**	21,897	2,517	11				
Total loans	**74,336**	66,809	7,527	11				
Assets	**79,429**	69,799	9,630	14				

	Three Months Ended June 30				Six Months Ended June 30			
Equity	**6,361**	6,361	-	-				
AVERAGE BALANCES:								
Held in portfolio	**$ 7,085**	$ 5,393	$ 1,692	31%	**$ 7,435**	$ 5,186	$ 2,249	43%
Held for sale (23)	**7,005**	3,066	3,939	N/M	**5,796**	2,654	3,142	N/M
Securitized	**35,664**	35,555	109	-	**35,116**	36,070	(954)	(3)
Seller's interest and accrued interest receivable	**23,281**	21,916	1,365	6	**24,861**	22,216	2,645	12
Total loans	**73,035**	65,930	7,105	11	**73,208**	66,126	7,082	11
Assets	**78,550**	70,022	8,528	12	**78,645**	70,679	7,966	11
Equity	**6,361**	6,361	-	-	**6,361**	6,361	-	-

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Card Services continued

	Three Months Ended June 30				Six Months Ended June 30			
			Change				Change	
(Dollars in millions)	**2003**	**2002**	**Amount**	**Percent**	**2003**	**2002**	**Amount**	**Percent**
CREDIT QUALITY:								
Net charge-offs	**$ 951**	$ 926	$ 25	3%	**$ 1,922**	$ 1,869	$ 53	3%
Annualized net charge-off ratio	**5.21%**	5.62%	(0.41)%		**5.25%**	5.66%	(0.41)%	
12 month lagged (25)	**5.77**	5.86	(0.09)		**5.81**	5.81	-	
Delinquency ratio:								
30+ days	**3.95**	3.83	0.12					
90+ days	**1.85**	1.72	0.13					
Allowance for credit losses	**$ 396**	$ 396	-	-				
Allowance to period end loans held in portfolio	**6.28**							