

BANK ONE CORP
Form 10-Q
November 14, 2001

BANK ONE CORPORATION
 Financial Supplement and Form 10-Q

| Contents ----- | Page ---- |
|--|--------------|
| Five-Quarter Summary of Selected Financial Information | 1 |
| Business Segments | 2 |
| Consolidated Results | 19 |
| Risk Management | 23 |
| Liquidity Risk Management | 23 |
| Market Risk Management | 23 |
| Credit Risk Management | 25 |
| Operating Risk Management | 25 |
| Credit Portfolio Composition | 25 |
| Asset Quality | 28 |
| Derivative Financial Instruments | 31 |
| Loan Securitizations | 33 |
| Capital Management | 34 |
| Forward-Looking Statements | 36 |
| Consolidated Financial Statements | 38 |
| Notes to Consolidated Financial Statements | 42 |
| Selected Statistical Information | 51 |
| Form 10-Q | 52 |

Edgar Filing: BANK ONE CORP - Form 10-Q

Five-Quarter Summary of Selected Financial Information BANK ONE CORPORATION and Subsidiaries

| | September 30 | June 30 | Three M |
|---|--------------|------------|---------|
| (In millions, except per share data) | 2001 | 2001 | Mar 2 |
| | ----- | ----- | ----- |
| Income Statement Data: | | | |
| Total revenue, net of interest expense | \$ 4,016 | \$ 3,846 | \$ |
| Net interest income-fully taxable-equivalent ("FTE") | | | |
| basis | 2,193 | 2,085 | |
| Noninterest income | 1,853 | 1,791 | |
| Provision for credit losses | 620 | 540 | |
| Noninterest expense | 2,303 | 2,306 | |
| Income (loss) before cumulative effect of change in | | | |
| accounting principle | 754 | 708 | |
| Net income (loss) | 754 | 664 | |
| Per Common Share Data: | | | |
| Income (loss) before cumulative effect of change in | | | |
| accounting principle: | | | |
| Basic | \$ 0.64 | \$ 0.60 | \$ |
| Diluted (1) | 0.64 | 0.60 | |
| Net income (loss): | | | |
| Basic | 0.64 | 0.57 | |
| Diluted (1) | 0.64 | 0.56 | |
| Cash dividends declared | 0.21 | 0.21 | |
| Book value | 17.30 | 16.49 | |
| Balance Sheet Data-Ending Balances: | | | |
| Loans: | | | |
| Managed | \$ 222,604 | \$ 223,390 | \$ 22 |
| Reported | 164,251 | 166,576 | 17 |
| Deposits | 162,385 | 164,299 | 16 |
| Long-term debt (2) | 44,361 | 41,693 | 4 |
| Total assets: | | | |
| Managed | 310,207 | 312,244 | 31 |
| Reported | 270,252 | 272,412 | 27 |
| Common stockholders' equity | 20,192 | 19,261 | 1 |
| Total stockholders' equity | 20,382 | 19,451 | 1 |
| Credit Quality Ratios: | | | |
| Net charge-offs to average loans-managed (3) | 2.58% | 2.50% | |
| Allowance for credit losses to period end loans | 2.73 | 2.54 | |
| Nonperforming assets to related assets | 1.96 | 1.77 | |
| Financial Performance Ratios: | | | |
| Return (loss) on average assets | 1.13% | 0.99% | |
| Return (loss) on average common equity | 15.0 | 13.9 | |
| Net interest margin: | | | |
| Managed | 4.95 | 4.65 | |
| Reported | 3.70 | 3.50 | |
| Efficiency ratio: | | | |
| Managed | 46.9 | 48.5 | |
| Reported | 56.9 | 59.5 | |

Edgar Filing: BANK ONE CORP - Form 10-Q

1

Five-Quarter Summary of Selected Financial Information-Continued BANK ONE CORPORATION and Subsidiaries

| | September 30 | June 30 | Three Months E |
|--|--------------|----------|----------------|
| (In millions, except per share data) | 2001 | 2001 | March 31 |
| | 2001 | 2001 | 2001 |
| Capital Ratios: | | | |
| Risk-based capital: | | | |
| Tier 1 (5) | 8.4% | 8.2% | 7.8% |
| Total (5) | 11.7 | 11.6 | 11.2 |
| Tangible common equity/tangible managed assets | 5.8 | 5.8 | 5.6 |
| Common Stock Data: | | | |
| Average shares outstanding: | | | |
| Basic | 1,168 | 1,166 | 1,163 |
| Diluted (1) | 1,176 | 1,176 | 1,173 |
| Stock price, quarter-end | \$ 31.47 | \$ 35.80 | \$ 36.18 |
| Employees (4) | 75,801 | 78,491 | 79,157 |

- (1) Common equivalent shares and related income were excluded from the computation of diluted loss per share for the three months ended December 31, 2000 as the effect would be antidilutive.
- (2) Includes trust preferred capital securities.
- (3) Third quarter 2001, second quarter 2001, and first quarter 2001 amounts include \$14 million, \$24 million, and \$40 million, respectively, of charge-offs which are not so classified in the Corporation's GAAP financial information because they are part of a portfolio which has been accounted for as loans held at a discount. The inclusion of these amounts in charge-offs more accurately reflects the performance of the portfolio. In the Corporation's financial statements, these items result in a higher provision in excess of net charge-offs.
- (4) Beginning in the first quarter of 2001, employees on long-term disability and employees of unconsolidated subsidiaries are excluded. Prior period data have not been restated for this change.
- (5) Excludes \$190 million of preferred stock called for redemption as of September 30, 2001.

Business Segments

Bank One Corporation and its subsidiaries ("Bank One" or the "Corporation") is managed on a line of business basis. The business segments' financial results presented reflect the current organization of the Corporation. The following tables summarize certain financial information (as reported) by line of business for the periods indicated:

| Net Income (Loss) (In millions) |
|---------------------------------------|
| ----- |

Edgar Filing: BANK ONE CORP - Form 10-Q

| Three Months Ended September 30 | 2001 | 2000 | |
|----------------------------------|--------|--------|----|
| Retail | \$ 310 | \$ 251 | \$ |
| Commercial Banking | 199 | 194 | |
| First USA | 279 | 177 | |
| Investment Management | 101 | 86 | |
| Corporate/Unallocated | (135) | (127) | |
| | ----- | ----- | |
| Total Corporation-reported | \$ 754 | \$ 581 | \$ |
| | ===== | ===== | |

| | Net Income (Loss) (In millions) | | |
|-----------------------------------|---------------------------------------|--------|----|
| Nine Months Ended September 30 | 2001 | 2000 | |
| Retail | \$ 981 | \$ 406 | \$ |
| Commercial Banking | 577 | 238 | |
| First USA | 620 | (135) | |
| Investment Management | 266 | 240 | |
| Corporate/Unallocated | (303) | (748) | |
| | ----- | ----- | |
| Total Corporation-operating | 2,141 | 1 | \$ |
| | | | |
| Accounting change | (44) | - | |
| | ----- | ----- | |
| Total Corporation-reported | \$ 2,097 | \$ 1 | \$ |
| | ===== | ===== | |

7

The information provided in the line of business tables beginning with the caption entitled "Financial Performance" is included herein for analytical purposes only and is based on management information systems, assumptions and methodologies that are under continual review. For a detailed discussion of the various business activities of Bank One's business segments, see pages 4-14 of the Corporation's 2000 Annual Report on Form 10-K.

The financial information and supplemental data presented for the respective line-of-business sections for the nine months ended September 30, 2000 are reported on an actual basis. However, for analytical purposes and to better understand underlying trends, the following line of business discussion excludes the impact of the second quarter 2000 significant items noted in tables 1-3 on pages 18-19.

During the third quarter, certain organizational changes were made impacting the Corporate Investments and Commercial Banking businesses. The tax-oriented portfolio of Corporate Investments was transferred to Commercial Banking, while the principal investments and fixed income portfolios were transferred to Corporate/Unallocated. All results for prior periods conform to the current line of business organization.

Retail

Edgar Filing: BANK ONE CORP - Form 10-Q

Retail includes consumer and small business banking, auto and consumer lending, and interactive banking and financial management through bankone.com.

| (Dollars in millions) | Three Months Ended September 30 | | | Nine Months |
|---|---------------------------------|----------|----------|-------------|
| | 2001 | 2000 | % Change | 2001 |
| Net interest income-FTE basis | \$ 1,237 | \$ 1,236 | -% | \$ 3,790 |
| Non-deposit service charges | 81 | 89 | (9) | 257 |
| Credit card revenue | 43 | 36 | 19 | 120 |
| Service charges on deposits | 203 | 192 | 6 | 587 |
| Fiduciary and investment management fees | 32 | 25 | 28 | 90 |
| Other income (loss) | 1 | (16) | N/M | 25 |
| Noninterest income | 360 | 326 | 10 | 1,079 |
| Total revenue | 1,597 | 1,562 | 2 | 4,869 |
| Provision for credit losses | 247 | 207 | 19 | 692 |
| Salaries and employee benefits | 376 | 377 | - | 1,128 |
| Other expense | 498 | 582 | (14) | 1,523 |
| Noninterest expense (3) | 874 | 959 | (9) | 2,651 |
| Pretax income-FTE basis | 476 | 396 | 20 | 1,526 |
| Tax expense and FTE basis adjustment | 166 | 145 | 14 | 545 |
| Net income | \$ 310 | \$ 251 | 24 | \$ 981 |
| FINANCIAL PERFORMANCE: | | | | |
| Return on equity | 20% | 17% | | 21% |
| Efficiency ratio | 55 | 61 | | 54 |
| Headcount-full-time (1) | 34,253 | 35,979 | (5) | |
| ENDING BALANCES (in billions): | | | | |
| Commercial loans | \$12.4 | \$11.6 | 7% | |
| Home equity loans | 30.7 | 29.7 | 3 | |
| Auto loans / leases | 20.4 | 23.9 | (15) | |
| Other personal loans | 9.9 | 11.6 | (15) | |
| Total loans | 73.4 | 76.8 | (4) | |
| Assets | 77.6 | 79.1 | (2) | |
| Demand deposits | 24.7 | 24.2 | 2 | |
| Savings | 34.7 | 32.5 | 7 | |
| Time | 28.1 | 31.0 | (9) | |
| Total deposits | 87.5 | 87.7 | - | |
| Common equity | 6.3 | 5.9 | 7 | |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | Three Months Ended September 30 | | | Nine Months Ended September 30 |
|--|---------------------------------|---------|----------|--------------------------------|
| (Dollars in millions) | 2001 | 2000 | % Change | 2001 |
| AVERAGE BALANCES (in billions): | | | | |
| Commercial loans | \$ 12.4 | \$ 11.8 | 5% | \$ 12.2 |
| Home equity loans | 30.8 | 28.3 | 9 | 30.8 |
| Auto loans / leases | 21.0 | 24.0 | (13) | 21.7 |
| Other personal loans | 10.0 | 10.6 | (6) | 10.7 |
| Total loans | 74.2 | 74.7 | (1) | 75.4 |
| Assets | 78.3 | 78.8 | (1) | 79.6 |
| Demand deposits | 24.1 | 24.3 | (1) | 24.1 |
| Savings | 34.4 | 33.1 | 4 | 33.5 |
| Time | 28.8 | 30.5 | (6) | 30.4 |
| Total deposits | 87.3 | 87.9 | (1) | 88.0 |
| Common equity | 6.3 | 5.9 | 7 | 6.2 |
| CREDIT QUALITY (in millions): | | | | |
| Net charge-offs: | | | | |
| Small business commercial | \$ 20 | \$ 11 | 82% | \$ 47 |
| Home equity loans | 84 | 59 | 42 | 250 |
| Auto loans / leases (2) | 84 | 54 | 56 | 245 |
| Other personal loans | 35 | 27 | 30 | 88 |
| Total consumer (2) | 203 | 140 | 45 | 583 |
| Total net charge-offs (2) | 223 | 151 | 48 | 630 |
| Net charge-off ratios: | | | | |
| Small business commercial | 0.65% | 0.37% | | 0.51% |
| Home equity loans | 1.09 | 0.83 | | 1.08 |
| Auto loans / leases (2) | 1.60 | 0.90 | | 1.51 |
| Other personal loans | 1.40 | 1.02 | | 1.10 |
| Total consumer (2) | 1.31 | 0.89 | | 1.23 |
| Total net charge-offs (2) | 1.14 | 0.81 | | 1.11 |
| Nonperforming assets: | | | | |
| Commercial | \$ 244 | \$ 187 | 30% | |
| Consumer | 914 | 508 | 80 | |
| Total nonperforming loans | 1,158 | 695 | 67 | |
| Other, including OREO | 76 | 82 | (7) | |
| Total nonperforming assets | 1,234 | 777 | 59 | |
| Allowance for loan losses | \$ 990 | N/A | | |
| Allowance to period end loans | 1.35% | N/A | | |
| Allowance to nonperforming loans | 85 | N/A | | |
| Nonperforming assets to related assets | 1.68 | 1.01% | | |

Edgar Filing: BANK ONE CORP - Form 10-Q

4

| (Dollars in millions) | Three Months Ended September 30 | | | Nine Months |
|--|---------------------------------|---------|----------|-------------|
| | 2001 | 2000 | % Change | 2001 |
| DISTRIBUTION: | | | | |
| # Banking centers | 1,805 | 1,818 | (1)% | |
| # ATMs | 5,652 | 6,377 | (11) | |
| # On-line customers (in thousands) | 1,040 | 825 | 26 | |
| # Households (in thousands) | 7,361 | 7,781 | (5) | |
| # Business customers (in thousands) | 512 | 533 | (4) | |
| # Debit cards issued (in thousands) | 4,359 | 4,173 | 4 | |
| INVESTMENTS: | | | | |
| Investment sales volume (in millions) | \$1,231 | \$1,028 | 20% | \$3,510 |

N/M-Not meaningful.

N/A-Not available due to changes in segment composition; see Note 5 on page 59 of the Corporation's 2000 Annual Report on Form 10-K.

- (1) Beginning in the first quarter of 2001, employees on long-term disability and employees of unconsolidated subsidiaries are excluded.
- (2) Third quarter 2001 and nine-months ended September 30, 2001 amounts include \$14 million and \$78 million, respectively, of charge-offs which are not so classified in the Corporation's GAAP financials because they are part of a portfolio which has been accounted for as loans held at a discount. The inclusion of these amounts in charge-offs more accurately reflects the performance of the portfolio. In the Corporation's financial statements, this item results in a higher provision in excess of net charge-offs.
- (3) Certain capitalized expenses have been reclassified from salaries to other expenses in all periods.

Quarterly Results

Retail reported third quarter net income of \$310 million, up \$59 million, or 24%, from the year-ago quarter. The year-over-year improvement reflected higher revenue and lower noninterest expense, partially offset by higher provision for credit losses. Compared to the 2001 second quarter, net income declined \$12 million, or 4%, reflecting increased provision, partially offset by lower noninterest expense.

Net interest income was \$1.237 billion, essentially unchanged from a year ago. Average home equity loans increased 9% from a year ago, while average auto loans and leases decreased 13%, reflecting a deliberate reduction in the level of new auto leases. Current quarter net interest income was also unchanged from the second quarter, primarily reflecting lower average loans and deposits, offset by higher margins on deposits.

Noninterest income was \$360 million, up \$34 million, or 10%, from a year ago. This primarily reflected the absence of auto lease residual losses in the current quarter, compared with \$58 million of such losses a year ago, and higher deposit fees, partially offset by losses on tax-advantaged investments and lower

Edgar Filing: BANK ONE CORP - Form 10-Q

asset sale gains. Noninterest income was essentially unchanged from the second quarter.

Provision for credit losses was \$247 million, up \$40 million from the year-ago quarter and \$46 million from the second quarter. Managed net charge-offs totaled \$223 million, up from \$151 million in the year-ago quarter and \$201 million in the second quarter. The year-over-year increase was driven by higher charge-offs in the home equity and the auto lending portfolios, while the increase from the second quarter reflected higher charge-offs of other personal loans and auto loans and leases, partially offset by lower home equity loan charge-offs. The third quarter net charge-off ratio was 1.14%, up from 0.81% in the year-ago period and 1.07% in the second quarter.

Nonperforming assets increased \$457 million from a year ago, largely driven by a \$406 million increase in consumer nonperforming loans. Compared with the second quarter, nonperforming assets increased \$115 million, or 10%. The allowance for credit losses expressed as a percent of loans increased to 1.35% at September 30, 2001, up from 1.27% at June 30, 2001.

Noninterest expense was \$874 million, down \$85 million, or 9%, from the year-ago quarter, reflecting the positive impacts from waste-reduction initiatives and reduced headcount. Compared with the second quarter, noninterest expense decreased \$16 million. The efficiency ratio in the current quarter was 55%, down from 61% a year ago.

5

Year-to-Date Results-Adjusted Basis

For the first nine months of 2001, Retail reported net income of \$981 million, up \$247 million from the 2000 period. The \$113 million, or 3%, increase in net interest income for 2001 from the prior year was due to wider loan spreads and a 2% increase in average loan balances, partially offset by deposit margin compression.

Noninterest income increased \$117 million from the prior year on an adjusted basis, to \$1.079 billion in 2001 period, reflecting \$178 million in realized auto lease residual losses in the 2000 period. Noninterest expense was down \$334 million, or 11%, due to waste reduction initiatives and reduced headcount.

Commercial Banking

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

| (Dollars in millions) | Three Months Ended September 30 | | | Nine Months |
|-------------------------------------|---------------------------------|--------|----------|-------------|
| | 2001 | 2000 | % Change | 2001 |
| Net interest income-FTE basis | \$ 642 | \$ 710 | (10)% | \$ 2,021 |
| Non-deposit service charges | 178 | 166 | 7 | 518 |
| Credit card revenue | 21 | 19 | 11 | 65 |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | | |
|---|--------|--------|--------|----------|
| Service charges on deposits | 174 | 117 | 49 | 453 |
| Fiduciary and investment management fees | 6 | (2) | N/M | 9 |
| Investment securities losses | (12) | - | - | (12) |
| Trading | 81 | 77 | 5 | 225 |
| Other income (loss) | (23) | (10) | N/M | (71) |
| | ----- | ----- | | ----- |
| Noninterest income | 425 | 367 | 16 | 1,187 |
| | ----- | ----- | | ----- |
| Total revenue | 1,067 | 1,077 | (1) | 3,208 |
| Provision for credit losses | 246 | 226 | 9 | 749 |
| Salaries and employee benefits | 261 | 275 | (5) | 794 |
| Other expense | 278 | 294 | (5) | 856 |
| | ----- | ----- | | ----- |
| Noninterest expense | 539 | 569 | (5) | 1,650 |
| | ----- | ----- | | ----- |
| Pretax income-FTE basis | 282 | 282 | - | 809 |
| Tax expense and FTE basis adjustment | 83 | 88 | (6) | 232 |
| | ----- | ----- | | ----- |
| Net income | \$ 199 | \$ 194 | 3 | \$ 577 |
| | ===== | ===== | | ===== |
| Memo: Revenue by activity (7) | | | | |
| Lending-related revenue | \$478 | \$555 | (14) % | \$ 1,497 |
| Treasury management services (4) | 288 | 251 | 15 | 852 |
| Capital markets (5) | 161 | 161 | - | 490 |
| Other | 140 | 110 | 27 | 369 |
| FINANCIAL PERFORMANCE: | | | | |
| Return on equity | 11% | 11% | | 11% |
| Efficiency ratio | 51 | 53 | | 51 |
| Headcount-full-time | | | | |
| Corporate Banking (including Capital Markets) | 4,410 | 4,804 | (8) % | |
| Middle Market | 4,034 | 4,267 | (5) | |
| Treasury management services | 4,787 | 4,931 | (3) | |
| Support and other administration (6) | 33 | 177 | (81) | |
| | ----- | ----- | | |
| Total headcount-full-time | 13,264 | 14,179 | (6) | |

6

| | Three Months Ended September 30 | | | Nine |
|--------------------------------|---------------------------------|---------|----------|------|
| | 2001 | 2000 | % Change | 2001 |
| ENDING BALANCES (in billions): | | | | |
| Loans | \$ 75.0 | \$ 87.6 | (14) % | |
| Assets | 103.9 | 121.4 | (14) | |
| Demand deposits | 23.0 | 20.5 | 12 | |
| Savings | 2.8 | N/A | | |
| Time (+ Savings in 2000) | 9.4 | 8.4 | 12 | |
| Foreign offices | 9.3 | 9.6 | (3) | |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | | |
|---|----------|----------|--------|-------|
| Total deposits | 44.5 | 38.5 | 16 | |
| Common equity | 7.2 | 7.0 | 3 | |
| AVERAGE BALANCES (in billions): | | | | |
| Loans | \$ 75.6 | \$ 86.7 | (13) % | \$ 80 |
| Assets | 103.7 | 115.3 | (10) | 106 |
| Demand deposits | 20.6 | 20.7 | - | 20 |
| Savings | 2.8 | N/A | | 2 |
| Time (+ Savings in 2000) | 9.2 | 8.0 | 15 | 7 |
| Foreign offices | 10.0 | 10.5 | (5) | 8 |
| Total deposits | 42.6 | 39.2 | 9 | 39 |
| Common equity | 7.2 | 6.9 | 4 | 7 |
| CREDIT QUALITY (in millions): | | | | |
| Net commercial charge-offs | \$ 230 | \$ 109 | N/M | \$ 7 |
| Net commercial charge-off ratio | 1.22% | 0.50% | | 1. |
| Nonperforming assets: | | | | |
| Commercial nonperforming loans | \$ 1,901 | \$ 1,243 | 53 % | |
| Other including OREO | 30 | 11 | N/M | |
| Total nonperforming assets | 1,931 | 1,254 | 54 | |
| Allowance for loan losses | \$ 3,067 | N/A | | |
| Allowance to period end loans | 4.09% | N/A | | |
| Allowance to nonperforming loans | 161 | N/A | | |
| Nonperforming assets to related assets..... | 2.57 | 1.43% | | |
| CORPORATE BANKING (in billions): | | | | |
| Loans-ending balance | \$ 40.5 | \$ 54.4 | (26) % | |
| -average balance | 41.4 | 54.1 | (23) | \$ 45 |
| Deposits-ending balance | 24.1 | 19.5 | 24 | |
| -average balance | 23.9 | 21.4 | 12 | 20 |
| Credit Quality (in millions): | | | | |
| Net commercial charge-offs | \$ 131 | \$ 76 | 72 % | \$ 4 |
| Net commercial charge-off ratio | 1.27% | 0.56% | | 1. |
| Nonperforming loans | \$ 1,051 | \$ 788 | 33 | |
| Nonperforming loans to loans | 2.60% | 1.45% | | |

7

| | Three Months Ended September 30 | | | Nine Month |
|----------------------------|---------------------------------|---------|----------|------------|
| | 2001 | 2000 | % Change | 2001 |
| SYNDICATIONS: | | | | |
| Lead Arranger Deals: | | | | |
| Volume (in billions) | \$ 9.7 | \$ 16.6 | (42) % | \$ 37.0 |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | | |
|--|---------|---------|------|---------|
| Number of transactions | 56 | 60 | (7) | 161 |
| League table standing-rank | 4 | 4 | | |
| League table standing-market share | 4% | 5% | | |
| MIDDLE MARKET BANKING (in billions): | | | | |
| Loans-ending balance | \$ 34.5 | \$ 33.2 | 4 % | |
| -average balance | 34.2 | 32.6 | 5 | \$ 34.3 |
| Deposits-ending balance | 20.3 | 19.0 | 7 | |
| -average balance | 18.7 | 17.8 | 5 | 18.4 |
| Credit Quality (in millions): | | | | |
| Net commercial charge-offs | \$ 99 | \$ 33 | N/M | \$ 246 |
| Net commercial charge-off ratio | 1.16% | 0.40% | | 0.96% |
| Nonperforming loans | \$ 850 | \$ 455 | 87 % | |
| Nonperforming loans to loans | 2.46% | 1.37% | | |

-
- (4) Treasury Management Services includes both fees and fee equivalent from compensating balances.
 - (5) Capital Markets includes trading revenues and underwriting, syndicated lending and advisory fees.
 - (6) Full-time headcount for September 30, 2000 has been restated to reflect the movement of support and other administrative personnel into the respective business units reported.
 - (7) Third quarter 2000 amounts reclassified.

Quarterly Results

Commercial Banking reported third quarter net income of \$199 million, up \$5 million, or 3%, from the year-ago quarter. These results included \$21 million of net income in the tax-oriented portfolio for the third quarter, which was previously reported under the Corporate Investments line of business. Results for prior periods conform to the current line of business organization.

At September 30, 2001, loans were \$75.0 billion, down \$12.6 billion, or 14%, from the end of the year-ago quarter and down \$2.6 billion, or 3%, from the end of the second quarter. Corporate Banking loans were \$40.5 billion at September 30, down \$13.9 billion, or 26% from a year-ago and down \$2.8 billion, or 6%, from the end of the second quarter. Middle Market loans were \$34.5 billion at quarter-end, up \$1.3 billion, or 4%, from last year and up slightly from the end of the second quarter.

Revenue totaled \$1.067 billion, down \$10 million, or 1%, from the year-ago quarter and up \$9 million, or 1%, from the second quarter, with the decline in net interest income offset by growth in noninterest income.

Net interest income was \$642 million, down \$68 million, or 10%, from the year-ago quarter and down \$40 million, or 6%, from the second quarter. This reflected lower average loan balances following efforts to reduce credit risk exposure and the impact of lower rates on customers' compensating deposit balances.

Noninterest income was \$425 million, up \$58 million, or 16%, from the year-ago quarter. Service charges on deposits increased \$57 million, or 49%, reflecting strong improvement in Treasury Management volumes and pricing as well as a shift in the payment of fees from net interest income due to the lower value of customers' compensating deposit balances.

Compared with the second quarter, noninterest income increased \$49 million,

Edgar Filing: BANK ONE CORP - Form 10-Q

or 13%. Service charges on deposits increased \$26 million, or 18%, reflecting the above-mentioned switch in the payment for services to fees from balances. Other income improved \$19 million as the second quarter included a loss on the sale of assets.

The provision for credit losses was \$246 million, up \$20 million, or 9%, from the year-ago quarter, and up \$7 million, or 3%, from the second quarter. Total net charge-offs declined from the second quarter to \$230 million. This represented 1.22% of average loans, up significantly from 0.50% in the year-ago quarter, and up slightly from

8

the second quarter. Corporate Banking net charge-offs were \$131 million, or 1.27% of average loans, up from 0.56% a year-ago, but down from 1.36% in the second quarter. Third quarter charge-offs included \$33 million relating to nonperforming and other distressed loan sales, compared to \$68 million in the second quarter and the absence of any in the year-ago quarter. Middle Market net charge-offs were \$99 million, or 1.16% of average loans, up from 0.40% in the year-ago quarter and 0.98% in the second quarter.

The allowance for credit losses at September 30, 2001, increased to \$3.067 billion from \$3.056 billion at the end of the second quarter. This represented 4.09% of period-end loans and 161% of nonperforming loans, compared with 3.94% and 174%, respectively, at June 30, 2001. At September 30, 2001, nonperforming loans were \$1.901 billion, up \$149 million, or 9%, from the second quarter. Corporate Banking nonperforming loans at quarter-end were \$1.051 billion, essentially flat with the second quarter. Before reflecting the sale of nonperforming loans, Corporate Banking nonperforming loans increased \$43 million during the quarter, compared to increases on a comparable basis of \$245 million in the second quarter and \$262 million in the first quarter. Middle Market nonperforming loans were \$850 million at September 30, 2001, up \$148 million from the end of the second quarter.

Noninterest expense was \$539 million, down \$30 million, or 5%, from the year-ago quarter and down \$14 million, or 3%, from the second quarter. The declines reflected the impact of waste-reduction efforts and lower headcount. The efficiency ratio in the third quarter was 51%, improved from 53% and 52% in the year-ago and second quarters, respectively.

Year-to-Date Results-Adjusted Basis

Commercial Banking reported net income of \$577 million, down \$88 million, or 13% from 2000, reflecting higher credit costs and the continuation of strategic efforts to reduce Corporate Banking loans and exposures and improve relationship profitability.

Net interest income was \$2.021 billion, down \$105 million, or 5% from 2000, for the same reasons mentioned in the quarterly results. The cost associated with nonperforming loans increased in the current year due to higher volumes and lower cash basis collections.

Noninterest income was \$1.187 billion, up \$141 million, or 13% from the year-ago period, reflecting an increase in fixed income and asset backed finance underwriting activities, strong improvement in Treasury Management volumes and pricing and improved fixed income trading. These were partially offset by losses on asset sales.

The provision for credit losses was \$749 million, up \$239 million, or 47%,

Edgar Filing: BANK ONE CORP - Form 10-Q

from the 2000 period. Total net-charge offs were \$718 million, in the first nine months of 2001, including \$190 million related to problem loan sales. This represented 1.20% of average loans, up significantly from 0.47% in the prior year. Nonperforming loans at September 30, 2001, were \$1.901 billion, up \$658 million, or 53%, from the prior year reflecting deterioration in the portfolio.

Noninterest expense was \$1.650 billion, down \$59 million, or 3%, reflecting the impact of waste reduction efforts and lower headcount. The efficiency ratio improved to 51% from 54%.

9

First USA

First USA is the third largest credit card company in the United States and is the largest Visa(R) credit card issuer in the world, with \$67 billion in managed credit card receivables and 58.4 million cardmembers.

| (Dollars in millions) | Three Months Ended September 30 | | | Nine Months |
|--|---------------------------------|----------|----------|-------------|
| | 2001 | 2000 | % Change | 2001 |
| Net interest income-FTE basis..... | \$ 1,606 | \$ 1,442 | 11% | \$ 4,455 |
| Non-deposit service charges | 1 | 4 | (75) | 4 |
| Credit card revenue | 309 | 284 | 9 | 834 |
| Fiduciary and investment management fees .. | 22 | 20 | 10 | 66 |
| Investment securities gains | - | - | - | - |
| Trading | - | (1) | N/M | - |
| Other income (loss) | 22 | 17 | 29 | 95 |
| Noninterest income | 354 | 324 | 9 | 999 |
| Total revenue | 1,960 | 1,766 | 11 | 5,454 |
| Provision for credit losses | 981 | 853 | 15 | 2,893 |
| Salaries and employee benefits | 123 | 121 | 2 | 376 |
| Other expense | 412 | 512 | (20) | 1,195 |
| Noninterest expense | 535 | 633 | (15) | 1,571 |
| Pretax income (loss)-FTE basis | 444 | 280 | 59 | 990 |
| Tax expense (benefit) and FTE basis adjustment | 165 | 103 | 60 | 370 |
| Net income (loss) | \$ 279 | \$ 177 | 58 | \$ 620 |
| Memo: Net securitization amortization | \$ (22) | \$ (22) | - | \$ (42) |
| FINANCIAL PERFORMANCE: | | | | |
| % of average outstandings: | | | | |
| Net interest income-FTE basis | 9.57% | 8.71% | | 9.15% |
| Provision for credit losses | 5.84 | 5.15 | | 5.94 |
| Noninterest income | 2.11 | 1.96 | | 2.05 |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | |
|--------------------------------------|--------|--------|------|
| Risk adjusted margin | 5.84 | 5.52 | 5.26 |
| Noninterest expense | 3.19 | 3.82 | 3.23 |
| Pretax income (loss)-FTE basis | 2.64 | 1.69 | 2.03 |
| Net income (loss) | 1.66 | 1.07 | 1.27 |
| Return (loss) on equity | 17% | 12% | 13% |
| Efficiency ratio | 27 | 36 | 29 |
| Headcount-full-time | 10,245 | 10,856 | (6)% |
| ENDING BALANCES (in billions): | | | |
| Owned | \$ 8.4 | \$ 4.8 | 75% |
| Seller's interest | 18.4 | 19.7 | (7) |
| Loans on balance sheet | 26.8 | 24.5 | 9 |
| Securitized..... | 40.0 | 41.4 | (3) |
| Loans | 66.8 | 65.9 | 1 |
| Assets | 70.8 | 69.2 | 2 |
| Common equity | 6.4 | 6.1 | 5 |

10

| | Three Months Ended September 30 | | | Nine Months | |
|---|---------------------------------|--------|----------|-------------|----|
| | 2001 | 2000 | % Change | 2001 | |
| AVERAGE BALANCES (in billions): | | | | | |
| Owned..... | \$ 7.9 | \$ 4.7 | 68% | \$ 6.4 | \$ |
| Seller's interest | 17.8 | 18.3 | (3) | 18.3 | |
| Loans on balance sheet | 25.7 | 23.0 | 12 | 24.7 | |
| Securitized | 40.9 | 42.9 | (5) | 40.4 | |
| Loans | 66.6 | 65.9 | 1 | 65.1 | |
| Assets | 70.2 | 69.2 | 1 | 67.9 | |
| Common equity | 6.4 | 6.1 | 5 | 6.3 | |
| CREDIT QUALITY (in millions): | | | | | |
| Net charge-offs: | | | | | |
| Credit card-managed | \$ 981 | \$ 828 | 18% | \$ 2,893 | \$ |
| Net charge-off ratios: | | | | | |
| Credit card-managed | 5.89% | 5.03% | | 5.93% | |
| 12-month lagged (8) | 5.95 | 4.79 | | 5.81 | |
| Delinquency ratio-30+ days | 4.25 | 4.14 | | | |
| -90+ days | 1.80 | 1.79 | | | |
| Allowance for loan losses | \$ 397 | N/A | | | |
| Allowance to period end owned loans | 4.73% | N/A | | | |

Edgar Filing: BANK ONE CORP - Form 10-Q

OTHER DATA:

| | | | | | |
|--|---------|---------|----|----------|----|
| Charge volume (in billions) | \$ 35.2 | \$ 34.6 | 2% | \$ 102.1 | \$ |
| New accounts opened (in thousands) | 1,149 | 727 | 58 | 2,927 | |
| Cards issued | 58,441 | 53,650 | 9 | | |
| Number of FUSA.com | | | | | |
| customers (in millions) | 2.8 | 1.9 | 47 | | |

(8) Third quarter 2001 ratio includes Wachovia's net charge-offs but excludes third quarter 2000 loans.

Quarterly Results

First USA reported third quarter net income of \$279 million, up \$102 million, or 58%, from the year-ago quarter. This reflected higher net interest income, lower expenses, and the addition of the Wachovia credit card business on July 27, 2001, partially offset by increased credit costs. Net income increased \$86 million, or 45%, from the second quarter, driven primarily by higher net interest income, lower credit costs and reduced expenses on the legacy First USA portfolio, and the addition of the Wachovia credit card business. Third quarter results represented a 2.64% pre-tax return on outstandings, up from 1.97% in the prior quarter.

Net interest income was \$1.606 billion, up \$164 million, or 11%, from the year-ago quarter, reflecting the addition of the Wachovia portfolio and higher net interest margin.

Average managed loans for the third quarter were \$66.6 billion, up \$700 million from the year-ago period and \$3.4 billion from the second quarter. Excluding the Wachovia portfolio, average loans were \$61.7 billion, down \$4.2 billion from the year-ago period and \$1.5 billion from the second quarter. End of period managed loans increased to \$66.8 billion. Excluding the Wachovia portfolio, end of period loans were \$60.7 billion. First USA opened over 1.1 million new accounts during the quarter, up 58% and 15%, respectively, from the year-ago and second quarters. At September 30, 2001, 58.4 million cards were issued. First USA continues to be a leader in online card marketing and customer service with over 2.8 million registered users of its website, FirstUSA.com, up 47% from a year ago.

Noninterest income was \$354 million, up \$30 million, or 9%, from the year-ago quarter and \$18 million, or 5%, from the second quarter, reflecting the addition of the Wachovia portfolio.

11

The managed provision for credit losses was \$981 million, up \$128 million, or 15%, from the year-ago quarter, including the addition of the Wachovia portfolio. The managed charge-off rate increased to 5.89% from 5.03% a year ago, reflecting lower average loans on the First USA portfolio and higher losses, but decreased from 6.09% in the second quarter. The managed 30-day and 90-day delinquency rates were 4.25% and 1.80%, respectively, up from 4.14% and 1.79% in the year-ago quarter and 4.10% and 1.78% in the second quarter.

Noninterest expense totaled \$535 million, down \$98 million, or 15%, from the year-ago quarter, reflecting lower operating costs, partially offset by the addition of the Wachovia portfolio. Noninterest expense increased \$13 million from the second quarter, driven by lower operating expenses that were more than

Edgar Filing: BANK ONE CORP - Form 10-Q

offset by the addition of the Wachovia portfolio. The efficiency ratio for the current period was 27%, down from 36% in the prior year and 29% in the second quarter.

Year-to-Date Results-Adjusted Basis

First USA reported net income of \$620 million for the 2001 period, up \$263 million, or 74%, from the 2000 period. The improvement was driven by lower expenses and the addition of the Wachovia credit card business, partially offset by lower net interest income on the legacy First USA portfolio and increased credit costs.

Net interest income was \$4.455 billion, up \$37 million, or 1%, from the year-ago period reflecting the addition of Wachovia and lower interest rates partially offset by lower average outstandings and loan fee income.

Noninterest income was \$999 million, up \$104 million, or 12%, from the 2000 period reflecting the addition of the Wachovia portfolio and increased securitization activity.

The managed provision for credit losses was \$2.893 billion, up \$171 million, or 6%, from the 2000 period reflecting the addition of the Wachovia portfolio and increased net charge-offs.

Noninterest expense totaled \$1.571 billion, down \$456 million, or 22%, from the 2000 period, reflecting lower operating costs and a decrease in internally allocated costs related to a mid-year 2000 change in methodology. The decline from a year ago also reflected the sale of the international operations in the second quarter of 2000. These reductions were partially offset by the addition of Wachovia.

12

Investment Management

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

| (Dollars in millions) | Three Months Ended September 30 | | | Nine Months |
|--|---------------------------------|--------|----------|-------------|
| | 2001 | 2000 | % Change | 2001 |
| Net interest income-FTE basis | \$ 106 | \$ 104 | 2% | \$ 317 |
| Non-deposit service charges | 182 | 128 | 42 | 518 |
| Service charges on deposits | 4 | 4 | - | 12 |
| Fiduciary and investment management fees ... | 130 | 151 | (14) | 395 |
| Other income | 1 | 3 | (67) | 7 |
| Noninterest income | 317 | 286 | 11 | 932 |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | | |
|--|-------------|-------------|--------|-------------|
| Total revenue | 423 | 390 | 8 | 1,249 |
| Provision for credit losses | 9 | 2 | N/M | 25 |
| Salaries and employee benefits | 140 | 142 | (1) | 430 |
| Other expense | 113 | 110 | 3 | 368 |
| | ----- | ----- | | ----- |
| Noninterest expense | 253 | 252 | - | 798 |
| | ----- | ----- | | ----- |
| Pretax income-FTE basis | 161 | 136 | 18 | 426 |
| Tax expense and FTE basis adjustment | 60 | 50 | 20 | 160 |
| | ----- | ----- | | ----- |
| Net income | \$ 101 | \$ 86 | 18 | \$ 266 |
| | ===== | ===== | | ===== |
| Memo: Insurance revenues | \$114.9 | \$ 85.2 | 35 | \$318.8 |
| FINANCIAL PERFORMANCE: | | | | |
| Return on equity | 36% | 38% | | 36% |
| Efficiency ratio | 60 | 65 | | 64 |
| Headcount-full-time | 6,253 | 6,583 | (5) % | |
| ENDING BALANCES (in billions): | | | | |
| Loans | \$ 7.0 | \$ 6.8 | 3% | |
| Assets | 8.5 | 7.8 | 9 | |
| | | | | |
| Demand deposits | 2.1 | 1.6 | 31 | |
| Savings | 2.9 | 1.8 | 61 | |
| Time | 3.3 | 3.8 | (13) | |
| Foreign offices | 0.2 | 0.2 | - | |
| | ----- | ----- | | |
| Total deposits | 8.5 | 7.4 | 15 | |
| Common equity | 1.1 | 0.9 | 22 | |
| AVERAGE BALANCES (in billions): | | | | |
| Loans | \$ 6.9 | \$ 6.6 | 5% | \$ 6.9 |
| Assets | 8.2 | 7.6 | 8 | 8.1 |
| | | | | |
| Demand deposits | 1.9 | 2.3 | (17) | 1.9 |
| Savings | 2.8 | 1.8 | 56 | 2.7 |
| Time | 3.3 | 3.9 | (15) | 3.3 |
| Foreign offices | 0.2 | 0.2 | - | 0.2 |
| | ----- | ----- | | ----- |
| Total deposits | 8.2 | 8.2 | - | 8.2 |
| Common equity | 1.1 | 0.9 | 22 | 1.0 |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | Three Months Ended September 30 | | | Nine Months |
|--|---------------------------------|---------|----------|-------------|
| (Dollars in millions) | 2001 | 2000 | % Change | 2001 |
| | ----- | ----- | ----- | ----- |
| CREDIT QUALITY (in millions): | | | | |
| Net charge-offs: | | | | |
| Commercial | \$ 7 | N/A | | \$ 17 |
| Consumer | 2 | N/A | | 5 |
| | ----- | ----- | | ----- |
| Total net charge-offs | 9 | N/A | | 22 |
| Net charge-off ratios: | | | | |
| Commercial | 0.76% | N/A | | 0.68% |
| Consumer | 0.24 | N/A | | 0.20 |
| | ----- | ----- | | ----- |
| Total net charge-offs | 0.52 | N/A | | 0.43% |
| Nonperforming assets: | | | | |
| Commercial | \$ 37 | N/A | | |
| Consumer | 3 | N/A | | |
| | ----- | ----- | | |
| Total nonperforming loans | 40 | N/A | | |
| Other including OREO | 1 | N/A | | |
| | ----- | ----- | | |
| Total nonperforming assets | 41 | N/A | | |
| Allowance for loan losses | \$ 25 | N/A | | |
| Allowance to period end loans | 0.36% | N/A | | |
| Allowance to nonperforming loans | 61 | N/A | | |
| Nonperforming assets to related assets | 0.59 | N/A | | |
| ASSETS UNDER MANAGEMENT | | | | |
| ENDING BALANCES (in billions): | | | | |
| Mutual funds | \$ 75.3 | \$ 69.4 | 9% | |
| Other | 55.5 | 64.5 | (14) | |
| | ----- | ----- | | |
| Total | 130.8 | 133.9 | (2) | |
| By type: | | | | |
| Money market | \$ 50.6 | \$ 41.6 | 22% | |
| Equity | 43.4 | 57.7 | (25) | |
| Fixed income | 36.8 | 34.6 | 6 | |
| | ----- | ----- | | |
| Total | 130.8 | 133.9 | (2) | |
| By channel: | | | | |
| Private client services | \$ 48.8 | \$ 60.6 | (19)% | |
| Retail brokerage | 9.0 | 9.2 | (2) | |
| Institutional | 55.6 | 49.6 | 12 | |
| Commercial cash sweep | 9.0 | 7.8 | 15 | |
| All other | 8.4 | 6.7 | 25 | |
| | ----- | ----- | | |
| Total | 130.8 | 133.9 | (2) | |
| Morningstar Rankings: | | | | |
| Percentage of customer assets in 4 and 5 | | | | |
| ranked funds | 61% | 54% | | |
| Percentage of customer assets in 3+ ranked | | | | |
| funds | 90 | 98 | | |

Edgar Filing: BANK ONE CORP - Form 10-Q

TRUST ASSETS

ENDING BALANCES:

Trust assets under administration (in billions) . \$333.8 N/A

CORPORATE TRUST SECURITIES

ENDING BALANCES:

Corporate trust securities under administration (in billions) \$917.1 N/A

14

| (Dollars in millions) | Three Months Ended September 30 | | | Nine Months |
|--|---------------------------------|---------|----------|-------------|
| | 2001 | 2000 | % Change | 2001 |
| RETAIL BROKERAGE: | | | | |
| Mutual fund sales (in millions) | \$ 548 | \$ 625 | (12)% | \$1,721 |
| Annuity sales | 683 | 403 | 69 | 1,789 |
| Total sales | 1,231 | 1,028 | 20 | 3,510 |
| Number of accounts | | | | |
| -end of period (in thousands) | 394 | 379 | 4 | |
| Market value customer assets | | | | |
| -end of period (in billions) | \$ 22.4 | \$ 24.1 | (7) | |
| Number of registered sales representatives | 703 | 694 | 1 | |
| Number of licensed retail bankers | 2,985 | 2,581 | 16 | |
| PRIVATE CLIENT SERVICES: | | | | |
| Number of Private Client advisors | 658 | 777 | (15)% | |
| Number of Private Client offices | 105 | 104 | 1 | |
| Client Assets: | | | | |
| Assets under management (in billions) | \$ 48.8 | \$ 60.6 | (19) | |
| Ending Balances (in billions): | | | | |
| Loans | 6.8 | 6.6 | 3 | |
| Deposits | 7.0 | 6.7 | 4 | |
| Average Balances (in billions): | | | | |
| Loans | 6.8 | 6.5 | 5 | \$ 6.8 |
| Deposits | 6.8 | 6.8 | - | 6.9 |

Quarterly Results

Investment Management reported third quarter net income of \$101 million, up \$15 million, or 18%, from the year-ago quarter, reflecting a \$33 million, or 8%, increase in revenue partially offset by higher provision. Compared to the prior quarter, net income increased \$18 million, or 22%, reflecting modest revenue growth, lower expenses and lower provision expense.

Period-end assets under management were \$130.8 billion, down 2% from the year-ago quarter and 1% from the second quarter, driven by the drop in the equity markets late in the quarter. One Group(R) mutual fund assets under management increased to \$75.3 billion in the third quarter, a 9% increase

Edgar Filing: BANK ONE CORP - Form 10-Q

year-over-year and a 1% increase from the second quarter. Overall, One Group net fund flows remained positive. In the third quarter, the mix of assets under management shifted from equity assets to money market and fixed income as the equity markets declined. Equity assets declined 13% from the second quarter, while both money market and fixed income assets increased 6%.

During the third quarter, overall One Group funds performance remained strong. The percent of client assets in funds rated 4 and 5 by Morningstar at September 30, 2001, was 61%, up from 54% in the second quarter, while 90% of assets were in funds rated three stars or higher, down from 95% in the second quarter.

Net interest income totaled \$106 million, up \$2 million, or 2%, from the year-ago period primarily due to a 5% increase in average loans.

Noninterest income was \$317 million, up \$31 million, or 11%, from the year-ago quarter. Beginning in the 2000 fourth quarter, fees associated with the in-house administration of the One Group mutual funds were recorded as revenue, with a corresponding increase in expense. Prior to that, a third-party administrator incurred such fees and expenses, which totaled \$24 million in the third quarter. Excluding the impact of this change, noninterest income was up \$7 million from a year ago and \$9 million from the second quarter, driven primarily by an increase in sales of annuity products.

15

Retail brokerage sales of mutual funds and annuities were \$1.2 billion in the third quarter, an increase of \$203 million, or 20%, from the year-ago quarter, and \$90 million, or 8%, from the second quarter. Annuity sales were robust with growth rates of 69% from a year ago and 17% from the prior quarter, partially offset by weaker mutual fund sales.

Noninterest expense of \$253 million was essentially unchanged from the year-ago quarter. Excluding the expenses associated with the administration of the One Group funds, non-interest expense declined 8% from the year-ago quarter and 6% from the second quarter, driven by lower headcount, tighter cost controls and reduced operating losses. The efficiency ratio in the current quarter was 60%, down from 65% in both the year-ago and second quarters.

Year-to-Date Results-Adjusted Basis

Investment Management reported 2001 net income of \$266 million, up \$20 million, or 8%, from the year ago period. Net interest income was \$317 million, up \$12 million, or 4% from 2000.

Noninterest income was \$932 million, up \$71 million, or 8%, from the year ago period. Excluding the impact of the in-house administration of the One Group mutual funds, noninterest income was essentially flat. For the 2001 period, retail brokerage sales of mutual funds and annuities were \$3.5 billion, an increase of 5%, from the year ago period reflecting an increase in annuity sales partially offset by slower mutual funds sales.

Noninterest expense was \$798 million, up \$26 million or 3% from the year ago period. Excluding the expenses associated with the administration of the One Group funds, noninterest expense declined 5%, driven by lower headcount and waste reduction initiatives.

Corporate/Unallocated

Edgar Filing: BANK ONE CORP - Form 10-Q

Corporate/Unallocated includes Treasury, unallocated corporate expenses, and any gains or losses from corporate transactions. Corporate/Unallocated includes the fixed income and principal investment portfolios previously reported in Corporate Investments. Results for prior periods conform to the current line of business organization.

| | Three Months Ended September 30 | | | Nine Months |
|---|---------------------------------|----------|----------|-------------|
| (Dollars in millions) | 2001 | 2000 | % Change | 2001 |
| Net interest income-FTE basis | \$ (141) | \$ (147) | 4% | \$ (582) |
| Non-deposit service charges | 3 | N/A | | (5) |
| Credit card revenue | (1) | N/A | | (2) |
| Service charges on deposits | 7 | N/A | | 15 |
| Fiduciary and investment management fees | - | N/A | | 1 |
| Investment securities losses | (30) | N/A | | (58) |
| Trading | (11) | N/A | | (28) |
| Other income | 34 | N/A | | 240 |
| Noninterest income | 2 | 99 | (98) | 163 |
| Total revenue (loss) | (139) | (48) | N/M | (419) |
| Provision for credit losses | - | - | | - |
| Salaries and employee benefits | 146 | N/A | | 410 |
| Other expense | (44) | N/A | | (235) |
| Noninterest expense | 102 | 180 | (43) | 175 |
| Pretax loss-FTE basis | (241) | (228) | (6) | (594) |
| Tax benefit and FTE basis adjustment | (106) | (101) | (5) | (291) |
| Net loss | \$ (135) | \$ (127) | (6) | \$ (303) |
| FINANCIAL PERFORMANCE: | | | | |
| Headcount-full-time | 11,786 | 13,694 | (14)% | |

16

| | Three Months Ended September 30 | | | Nine Months |
|--------------------------------|---------------------------------|------|----------|-------------|
| (Dollars in millions) | 2001 | 2000 | % Change | 2001 |
| ENDING BALANCES (in billions): | | | | |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | | |
|---------------------------------|--------|--------|------|--------|
| Loans | \$ 0.4 | \$ 0.4 | - | |
| Assets | 49.4 | 47.3 | 4% | |
| Deposits | 21.9 | 30.5 | (28) | |
| Common equity | (0.8) | (0.9) | 11 | |
| AVERAGE BALANCES (in billions): | | | | |
| Loans | \$ 0.8 | \$ 0.5 | 60% | \$ 0.8 |
| Assets | 46.3 | 45.0 | 3 | 46.7 |
| Deposits | 23.3 | 26.7 | (13) | 25.9 |
| Common equity | (1.1) | (0.9) | (22) | (1.4) |

Quarterly Results

Corporate/Unallocated reported a net loss of \$135 million, compared with net losses of \$127 million in the year-ago quarter and \$80 million in the second quarter.

Net interest expense was \$141 million in the third quarter, relatively unchanged from a year ago. The \$99 million improvement from the second quarter reflected the benefit of lower interest rates.

Noninterest income was \$2 million in the third quarter, compared to \$99 million in the year-ago quarter and \$130 million in the second quarter. The current quarter included write-downs in the venture capital portfolio that were partially offset by gains on the sale of investment securities and other corporate transactions. Noninterest expense was \$102 million in the third quarter, down from \$180 million one year ago.

Year-to-Date Results-Adjusted Basis

Corporate/Unallocated reported a net loss of \$303 million, compared with a net loss of \$88 million in the prior year. Venture capital results were the principal cause of the reduction.

Net interest expense was \$582 million, compared to \$330 million from the year ago period. The \$252 million decrease was due to management accounting changes, which transferred income to the lines of business, and lower capital.

Noninterest income declined \$332 million to \$163 million, or 67%, driven by deterioration in the equity market which caused declined venture capital portfolio results. Additionally, the results included gains of \$166 million pretax on corporate transactions, compared with \$39 million pretax in the prior year.

Noninterest expense was \$175 million, down 53% from the 2000 period, reflecting lower asset write-offs and severance-related expenses. The year-over-year improvement in noninterest expense also reflects the 14% decrease in headcount.

Edgar Filing: BANK ONE CORP - Form 10-Q

Results in the nine-months ended September 30, 2000 included the negative impact of \$1.913 billion after tax (\$2.940 billion pre-tax), or \$1.66 per share, of significant items. Excluding the impact of these items, operating earnings for the nine-months ended September 30, 2000 were \$1.914 billion, or \$1.65 per diluted share. The tables below reconcile 2000 managed results with results adjusted for the significant items.

2000 Year to Date Significant Items -- Table 1

| | Nine Months Ended September 30, 2001 | Nine Months Ended September 30, 2000 | | | Nine Months E September 30, Actual vs. Nine Months September 30, Actual |
|---------------------------------|---|--|-------------|----------|---|
| (Dollars in millions) | Actual | Actual | Adjustments | Adjusted | |
| Consolidated | | | | | |
| Net interest income | \$10,002 | \$10,187 | \$ (9) | \$10,196 | \$ (185) |
| Noninterest income | 4,359 | 2,898 | (1,361) | 4,259 | 1,461 |
| Provision for credit losses ... | 4,359 | 4,406 | 674 | 3,732 | (47) |
| Noninterest expense | 6,845 | 8,761 | 896 | 7,865 | (1,916) |
| Net income | 2,097 | 1 | (1,913) | 1,914 | 2,096 |
| Retail | | | | | |
| Net interest income | \$ 3,790 | \$ 3,668 | \$ (9) | \$ 3,677 | \$ 122 |
| Noninterest income | 1,079 | 537 | (425) | 962 | 542 |
| Provision for credit losses ... | 692 | 506 | 11 | 495 | 186 |
| Noninterest expense | 2,651 | 3,058 | 73 | 2,985 | (407) |
| Net income | 981 | 406 | (328) | 734 | 575 |
| Commercial Banking | | | | | |
| Net interest income | \$ 2,021 | \$ 2,126 | \$ - | \$ 2,126 | \$ (105) |
| Noninterest income | 1,187 | 1,002 | (44) | 1,046 | 185 |
| Provision for credit losses ... | 749 | 1,138 | 628 | 510 | (389) |
| Noninterest expense | 1,650 | 1,710 | 1 | 1,709 | (60) |
| Net income | 577 | 238 | (427) | 665 | 339 |
| First USA | | | | | |
| Net interest income | \$ 4,455 | \$ 4,418 | \$ - | \$ 4,418 | \$ 37 |
| Noninterest income | 999 | 435 | (460) | 895 | 564 |
| Provision for credit losses ... | 2,893 | 2,757 | 35 | 2,722 | 136 |
| Noninterest expense | 1,571 | 2,309 | 282 | 2,027 | (738) |
| Net income (loss) | 620 | (135) | (492) | 357 | 755 |
| Investment Management | | | | | |
| Net interest income | \$ 317 | \$ 305 | \$ - | \$ 305 | \$ 12 |
| Noninterest income | 932 | 861 | - | 861 | 71 |
| Provision for credit losses ... | 25 | 6 | - | 6 | 19 |
| Noninterest expense | 798 | 781 | 9 | 772 | 17 |
| Net income | 266 | 240 | (6) | 246 | 26 |

Edgar Filing: BANK ONE CORP - Form 10-Q

Corporate / Unallocated

| | | | | | |
|---------------------------------|----------|----------|-------|----------|----------|
| Net interest income | \$ (582) | \$ (330) | \$ - | \$ (330) | \$ (252) |
| Noninterest income | 163 | 63 | (432) | 495 | 100 |
| Provision for credit losses ... | - | - | - | - | - |
| Noninterest expense | 175 | 903 | 531 | 372 | (728) |
| Net loss | (303) | (748) | (660) | (88) | 445 |

18

The significant items recorded in the second quarter 2000 by each business segment and income statement line are summarized as follows:

Business Segments -- Table 2

| (In millions) | Retail | Commercial | First USA | Investment Management |
|---|--------|------------|-----------|-----------------------|
| Pretax expense (income): | | | | |
| Provision for credit losses | \$ - | \$628 | \$ - | \$ - |
| Writedown of auto lease residuals | 307 | | | |
| Repositioning of investment securities portfolio | | | | |
| Operational and other | 44 | 45 | 27 | 9 |
| Writedown of interest-only strip | | | 354 | |
| Occupancy and fixed asset related | | | | |
| Writedown of purchased credit card relationship intangibles | | | 275 | |
| Writedowns primarily related to planned loan sales (1) | 167 | | | |
| Increase to legal accruals | | | | |
| Writedown of marketing partnership agreements | | | 121 | |
| Total | \$518 | \$673 | \$777 | \$ 9 |
| After tax | \$328 | \$427 | \$492 | \$ 6 |

Income Statement line-Table 3

| (In millions) | Retail | Commercial | First USA | Investment Management |
|---------------------------|--------|------------|-----------|-----------------------|
| Pretax expense (income): | | | | |
| Net interest income | \$ 9 | \$ - | \$ - | \$ - |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | | |
|--|-------|-------|-------|-------|
| Provision for credit losses | 11 | 628 | 35 | |
| Noninterest income: | | | | |
| Credit card revenue | | | 152 | |
| Investment securities losses | | | | |
| Trading | | 44 | | |
| Other income | 425 | | 308 | |
| | ---- | ---- | ---- | ---- |
| Total noninterest income | 425 | 44 | 460 | - |
| Noninterest expense: | | | | |
| Salaries and employee benefits | | | | |
| Other intangible amortization | | | 275 | 9 |
| Other expense | 19 | 1 | | |
| Merger-related and restructuring charges | 54 | | 7 | |
| | ---- | ---- | ---- | ---- |
| Total noninterest expense | 73 | 1 | 282 | 9 |
| | ---- | ---- | ---- | ---- |
| Pretax expense | \$518 | \$673 | \$777 | \$ 9 |
| | ===== | ===== | ===== | ===== |

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

CONSOLIDATED RESULTS

Summary of Financial Results

The Corporation reported net income of \$754 million, or \$0.64 per diluted share, for the third quarter of 2001, compared to net income of \$581 million, or \$0.50 per diluted share, for the third quarter of 2000.

19

For the nine months ended September 30, 2001, the Corporation reported net income of \$2.097 billion, or \$1.78 per diluted share, compared to net income of \$1 million, or a loss of \$0.01 per share after preferred dividends, for the nine months ended September 30, 2000. The year-to-date 2001 results included a \$44 million after tax (\$69 million pre-tax) charge, or \$0.04 per diluted share, for the cumulative effect of the change in accounting principle (see Note 2 to the consolidated financial statements). The impact of the 2000 significant items, noted in tables 1-3 above, amounted to \$1.66 per diluted share for the nine months ended September 30, 2000.

Net Interest Income

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

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

Edgar Filing: BANK ONE CORP - Form 10-Q

| (Dollars in millions) | Three Months Ended September 30 | | | Nine Months Ended September 30 | |
|-------------------------------------|---------------------------------|----------|----------|--------------------------------|-----------|
| | 2001 | 2000 | % Change | 2001 | 2000 |
| Managed: | | | | | |
| Net interest income-FTE basis | \$ 3,450 | \$ 3,346 | 3% | \$ 10,002 | \$ 10,002 |
| Average earning assets | 276,239 | 285,371 | (3) | 279,219 | 285,371 |
| Net interest margin | 4.95% | 4.66% | | 4.79% | 4.66% |
| Reported: | | | | | |
| Net interest income-FTE basis | \$ 2,193 | \$ 2,242 | (2)% | \$ 6,496 | \$ 6,496 |
| Average earning assets | 235,352 | 242,516 | (3) | 238,861 | 242,516 |
| Net interest margin | 3.70% | 3.68% | | 3.64% | 3.68% |

Managed net interest income and net interest margin improved for the third quarter of 2001 compared to the third quarter of 2000. This improvement reflected the addition of the Wachovia credit card portfolio as well as the benefit of lower interest rates. Managed net interest margin for the nine-month period was unchanged from a year ago, while managed net interest income declined reflecting reduced loan volumes partially offset by the Wachovia portfolio and lower interest rates.

Noninterest Income

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

| (Dollars in millions) | Three Months Ended September 30 | | Percent Increase (Decrease) | Nine Months Ended September 30 |
|--|---------------------------------|---------|-----------------------------|--------------------------------|
| | 2001 | 2000 | | 2001 |
| Non-deposit service charges | \$ 445 | \$ 382 | 16% | \$1,287 |
| Credit card revenue (1) | 372 | 337 | 10 | 1,017 |
| Service charges on deposits | 388 | 320 | 21 | 1,079 |
| Fiduciary and investment management fees | 190 | 196 | (3) | 561 |
| Investment securities gains (losses) | (42) | 47 | N/M | (69) |
| Trading | 70 | 58 | 21 | 196 |
| Other income (loss) | 35 | 62 | (44) | 288 |
| Managed noninterest income | \$1,458 | \$1,402 | 4% | \$4,359 |

- (1) Excludes net credit card revenue due to securitization totaling \$395 million in 2001 and \$332 million in 2000 for the three months ended September 30. For the nine months ended September 30, the amounts totaled \$892 million in 2001 and \$945 million in 2000.

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

Edgar Filing: BANK ONE CORP - Form 10-Q

Managed non-deposit service charges increased from the year-ago quarter and prior nine months by \$63 million and \$153 million, respectively. These increases were primarily the result of increased annuity sales and fees associated with the in-house administration of the One Group mutual funds, which the Corporation began recording as revenue in the 2000 fourth quarter.

Managed credit card revenue in the third quarter of 2001 increased \$35 million, or 10%, over the prior year period due to the addition of the Wachovia portfolio. For the first nine months of 2001, credit card revenue increased \$238 million, or 31%, compared to the previous period primarily due to significant items recorded in 2000 (see table 3 on page 19).

Service charges on deposits increased \$68 million for the third quarter of 2001 and \$104 million for the first nine months of 2001 compared to the year-ago periods. A lower rate environment produced a shift to the payment of fees from net interest income in both these periods due to the lower value of customers' compensating deposit balances.

Investment securities losses were \$42 million for the third quarter of 2001, compared to a gain of \$47 million in the third quarter of 2000 and were primarily attributed to venture capital losses. For the nine months ended September 30, 2001, investment securities losses were \$69 million due to venture capital losses and changes in market valuation.

Other income for the third quarter decreased \$27 million, or 44%, compared to the previous year. This decrease primarily consists of losses on sale and write-downs of assets. For the first nine months of 2001, other income was \$288 million compared to a \$551 million loss in the first nine months of 2000. This improvement resulted from significant items recorded in 2000 (see table 3 on page 19).

Noninterest Expense

The components of noninterest expense for the periods indicated are:

| (Dollars in millions) | Three Months Ended September 30 | | Percent Increase (Decrease) | Nine M Sept |
|---|------------------------------------|--------|-----------------------------------|----------------|
| | 2001 | 2000 | | 2001 |
| Salaries and employee benefits: | | | | |
| Salaries | \$ 916 | \$ 991 | (8)% | \$2,72 |
| Employee benefits | 130 | 168 | (23) | 41 |
| Total salaries and employee benefits | 1,046 | 1,159 | (10) | 3,13 |
| Occupancy expense | 175 | 175 | - | 50 |
| Equipment expense | 107 | 135 | (21) | 34 |
| Outside service fees and processing | 303 | 345 | (12) | 87 |
| Marketing and development | 212 | 205 | 3 | 63 |
| Telecommunications | 105 | 88 | 19 | 30 |
| Other intangible amortization | 30 | 22 | 36 | 6 |
| Goodwill amortization | 17 | 17 | - | 5 |
| Other | 308 | 449 | (31) | 92 |
| Total noninterest expense before merger-related and restructuring charges | 2,303 | 2,595 | (11) | 6,84 |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | | |
|--|----------|----------|------|--------|
| Merger-related and restructuring charges | - | (2) | N/M | (|
| | ----- | ----- | | ----- |
| Total noninterest expense (1) | \$ 2,303 | \$ 2,593 | (11) | \$6,84 |
| | ===== | ===== | | ===== |
| Employees | 75,801 | 81,291 | | |
| | ===== | ===== | | |
| Efficiency ratio-managed basis | 46.9% | 54.6% | | 47. |
| | ===== | ===== | | ===== |

(1) Certain capitalized expenses have been reclassified from salaries to other expenses in all periods.

21

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

Salaries and employee benefits, including certain severance charges, in the third quarter and first nine months of 2001 declined 10% from the year-ago periods. These decreases reflected expense savings from reduced headcount, lower incentive compensation and cost reductions associated with the modification of the Corporation's benefit plans.

Equipment expense in the third quarter and first nine months of 2001 decreased \$28 million and \$98 million, respectively, from the year-ago periods, primarily due to reduced furniture and equipment rental and lower maintenance and depreciation expense.

Outside service fees and processing expense decreased \$42 million, or 12%, in the third quarter of 2001 and \$259 million, or 23%, for the first nine months of 2001 compared to the year-ago periods. These decreases were primarily due to a reduction in consulting expense. The decrease for the first nine months also reflected reductions due to contract renegotiations and other waste-reduction initiatives.

Marketing and development expense increased slightly in the third quarter of 2001 compared to the prior year quarter due to increased advertising expenditures for First USA. For the first nine months of 2001, marketing and development expense decreased \$57 million, or 8%, compared to the year-ago period as continued expense reductions in the Retail line of business more than offset increased expenditures for First USA.

Other intangible amortization expense increased \$8 million in the third quarter of 2001 compared to the year-ago quarter due to the addition of the Wachovia credit card business. For the first nine months of 2001 expense decreased \$309 million, or 82%, from the year-ago period, primarily due to significant items recorded in 2000 (see table 3 on page 19).

Other operating expense in the third quarter and first nine months of 2001 decreased compared to the year-ago periods by \$141 million and \$624 million, respectively. These decreases reflected the continuation of the Corporation's waste-reduction initiatives to lower expenses for such items as travel and entertainment and other miscellaneous items. Also contributing to the decline in the first nine months of 2001 were significant items recorded in the second quarter of 2000 (see table 3 on page 19).

The Corporation successfully converted the Texas/Louisiana deposit system

Edgar Filing: BANK ONE CORP - Form 10-Q

during the 2001 third quarter. The Corporation is on track for the Arizona/Utah conversions in the fourth quarter and is working to complete the remaining system conversions around year-end 2002.

As previously announced, the Corporation anticipates a roughly \$200 million after-tax restructuring charge in the 2001 fourth quarter for additional severance and real estate costs to accomplish more rapid expense reductions, accelerated systems conversions and other consolidations.

Applicable Income Taxes

The Corporation's income before income taxes and the cumulative effect of a change in accounting principle (see Note 2 to the consolidated financial statements), as well as applicable income tax expense and effective tax rate for each of the periods indicated are:

| (Dollars in millions) | Three Months Ended September 30 | | Nine Months Ended |
|---|---------------------------------|-------|-------------------|
| | 2001 | 2000 | 2001 |
| Income (loss) before income taxes and the cumulative effect of change in accounting principle | \$1,093 | \$833 | \$3,064 |
| Applicable income taxes (benefit) | 339 | 252 | 923 |
| Effective tax rate | 31.0% | 30.3% | 30.1% |

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

RISK MANAGEMENT

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

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

The following discussion of the Corporation's risk management processes focuses primarily on developments since June 30, 2001. The Corporation's risk management processes for liquidity, market, credit and operating risks are described in detail in the Corporation's 2000 Annual Report on Form 10-K,

Edgar Filing: BANK ONE CORP - Form 10-Q

beginning on page 20.

LIQUIDITY RISK MANAGEMENT

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

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

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

The Corporation's funding source mix at September 30, 2001 was consistent with that at June 30, 2001.

MARKET RISK MANAGEMENT

Overview

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

Value-At-Risk-Trading Activities

The Corporation has developed policies and procedures to manage market risk through a value-at-risk measurement and control system, through a stress testing process and through dollar trading limits. The objective of this process is to quantify and manage market risk in order to limit single and aggregate exposures.

Edgar Filing: BANK ONE CORP - Form 10-Q

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

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

The value-at-risk at September 30, 2001 and June 30, 2001 (in millions) is as follows:

| | September 30, 2001 ----- | June 30, 2001 ----- |
|---------------------------------------|-----------------------------|------------------------|
| Risk Type | | |
| Interest rate | \$12 | \$11 |
| Equity | 1 | 1 |
| | --- | --- |
| Aggregate portfolio market risk | \$13 | \$12 |
| | === | === |

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

Interest rate risk was the predominant type of market risk incurred during the third quarter of 2001. At September 30, 2001, approximately 92% of primary market risk exposures were related to interest rate risk. Exchange rate, equity and commodity risks accounted for 8% of primary market risk exposures.

Structural Interest Rate Risk Management

Interest rate risk exposure in the Corporation's "core" business (non-trading) activities, i.e., asset/liability management ("ALM") position, is a result of reprice, option and basis risks associated with on- and off-balance sheet positions. The ALM position is measured and monitored using sophisticated and detailed risk management tools, including earnings simulation modeling and economic value of equity sensitivity analysis, to capture both near-term and longer-term interest rate risk exposures.

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

Edgar Filing: BANK ONE CORP - Form 10-Q

The Corporation's 12-month pre-tax earnings sensitivity profile as of September 30, 2001 and June 30, 2001 is as follows:

| (In millions) | Immediate Change in Rates | |
|--------------------------|---------------------------|----------|
| | -100 bp | +100 bp |
| September 30, 2001 | \$ 215 | \$ (300) |
| June 30, 2001 | \$ 155 | \$ (163) |

The increase in earnings sensitivity during the quarter is primarily due to the longer duration of the Corporation's earning assets.

24

Modeling the sensitivity of earnings to interest rate risk is highly dependent on the numerous assumptions embedded in the model. While the earnings sensitivity analysis incorporates Management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected.

Foreign Exchange Risk Management

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

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

CREDIT RISK MANAGEMENT

In conducting its business operations, the Corporation is exposed to the risk that borrowers or counterparties may default on their obligations to the Corporation. These transactions create credit exposure that is reported both on and off the balance sheet. On-balance sheet credit exposure includes such items as loans. Off-balance sheet credit exposure includes unfunded credit commitments and other credit-related financial instruments.

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

OPERATING RISK MANAGEMENT

In addition to being exposed to liquidity, market and credit risk, the Corporation is also exposed to numerous types of operating risk. Operating risk generally refers to the risk of loss resulting from the Corporation's operations, including, but not limited to, the risk of fraud by employees or persons outside the Corporation, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and other breaches of the internal control system and compliance requirements. This risk

Edgar Filing: BANK ONE CORP - Form 10-Q

of loss also includes the potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

CREDIT PORTFOLIO COMPOSITION

Selected Statistical Information

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

| (Dollars in millions) | September 30 2001 | June 30 2001 | March 31 2001 |
|---|----------------------|-----------------|------------------|
| | ----- | ----- | ----- |
| Loans outstanding | \$164,251 | \$166,576 | \$171,400 |
| Average loans | 165,416 | 169,140 | 173,600 |
| Nonperforming loans | 3,112 | 2,854 | 2,500 |
| Other, including other real estate owned | 116 | 97 | 100 |
| | ----- | ----- | ----- |
| Nonperforming assets | 3,228 | 2,951 | 2,600 |
| Allowance for credit losses | 4,479 | 4,229 | 4,200 |
| Net charge-offs | 566 | 516 | 400 |
| Nonperforming assets to related assets | 1.96% | 1.77% | 1.70% |
| Allowance for credit losses/loans outstanding | 2.73 | 2.54 | 2.40 |
| Allowance for credit losses/nonperforming loans | 144 | 148 | 100 |
| Net charge-offs/average loans | 1.37 | 1.22 | 1.10 |
| Allowance for credit losses/net charge-offs | 198 | 205 | 200 |

25

Loan Composition

For analytical purposes, the Corporation's loan portfolio is divided into commercial, consumer and credit card loan categories as follows for the periods indicated:

| | September 30 2001 | | June 30 2001 | | March 31 2001 | | December 31 2000 |
|-----------------------|----------------------|-------|-----------------|-------|------------------|-------|---------------------|
| (Dollars in millions) | Amount | % (1) | Amount | % (1) | Amount | % (1) | Amount |
| Loan Category | | | | | | | |
| Commercial: | | | | | | | |
| Domestic: | | | | | | | |
| Commercial | \$ 57,865 | 26% | \$ 59,308 | 26% | \$ 63,071 | 28% | \$ 65,270 |
| Real estate: | | | | | | | |
| Construction | 5,706 | 3 | 6,029 | 3 | 5,775 | 3 | 5,757 |
| Other | 15,482 | 7 | 15,923 | 7 | 16,710 | 7 | 16,778 |
| Lease financing | 5,627 | 2 | 5,634 | 3 | 5,734 | 2 | 5,818 |
| Foreign | 6,019 | 3 | 6,726 | 3 | 6,689 | 3 | 6,837 |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | | | | | |
|---------------------------------|------------|-------|------------|-------|------------|-------|-----------|
| Total commercial .. | 90,699 | 41 | 93,620 | 42 | 97,979 | 43 | 100,460 |
| Consumer: | | | | | | | |
| Residential real estate | 39,813 | 18 | 40,581 | 18 | 40,561 | 18 | 40,596 |
| Automotive-loans / leases | 18,959 | 8 | 19,707 | 9 | 19,955 | 8 | 20,741 |
| Other | 6,380 | 3 | 6,467 | 3 | 7,415 | 3 | 7,710 |
| Total consumer ... | 65,152 | 29 | 66,755 | 30 | 67,931 | 29 | 69,047 |
| Credit card: | | | | | | | |
| On balance sheet | 8,400 | 4 | 6,201 | 3 | 5,517 | 2 | 4,744 |
| Securitized | 58,353 | 26 | 56,814 | 25 | 58,515 | 26 | 62,241 |
| Managed credit card | 66,753 | 30 | 63,015 | 28 | 64,032 | 28 | 66,985 |
| Total managed | \$ 222,604 | 100% | \$ 223,390 | 100% | \$ 229,942 | 100% | \$236,492 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Total reported | \$ 164,251 | | \$ 166,576 | | \$ 171,427 | | \$174,251 |
| | ===== | | ===== | | ===== | | ===== |

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

For management purposes, the Corporation's loan portfolio is divided into Retail, Commercial Banking, First USA and other lines of business as follows for the periods indicated:

| | September 30 2001 | | June 30 2001 | | March 31 2001 | |
|-------------------------------|----------------------|-------|-----------------|-------|------------------|-------|
| (Dollars in millions) | Amount | % (1) | Amount | % (1) | Amount | % (1) |
| Line of Business | | | | | | |
| Retail | \$ 73,371 | 33% | \$ 75,063 | 34% | \$ 76,102 | 33% |
| Commercial Banking | 75,000 | 34 | 77,602 | 35 | 82,233 | 36 |
| Other lines of business | 7,480 | 3 | 7,710 | 3 | 7,575 | 3 |
| First USA: | | | | | | |
| On balance sheet | 8,400 | 4 | 6,201 | 3 | 5,517 | 2 |
| Securitized | 58,353 | 26 | 56,814 | 25 | 58,515 | 26 |
| Managed credit | | | | | | |
| card | 66,753 | 30 | 63,015 | 28 | 64,032 | 28 |
| Total managed | \$222,604 | 100% | \$223,390 | 100% | \$229,942 | 100% |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Total reported | \$164,251 | | \$166,576 | | \$171,427 | |
| | ===== | | ===== | | ===== | |

Edgar Filing: BANK ONE CORP - Form 10-Q

(1) Percentages shown for line of business are determined as a percentage of total managed loans.

26

Commercial Portfolio Concentrations

The Corporation's commercial loan portfolio primarily comprises Corporate Banking (including syndicated credits) and Middle Market Banking loans within Commercial Banking, and also includes small business loans originated by Retail.

The more significant borrower industry concentrations of the commercial loan portfolio are as follows:

| | September 30, 2001 | | June 30, 2001 | | March 3 |
|------------------------------|--------------------|---------|---------------|---------|----------|
| | Carrying | | Carrying | | Carrying |
| (Dollars in millions) | Amount | Percent | Amount | Percent | Amount |
| Commercial real estate | \$21,188 | 23.4% | \$21,952 | 23.4% | \$22,485 |
| Wholesale trade | 5,298 | 5.8 | 5,874 | 6.3 | 5,783 |
| Industrial materials | 4,078 | 4.5 | 5,064 | 5.4 | 5,125 |
| Oil and gas | 3,707 | 4.1 | 3,745 | 4.0 | 4,040 |
| Metals and products | 3,574 | 3.9 | 3,793 | 4.1 | 3,841 |
| Consumer staples | 3,473 | 3.8 | 4,311 | 4.6 | 4,308 |
| Other | 49,381 | 54.5 | 48,881 | 52.2 | 52,397 |
| | ----- | ----- | ----- | ----- | ----- |
| Total commercial | \$90,699 | 100.0% | \$93,620 | 100.0% | \$97,979 |
| | ===== | ===== | ===== | ===== | ===== |

Commercial Real Estate

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

Commercial real estate lending is conducted in several lines of business, with the majority of these loans originated by Corporate Banking primarily through its specialized National Commercial Real Estate Group. This group's focus is lending to targeted regional and national real estate developers, homebuilders and REITs/REOCs. As of September 30, 2001, this group's loan outstandings totaled \$9.2 billion, or 44%, of the commercial real estate portfolio. Middle Market Banking originates primarily owner-occupied real estate loans located in the Middle Market footprint. At September 30, 2001, commercial real estate loans totaled \$21.2 billion, or 23% of total commercial loans, compared with \$22.0 billion, or 23% of total commercial loans, at June 30, 2001.

The commercial real estate loans for the National Commercial Real Estate Group by property type are as follows:

Edgar Filing: BANK ONE CORP - Form 10-Q

| PROPERTY-TYPE (Dollars in millions) | September 30, 2001 | | June 30, 2001 | | March |
|--|--------------------|---------|---------------|---------|----------|
| | Carrying | | Carrying | | Carrying |
| | Amount | Percent | Amount | Percent | Amount |
| Retail | \$ 1,632 | 17.7% | \$ 1,618 | 17.5% | \$ 1,582 |
| Apartment complexes | 1,571 | 17.0 | 1,504 | 16.3 | 1,520 |
| Office buildings | 1,298 | 14.0 | 1,342 | 14.5 | 1,346 |
| REIT/REOC | 1,310 | 14.2 | 938 | 10.2 | 991 |
| Industrial | 475 | 5.1 | 515 | 5.6 | 523 |
| Lodging | 308 | 3.3 | 337 | 3.6 | 375 |
| Other | 2,649 | 28.7 | 2,989 | 32.3 | 3,060 |
| Total National Commercial Real Estate Group loans | 9,243 | 100.0% | 9,243 | 100.0% | 9,415 |
| Other commercial real estate loans (1) | 11,945 | | 12,709 | | 13,070 |
| Total commercial real estate loans | \$21,188 | | \$21,952 | | \$22,485 |

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

The National Commercial Real Estate Group real estate portfolio is diverse, with no geographic concentrations greater than 10% of the portfolio at September 30, 2001.

27

ASSET QUALITY

Nonperforming Assets

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

The Corporation's nonperforming loans by line of business and total nonperforming assets for the periods indicated are as follows:

| (Dollars in millions) | September 30 2001 | June 30 2001 | March 31 2001 |
|-------------------------------|----------------------|-----------------|------------------|
| Nonperforming Loans: | | | |
| Retail | \$ 1,158 | \$ 1,050 | \$ 959 |
| Commercial Banking | 1,901 | 1,752 | 1,544 |
| Other lines of business | 53 | 52 | 56 |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | |
|---|----------|----------|----------|
| Total | 3,112 | 2,854 | 2,559 |
| Other, primarily other real estate owned | 116 | 97 | 106 |
| Total nonperforming assets | \$ 3,228 | \$ 2,951 | \$ 2,665 |
| | ===== | ===== | ===== |
| Nonperforming assets/related assets | 1.96% | 1.77% | 1.55% |
| | ===== | ===== | ===== |
| Loans 90 days or more past due and accruing interest: | | | |
| Credit Card | \$ 114 | \$ 59 | \$ 63 |
| Other | 9 | 9 | 7 |
| Total | \$ 123 | \$ 68 | \$ 70 |
| | ===== | ===== | ===== |

The Corporation has experienced credit quality deterioration in a number of distinct market segments. The events of September 11/th/ are anticipated to adversely affect the economy, which may weaken credit quality in the coming quarters, the extent of which will be determined by the severity of the downturn. The Corporation has established processes for identifying potential problem areas of the portfolio, which currently include exposure to leveraged lending and acquisition finance activities, healthcare, automotive parts and manufacturing, business finance and leasing, professional services, miscellaneous transportation services, telecommunications and selected utilities. The Corporation will continue to monitor these potential risks.

28

The Corporation's net charge-offs by line of business for the periods indicated are as follows:

| | September 30, 2001 | | | June 30, 2001 | | | |
|---------------------------|------------------------|--------------------|----------------------------|------------------------|--------------------|----------------------------|------------------------|
| (Dollars in millions) | Net charge- offs | Average Balance | Net charge- off rate | Net charge- offs | Average balance | Net charge- off rate | Net charge- offs |
| Retail (1) | \$ 209 | \$ 74,182 | 1.13% | \$ 177 | \$ 75,279 | 0.94% | \$ 166 |
| Commercial banking | 230 | 75,567 | 1.22 | 239 | 80,131 | 1.19 | 249 |
| First USA | 981 | 66,641 | 5.89 | 962 | 63,179 | 6.09 | 950 |
| Other lines of business . | 9 | 7,732 | - | 13 | 7,763 | - | - |
| Total-Managed (1) | 1,429 | 224,122 | 2.55% | 1,391 | 226,352 | 2.46% | 1,365 |
| | | | ===== | | | ===== | |
| Securitized | (863) | (58,706) | | (875) | (57,212) | | (876) |
| Total-Reported | \$ 566 | \$ 165,416 | 1.37% | \$ 516 | \$ 169,140 | 1.22% | \$ 489 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

| | December 31, 2000 | | | |
|--|-------------------|---------|----------------|----------------|
| | Net charge- | Average | Net charge- | Net charge- |
| | | | | |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | offs | balance | off rate | offs |
|-------------------------------|--------|------------|----------|--------|
| Retail (1) | \$ 159 | \$ 76,654 | 0.83% | \$ 151 |
| Commercial banking | 259 | 86,616 | 1.20 | 109 |
| First USA | 887 | 65,631 | 5.41 | 828 |
| Other lines of business | 4 | 7,407 | - | 3 |
| | ----- | ----- | | ----- |
| Total-Managed (1) | 1,309 | 236,308 | 2.22% | 1,091 |
| | | | ===== | |
| Securitized | (822) | (60,720) | | (772) |
| | ----- | ----- | | ----- |
| Total-Reported | \$ 487 | \$ 175,588 | 1.11% | \$ 319 |
| | ===== | ===== | ===== | ===== |

(1) September 30, 2001, June 30, 2001, and March 31, 2001 amounts exclude \$14 million, \$24 million and \$40 million, respectively, of charge-offs relating to part of a portfolio that has been accounted for as loans held at a discount, but viewed for management purposes as charge-offs. In Management's view, the inclusion of these amounts in charge-offs more accurately reflects the performance of the portfolio. See Retail LOB discussion on page 3 for further detail.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level that in Management's judgment is adequate to provide for estimated probable credit losses inherent in various on- and off-balance sheet financial instruments. This process includes deriving probable loss estimates that are based on historical loss ratios and portfolio stress testing and Management's judgment. The allowance is based on ranges of estimates and is intended to be adequate but not excessive. Each quarter, reserves are formally estimated by each line of business and reviewed by the Corporate Risk Management Department and senior management.

29

The following table shows the components of, by line of business, the change in the Corporation's allowance for credit losses for the periods indicated:

| (In millions) | September 30 2001 | June 30 2001 | March 31 2001 |
|------------------------------------|----------------------|-----------------|------------------|
| | ----- | ----- | ----- |
| Line of Business | | | |
| ----- | | | |
| Balance, beginning of period | \$ 4,229 | \$ 4,205 | \$ 4,110 |
| Charge-offs: | | | |
| Retail (1) | 246 | 222 | 216 |
| Commercial Banking | 256 | 266 | 287 |
| First USA (1) | 123 | 94 | 78 |
| Other lines of business | 11 | 14 | 5 |
| | ----- | ----- | ----- |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | |
|---|----------|----------|----------|
| Total charge-offs | 636 | 596 | 586 |
| Recoveries: | | | |
| Retail | 37 | 45 | 50 |
| Commercial Banking | 26 | 27 | 38 |
| First USA (1) | 5 | 7 | 4 |
| Other lines of business | 2 | 1 | 5 |
| | ----- | ----- | ----- |
| Total recoveries | 70 | 80 | 97 |
| Net charge-offs: | | | |
| Retail (1) | 209 | 177 | 166 |
| Commercial Banking | 230 | 239 | 249 |
| First USA (1) | 118 | 87 | 74 |
| Other lines of business | 9 | 13 | -- |
| | ----- | ----- | ----- |
| Total net charge-offs | 566 | 516 | 489 |
| Provision for credit losses: | | | |
| Retail (1) | 247 | 201 | 244 |
| Commercial Banking | 246 | 239 | 264 |
| First USA (1) | 118 | 87 | 74 |
| Other lines of business | 9 | 13 | 3 |
| | ----- | ----- | ----- |
| Total provision for credit losses | 620 | 540 | 585 |
| Transfers / other (2) | 196 | -- | (1) |
| | ----- | ----- | ----- |
| Balance, end of period | \$ 4,479 | \$ 4,229 | \$ 4,205 |
| | ===== | ===== | ===== |

(1) On a reported basis.

(2) Transfers to the allowance for credit losses as of September 30, 2001 primarily represent the addition of the Wachovia credit card portfolio and all periods reflect transfers from the allowance of allocable credit reserves associated with consumer loan sale transactions, including securitization transactions.

30

The composition of the Corporation's allowance for credit losses by line of business is as follows:

| (Dollars in millions) | September 30, 2001 | | June 30, 2001 | | March 31, 2001 | |
|------------------------------|--------------------|-------|---------------|-------|----------------|-------|
| | ----- | | ----- | | ----- | |
| Retail..... | \$ 990 | 22% | \$ 949 | 22% | \$ 924 | 22% |
| Commercial Banking | 3,067 | 68 | 3,056 | 72 | 3,058 | 72 |
| First USA | 397 | 9 | 197 | 5 | 197 | 5 |
| Other lines of business | 25 | 1 | 27 | 1 | 26 | 1 |
| | ----- | ---- | ----- | ---- | ----- | ---- |
| Total | \$ 4,479 | 100% | \$ 4,229 | 100% | \$ 4,205 | 100% |
| | ===== | ===== | ===== | ===== | ===== | ===== |

Allowance as a % of

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | |
|-----------------------------|-------|-------|-------|
| total loans: | | | |
| Retail | 1.35% | 1.27% | 1.21% |
| Commercial Banking | 4.09 | 3.94 | 3.72 |
| First USA | 4.73 | 3.18 | 3.58 |
| Other lines of business.... | 0.33 | 0.35 | 0.34 |
| | ---- | ---- | ---- |
| Total | 2.73% | 2.54% | 2.45% |
| | ==== | ==== | ==== |

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses a variety of derivative financial instruments in its trading, asset and liability management, and corporate investment activities, as well as to manage certain currency translation exposures of foreign operations. These instruments include interest rate, currency, equity and commodity swaps, forwards, spot, futures, options, caps, floors, forward rate agreements, and other conditional or exchange contracts, and include both exchange-traded and over-the-counter contracts.

Accounting for Derivative Financial Instruments

Effective January 1, 2001, the Corporation adopted Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities" as amended. The new standard significantly changed the accounting treatment for interest rate and foreign exchange derivatives the Corporation uses in its ALM activities. The new accounting treatment for ALM derivatives is described below. Cash flows from derivative financial instruments are reported net as operating activities.

Trading Derivative Instruments

The Corporation's accounting policies for derivatives used in trading activities have not changed as the result of SFAS No. 133. A detailed discussion of accounting for trading derivative instruments is presented in the Corporation's 2000 Annual Report on Form 10-K beginning on page 38.

ALM Derivative Instruments

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

Fair Value Hedge (primarily hedges of fixed rate interest-bearing instruments)-The change in fair value of both the hedging derivative and hedged item is recorded in current earnings. If a hedge is dedesignated prior to maturity, previous adjustments to the carrying value of the hedged item are recognized in earnings to match the earnings recognition pattern of the hedged item (e.g., level yield amortization if hedging an interest-bearing instrument).

Cash Flow Hedge (primarily hedges of variable rate interest-bearing instruments)-The effective portion of the change in fair value of the hedging derivative is recorded in Accumulated Other Adjustments to Stockholders' Equity ("AOASE") and the ineffective portion directly in earnings. Amounts in AOASE are reclassified into earnings in a manner consistent with the earnings recognition pattern of the underlying hedged item (generally, reflected in interest

Edgar Filing: BANK ONE CORP - Form 10-Q

expense). The total amount of such reclassification into earnings is projected to be charges of \$114 million after-tax

31

(\$180 million pre-tax) over the next twelve months. The maximum length of time exposure to the variability of future cash flows for forecasted transactions hedged is 15 months. If a hedge is dedesignated prior to maturity, previous adjustments to AOASE are recognized in earnings to match the earnings recognition pattern of the hedged item (e.g., level yield amortization if hedging an interest-bearing instrument) or immediately recognized in current earnings if the hedged item is sold. The effect on earnings from the discontinuance of cash flow hedges as the forecasted transaction was not likely to occur was immaterial.

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

Hedges of the Net Investment in Foreign Operations

In order to minimize the capital impact of translation gains or losses measured on an after-tax basis, the Corporation uses forward foreign exchange contracts to hedge the exposure relating to the net investment in foreign operations. The effective portion of the change in fair value of the hedging derivatives is recorded in AOASE as part of the cumulative translation adjustment. The amount of after-tax gains included in the cumulative translation adjustment during the nine months ended September 30, 2001, related to hedges of the foreign currency exposures of net investments in foreign operations, totaled \$7 million.

Income Resulting from Derivative Financial Instruments

The Corporation uses interest rate derivative financial instruments to reduce structural interest rate risk and the volatility of net interest margin. Net interest margin reflects the effective use of these derivatives. Without their use, net interest income for the three months ended September 30, 2001 and 2000, would have been lower by \$17 million and \$22 million, respectively. For the nine months ended September 30, 2001 and 2000, net interest income would have been lower by \$38 million and \$31 million, respectively.

The amount of hedge ineffectiveness recognized for cash flow and fair value hedges in the quarter-ended September 30, 2001 was insignificant. No component of a hedging derivative instrument's gain or loss is excluded from the assessment of fair value and cash flow hedge effectiveness.

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 agreements whenever possible

Edgar Filing: BANK ONE CORP - Form 10-Q

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 table below shows the impact of these master netting agreements:

| (In millions) | September 30, 2001 |
|---|--------------------|
| | ----- |
| Gross replacement cost..... | \$ 13,942 |
| Less: Adjustment due to master netting agreements | (10,681) |
| | ----- |
| Balance sheet credit exposure | \$ 3,261 |
| | ===== |

Asset and Liability Management Derivatives

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

32

At September 30, 2001, the notional value of ALM interest rate swaps tied to specific assets or liabilities, firm commitments and forecasted transactions totaled \$14.8 billion as follows:

| (In millions) | Receive Fixed Pay Floating | Pay Fixed Receive Floating | |
|--|-------------------------------|-------------------------------|----------|
| | ----- | ----- | |
| | Fair Value | Fair Value Cash Flow | |
| | ----- | ----- | |
| Interest rate swaps associated with: | | | |
| Investment securities..... | \$ -- | \$ 50 | \$ -- |
| Funds borrowed (including long-term debt) .. | 10,239 | -- | 4,522 |
| | ----- | ----- | ----- |
| Total | \$10,239 | \$ 50 | \$4,522 |
| | ===== | ===== | ===== |

Interest rate swaps used to adjust the interest rate sensitivity of securities and funds borrowed will not need to be replaced at maturity, since the corresponding asset or liability will mature along with the swap. Interest rate swaps designated as an interest rate related hedge of an existing fixed rate asset or liability are fair value type hedges. Conversely, interest rate swaps designated as an interest rate hedge of an existing variable rate asset or liability are cash flow type hedges. Management designates interest rate swaps as hedges of both fixed and variable rate assets and liabilities interchangeably. The type of hedge for accounting purposes is not a strategic

Edgar Filing: BANK ONE CORP - Form 10-Q

consideration. The Corporation has an insignificant amount of hedges involving forecasted transactions and firm commitments, and no non-derivative instruments are designated as a hedge.

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 special purposes entity which issues the beneficial interests. To help ensure that adequate funds are available in the event of a shortfall, the Corporation is required to deposit funds into cash spread accounts if excess spread falls below certain minimum levels. Spread accounts are funded from excess spread that would normally be returned to the Corporation. In addition, various forms of other credit enhancement are provided to protect more senior investor interests from loss. Credit enhancements associated with credit card securitizations, such as cash collateral or spread accounts, totaled \$198 million at September 30, 2001, and are classified on the balance sheet as other assets.

For further discussion of Bank One's loan securitization process and other related disclosures, see pages 41-42 and pages 63-65 of the Corporation's 2000 Annual Report on Form 10-K.

The following comprised the Corporation's managed credit card loans at September 30, 2001:

(In millions)

| | |
|--|--|
| Owned credit card loans-held in portfolio..... | |
| Owned credit card loans-held for future securitization | |
| Seller's interest in credit card loans (investment securities) | |
| Total credit card loans reflected on balance sheet | |
| Securities sold to investors and removed from balance sheet | |
| Managed credit card loans | |

At September 30, 2001, the estimated fair value of seller's interest and interest-only strip from credit card securitizations were as follows:

| | |
|--|--|
| (In millions)..... | |
| Seller's interest | |
| Interest-only strip | |
| Total interests in credit card securitizations | |

For analytical purposes only, income statement line items adjusted for the net impact of securitization of credit card receivables for the periods indicated are as follows:

Edgar Filing: BANK ONE CORP - Form 10-Q

| (Dollars in millions) | Credit Card | | | Cre | |
|--|---------------------------------|---------------------|--------------|---------------|--------------|
| | Reported | Securitizations | Managed | Reported | Secur |
| | Three Months | Ended September 30, | Three Months | Three Months | Three Months |
| | 2001 | 2001 | 2001 | 2001 | 2001 |
| Net interest income-FTE basis..... | \$ 2,193 | \$ 1,257 | \$ 3,450 | \$ 2,242 | |
| Provision for credit losses | 620 | 863 | 1,483 | 516 | |
| Noninterest income | 1,853 | (395) | 1,458 | 1,734 | |
| Noninterest expense | 2,303 | - | 2,303 | 2,593 | |
| Net income | 754 | - | 754 | 581 | |
| Total average loans | \$ 165,416 | \$ 58,706 | \$ 224,122 | \$ 173,259 | |
| Total average earning assets | 235,352 | 40,887 | 276,239 | 242,516 | |
| Total average assets | 265,846 | 40,887 | 306,733 | 273,014 | |
| Net interest margin | 3.70% | 12.20% | 4.95% | 3.68% | |
| Credit card delinquencies over 30 days as a percentage of ending credit card loan balances | 3.19% | 4.41% | 4.25% | 2.70% | |
| Credit card delinquencies over 90 days as a percentage of ending credit card loan balances | 1.40% | 1.86% | 1.80% | 1.09% | |
| Net credit card charge-offs as a percentage of average credit card loan balances | 5.94% | 5.88% | 5.89% | 4.73% | |
| | Nine Months Ended September 30, | | | Nine Months E | |
| | 2001 | | | | |
| Net interest income-FTE basis | \$ 6,496 | \$ 3,506 | \$ 10,002 | \$ 6,727 | |
| Provision for credit losses | 1,745 | 2,614 | 4,359 | 1,891 | |
| Noninterest income | 5,251 | (892) | 4,359 | 3,843 | |
| Noninterest expense | 6,845 | - | 6,845 | 8,761 | |
| Net income | 2,097 | - | 2,097 | 1 | |
| Total average loans | \$ 169,381 | \$ 58,702 | \$ 228,083 | \$ 170,485 | |
| Total average earning assets | 238,861 | 40,358 | 279,219 | 240,227 | |
| Total average assets | 267,860 | 40,358 | 308,218 | 271,524 | |
| Net interest margin | 3.64% | 11.61% | 4.79% | 3.74% | |
| Net credit card charge-offs as a percentage of average credit card loan balances | 5.81% | 5.94% | 5.93% | 5.15% | |

Capital Management

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

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

Economic Capital

An important aspect of risk management and performance measurement is the ability to evaluate the risk and return of a business unit, product or customer consistently across all lines of business. The Corporation's economic capital framework facilitates this standard measure of risk and return. Business units are assigned capital consistent with the underlying risks of their product set, customer base and delivery channels. For a more detailed discussion of Bank One's economic capital framework, see page 44 of the Corporation's 2000 Annual Report on Form 10-K.

Selected Capital Ratios

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

The tangible common equity to tangible managed assets ratio is also monitored. This ratio adds securitized credit card loans to reported total assets and is calculated net of total intangible assets. The tangible common equity to tangible managed assets ratio was 5.8% at September 30, 2001, and June 30, 2001. Tier 1 and Total Capital ratios were 8.4% and 8.2% and 11.7% and 11.6%, respectively, at September 30, 2001, and June 30, 2001.

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

| | September 30 2001 | June 30 2001 | March 31 2001 | December 31 2000 | September 30 2000 |
|---|----------------------|-----------------|------------------|---------------------|----------------------|
| Risk-based capital ratios: | | | | | |
| Tier 1 (1) | 8.4% | 8.2% | 7.8% | 7.3% | 7.3% |
| Total (1) | 11.7 | 11.6 | 11.2 | 10.8 | 10.8 |
| Common equity/managed assets | 6.5 | 6.2 | 6.0 | 6.0 | 5.8 |
| Tangible common equity/tangible managed assets | 5.8 | 5.8 | 5.6 | 5.5 | 5.5 |
| Double leverage ratio | 102 | 105 | 106 | 108 | 109 |
| Dividend payout ratio | 35 | 37 | 36 | N/M | |

N/M-Not meaningful.

(1) Excludes \$190 million of preferred stock called for redemption as of September 30, 2001.

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

| (In millions) | September 30 2001 | June 30 2001 | March 31 2001 | December 2000 |
|---------------|----------------------|-----------------|------------------|------------------|
|---------------|----------------------|-----------------|------------------|------------------|

Edgar Filing: BANK ONE CORP - Form 10-Q

| | ----- | ----- | ----- | ----- |
|----------------------------------|------------|------------|------------|----------|
| Regulatory risk-based capital: | | | | |
| Tier 1 capital..... | \$ 21,330 | \$ 21,243 | \$ 20,727 | \$ 19,8 |
| Tier 2 capital | 8,547 | 8,930 | 9,148 | 9,3 |
| | ----- | ----- | ----- | ----- |
| Total capital | \$ 29,877 | \$ 30,173 | \$ 29,875 | \$ 29,1 |
| | ===== | ===== | ===== | ===== |
| Total risk-weighted assets | \$ 254,943 | \$ 259,372 | \$ 266,077 | \$ 270,1 |
| | ===== | ===== | ===== | ===== |

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

| (In millions) | September 30 2001 | June 30 2001 | March 31 2001 | December 2000 |
|---------------------------------------|----------------------|-----------------|------------------|------------------|
| | ----- | ----- | ----- | ----- |
| Goodwill | \$ 1,577 | \$ 824 | \$ 841 | \$ 8 |
| Other nonqualifying intangibles | 289 | 273 | 299 | 3 |
| | ----- | ----- | ----- | ----- |
| Subtotal | 1,866 | 1,097 | 1,140 | 1,2 |
| Qualifying intangibles | 442 | 205 | 205 | 2 |
| | ----- | ----- | ----- | ----- |
| Total intangibles | \$ 2,308 | \$ 1,302 | \$ 1,345 | \$ 1,4 |
| | ===== | ===== | ===== | ===== |

35

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 16, 2001, the Corporation declared a quarterly common cash dividend of 21 cents per share, payable on January 1, 2002.

Double Leverage

Double leverage is the extent to which the Corporation's resources are used to finance investments in subsidiaries. Double leverage was 102% at September 30, 2001, 105% at June 30, 2001 and 109% at September 30, 2000. Trust Preferred Capital Securities of \$3.315 billion for the third quarter of 2001, \$2.790 billion for the second quarter of 2001, and \$2.489 billion in the prior year quarter were included in capital for purposes of this calculation.

Stock Repurchase Program and Other Capital Activities

On September 17, 2001, the Corporation's Board of Directors approved the repurchase of up to \$500 million of the Corporation's common stock. This buyback is part of the remaining 28.4 million shares of a buyback program authorized in May 1999. The timing of the purchases and the exact number of shares to be repurchased will depend on market conditions. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. In the third quarter 2001 the Corporation purchased 1.5 million shares of

Edgar Filing: BANK ONE CORP - Form 10-Q

common stock at an average price of \$29.47 per share, leaving 26.9 million shares available for repurchase under the buyback program.

On November 1, 2001, the Corporation redeemed all outstanding preferred stock with cumulative and adjustable dividends, Series B and C, totaling \$190 million. The redemption price for both of the Series B and C preferred stock was \$100.00 per share, plus accrued and unpaid dividends totaling \$1.00 per share and \$1.083 per share, respectively.

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, the Corporation may make or approve certain statements in future filings with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with the Corporation's approval that are not statements of historical fact and may constitute forward-looking statements. Forward-looking statements may relate to, without limitation, the Corporation's financial condition, results of operations, plans, objectives, future performance or business.

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

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

- . Local, regional and international business or economic conditions may differ from those expected.
- . The effects of and changes in trade, monetary and fiscal policies and laws, including the Federal Reserve Board's interest rate policies may adversely affect the Corporation's business.
- . The timely development and acceptance of new products and services may be different than anticipated.
- . Technological changes instituted by the Corporation and by persons who may affect the Corporation's business may be more difficult to accomplish or more expensive than anticipated or may have unforeseen consequences.
- . Acquisitions and integration of acquired businesses may be more difficult or expensive than expected.
- . The ability to increase market share and control expenses may be more difficult than anticipated.

36

- . Competitive pressures among financial services companies may increase significantly.
- . Changes in laws and regulations (including laws and regulations

Edgar Filing: BANK ONE CORP - Form 10-Q

concerning taxes, banking, securities and insurance) may adversely affect the Corporation or its business.

- . Changes in accounting policies and practices, as may be adopted by regulatory agencies and the Financial Accounting Standards Board, may affect expected financial reporting.
- . The costs, effects and outcomes of litigation may adversely affect the Corporation or its business.
- . The Corporation may not manage the risks involved in the foregoing as well as anticipated.

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

37

Consolidated Balance Sheets BANK ONE CORPORATION and Subsidiaries

| (Dollars in millions) | September 30 2001 ----- | De |
|---|-------------------------------|-----|
| Assets | | |
| Cash and due from banks | \$ 16,553 | \$ |
| Interest-bearing due from banks | 3,307 | |
| Federal funds sold and securities under resale agreements | 9,459 | |
| Trading assets | 5,952 | |
| Derivative product assets | 3,261 | |
| Investment securities | 52,070 | |
| Loans | 164,251 | |
| Allowance for credit losses | (4,479) | |
| | ----- | --- |
| Loans, net | 159,772 | |
| Premises and equipment, net | 2,604 | |
| Customers' acceptance liability | 296 | |
| Other assets | 16,978 | |
| | ----- | --- |
| Total assets | \$ 270,252 | \$ |
| | ===== | === |
| Liabilities | | |
| Deposits: | | |
| Demand | \$ 29,958 | \$ |
| Savings | 69,786 | |
| Time: | | |
| Under \$100,000 | 21,741 | |
| \$100,000 and over | 20,178 | |
| Foreign offices | 20,722 | |
| | ----- | --- |
| Total deposits | 162,385 | |
| Federal funds purchased and securities under repurchase agreements | 16,696 | |
| Other short-term borrowings | 10,901 | |
| Long-term debt | 41,046 | |
| Guaranteed preferred beneficial interest in the Corporation's junior subordinated debt..... | | |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | |
|---|------------|-----|
| Acceptances outstanding | 3,315 | |
| Derivative product liabilities | 296 | |
| Other liabilities | 2,743 | |
| | 12,488 | |
| | ----- | --- |
| Total liabilities | 249,870 | |
| Stockholders' Equity | | |
| Preferred stock | 190 | |
| Common stock-\$0.01 par value | 12 | |
| Number of common shares (in thousands): | | |
| | 9/30/01 | 1 |
| | ----- | --- |
| Authorized | 4,000,000 | 2 |
| Issued | 1,181,382 | 1 |
| Surplus | 10,332 | |
| Retained earnings | 10,413 | |
| Accumulated other adjustments to stockholders' equity | 203 | |
| Deferred compensation | (138) | |
| Treasury stock, at cost, 14,301,000, 21,557,000, and 25,096,000 shares, respectively | (630) | |
| | ----- | --- |
| Total stockholders' equity | 20,382 | |
| | ----- | --- |
| Total liabilities and stockholders' equity | \$ 270,252 | \$ |
| | ===== | === |

The accompanying notes are an integral part of this statement.

38

Consolidated Income Statements BANK ONE CORPORATION and Subsidiaries

| | | |
|--|----------------|-----|
| | Three Months E | |
| | September | |
| | ----- | --- |
| (In millions, except per share data) | 2001 | |
| | ----- | --- |
| Net Interest Income: | | |
| Interest income | \$ 4,179 | \$ |
| Interest expense | 2,016 | |
| | ----- | --- |
| Total net interest income | 2,163 | |
| Noninterest Income: | | |
| Non-deposit service charges | 445 | |
| Credit card revenue | 767 | |
| Service charges on deposits | 388 | |
| Fiduciary and investment management fees | 190 | |
| Investment securities gains (losses) | (42) | |
| Trading | 70 | |
| Other income (losses) | 35 | |
| | ----- | --- |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | |
|---|---------|----|
| Total noninterest income | 1,853 | |
| | ----- | |
| Total revenue, net of interest expense | 4,016 | |
| Provision for credit losses | 620 | |
| Noninterest Expense: | | |
| Salaries and employee benefits | 1,046 | |
| Occupancy expense | 175 | |
| Equipment expense | 107 | |
| Outside service fees and processing | 303 | |
| Marketing and development | 212 | |
| Telecommunications | 105 | |
| Other intangible amortization | 30 | |
| Goodwill amortization | 17 | |
| Other | 308 | |
| | ----- | |
| Total noninterest expense before merger and restructuring charges | 2,303 | |
| Merger-related and restructuring charges | -- | |
| | ----- | |
| Total noninterest expense | 2,303 | |
| Income (loss) before income taxes and cumulative effect of change in accounting principle | 1,093 | |
| Applicable income taxes (benefit) | 339 | |
| | ----- | |
| Income before cumulative effect of change in accounting principle | 754 | |
| Cumulative effect of change in accounting principle, net of taxes of \$25..... | -- | |
| | ----- | |
| Net Income | \$ 754 | \$ |
| | ===== | |
| Net Income (Loss) Attributable to Common Stockholders' Equity | \$ 751 | \$ |
| | ===== | |
| Earnings (loss) per share before cumulative effect of change in accounting principle: | | |
| Basic | \$ 0.64 | \$ |
| | ===== | |
| Diluted | \$ 0.64 | \$ |
| | ===== | |
| Earnings (loss) per share: | | |
| Basic | \$ 0.64 | \$ |
| | ===== | |
| Diluted | \$ 0.64 | \$ |
| | ===== | |

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY BANK ONE CORPORATION and Subsidiaries

Accumulated
Other

Edgar Filing: BANK ONE CORP - Form 10-Q

| (In millions) | Preferred Stock | Common Stock | Surplus | Retained Earnings | Adjustments to Stockholders' Equity | Co |
|---|--------------------|-----------------|----------|----------------------|---|----|
| Balance-December 31, 1999 | \$190 | \$12 | \$10,799 | \$ 11,037 | \$ (263) | |
| Net income (loss) | | | | 1 | | |
| Change in fair value, investment securities-available for sale, net of taxes | | | | | 192 | |
| Net income and changes in accumulated other adjustments to stockholders' equity | | | | 1 | 192 | |
| Cash dividends declared: | | | | | | |
| Common stock | | | | (1,210) | | |
| Preferred stock | | | | (9) | | |
| Issuance of stock | | | (146) | | | |
| Purchase of common stock | | | | | | |
| Employee Stock Program | | | (59) | | | |
| Awards granted, net of forfeitures and amortization | | | | | | |
| Other | | | (10) | | | |
| Balance-September 30, 2000 | \$190 | \$12 | \$10,584 | \$ 9,819 | \$ (71) | |
| Balance-December 31, 2000 | \$190 | \$12 | \$10,487 | \$ 9,060 | \$ (5) | |
| Net income | | | | 2,097 | | |
| Change in fair value, investment securities-available for sale, net of taxes | | | | | 382 | |
| Change in fair value of cash-flow type hedge derivative securities net of taxes | | | | | (171) | |
| Translation loss, net of hedge results and taxes | | | | | (3) | |
| Net income and changes in accumulated other adjustments to stockholders' equity | | | | 2,097 | 208 | |
| Cash dividends declared: | | | | | | |
| Common stock | | | | (735) | | |
| Preferred stock | | | | (9) | | |
| Issuance of stock | | | (157) | | | |
| Purchase of common stock | | | | | | |
| Awards granted, net of forfeitures and amortization | | | | | | |
| Other | | | 2 | | | |
| Balance-September 30, 2001 | \$190 | \$12 | \$10,332 | \$ 10,413 | \$ 203 | |

The accompanying notes are an integral part of this statement.

Edgar Filing: BANK ONE CORP - Form 10-Q

Consolidated Statement of Cash Flows BANK ONE CORPORATION and Subsidiaries

(In millions)

Cash Flows from Operating Activities

Net income
Adjustments to reconcile net income to net cash (used in) provided by operating activities:
 Depreciation and amortization
 Cumulative effect of accounting change
 Provision for credit losses
 Investment securities losses, net
 Net decrease (increase) in net derivative product assets
 Net (increase) decrease in trading assets
 Net increase in other assets
 Net increase in other liabilities
 Merger-related and restructuring charges
 Other operating adjustments

Net cash provided by operating activities

Cash Flows from Investing Activities

Net increase in federal funds sold and securities under resale agreements
Securities available for sale:
 Purchases
 Maturities
 Sales
Credit card receivables securitized
Net decrease (increase) in loans
Purchase of Wachovia credit card business
Loan recoveries
Additions to premises and equipment
Proceeds from sales of premises and equipment
All other investing activities, net

Net cash provided by (used in) investing activities

Cash Flows from Financing Activities

Net (decrease) increase in deposits
Net increase (decrease) in federal funds purchased and securities under repurchase agreements
Net (decrease) in other short-term borrowings
Proceeds from issuance of long-term debt
Repayment of long-term debt
Purchase of common stock for treasury
Cash dividends paid
Proceeds from issuance of trust preferred capital securities
Proceeds from issuance of common and treasury stock
All other financing activities, net

Net cash (used in) provided by financing activities

Edgar Filing: BANK ONE CORP - Form 10-Q

Effect of Exchange Rate Changes on Cash and Cash Equivalents

Net (Decrease) Increase in Cash and Cash Equivalents

Cash and Cash Equivalents at Beginning of Period

Cash and Cash Equivalents at End of Period

The accompanying notes are an integral part of this statement

41

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS BANK ONE CORPORATION and Subsidiaries

Note 1-Summary of Significant Accounting Policies

Consolidated financial statements of Bank One have been prepared in conformity with generally accepted accounting principles. Management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes that could differ from actual results. Certain prior-year financial statement information has been reclassified to conform to the current year's financial statement presentation.

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 Annual Report on Form 10-K for the year ended December 31, 2000.

Note 2-New and Pending Accounting Pronouncements

Accounting for Transfers and Servicing of Financial Assets and Liabilities

Effective April 1, 2001, the Corporation adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Liabilities" ("SFAS No. 140"). On July 23, 2001, the FASB issued a Technical Bulletin that will delay the effective date of certain provisions of SFAS No. 140 relating to isolation in bankruptcy for banks subject to FDIC receivership and for certain other financial institutions. For these entities, the isolation provisions would be effective for transfers of financial assets occurring after December 31, 2001, except for transfers involving revolving credits such as credit card securitizations. An additional transition period was granted for securitizations involving revolving credits that ends three months after the earliest date at which sufficient approvals can be obtained to permit the necessary changes to existing master trusts to meet the isolation provisions, but in no event extend later than June 30, 2006. The new standard also provides revised guidance for an entity to be considered a qualifying special purpose entity ("QSPE") and requires additional disclosures concerning securitization activities and

Edgar Filing: BANK ONE CORP - Form 10-Q

collateral. The impact of adopting SFAS No. 140 was not significant to the Corporation's financial position or net income.

Accounting for Derivative Instruments and Hedging Activities

Effective January 1, 2001, the Corporation adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended. The new standard significantly changed the accounting treatment for interest rate and foreign exchange derivatives the Corporation uses in its asset and liability management activities. The Corporation's accounting for derivatives used in trading activities has not changed as the result of SFAS No. 133. Hedging derivatives are now recognized on the balance sheet at fair value as either assets or liabilities. Hedge ineffectiveness, if any, is calculated and recorded in current earnings. The accounting for the effective portion of the change in value of a hedging derivative is based on the nature of the hedge. See "Derivative Financial Instruments" on page 31 for detailed information on the Corporation's strategy in using derivative instruments in its asset and liability management and trading activities, as well as the new accounting principles and disclosure for derivative instruments pursuant to SFAS No. 133.

42

Recognition and Impairment of Certain Investments

Effective April 1, 2001, the Corporation adopted Emerging Issues Task Force Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" ("EITF No. 99-20"). Under EITF No. 99-20, impairment on certain beneficial interests in securitized assets must be recognized when the asset's fair value is below its carrying value and there has been an adverse change in estimated cash flows. The effect of adopting EITF No. 99-20 was a one-time, non-cash charge to earnings of \$44 million after-tax (\$69 million pre-tax) or \$0.04 per diluted share. This charge has been presented as a cumulative effect of a change in accounting principle in the income statement. The securities impacted by EITF No. 99-20 primarily involved collateralized debt obligations.

Business Combinations and Goodwill and Other Intangible Assets

In July 2001, SFAS No. 141, "Business Combinations" ("SFAS No. 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") were issued. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be tested at least annually for impairment. SFAS No. 142 is effective January 1, 2002 for calendar year companies, however, any acquired goodwill or intangible assets recorded in transactions closed subsequent to June 30, 2001 will be subject immediately to the nonamortization and amortization provisions of SFAS No. 142. As required under SFAS No. 142, the Company will discontinue the amortization of goodwill with an expected net carrying value of \$789 million at the date of adoption and annual amortization of \$70 million that resulted from business combinations prior to the adoption of SFAS No. 141. However, the Company continues to evaluate the additional effect, if any, that adoption of SFAS No. 141 and SFAS No. 142 will have on the Company's consolidated financial statements.

Edgar Filing: BANK ONE CORP - Form 10-Q

Impairment or Disposal of Long-Lived Assets

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which is effective for financial statements issued for fiscal years beginning after December 15, 2001. SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. The Corporation currently believes that the impact, if any, of adopting this statement will not be significant to its financial position and net income.

43

Note 3-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, and common shares that would result from the conversion of convertible preferred stock.

| | Three Months Ended September 30 | | Nine M Sep |
|--|------------------------------------|--------|---------------|
| (In millions, except per share data) | 2001 | 2000 | 2001 |
| Basic: | | | |
| Income before cumulative effect of accounting change | \$ 754 | \$ 581 | \$ 2,14 |
| Cumulative effect of accounting change | -- | -- | (4 |
| Net income | 754 | 581 | 2,09 |
| Preferred stock dividends | (3) | (3) | (|
| Net income (loss) attributable to common stockholders' | | | |
| equity | \$ 751 | \$ 578 | \$ 2,08 |
| Diluted: | | | |
| Income before cumulative effect of accounting change | \$ 754 | \$ 581 | \$ 2,14 |
| Cumulative effect of accounting change | -- | -- | (4 |
| Net income (loss) | 754 | 581 | 2,09 |
| Interest on convertible debentures, net of tax | -- | 1 | -- |
| Preferred stock dividends | (3) | (3) | (|
| Diluted income (loss) available to common stockholders | \$ 751 | \$ 579 | \$ 2,08 |
| Average shares outstanding | 1,168 | 1,156 | 1,16 |
| Dilutive shares: | | | |
| Stock options | 7 | 8 | -- |
| Convertible debentures | -- | 3 | -- |
| Employee stock purchase plan | 1 | -- | -- |
| Average shares outstanding assuming full dilution | 1,176 | 1,167 | 1,17 |

Earnings (loss) per share before cumulative effect of change in

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | |
|----------------------------|---------|---------|--------|
| accounting principle: | | | |
| Basic | \$ 0.64 | \$ 0.50 | \$ 1.8 |
| | ===== | ===== | ===== |
| Diluted | \$ 0.64 | \$ 0.50 | \$ 1.8 |
| | ===== | ===== | ===== |
| Earnings (loss) per share: | | | |
| Basic | \$ 0.64 | \$ 0.50 | \$ 1.7 |
| | ===== | ===== | ===== |
| Diluted | \$ 0.64 | \$ 0.50 | \$ 1.7 |
| | ===== | ===== | ===== |

Note 4-Acquisition

On July 27, 2001 the Corporation completed its cash purchase of Wachovia's approximately \$7.5 billion portfolio of consumer credit card receivables. The acquisition was accounted for under the provisions of SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. The first component of the transaction was the primary portfolio of \$6.2 billion in receivables of credit card holders who are not customers of Wachovia's retail bank. The second component was the agent bank portfolio of \$1.3 billion. On September 7, 2001 the Corporation announced its agreement with Wachovia to end the agent bank relationship and sell back to Wachovia the approximately \$1.3 billion of consumer credit card receivables of customers who also have a Wachovia retail banking relationship. Under the terms of the agreement, Wachovia paid a \$350 million termination fee and will reimburse the Corporation for the premium paid for the repurchased receivables and conversion costs related to the repurchase. The Corporation expects the primary Wachovia portfolio to add approximately \$100 million annually to after-tax earnings.

44

Note 5-Second Quarter 2000 Restructuring Charge

Actions under this restructuring plan have been completed, with only payments of identified obligations remaining, which consist primarily of lease obligations. Unpaid amounts totaled \$59 million as of September 30, 2001, and will be paid as required over the contract period.

Note 6-Business Segments

The information presented on page 2 is consistent with the content of operating segments data provided to the Corporation's management. The Corporation's management currently does not use product group revenues to assess consolidated results. Aside from investment management and insurance products, product offerings are tailored to specific customer segments. As a result, the aggregation of product revenues and related profit measures across lines of business is not available.

During the third quarter, certain organizational changes were made impacting the Corporate Investments and Commercial Banking businesses. The tax-oriented portfolio of Corporate Investments was transferred to Commercial Banking, while the principal investments and fixed income portfolios were transferred to Corporate/Unallocated. All results for prior periods conform to the current line of business organization.

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

Edgar Filing: BANK ONE CORP - Form 10-Q

Data presented in the line of business tables prior to the caption entitled "Financial Performance" are included in the "Business Segments" section (see pages 2-19 for details).

Note 7-Interest Income and Interest Expense

Details of interest income and expense are as follows:

| (In millions) | Three Months Ended September 30 | |
|---|------------------------------------|----------|
| | 2001 | 2000 |
| Interest Income | | |
| Loans, including fees | \$ 3,191 | \$ 3,919 |
| Bank balances | 19 | 138 |
| Federal funds sold and securities under resale agreements | 96 | 168 |
| Trading assets | 78 | 139 |
| Investment securities | 795 | 821 |
| Total | 4,179 | 5,185 |
| Interest Expense | | |
| Deposits | 1,163 | 1,619 |
| Federal funds purchased and securities under repurchase agreements | 145 | 311 |
| Other short-term borrowings | 113 | 319 |
| Long-term debt | 595 | 728 |
| Total | 2,016 | 2,977 |
| Net Interest Income | 2,163 | 2,208 |
| Provision for credit losses | 620 | 516 |
| Net Interest Income After Provision for Credit Losses | \$ 1,543 | \$ 1,692 |

Note 8-Fair Value of Financial Instruments

The carrying values and estimated fair values of financial instruments as of September 30, 2001 have not materially changed on a relative basis from the carrying values and estimated fair values of financial instruments disclosed as of December 31, 2000.

Note 9-Guaranteed Preferred Beneficial Interest in the Corporation's Junior Subordinated Debt

As of September 30, 2001 the Corporation has sponsored ten trusts with a total aggregate issuance of \$3.315 billion in trust preferred securities as follows:

Edgar Filing: BANK ONE CORP - Form 10-Q

| (Dollars in millions) | Trust Preferred | | | Junior Subordina | |
|---|--------------------|---------------------------|-----------------------|--------------------------|------------|
| | Issuance Date | Initial Liquidation Value | Distribution Rate | Initial Principal Amount | Matur |
| Capital VI | September 28, 2001 | \$525 | 7.20% | \$541.2 | October 15 |
| Capital V | January 30, 2001 | 300 | 8.00% | 309.3 | January 30 |
| Capital IV | August 30, 2000 | 160 | 3-mo LIBOR plus 1.50% | 164.9 | September |
| Capital III | August 30, 2000 | 475 | 8.75% | 489.7 | September |
| Capital II | August 8, 2000 | 280 | 8.50% | 288.7 | August 15, |
| Capital I | September 20, 1999 | 575 | 8.00% | 593 | September |
| First Chicago NBD Capital 1 | January 31, 1997 | 250 | 3-mo LIBOR plus 0.55% | 258 | February 1 |
| First USA Capital Trust I (2) | December 20, 1996 | 200 | 9.33% | 206.2 | January 15 |
| First Chicago NBD Institutional Capital A | December 3, 1996 | 500 | 7.95% | 515 | December 1 |
| First Chicago NBD Institutional Capital B | December 5, 1996 | 250 | 7.75% | 258 | December 1 |

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

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

These trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment. Distributions on these securities are included in interest expense on long-term debt. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds thereof in junior subordinated debentures of the Corporation, the sole asset of each trust. The preferred trust securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly owned by the Corporation. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Corporation making payment on the related junior subordinated debentures. The Corporation's obligations under the junior subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Corporation of each respective trust's obligations under the trust securities issued by such trust.

46

Note 10-Supplemental Disclosures for Accumulated Other Adjustments to Stockholders' Equity

Accumulated other adjustments to stockholders' equity is as follows:

(In millions)

Edgar Filing: BANK ONE CORP - Form 10-Q

Fair value adjustment on investment securities-available for sale:

| | |
|--|--|
| Balance, beginning of period | |
| Change in fair value, net of taxes of \$(222) and \$24, for the nine months ended September 30, 2001 and 2000, respectively | |
| Reclassification adjustment, net of taxes of \$8 and \$(131), for the nine months ended September 30, 2001 and 2000, respectively | |
| Balance, end of period | |

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

| | |
|---|--|
| Balance, beginning of period | |
| Transition adjustment at January 1, 2001, net of taxes of \$56 | |
| Net change in fair value associated with current period hedging activities, net of taxes of \$65, for the nine months ended September 30, 2001 | |
| Net reclassification into earnings, net of taxes of \$29, for the nine months ended September 30, 2001 | |
| Balance, end of period | |

Accumulated translation adjustment:

| | |
|---|--|
| Balance, beginning of period | |
| Translation gain (losses), net of hedge results and taxes | |
| Balance, end of period | |

| | |
|---|--|
| Total accumulated other adjustments to stockholders' equity | |
|---|--|

Note 11-Contingent Liabilities

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

Note 12-Investment Securities

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

Edgar Filing: BANK ONE CORP - Form 10-Q

| September 30, 2001 (In millions) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses |
|---|----------------|------------------------|-------------------------|
| U.S. Treasury..... | \$ 1,445 | \$ 33 | \$ (|
| U.S. government agencies | 21,124 | 490 | |
| States and political subdivisions | 1,281 | 39 | |
| Interests in credit card securitized receivables... | 18,382 | 77 | |
| Other debt securities | 5,162 | 41 | (|
| Equity securities (1) | 2,458 | 2 | (|
| | ----- | ----- | ----- |
| Total available for sale securities | \$49,842 | \$682 | \$ (|
| | ===== | ===== | ===== |
| Venture capital and other investments (2) | | | |
| Total investment securities | | | |

- (1) The fair values of certain securities for which market quotations were not available were estimated.
- (2) The fair values of certain securities reflect liquidity and other market-related factors, and includes investments accounted for at fair value consistent with specialized industry practice.

48

Selected Statistical Information BANK ONE CORPORATION and Subsidiaries

Average Balances/Net Interest Margin/Rates

| Three Months Ended | September 30, 2001 | | | |
|---|--------------------|----------|--------------|-----------------|
| (Income and rates on tax-equivalent basis) (Dollars in millions) | Average Balance | Interest | Average Rate | Average Balance |
| Assets | | | | |
| Short-term investments | \$ 12,704 | \$ 117 | 3.65% | \$ 12,704 |
| Trading assets | 6,982 | 78 | 4.43 | 6,982 |
| Investment securities: | | | | |
| U.S. government and federal agencies | 21,655 | 312 | 5.72 | 21,655 |
| States and political subdivisions | 1,303 | 25 | 7.61 | 1,303 |
| Other | 27,292 | 473 | 6.88 | 27,292 |
| | ----- | ----- | ----- | ----- |
| Total investment securities | 50,250 | 810 | 6.40 | 50,250 |
| Loans: (1) | 165,416 | 3,204 | 7.68 | 165,416 |
| | ----- | ----- | ----- | ----- |
| Total earning assets (2) | 235,352 | \$ 4,209 | 7.10% | 235,352 |
| | | ===== | ===== | ===== |
| Allowance for credit losses | (4,499) | | | (4,499) |
| Other assets | 34,993 | | | 34,993 |
| | ----- | | | ----- |
| Total assets | \$ 265,846 | | | \$ 265,846 |

Edgar Filing: BANK ONE CORP - Form 10-Q

Liabilities and Stockholders' Equity

Deposits-interest-bearing:

| | | | | |
|--|------------|----------|-------|-------|
| Savings | \$ 14,969 | \$ 42 | 1.11% | \$ 1 |
| Money market | 53,189 | 305 | 2.28 | 4 |
| Time | 42,891 | 621 | 5.74 | 4 |
| Foreign offices (3) | 21,817 | 195 | 3.55 | 2 |
| | ----- | ----- | ----- | ----- |
| Total deposits-interest-bearing | 132,866 | 1,163 | 3.47 | 13 |
| Federal funds purchased and securities under repurchase agreements | 17,038 | 145 | 3.38 | 1 |
| Other short-term borrowings | 11,217 | 113 | 4.00 | 1 |
| Long-term debt (4) | 42,862 | 595 | 5.51 | 4 |
| | ----- | ----- | ----- | ----- |
| Total interest-bearing liabilities | 203,983 | \$ 2,016 | 3.92% | 20 |
| | | ===== | ===== | |
| Demand deposits | 28,576 | | | 2 |
| Other liabilities | 13,203 | | | 1 |
| Preferred stock | 190 | | | |
| Common stockholders' equity | 19,894 | | | 1 |
| | ----- | | | ----- |
| Total liabilities and stockholders' equity | \$ 265,846 | | | \$ 2 |
| | ===== | | | ===== |
| Interest income/earning assets (2) | | \$ 4,209 | 7.10% | |
| Interest expense/earning assets | | 2,016 | 3.40 | |
| | | ----- | ----- | |
| Net interest margin | | \$ 2,193 | 3.70% | |
| | | ===== | ===== | |

- (1) Nonperforming loans are included in average balances used to determine the average rate.
- (2) Includes tax-equivalent adjustments based on federal income tax rate of 35%.
- (3) Includes international banking facilities' deposit balances in domestic offices and balances of Edge Act and overseas offices.
- (4) Includes trust preferred capital securities.

49

| March 31, 2001 | | | December 31, 2000 | | | September | |
|-----------------|----------|--------------|-------------------|----------|--------------|-----------------|-------|
| Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | Average Balance | Inter |
| \$ 12,221 | \$ 185 | 6.14% | \$ 16,272 | \$ 272 | 6.65% | \$ 18,673 | \$ 3 |
| 5,703 | 83 | 5.90 | 6,140 | 101 | 6.54 | 8,252 | 1 |
| 19,327 | 274 | 5.75 | 14,765 | 228 | 6.14 | 12,163 | 2 |
| 1,269 | 24 | 7.67 | 1,283 | 25 | 7.75 | 1,308 | |
| 30,141 | 572 | 7.70 | 29,485 | 620 | 8.37 | 28,861 | 6 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 50,737 | 870 | 6.95 | 45,533 | 873 | 7.63 | 42,332 | 8 |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | | | | | |
|------------|---------|-------|------------|---------|-------|-----------|--------|
| 173,677 | 3,816 | 8.91 | 175,588 | 3,961 | 8.97 | 173,259 | 3,9 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 242,338 | \$4,954 | 8.29% | 243,533 | \$5,207 | 8.51% | 242,516 | \$ 5,2 |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| (4,216) | | | (3,499) | | | (3,036) | |
| 31,392 | | | 33,319 | | | 33,534 | |
| ----- | | | ----- | | | ----- | |
| \$ 269,514 | | | \$ 273,353 | | | \$273,014 | |
| ===== | | | ===== | | | ===== | |
| | | | | | | | |
| \$ 15,491 | \$ 51 | 1.34% | \$ 15,543 | \$ 57 | 1.46% | \$ 16,287 | \$ |
| 47,006 | 384 | 3.31 | 47,084 | 429 | 3.62 | 47,080 | 4 |
| 47,267 | 743 | 6.38 | 47,480 | 759 | 6.36 | 45,906 | 7 |
| 24,081 | 342 | 5.76 | 25,950 | 397 | 6.09 | 26,228 | 4 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 133,845 | 1,520 | 4.61 | 136,057 | 1,642 | 4.80 | 135,501 | 1,6 |
| 17,129 | 231 | 5.47 | 18,564 | 284 | 6.09 | 19,331 | 3 |
| 18,252 | 283 | 6.29 | 17,833 | 292 | 6.51 | 18,933 | 3 |
| 41,781 | 702 | 6.81 | 41,395 | 742 | 7.13 | 41,018 | 7 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 211,007 | \$2,736 | 5.26% | 213,849 | \$2,960 | 5.51% | 214,783 | \$ 2,9 |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| 26,827 | | | 27,194 | | | 26,456 | |
| 12,675 | | | 12,943 | | | 12,706 | |
| 190 | | | 190 | | | 190 | |
| 18,815 | | | 19,177 | | | 18,879 | |
| ----- | | | ----- | | | ----- | |
| \$ 269,514 | | | \$ 273,353 | | | \$273,014 | |
| ===== | | | ===== | | | ===== | |
| | | | | | | | |
| | \$4,954 | 8.29% | | \$5,207 | 8.51% | | \$ 5,2 |
| | 2,736 | 4.58 | | 2,960 | 4.84 | | 2,9 |
| | ----- | ----- | | ----- | ----- | | ----- |
| | \$2,218 | 3.71% | | \$2,247 | 3.67% | | \$ 2,2 |
| | ===== | ===== | | ===== | ===== | | ===== |

50

Selected Statistical Information

BANK ONE CORPORATION and Subsidiaries

Average Balances/Net Interest Margin/Rates

| Nine Months Ended | September 30, 2001 | | |
|---|--------------------|----------|-----------------|
| (Income and rates on tax-equivalent basis) (Dollars in millions) | Average Balance | Interest | Average Rate |
| Assets | | | |
| Short-term investments | \$ 13,327 | \$ 474 | 4.76% |
| Trading assets | 6,658 | 246 | 4.94 |
| Investment securities: | | | |

Edgar Filing: BANK ONE CORP - Form 10-Q

| | | | |
|--|------------|-----------|-------|
| U.S. government and federal agencies | 20,340 | 868 | 5.71 |
| States and political subdivisions | 1,279 | 72 | 7.53 |
| Other | 27,876 | 1,490 | 7.15 |
| | ----- | ----- | ----- |
| Total investment securities | 49,495 | 2,430 | 6.56 |
| Loans: (1) | 169,381 | 10,428 | 8.23 |
| | ----- | ----- | ----- |
| Total earning assets (2) | 238,861 | \$ 13,578 | 7.60% |
| | | ===== | ===== |
| Allowance for credit losses | (4,320) | | |
| Other assets | 33,319 | | |
| | ----- | | |
| Total assets | \$ 267,860 | | |
| | ===== | | |
| Liabilities and Stockholders' Equity | | | |
| Deposits-interest-bearing: | | | |
| Savings | \$ 15,447 | \$ 138 | 1.19% |
| Money market | 49,726 | 1,019 | 2.74 |
| Time | 45,253 | 2,052 | 6.06 |
| Foreign offices (3) | 22,885 | 786 | 4.59 |
| | ----- | ----- | ----- |
| Total deposits-interest-bearing | 133,311 | 3,995 | 4.01 |
| Federal funds purchased and securities under repurchase agreements | 17,019 | 553 | 4.34 |
| Other short-term borrowings | 14,806 | 594 | 5.36 |
| Long-term debt (4) | 42,282 | 1,940 | 6.13 |
| | ----- | ----- | ----- |
| Total interest-bearing liabilities | 207,418 | \$ 7,082 | 4.56% |
| | | ===== | ===== |
| Demand deposits | 27,999 | | |
| Other liabilities | 12,974 | | |
| Preferred stock | 190 | | |
| Common stockholders' equity | 19,279 | | |
| | ----- | | |
| Total liabilities and stockholders' equity | \$ 267,860 | | |
| | ===== | | |
| Interest income/earning assets (2) | | \$ 13,578 | 7.60% |
| Interest expense/earning assets | | 7,082 | 3.96 |
| | | ----- | ----- |
| Net interest margin | | \$ 6,496 | 3.64% |
| | | ===== | ===== |

- (1) Nonperforming loans are included in average balances used to determine the average rate.
- (2) Includes tax-equivalent adjustments based on federal income tax rate of 35%.
- (3) Includes international banking facilities' deposit balances in domestic offices and balances of Edge Act and overseas offices.
- (4) Includes trust preferred capital securities.

Edgar Filing: BANK ONE CORP - Form 10-Q

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, 2001

OR

☐ 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 the number of shares outstanding of each of the issuer's classes
of common stock, as of October 31, 2001.

| Class | Number of Shares Outstanding |
|-------------------------------|------------------------------|
| ----- | ----- |
| Common Stock \$0.01 par value | 1,166,044,287 |

Edgar Filing: BANK ONE CORP - Form 10-Q

Form 10-Q Cross-Reference Index

PART I-FINANCIAL INFORMATION

ITEM 1. Financial Statements

Consolidated Balance Sheets-
September 30, 2001 and 2000, and December 31, 2000

Consolidated Income Statements-
Three months ended September 30, 2001 and 2000
Nine months ended September 30, 2001 and 2000

Consolidated Statements of Stockholders' Equity-
Nine months ended September 30, 2001 and 2000

Consolidated Statements of Cash Flows-
Nine months ended September 30, 2001 and 2000

Notes to Consolidated Financial Statements

Selected Statistical Information

ITEM 2. Management's Discussion and Analysis of Financial

Condition and Results of Operations

PART II-OTHER INFORMATION

ITEM 1. Legal Proceedings

ITEM 2. Changes in Securities

ITEM 3. Defaults Upon Senior Securities

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

ITEM 5. Other Information

ITEM 6. Exhibits and Reports on Form 8-K

Signatures

PART II-OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 2. Changes in Securities

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 re computation of ratios.

(b) The Registrant filed the following Current Reports on Form 8-K during the quarter ended September 30, 2001.

| Date | Item Reported |
|--------------------|--|
| ---- | ----- |
| July 17, 2001 | Registrant's July 17, 2001 press release announcing its 2001 second quarter earnings. |
| July 27, 2001 | Registrant's July 26, 2001 press release announcing highlights of its investor and analyst presentations that day. |
| September 7, 2001 | Registrant's September 7, 2001 press release announcing that it and Wachovia Corporation will end their agent bank relationship. |
| September 17, 2001 | Registrant's September 17, 2001 press release announcing its plan to repurchase up to \$500 million of its common stock. |

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.

Edgar Filing: BANK ONE CORP - Form 10-Q

BANK ONE CORPORATION

Date November 14, 2001 /s/ James Dimon

James Dimon
Principal Executive Officer

Date November 14, 2001 /s/ Charles W. Scharf

Charles W. Scharf
Principal Financial Officer

Date November 14, 2001 /s/ Melissa J. Moore

Melissa J. Moore
Principal Accounting Officer

55

BANK ONE CORPORATION

EXHIBIT INDEX

Exhibit Number Description of Exhibit

12 -Statement re computation of ratios.

56