AMSOUTH BANCORPORATION
Form 10-Q
August 07, 2002

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the Quarterly Period Ended June 30, 2002** **Commission file number 1-7476**

# AmSouth Bancorporation

**(Exact Name of registrant as specified in its charter)**

| **Delaware** | **63-0591257** |
|---|---|
| **(State or other jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **AmSouth Center**<br>**1900 Fifth Avenue North**<br>**Birmingham, Alabama** | **35203** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(205) 320-7151**
**(Registrant s telephone number, including area code)**

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 x No ¨

As of July 31, 2002, AmSouth Bancorporation had 358,639,000 shares of common stock outstanding.

**AMSOUTH BANCORPORATION**

**FORM 10-Q**

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*Forward-Looking Statements. Statements made in this report that are not purely historical are forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995), including any statements regarding descriptions of management s plans, objectives or goals for future operations, products or services, and forecasts of its revenues, earnings or other measures of performance. Forward-looking statements are based on current management expectations and, by their nature, are subject to risks and uncertainties. A number of factors-many of which are beyond AmSouth s control-could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements. Some of these factors which could cause results to differ materially from current management expectations include, but are not limited to: execution of AmSouth s strategic initiatives; legislation; general economic conditions, especially in the Southeast; the performance of the stock and bond markets; changes in interest rates, yield curves and interest rate spread relationships; deposit flows; the cost of funds; cost of federal deposit insurance premiums; demand for loan products; demand for financial services; competition; changes in the quality or composition of AmSouth s loan and investment portfolios including capital market inefficiencies that may affect the marketability and valuation of available-for-sale securities; changes in accounting and tax principles, policies or guidelines; other economic, competitive, governmental, regulatory, and technical factors affecting AmSouth s operations, products, services and prices; unexpected judicial actions and developments; and the outcome of litigation, which is inherently uncertain and depends on the findings of judges and juries. To the extent that terrorist attacks or other geopolitical conflicts cause a prolonged negative impact on the economy, the effects may include adverse changes in customers borrowing, investing or spending patterns; market disruptions; adverse effects on the performance of the United States and foreign equity markets; currency fluctuations; exchange controls; restriction of asset growth; negative effects on credit quality; and other effects that could adversely impact the performance, earnings, and revenue growth of the financial services industry, including AmSouth. Forward-looking statements speak only as of the date they are made. AmSouth does not undertake a duty to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.*

**PART I**
**FINANCIAL INFORMATION**
**Item 1. Financial Statements (Unaudited)**

**AMSOUTH BANCORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CONDITION**
**(Unaudited)**

| | June 30 2002 | December 31 2001 | June 30 2001 |
|---|---|---|---|
| | | (In thousands) | |
| **ASSETS** | | | |
| Cash and due from banks | $ 1,124,366 | $ 1,441,561 | $ 1,115,681 |
| Federal funds sold and securities purchased under agreements to resell | 147,000 | 400,000 | 1,015,400 |
| Trading securities | 30,006 | 12,979 | 13,538 |
| Available-for-sale securities | 4,590,271 | 4,829,512 | 4,503,894 |
| Held-to-maturity securities (market value of $4,299,533, $4,071,008 and $4,582,237, respectively) | 4,177,856 | 4,002,474 | 4,508,527 |
| Loans held for sale | 203,370 | 291,782 | 231,343 |
| Loans | 26,381,404 | 25,852,221 | 25,202,042 |
| Less: Allowance for loan losses | 371,418 | 363,607 | 380,663 |
| Unearned income | 728,496 | 727,728 | 461,618 |
| Net loans | 25,281,490 | 24,760,886 | 24,359,761 |
| Other interest-earning assets | 53,129 | 40,458 | 54,422 |
| Premises and equipment, net | 771,702 | 729,383 | 644,890 |
| Accrued interest receivable and other assets | 2,119,913 | 2,091,379 | 1,999,767 |
| | $ 38,499,103 | $ 38,600,414 | $ 38,447,223 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | |
| Deposits and interest-bearing liabilities: | | | |
| Deposits: | | | |
| Noninterest-bearing demand | $ 4,981,783 | $ 5,280,621 | $ 4,738,023 |
| Interest-bearing demand | 10,378,312 | 10,518,922 | 9,819,838 |
| Savings | 1,312,141 | 1,229,871 | 1,212,610 |
| Time | 6,433,294 | 6,800,056 | 7,675,598 |
| Foreign time | 356,789 | 309,641 | 252,860 |
| Certificates of deposit of $100,000 or more | 2,066,217 | 2,027,906 | 2,285,972 |
| Total deposits | 25,528,536 | 26,167,017 | 25,984,901 |
| Federal funds purchased and securities sold under agreements to repurchase | 2,040,929 | 2,080,296 | 2,131,079 |
| Other borrowed funds | 150,408 | 79,454 | 147,809 |
| Long-term Federal Home Loan Bank advances | 5,304,831 | 5,093,834 | 5,177,955 |
| Other long-term debt | 1,023,682 | 1,008,421 | 992,053 |
| Total deposits and interest-bearing liabilities | 34,048,386 | 34,429,022 | 34,433,797 |
| Accrued expenses and other liabilities | 1,376,454 | 1,216,293 | 1,105,975 |
| Total liabilities | 35,424,840 | 35,645,315 | 35,539,772 |
| Shareholders equity: | | | |
| Preferred stock no par value: | | | |
| Authorized 2,000,000 shares; Issued and outstanding none | -0- | -0- | -0- |
| Common stock par value $1 a share: | | | |
| Authorized 750,000,000 shares; Issued 416,923,000, 416,931,000 and 416,939,000 shares, respectively | 416,923 | 416,931 | 416,939 |
| Capital surplus | 699,786 | 699,863 | 691,798 |
| Retained earnings | 2,806,383 | 2,677,933 | 2,563,007 |
| Cost of common stock in treasury 56,564,000, 53,896,000 and 48,095,000 shares, respectively | (907,950) | (848,005) | (738,183) |

| | | | |
|---|---|---|---|
| Deferred compensation on restricted stock | (16,716) | (16,624) | (18,134) |
| Accumulated other comprehensive income/(loss) | 75,837 | 25,001 | (7,976) |
| Total shareholders equity | 3,074,263 | 2,955,099 | 2,907,451 |
| | $ 38,499,103 | $ 38,600,414 | $ 38,447,223 |

See notes to consolidated financial statements.

**AMSOUTH BANCORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF EARNINGS**
**(Unaudited)**

| | Six Months Ended June 30 | | Three Months Ended June 30 | |
|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** |
| | **(In thousands except per share data)** | | | |
| **INTEREST INCOME** | | | | |
| Loans | $ 850,612 | $ 1,027,944 | $ 425,617 | $ 502,490 |
| Available-for-sale securities | 172,008 | 155,905 | 86,700 | 83,483 |
| Held-to-maturity securities | 123,561 | 147,723 | 62,058 | 72,897 |
| Trading securities | 159 | 136 | 92 | 128 |
| Loans held for sale | 7,827 | 9,502 | 3,662 | 7,539 |
| Federal funds sold and securities purchased under agreements to resell | 1,151 | 35,272 | 406 | 10,827 |
| Other interest-earning assets | 778 | 1,916 | 468 | 1,217 |
| Total interest income | 1,156,096 | 1,378,398 | 579,003 | 678,581 |
| **INTEREST EXPENSE** | | | | |
| Interest-bearing demand deposits | 57,955 | 155,668 | 29,034 | 72,061 |
| Savings deposits | 3,706 | 9,550 | 1,888 | 4,641 |
| Time deposits | 124,879 | 227,124 | 60,593 | 110,539 |
| Foreign time deposits | 2,431 | 6,231 | 1,329 | 2,434 |
| Certificates of deposit of $100,000 or more | 35,723 | 72,549 | 17,086 | 34,082 |
| Federal funds purchased and securities sold under agreements to repurchase | 13,933 | 48,985 | 7,704 | 21,368 |
| Other borrowed funds | 2,069 | 6,726 | 1,090 | 2,218 |
| Long-term Federal Home Loan Bank advances | 135,508 | 148,050 | 68,364 | 73,695 |
| Other long-term debt | 19,565 | 30,298 | 9,782 | 14,169 |
| Total interest expense | 395,769 | 705,181 | 196,870 | 335,207 |
| **NET INTEREST INCOME** | 760,327 | 673,217 | 382,133 | 343,374 |
| Provision for loan losses | 108,700 | 84,300 | 52,600 | 46,100 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES** | 651,627 | 588,917 | 329,533 | 297,274 |
| **NONINTEREST REVENUES** | | | | |
| Service charges on deposit accounts | 132,681 | 126,440 | 67,551 | 66,569 |
| Trust income | 55,242 | 57,088 | 27,373 | 28,209 |
| Consumer investment services income | 42,552 | 46,103 | 21,641 | 22,431 |
| Bank owned life insurance policies | 31,683 | 27,434 | 15,046 | 13,353 |
| Interchange income | 30,040 | 27,081 | 16,165 | 14,035 |
| Mortgage income | 10,345 | 11,466 | 4,469 | 6,567 |
| Portfolio income | 7,703 | 6,295 | 4,136 | 3,352 |
| Other noninterest revenues | 48,545 | 68,041 | 24,747 | 33,131 |
| Total noninterest revenues | 358,791 | 369,948 | 181,128 | 187,647 |
| **NONINTEREST EXPENSES** | | | | |
| Salaries and employee benefits | 309,627 | 289,776 | 152,824 | 148,044 |
| Equipment expense | 59,544 | 60,509 | 30,115 | 30,213 |
| Net occupancy expense | 58,007 | 55,680 | 29,474 | 27,867 |
| Postage and office supplies | 25,146 | 24,199 | 12,192 | 11,290 |
| Communications expense | 17,159 | 21,171 | 8,257 | 10,893 |
| Amortization of intangibles | 2,712 | 17,062 | 1,350 | 8,545 |
| Marketing expense | 17,765 | 17,083 | 8,719 | 8,576 |
| Other noninterest expenses | 96,502 | 94,602 | 49,864 | 46,587 |

| | | | | |
|---|---|---|---|---|
| Total noninterest expenses | 586,462 | 580,082 | 292,795 | 292,015 |
| **INCOME BEFORE INCOME TAXES** | 423,956 | 378,783 | 217,866 | 192,906 |
| Income taxes | 126,017 | 119,051 | 65,497 | 59,385 |
| **NET INCOME** | $ 297,939 | $ 259,732 | $ 152,369 | $ 133,521 |
| Average common shares outstanding | 360,714 | 370,457 | 359,782 | 368,688 |
| Earnings per common share | $ .83 | $ .70 | $ .42 | $ .36 |
| Diluted average common shares outstanding | 365,334 | 373,695 | 364,756 | 372,464 |
| Diluted earnings per common share | $ .82 | $ .70 | $ .42 | $ .36 |

See notes to consolidated financial statements.

**AMSOUTH BANCORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**
**(Unaudited)**

| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Deferred Compensation on Restricted Stock | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | |
| **BALANCE AT JANUARY 1, 2002** | $ 416,931 | $ 699,863 | $ 2,677,933 | $ (848,005) | $ (16,624) | $ 25,001 | $ 2,955,099 |
| Comprehensive income: | | | | | | | |
| Net income | -0- | -0- | 297,939 | -0- | -0- | -0- | 297,939 |
| Other comprehensive income, net of tax: | | | | | | | |
| Change in unrealized gains on derivative instruments (net of $3,107 tax benefit) | -0- | -0- | -0- | -0- | -0- | (5,770) | (5,770) |
| Changes in unrealized gains and losses on available-for-sale securities, net of reclassification adjustment (net of $23,360 tax expense) | -0- | -0- | -0- | -0- | -0- | 56,606 | 56,606 |
| Comprehensive income | | | | | | | 348,775 |
| Cash dividends declared | -0- | -0- | (159,473) | -0- | -0- | -0- | (159,473) |
| Common stock transactions: | | | | | | | |
| Purchase of common stock | -0- | -0- | -0- | (100,527) | -0- | -0- | (100,527) |
| Employee stock plans | (8) | (153) | (10,016) | 35,541 | (92) | -0- | 25,272 |
| Dividend reinvestment plan | -0- | 76 | -0- | 5,041 | -0- | -0- | 5,117 |
| **BALANCE AT JUNE 30, 2002** | $ 416,923 | $ 699,786 | $ 2,806,383 | $ (907,950) | $ (16,716) | $ 75,837 | $ 3,074,263 |

| | |
|---|---|
| **Disclosure of reclassification amount:** | |
| Unrealized holding gains on available-for-sale securities arising during the period | $ 60,393 |
| Less: Reclassification adjustment for gains realized in net income | 3,787 |
| Net unrealized gains on available-for-sale securities, net of tax | $ 56,606 |
| Unrealized holding gains on derivatives arising during the period | $ 4,109 |
| Less: Reclassification adjustment for gains realized in net income | 9,879 |
| Net unrealized gains on derivatives, net of tax | $ (5,770) |

See notes to consolidated financial statements.

**AMSOUTH BANCORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CASH FLOWS**

| | Six Months Ended June 30 | |
|---|---|---|
| | **2002** | **2001** |
| | **(In thousands)** | |
| **OPERATING ACTIVITIES** | | |
| Net income | $ 297,939 | $ 259,732 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 108,700 | 84,300 |
| Depreciation and amortization of premises and equipment | 45,767 | 43,699 |
| Amortization of premiums and discounts on held-to-maturity securities and available-for-sale securities | 315 | (9,011) |
| Net decrease (increase) in loans held for sale | 86,950 | (138,532) |
| Net (increase) decrease in trading securities | (17,782) | 7,766 |
| Net gains on sales of available-for-sale securities | (6,069) | (5,203) |
| Net increase in accrued interest receivable and other assets | (29,668) | (48,927) |
| Net increase in accrued expenses and other liabilities | 115,617 | 57,806 |
| Provision for deferred income taxes | 89,588 | 100,765 |
| Amortization of intangible assets | 2,690 | 17,039 |
| Other operating activities, net | 15,892 | 20,650 |
| Net cash provided by operating activities | 709,939 | 390,084 |
| **INVESTING ACTIVITIES** | | |
| Proceeds from maturities and prepayments of available-for-sale securities | 714,319 | 607,453 |
| Proceeds from sales of available-for-sale securities | 481,216 | 218,807 |
| Purchases of available-for-sale securities | (767,723) | (1,176,736) |
| Proceeds from maturities, prepayments and calls of held-to-maturity securities | 1,062,191 | 656,032 |
| Purchases of held-to-maturity securities | (1,078,391) | (502,515) |
| Net decrease in federal funds sold and securities purchased under agreements to resell | 253,000 | 1,140,265 |
| Net (increase) decrease in other interest-earning assets | (12,671) | 6,638 |
| Net increase in loans | (971,831) | (244,161) |
| Net purchases of premises and equipment | (88,086) | (54,388) |
| Net cash (used) provided by investing activities | (407,976) | 651,395 |
| **FINANCING ACTIVITIES** | | |
| Net decrease in deposits | (629,244) | (638,403) |
| Net decrease in federal funds purchased and securities sold under agreements to repurchase | (39,367) | (189,185) |
| Net increase (decrease) in other borrowed funds | 70,954 | (389,039) |
| Issuance of long-term Federal Home Loan Bank advances and other long-term debt | 226,591 | 600,013 |
| Payments for maturing long-term debt | (15,690) | (320,366) |
| Cash dividends paid | (160,147) | (157,269) |
| Proceeds from employee stock plans and dividend reinvestment plan | 28,272 | 21,426 |
| Purchase of common stock | (100,527) | (129,406) |
| Net cash used for financing activities | (619,158) | (1,202,229) |
| Decrease in cash and cash equivalents | (317,195) | (160,750) |
| Cash and cash equivalents at beginning of period | 1,441,561 | 1,276,431 |
| Cash and cash equivalents at end of period | $ 1,124,366 | $ 1,115,681 |

See notes to consolidated financial statements.

**AMSOUTH BANCORPORATION AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**Six Months Ended June 30, 2002 and 2001**

*General* The consolidated financial statements conform to accounting principles generally accepted in the United States. The accompanying interim financial statements are unaudited; however, in the opinion of management, all adjustments necessary for the fair presentation of the consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The notes included herein should be read in conjunction with the notes to consolidated financial statements included in AmSouth Bancorporation s (AmSouth) 2001 annual report on Form 10-K.

*Accounting Changes* In July 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 141, Business Combinations (Statement 141), and Statement No. 142, Goodwill and Other Intangible Assets (Statement 142). Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement 141 also specifies the criteria for intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill. Statement 142 requires companies to no longer amortize goodwill and intangible assets with indefinite useful lives, but instead test these assets for impairment at least annually in accordance with the provisions of Statement 142. Under Statement 142, intangible assets with definite useful lives continue to be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with the FASB s Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Statement 144).

AmSouth adopted the provisions of Statement 142 effective January 1, 2002. As of the date of adoption, AmSouth had unamortized goodwill in the amount of $288.4 million, and unamortized identifiable intangible assets in the amount of $18.7 million, all of which were subject to the transition provisions of Statements 141 and 142. As part of its adoption of Statement 142, AmSouth has performed a transitional impairment test on its goodwill assets, which indicated that no impairment charge was required. AmSouth does not currently have any other indefinite-lived intangible assets recorded in its statement of financial condition. In addition, no material reclassifications or adjustments to the useful lives of finite-lived intangible assets were made as a result of adopting the new guidance. The full impact of adopting Statement 142 is expected to result in an increase in net income of approximately $29.0 million or approximately $.08 per share in 2002 as a result of AmSouth no longer having to amortize goodwill against earnings. At June 30, 2002 and 2001, AmSouth had $16.0 million and $18.8 million, respectively, in unamortized identifiable intangible assets, substantially all of which were core deposit intangibles. Total amortization expense associated with these intangible assets during the six months and three months ended June 30, 2002 was $2.7 million and $1.3 million, respectively, and was $2.3 million and $1.2 million, respectively, for the same periods in 2001. Assuming retroactive adoption of Statement 142, net income for the year ended December 31, 2001 and the six month and three month periods ended June 30, 2001 would have been $565.3 million, $274.2 million and $140.8 million, respectively, and diluted earnings per share would have been $1.52, $.73 and $.38 for the same periods, respectively.

The following table sets forth the reconcilement of net income and earnings per share excluding goodwill amortization for the year ended December 31, 2001 and the three and six month periods ended June 30, 2001:

| | Twelve Months Ended December 31, 2001 | | Six Months Ended June 30, 2001 | | Three Months Ended June 30, 2001 | |
|---|---|---|---|---|---|---|
| | Net Income | Earnings Per Share | Net Income | Earnings Per Share | Net Income | Earnings Per Share |
| | (In thousands except per share data) | | | | | |
| Earnings per common share computation: | | | | | | |
| Net income/EPS as reported | $ 536,346 | $ 1.46 | $ 259,732 | $ .70 | $ 133,521 | $ .36 |
| Add back: Goodwill amortization | 29,385 | .08 | 14,734 | .04 | 7,367 | .02 |
| Less: Tax on deductible goodwill | 442 | .00 | 222 | .00 | 111 | .00 |
| Adjusted net income/EPS | $ 565,289 | $ 1.54 | $ 274,244 | $ .74 | $ 140,777 | $ .38 |
| Diluted earnings per common share computation: | | | | | | |
| Net income/diluted EPS as reported | $ 536,346 | $ 1.45 | $ 259,732 | $ .70 | $ 133,521 | $ .36 |
| Add back: Goodwill amortization | 29,385 | .07 | 14,734 | .03 | 7,367 | .02 |
| Less: Tax on deductible goodwill | 442 | .00 | 222 | .00 | 111 | .00 |
| Adjusted net income/diluted EPS | $ 565,289 | $ 1.52 | $ 274,244 | $ .73 | $ 140,777 | $ .38 |

On January 1, 2002, AmSouth adopted Statement 144. Statement 144 supersedes Statement 121 and provides a single accounting model for long-lived assets to be disposed of. Although retaining many of the fundamental recognition and measurement provisions of Statement 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. Statement 144 also supersedes the provisions of Accounting Principle Board (APB) Opinion 30 with regard to reporting the effects of a disposal of a segment of a business and requires expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred (rather than as of the measurement date as presently required by APB Opinion 30). In addition, more dispositions will qualify for discontinued operations treatment in the income statement. The adoption of Statement 144 did not have a material impact on AmSouth s financial condition or results of operations.

In April 2002, FASB issued Statement of Financial Accounting Standard No. 145, Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections (Statement 145). Statement 145 rescinds Statement 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. In addition, Statement 145 amends Statement 13 on leasing to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. Provisions of Statement 145 related to the recission of Statement 4 are effective for financial statements issued by AmSouth after January 1, 2003. The provisions of the statement related to sale-leaseback transactions are effective for any transactions occurring after May 15, 2002. All other provisions of the statement were effective as of the end of the second quarter of 2002. The adoption of the provisions of Statement 145 did not have a material impact on AmSouth s financial condition or results of operations nor does AmSouth expect the future adoption of the other provisions of Statement 145 to have a material impact on AmSouth s financial results.

*Cash Flows* For the six months ended June 30, 2002 and 2001, AmSouth paid interest of $397.5 million and $702.7 million, respectively. During the six months ended June 30, 2002, AmSouth paid income taxes of $27.3 million and during the six months ended June 30, 2001, AmSouth received income tax refunds of $12.6 million. Noncash transfers from loans to foreclosed properties for the six months ended June 30, 2002 and 2001, were $23.7 million and $17.6 million, respectively, and noncash transfers from foreclosed properties to loans

were $52 thousand and $380 thousand, respectively. During the second quarter of 2002, AmSouth also had noncash transfers from loans to available-for-sale securities in connection with a mortgage loan securitization of $301.7 million.

*Derivatives* In accordance with Statement 133, AmSouth recognizes all of its derivative instruments as either assets or liabilities in the statement of financial condition at fair value. For those derivative instruments that are designated and qualify as hedging instruments, AmSouth designates the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risks, are considered fair value hedges under Statement 133. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in other noninterest revenue during the period of the change in fair values. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in other noninterest revenue during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

AmSouth, at the hedge s inception and at least quarterly thereafter, performs a formal assessment to determine whether changes in the fair values or cash flows of the derivative instruments have been highly effective in offsetting changes in the fair values or cash flows of the hedged items and whether they are expected to be highly effective in the future. If it is determined a derivative instrument has not been or will not continue to be highly effective as a hedge, hedge accounting is discontinued prospectively and the derivative instrument continues to be carried at fair value with all changes in fair value being recorded in noninterest revenue but with no corresponding offset being recorded on the hedged item or in other comprehensive income for cash flow hedges.

*Fair Value Hedging Strategy* AmSouth has entered into interest rate swap agreements for interest rate risk exposure management purposes. The interest rate swap agreements utilized by AmSouth effectively modify AmSouth s exposure to interest rate risk by converting a portion of AmSouth s fixed-rate certificates of deposit to floating rate. AmSouth also has interest rate swap agreements which effectively convert portions of its fixed-rate long-term debt to floating rate. During the six months ended June 30, 2002 and 2001, AmSouth recognized a net loss of $897 thousand and a net gain of $832 thousand, respectively, related to the ineffective portion of its hedging instruments.

*Cash Flow Hedging Strategy* AmSouth has entered into interest rate swap agreements that effectively convert a portion of its floating-rate loans to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest income. Approximately $675 million and $725 million of AmSouth s loans were designated as the hedged items to interest rate swap agreements at June 30, 2002 and 2001, respectively. During the six months ended June 30, 2002 and 2001, AmSouth recognized a net loss of $110 thousand and a net gain of $219 thousand, respectively, related to the ineffective portion of its hedging instruments.

*Comprehensive Income* Total comprehensive income was $209.0 million and $348.8 million for the three and six months ended June 30, 2002 and $144.9 million and $359.3 million for the three and six months ended June 30, 2001. Total comprehensive income consists of net income, the change in the unrealized gains or losses on AmSouth s available-for-sale securities portfolio arising during the period and the effective portion of cash flow hedges marked to market.

*Earnings Per Common Share* The following table sets forth the computation of earnings per common share and diluted earnings per common share:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (In thousands except per share data) | | | |
| Earnings per common share computation: | | | | |
| Numerator: | | | | |
| Net income | $ 152,369 | $ 133,521 | $ 297,939 | $ 259,732 |
| Denominator: | | | | |
| Average common shares outstanding | 359,782 | 368,688 | 360,714 | 370,457 |
| Earnings per common share | $ .42 | $ .36 | $ .83 | $ .70 |
| Diluted earnings per common share computation: | | | | |
| Numerator: | | | | |
| Net income | $ 152,369 | $ 133,521 | $ 297,939 | $ 259,732 |
| Denominator: | | | | |
| Average common shares outstanding | 359,782 | 368,688 | 360,714 | 370,457 |
| Dilutive shares contingently issuable | 4,974 | 3,776 | 4,620 | 3,238 |
| Average diluted common shares outstanding | 364,756 | 372,464 | 365,334 | 373,695 |
| Diluted earnings per common share | $ .42 | $ .36 | $ .82 | $ .70 |

*Shareholders Equity* In September 2001, AmSouth s Board of Directors approved the repurchase by AmSouth of up to 25.0 million shares of its outstanding common stock over a two year period for the purpose of funding employee benefit and dividend reinvestment plans and for general corporate purposes. Through June 30, 2002, 6.9 million shares have been purchased under this authorization at a cost of $141.7 million. Cash dividends of $.22 per common share were declared in the second quarter of 2002. This represents a five percent increase over the dividend declared during the second quarter of 2001.

*Business Segment Information* AmSouth has three reportable segments: Consumer Banking, Commercial Banking, and Wealth Management. Treasury & Other is comprised of balance sheet management activities that include the investment portfolio, non-deposit funding and off-balance sheet financial instruments. Treasury & Other also includes income from bank owned life insurance policies, gains and losses related to the ineffective portion of derivative hedging instruments, net gains on sales of fixed assets, taxable-equivalent adjustments associated with lease restructuring transactions, and corporate expenses such as corporate overhead . Treasury & Other also included goodwill amortization in 2001 and a $3.7 million charge related to credit derivative contracts in 2002. The following is a summary of the segment performance for the three months and six months ended June 30, 2002 and 2001:

| | Consumer Banking | Commercial Banking | Wealth Management | Treasury & Other | Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Three Months Ended June 30, 2002** | | | | | |
| Net interest income from external customers | $ 202,576 | $ 129,085 | $ (76) | $ 50,548 | $ 382,133 |
| Internal funding | 96,148 | (35,148) | 1,259 | (62,259) | -0- |
| Net interest income | 298,724 | 93,937 | 1,183 | (11,711) | 382,133 |
| Noninterest revenues | 86,911 | 28,690 | 49,072 | 16,455 | 181,128 |
| Total revenues | 385,635 | 122,627 | 50,255 | 4,744 | 563,261 |
| Provision for loan losses | 31,437 | 15,954 | -0- | 5,209 | 52,600 |
| Noninterest expenses | 178,942 | 43,128 | 39,007 | 31,718 | 292,795 |
| Income/(Loss) before income taxes | 175,256 | 63,545 | 11,248 | (32,183) | 217,866 |
| Income taxes/(benefits) | 65,897 | 23,893 | 4,229 | (28,522) | 65,497 |
| Segment net income/(loss) | $ 109,359 | $ 39,652 | $ 7,019 | $ (3,661) | $ 152,369 |
| **Three Months Ended June 30, 2001** | | | | | |
| Net interest income from external customers | $ 119,972 | $ 169,852 | $ (338) | $ 53,888 | $ 343,374 |
| Internal funding | 129,977 | (71,354) | 1,545 | (60,168) | -0- |
| Net interest income | 249,949 | 98,498 | 1,207 | (6,280) | 343,374 |
| Noninterest revenues | 87,910 | 25,771 | 50,691 | 23,275 | 187,647 |
| Total revenues | 337,859 | 124,269 | 51,898 | 16,995 | 531,021 |
| Provision for loan losses | 26,710 | 19,373 | -0- | 17 | 46,100 |
| Noninterest expenses | 173,576 | 44,644 | 40,190 | 33,605 | 292,015 |
| Income/(Loss) before income taxes | 137,573 | 60,252 | 11,708 | (16,627) | 192,906 |
| Income taxes/(benefits) | 51,786 | 22,625 | 4,395 | (19,421) | 59,385 |
| Segment net income | $ 85,787 | $ 37,627 | $ 7,313 | $ 2,794 | $ 133,521 |
| **Six Months Ended June 30, 2002** | | | | | |
| Net interest income from external customers | $ 389,300 | $ 260,571 | $ (168) | $ 110,624 | $ 760,327 |
| Internal funding | 194,654 | (71,824) | 2,313 | (125,143) | -0- |
| Net interest income | 583,954 | 188,747 | 2,145 | (14,519) | 760,327 |
| Noninterest revenues | 170,003 | 58,771 | 97,869 | 32,148 | 358,791 |
| Total revenues | 753,957 | 247,518 | 100,014 | 17,629 | 1,119,118 |
| Provision for loan losses | 70,239 | 27,289 | -0- | 11,172 | 108,700 |
| Noninterest expenses | 365,602 | 87,545 | 78,336 | 54,979 | 586,462 |
| Income/(Loss) before income taxes | 318,116 | 132,684 | 21,678 | (48,522) | 423,956 |
| Income taxes/(benefits) | 119,612 | 49,889 | 8,151 | (51,635) | 126,017 |
| Segment net income | $ 198,504 | $ 82,795 | $ 13,527 | $ 3,113 | $ 297,939 |
| **Six Months Ended June 30, 2001** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Net interest income from external customers | $ 216,577 | $ 346,686 | $ (726) | $ 110,680 | $ 673,217 |
| Internal funding | 265,491 | (152,470) | 2,743 | (115,764) | -0- |
| Net interest income | 482,068 | 194,216 | 2,017 | (5,084) | 673,217 |
| Noninterest revenues | 169,192 | 51,234 | 103,414 | 46,108 | 369,948 |
| Total revenues | 651,260 | 245,450 | 105,431 | 41,024 | 1,043,165 |
| Provision for loan losses | 55,362 | 28,709 | -0- | 229 | 84,300 |
| Noninterest expenses | 344,218 | 91,167 | 79,417 | 65,280 | 580,082 |
| Income/(Loss) before income taxes | 251,680 | 125,574 | 26,014 | (24,485) | 378,783 |
| Income taxes/(benefits) | 94,736 | 47,144 | 9,755 | (32,584) | 119,051 |
| Segment net income | $ 156,944 | $ 78,430 | $ 16,259 | $ 8,099 | $ 259,732 |

**INDEPENDENT ACCOUNTANTS REVIEW REPORT**

The Board of Directors
AmSouth Bancorporation

We have reviewed the accompanying consolidated statement of condition of AmSouth Bancorporation and subsidiaries as of June 30, 2002 and 2001, and the related consolidated statements of earnings for the three-month and six-month periods ended June 30, 2002 and 2001, the consolidated statements of cash flows for the six-month periods ended June 30, 2002 and 2001, and the consolidated statement of shareholders equity for the six-month period ended June 30, 2002. These financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated statement of condition of AmSouth Bancorporation and subsidiaries as of December 31, 2001, and the related consolidated statements of earnings, shareholders equity, and cash flows for the year then ended (not presented herein) and in our report dated January 15, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of condition as of December 31, 2001 is fairly stated, in all material respects, in relation to the consolidated statement of condition from which it has been derived.

/s/ ERNST & YOUNG LLP

Birmingham, Alabama
August 5, 2002

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

*Overview*

AmSouth Bancorporation (AmSouth) reported net income for the quarter ended June 30, 2002 of $152.4 million, or $.42 per share on a diluted basis and $297.9 million, or $.82 per share on a diluted basis for the first six months of 2002. In the same periods last year, net income totaled $133.5 million, or $.36 per share on a diluted basis, and $259.7 million, or $.70 per diluted share, respectively. For the three months and six months ended June 30, 2002, AmSouth s return on average assets was 1.61 percent and 1.59 percent, respectively, compared to 1.40 percent and 1.36 percent, respectively, for the same periods in 2001. Return on average equity increased to 20.36 percent and 20.10 percent for the second quarter and first half of 2002, respectively, from 18.72 percent and 18.40 percent for the second quarter and first six months of 2001, respectively. The increase in earnings in 2002 versus 2001 was driven by higher net interest income primarily associated with a significant improvement in the net interest margin (NIM). The increase in net interest income was partially offset by lower noninterest revenues and an increase in the provision for loan losses and noninterest expenses in 2002 compared to 2001.

Total assets at June 30, 2002 were $38.5 billion, down from $38.6 billion at year-end reflecting a decrease in available-for-sale (AFS) securities and lower cash balances offset by an increase in loans. Loans net of unearned income at June 30, 2002 increased $528.4 million compared to year-end. This increase was attributable to $788.6 million of growth in consumer loans partially offset by decreases in commercial and commercial real estate loans. The increase in consumer loans was driven by increases in home equity loans and lines and dealer indirect automobile lending. The increase in home equity lending reflected AmSouth s continued efforts to attract these loans due to their attractive spreads and historically low levels of losses. These efforts included a strong sales effort aided by an emphasis on AmSouth s branch incentive scorecard, increased marketing activity, and back office improvements that make the product more attractive to customers and easier for our branch personnel to originate. Managed loans, which include securitized dealer loans and loans sold to third-party conduits, decreased by $201.9 million at June 30, 2002 from year-end levels. This decrease reflected the paydown of dealer indirect loans previously securitized and the planned runoff in residential and dealer loans previously sold to third-party conduits.

On the liability side of the balance sheet, total deposits at June 30, 2002, decreased by $638.5 million compared to December 31, 2001. The decrease in noninterest-bearing deposits reflected the impact of higher year-end commercial demand deposits, which normally occurs at the end of the year, while the decrease in interest-bearing demand deposits which include interest checking and money market accounts was primarily the result of seasonal tax payments which are made by customers during the second quarter. The reduction in higher cost time deposits reflected management s strategy to reduce the overall level of higher cost time deposits from 2001 levels. Long-term Federal Home Loan Bank (FHLB) borrowings grew from 2001 year-end levels as AmSouth took advantage of low interest rates in anticipation of having to replace approximately $500 million of FHLB borrowings maturing early in 2003.

*Net Interest Income*

Net interest income (NII) on a fully taxable equivalent basis for the three and six months ended June 30, 2002 was $382.1 million and $760.3 million, respectively, up $38.8 million, or 11.3 percent compared to the same quarter last year and 12.9 percent on a year-to-date basis. The increase in NII reflected a higher net interest margin partially offset by lower average interest-earning assets. The NIM was 4.63 percent for the first six months of 2002 and 4.61 percent for the second quarter of 2002, an increase of 61 and 49 basis points versus 4.02 percent and 4.12 percent, respectively, for the same periods in 2001. The improvement in the NIM reflected a favorable shift in the mix of both assets and liabilities. On the balance sheet, AmSouth continued to replace lower yielding commercial loans and fixed-rate investment securities with higher yielding consumer loans. The improvement in the margin was also the result of an increase in the proportion of AmSouth s earning assets which were supported by low-cost deposits as higher cost time deposits and wholesale, short-term borrowings were partially replaced by low-cost and noninterest-bearing deposits. The improvement in the margin

also reflected an increase in interest revenue associated with retained interests on loans sold to third-party conduits which resulted in a 10 basis point increase to the NIM in the second quarter of 2002 and a 12 basis point increase for the first six months of 2002 when compared to the same periods in 2001.

Average interest-earning assets for the three and six month periods ended June 30, 2002 was $34.4 billion and $34.3 billion, respectively, a decrease of $554.4 million and $788.1 million from the same periods in 2001. The decrease came principally from decreases in investments of held-to-maturity (HTM) securities and federal funds sold and securities purchased under agreements to resell. The decrease in these items were primarily the result of AmSouth s strategy to shift funds into higher yielding consumer loans, primarily home equity loans, and also reflected a decrease in deposits, primarily higher cost time deposits. The decrease in time deposits was a result of management s strategy to reduce reliance on higher cost sources of funding through more aggressive pricing. This strategy resulted in the migration of time deposits into low-cost deposit categories or into alternative financial products offered by AmSouth such as fixed annuities.

*Asset/Liability Management*

AmSouth maintains a formal asset and liability management process to quantify, monitor and control interest rate risk and to assist management in maintaining stability in the NIM under varying interest rate environments. AmSouth accomplishes this process through the development and implementation of lending, funding, pricing and hedging strategies designed to maximize NII performance under varying interest rate environments subject to specific liquidity and interest rate risk guidelines.

An earnings simulation model is the primary tool used to assess the direction and magnitude of changes in NII resulting from changes in interest rates. Key assumptions in the model include prepayment speeds on mortgage-related assets; cash flows and maturities of derivatives and other financial instruments held for purposes other than trading; changes in market conditions, loan volumes and pricing; deposit volume, mix and rate sensitivity; customer preferences; and management s financial and capital plans. These assumptions are inherently uncertain, and, as a result, the model cannot precisely estimate NII or precisely predict the impact of higher or lower interest rates on NII. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management s strategies, among other factors.

Based on the results of the simulation model as of June 30, 2002, AmSouth would expect NII to increase $6 million or approximately 0.4 percent and decrease $6 million or approximately 0.4 percent if interest rates gradually increase or decrease, respectively, from current rates by 100 basis points over a 12-month period. This level of interest rate risk is well within AmSouth s policy guidelines. Current policy states that NII should not fluctuate more than 2.5 percent in the event that interest rates gradually increase or decrease 100 basis points over a period of twelve months. By comparison, as of June 30, 2001, the simulation model indicated that NII would increase $3 million or approximately 0.2 percent and decrease $5 million or approximately 0.3 percent if interest rates gradually increased or decreased, respectively, from their then-current rates by 100 basis points over a 12-month period.

AmSouth s neutral interest rate risk profile is the result of continued actions taken over the last several quarters. These actions included the continued increase in the level of variable-rate loans on the balance sheet while reducing the level of fixed-rate loans and investment securities. In addition, less rate sensitive, low-cost deposits have increased while higher cost and more rate sensitive time deposits have declined. AmSouth also extended the maturity of purchased funds and allowed $731 million notional amount of receive fixed/pay floating interest rate swaps to mature without replacement since the second quarter of 2001. AmSouth plans to continue its neutral interest rate risk position through 2002 by emphasizing variable-rate lending, especially equity lines. In addition, there are approximately $400 million notional amount of receive fixed/pay floating interest rate swaps expected to mature during the remainder of 2002, $325 million of which is currently hedging variable rate commercial loans, which management does not currently anticipate replacing. These actions should help protect AmSouth s interest rate risk neutrality even if interest rates begin to rise.

As part of its activities to manage interest rate risk, AmSouth utilizes various derivative instruments such as interest rate swaps. At June 30, 2002, AmSouth had interest rate swaps in the notional amount of $1.5 billion, all of which were receive fixed/pay floating rate swaps. Of these swaps, $675 million of notional value was used to hedge the cash flow of variable-rate commercial loans. The remaining $815 million of notional value was used to hedge the fair value of fixed-rate consumer certificates of deposit and corporate and bank debt. Interest rate swaps with notional value of $571 million matured during the first six months of 2002.

AmSouth also enters into forward commitments to sell groups of residential mortgage loans to protect against changes in the fair value of fixed-rate mortgage loans held for sale and mortgage loan commitments not yet funded. These forward commitment transactions and unfunded loan commitments do not qualify for hedge accounting and are recorded on the statement of condition at fair value with changes in fair value during the period being recorded in mortgage income. At June 30, 2002, AmSouth had a liability of $1.5 million associated with the fair market value of $109.5 million notional amount of open forward contracts to sell residential mortgage loans and an $834 thousand asset associated with outstanding mortgage loan commitments.

In addition to using derivative instruments as an interest rate risk management tool, AmSouth also acts as an intermediary for interest rate swaps, caps, floors, and foreign exchange contracts on behalf of its customers. AmSouth minimizes its market and liquidity risks by taking offsetting positions. AmSouth manages its credit risk, or potential risk of loss from default by counterparties, through credit limit approval and monitoring procedures. Market value changes on intermediated swaps and other derivatives are recognized in income in the period of change. At June 30, 2002, AmSouth had $52.2 million of assets and $50.8 million of liabilities associated with $1.4 billion notional amount of interest rate swaps with corporate customers and $1.4 billion notional amount of offsetting interest rate swaps with other banks to hedge AmSouth s rate exposure on its corporate customers swaps.

*Liquidity Management*

AmSouth s goal in liquidity management is to satisfy the cash flow requirements of depositors and borrowers while at the same time meeting its cash flow needs. This is accomplished through the active management of both the asset and liability sides of the balance sheet. The liquidity position of AmSouth is monitored on a daily basis by AmSouth s Treasury Division. In addition, the Asset/Liability Committee, which consists of members of AmSouth s senior management team, reviews liquidity on a regular basis and approves any changes in strategy that are necessary as a result of balance sheet or anticipated cash flow changes. Management also compares, on a monthly basis, AmSouth s liquidity position to established corporate liquidity guidelines.

The primary sources of liquidity on the asset side of the balance sheet are maturities and cash flows from loans and investments as well as the ability to securitize or sell certain loans and investments. Liquidity on the liability side is generated primarily through growth in core deposits and the ability to obtain economical wholesale funding in national and regional markets through a variety of sources. See Table 10 for a breakout by maturity date of AmSouth s contractual obligations and other commitments.

As an additional source of liquidity, AmSouth periodically sells loans or pools of loans to qualifying special purpose entities called conduits in securitization transactions. The conduits are financed by the issuance of securities to asset-backed commercial paper issuers and are accounted for as sales. These transactions allow AmSouth to utilize its balance sheet capacity and capital for higher yielding, interest-earning assets, while continuing to manage the customer relationship. At June 30, 2002, the outstanding balance of loans sold to conduits was approximately $3.16 billion, including $1.1 billion of commercial loans, $1.7 billion of residential first mortgages and $332 million of dealer indirect automobile loans. This balance was down from $3.76 billion in outstanding loan balances in conduits at December 31, 2001. AmSouth provides credit enhancements to these securitizations by providing standby letters of credit, which create exposure to credit risk to the extent of the letters of credit. At June 30, 2002, AmSouth had $148.1 million of letters of credit supporting the conduit transactions. This credit risk is reviewed quarterly and a reserve for loss exposure is maintained in other liabilities.

AmSouth also provides liquidity lines of credit to these asset-backed commercial paper issuers under 364 day commitments. These liquidity lines can be drawn upon in the unlikely event of a commercial paper market disruption or other factors, such as credit rating downgrades of one of the asset-backed commercial paper issuers or of AmSouth as the provider of liquidity and credit support, which could prevent the asset-backed commercial paper issuers from being able to issue commercial paper. To date, there have been no drawdowns of the liquidity lines; however, AmSouth includes this liquidity risk in its monthly liquidity risk analysis to ensure that it would have sufficient sources of liquidity to meet demand. AmSouth also reviews the impact of the potential drawdown of the liquidity lines on its regulatory capital requirements. As of June 30, 2002, this analysis showed that AmSouth would retain its well-capitalized position even if the liquidity lines were completely drawn down.

*Credit Quality*

AmSouth maintains an allowance for loan losses which management believes is adequate to absorb losses inherent in the loan portfolio. A formal review is prepared quarterly to assess the risk in the portfolio and to determine the adequacy of the allowance for loan losses. The review includes analyses of historical performance, the level of nonperforming and adversely rated loans, specific analyses of certain problem loans, loan activity since the previous quarter, reports prepared by the Credit Review Department, consideration of current economic conditions, and other pertinent information. The level of allowance to net loans outstanding will vary depending on the overall results of this quarterly review. The review is presented to and subsequently approved by senior management and reviewed by the Audit and Community Responsibility Committee of the Board of Directors.

Table 5 presents a five-quarter analysis of the allowance for loan losses. At June 30, 2002, the allowance for loan losses was $371.4 million, or 1.45 percent of loans net of unearned income, compared to $380.7 million, or 1.54 percent, at June 30, 2001 and $363.6 million, or 1.45 percent, at December 31, 2001. The coverage ratio of the allowance for loan losses to nonperforming loans was 243 percent at June 30, 2002, an increase from the June 30, 2001 ratio of 193 percent.

Net charge-offs for the quarter ended June 30, 2002, were $49.0 million, or 0.76 percent of average loans, on an annualized basis, an increase of $2.9 million from the $46.1 million, or 0.75 percent of average loans, reported a year earlier. For the six months ended June 30, 2002, net charge-offs were $100.9 million, or 0.80 percent, compared to $84.1 million, or 0.69 percent, for the same period of 2001. The increase in net charge-offs occurred primarily in the commercial loan, consumer revolving credit, dealer lending and equity lending portfolios and reflected the impact of a slowing economy. Commercial loan net charge-offs increased $1.7 million for the six months versus the same period of 2001. Net charge-offs in the consumer portfolio increased $15.5 million versus the same period in 2001, reflecting higher charge-offs across all consumer loan categories led by the revolving credit and equity lending portfolios. Net charge-offs for the revolving credit, dealer lending and equity lending portfolios increased $2.1 million, $7.2 million and $5.6 million, respectively, for the six months ended June 30, 2002 versus the same period of the prior year. These increases reflected the impact of a weaker economy. Consistent with the increased charge-offs and the overall level of loan balances, the provision for loan losses for the second quarter and the first half of 2002 was $52.6 million and $108.7 million, respectively, compared to $46.1 million and $84.3 million for the corresponding year-earlier periods.

Table 6 presents a five-quarter comparison of the components of nonperforming assets. At June 30, 2002, nonperforming assets as a percentage of loans net of unearned income, foreclosed properties and repossessions decreased 16 basis points to 0.74 percent compared to 0.90 percent at June 30, 2001, reflecting a $34.2 million decrease in nonperforming assets. Compared to the year-end 2001 level of 0.76 percent, nonperforming assets have remained relatively flat through the first six months of 2002.

Included in nonperforming assets at June 30, 2002 and 2001, was $95.0 million and $138.0 million, respectively, in loans that were considered to be impaired, substantially all of which were on a nonaccrual basis. At June 30, 2002 and 2001, there was $23.5 million and $43.7 million, respectively, in the allowance for loan losses specifically allocated to $67.9 million and $116.8 million, respectively, of impaired loans. No specific

reserves were required for $27.1 million and $21.3 million of impaired loans at June 30, 2002 and 2001, respectively. The average recorded investment in impaired loans for the three months ended June 30, 2002 and 2001, was $107.0 million and $136.9 million, respectively, and $103.3 million and $132.7 million, respectively, for the six months ended June 30, 2002 and 2001. AmSouth recorded no material interest income on its impaired loans during the three and six months ended June 30, 2002. At June 30, 2002, AmSouth had approximately $66.3 million of potential problem commercial loans which were not included in the nonaccrual loans or in the 90 days past due categories at quarter-end but for which management had concerns as to the ability of such borrowers to comply with their present loan repayment terms.

AmSouth expects nonperforming loans and net charge-offs to fluctuate for the remainder of 2002, in a relatively narrow band around the levels of the last few quarters. This expectation is based on an anticipated improvement in economic conditions as the year progresses. If economic conditions deteriorate further or fail to improve in 2002, credit quality could deteriorate from management s current expectations.

*Noninterest Revenues and Noninterest Expenses*

Noninterest revenue (NIR) was $181.1 million during the second quarter of 2002 and $358.8 million for the first six months of 2002. The quarterly and the six-month totals represent a 3.5 percent and 3.0 percent decline from the corresponding periods in 2001. The decrease in NIR compared to 2001 was primarily due to a decrease in trust income, consumer investment services income, mortgage income and other non-interest revenues. These decreases were partially offset by increases in service charges on deposits, income from bank owned life insurance (BOLI), portfolio income and interchange income. Trust revenues were down $836 thousand in the second quarter of 2002 and approximately $1.8 million for the first six months of 2002 when compared to the same periods in 2001. This decrease in trust income reflected the continued weakness in the stock market and lower revenues related to the outsourcing of Retirement Services record-keeping plans. During the first six months of 2002, the total return of the S&P 500 index was a negative 13.2 percent and reflected consumer fears over stock market performance. The soft economy and current market conditions also negatively impacted consumer investment services income which was down $790 thousand in the second quarter of 2002 and approximately $3.6 million on a year-to-date basis when compared to the same period of 2001. The decrease in consumer investment services income reflected lower sales of variable annuity products in 2002, as well as lower mutual fund commissions. Mortgage income was lower in the second quarter compared to the same period in 2001 primarily as a result of $1.7 million in charges associated with the decline in the fair market value of mortgage derivative instruments recorded in the second quarter of 2002 compared to $838 thousand in income recorded in the second quarter of 2001. On a year-to-date basis, there was a $6.4 million decrease in mortgage income associated with recording changes in the fair market values of mortgage derivative instruments. AmSouth utilizes derivative instruments, primarily forward contracts, to economically hedge future sales of mortgage loans. Because these forward contracts do not meet the strict requirements for hedge accounting treatment, AmSouth is required to record changes in the fair value of these forward contracts as an increase or decrease to earnings while any offsetting increase in the value of mortgage loans these contracts are hedging is not permitted to be recorded as earnings. In addition to forward contracts, loan commitments associated with mortgages AmSouth plans to originate and sell are also considered derivative instruments and are marked to market through earnings and tend to partially offset the changes in value of the forward contracts. The decline in mortgage income related to changes in value of mortgage derivative instruments was partially offset by an increase in gains on sales of mortgage loans and mortgage conduit income during the second quarter and first six months of 2002 compared to the same periods in 2001. Other noninterest revenues for the quarter declined $8.4 million and $19.5 million for the first six months of 2002 when compared to the same periods last year. This decrease was due primarily to a steady decrease in servicing and other fee income related to an automobile loan securitization and conduit transactions which occurred during the 2000 fiscal year. The decrease in fee income reflects the continued pay down of loan balances associated with these transactions. The decrease in other NIR in the second quarter of 2002 versus the second quarter of 2001 also reflected lower market valuation on derivative instruments of approximately $500 thousand, losses associated with the sale of branch facilities and other assets of approximately $2.0 million recorded in the second quarter of 2002 and approximately $3.8 million of gains

recorded in the second quarter of 2001 related to the sale of leased equipment and an equity investment stock sale. On a year-to-date basis, the decrease in other NIR also reflected a $2.2 million fixed asset loss recorded in the first quarter of 2002 as well as a $4.4 million adjustment associated with an equity investment in the first quarter of 2001. These decreases in NIR were partially offset by increases in service charges on deposit accounts, BOLI, interchange income, and portfolio income. The increase in service charge income was primarily the result of higher treasury management fees from corporate customers. The increase in service charge income also reflected higher revenues from overdraft fees. The increase in BOLI income reflected the receipt of benefit payments in the first and second quarters of 2002. The increase in interchange income reflected an emphasis by AmSouth on debit card sales and reflected increased utilization of checkcards and business checkcards and higher ATM fees.

Noninterest expenses (NIE) for the second quarter of 2002 remained relatively flat compared to the same period in 2001 and increased $6.3 million or 1.1 percent for the first six months of 2002 compared to 2001. Excluding the impact of the accounting change which resulted in goodwill no longer being amortized against earnings beginning in 2002, NIE increased $8.1 million or 2.9 percent in the second quarter of 2002 when compared to the corresponding period in 2001 and $21 million or 3.7 percent when comparing the first six months of 2002 with 2001. The increase in NIE primarily reflected higher salaries and employee benefits, occupancy expense and other NIE offset partially by a decrease in communication expenses. The increase in salaries and employee benefits primarily reflected higher employee benefit costs associated with higher insurance and pension costs as well as higher incentive accruals related to improved performance. The increase in occupancy expense reflected higher depreciation expenses associated with the opening of new branches and other capital projects. The growth in other NIE reflected a charge of $3.7 million associated with credit derivative contracts. The credit derivative contracts insured AmSouth against credit related losses associated with its loan exposure to one of its corporate customers. AmSouth for this protection was required to make quarterly payments under the contracts. In June 2002, AmSouth accrued the present value of the future remaining payments under the contracts as a result of eliminating its credit exposure to the corporate customer for whom the credit derivative was providing protection. The decrease in communications expense reflected the impact of lower expenses as a result of a change in vendor. As described above, amortization expense declined as a result of the adoption of Statement 142 on January 1, 2002. Statement 142 no longer permits the amortization of goodwill and intangible assets with indefinite useful lives but requires these assets to be tested for impairment at least annually. For more information on the impact of adopting Statement 142, see the Notes to Consolidated Financial Statements section in Part I of this report.

*Capital Adequacy*

At June 30, 2002, shareholders equity totaled $3.1 billion or 7.99 percent of total assets. Since December 31, 2001, shareholders equity increased $119.2 million primarily as a result of net income for the first six months of $297.9 million. The increase in shareholders equity from net income was partially offset by the declaration of dividends of $159.5 million and the purchase of 4.6 million shares of AmSouth common stock for $100.5 million during the first six months of 2002. In addition, shareholders equity increased $56.6 million as a result of higher valuation of the AFS portfolio and decreased $5.8 million due to other comprehensive losses associated with cash flow hedges.

Table 9 presents the capital amounts and risk-adjusted capital ratios for AmSouth and AmSouth Bank at June 30, 2002 and 2001. At June 30, 2002, AmSouth exceeded the regulatory minimum required risk-adjusted Tier 1 Capital Ratio of 4.00% and risk-adjusted Total Capital Ratio of 8.00%. In addition, the risk-adjusted capital ratios for AmSouth Bank were above the regulatory minimums, and the Bank was well capitalized at June 30, 2002.

**Table 1 Financial Summary**

| | June 30 | | |
|---|---|---|---|
| | 2002 | 2001 | % Change |
| | (In thousands) | | |
| **Balance sheet summary** | | | |
| End-of-period balances: | | | |
| Loans net of unearned income | $ 25,652,908 | $ 24,740,424 | 3.7% |
| Total assets | 38,499,103 | 38,447,223 | 0.1 |
| Total deposits | 25,528,536 | 25,984,901 | (1.8) |
| Shareholders equity | 3,074,263 | 2,907,451 | 5.7 |
| Year-to-date average balances: | | | |
| Loans net of unearned income | $ 25,488,504 | $ 24,671,034 | 3.3% |
| Total assets | 37,873,709 | 38,438,335 | (1.5) |
| Total deposits | 25,497,298 | 26,042,410 | (2.1) |
| Shareholders equity | 2,989,393 | 2,845,837 | 5.0 |

| | Six Months Ended June 30 | | | Three Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | % Change | 2002 | 2001 | % Change |
| | (In thousands except per share data) | | | | | |
| **Earnings summary** | | | | | | |
| Net income | $ 297,939 | $ 259,732 | 14.7% | $ 152,369 | $ 133,521 | 14.1% |
| Earnings per common share | .83 | .70 | 18.6 | .42 | .36 | 16.7 |
| Diluted earnings per common share | .82 | .70 | 17.1 | .42 | .36 | 16.7 |
| Return on average assets (annualized) | 1.59% | 1.36% | | 1.61% | 1.40% | |
| Return on average equity (annualized) | 20.10 | 18.40 | | 20.36 | 18.72 | |
| Return on average equity (excluding goodwill, annualized) | 20.10 | 19.43 | | 20.36 | 19.74 | |
| Operating efficiency | 51.20 | 54.25 | | 50.82 | 53.42 | |
| Operating efficiency (excluding goodwill) | 51.20 | 52.87 | | 50.82 | 52.07 | |
| **Selected ratios** | | | | | | |
| Average equity to assets | 7.89% | 7.40% | | 7.91% | 7.45% | |
| End-of-period equity to assets | 7.99 | 7.56 | | 7.99 | 7.56 | |
| End-of-period tangible equity to assets | 7.25 | 6.78 | | 7.25 | 6.78 | |
| Allowance for loan losses to loans net of unearned income | 1.45 | 1.54 | | 1.45 | 1.54 | |
| **Common stock data** | | | | | | |
| Cash dividends declared | $ .44 | $ .42 | | $ .22 | $ .21 | |
| Book value at end of period | 8.53 | 7.88 | | 8.53 | 7.88 | |
| Market value at end of period | 22.38 | 18.49 | | 22.38 | 18.49 | |
| Average common shares outstanding | 360,714 | 370,457 | | 359,782 | 368,688 | |
| Average common shares outstanding-diluted | 365,334 | 373,695 | | 364,756 | 372,464 | |

**Table 2 Year-to-Date Yields Earned on Average Interest-Earning Assets and Rates Paid on Average Interest-Bearing Liabilities**

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | Six Months Ended June 30 | | | Six Months Ended June 30 | | |
| | Average Balance | Revenue/ Expense | Yield/ Rate | Average Balance | Revenue/ Expense | Yield/ Rate |
| | (Taxable equivalent basis-dollars in thousands) | | | | | |
| **Assets** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans net of unearned income | $ 25,488,504 | $ 866,445 | 6.86% | $ 24,671,034 | $ 1,043,467 | 8.53% |
| Available-for-sale securities: | | | | | | |
| Taxable | 4,263,621 | 171,687 | 8.12 | 4,033,123 | 154,831 | 7.74 |
| Tax-free | 71,286 | 2,831 | 8.01 | 92,369 | 3,555 | 7.76 |
| Total available-for-sale securities | 4,334,907 | 174,518 | 8.12 | 4,125,492 | 158,386 | 7.74 |
| Held-to-maturity securities: | | | | | | |
| Taxable | 3,645,653 | 118,566 | 6.56 | 4,220,706 | 143,165 | 6.84 |
| Tax-free | 341,966 | 12,870 | 7.59 | 344,767 | 12,656 | 7.40 |
| Total held-to-maturity securities | 3,987,619 | 131,436 | 6.65 | 4,565,473 | 155,821 | 6.88 |
| Total investment securities | 8,322,526 | 305,954 | 7.41 | 8,690,965 | 314,207 | 7.29 |
| Other interest-earning assets | 440,916 | 9,915 | 4.53 | 1,678,056 | 46,826 | 5.63 |
| Total interest-earning assets | 34,251,946 | 1,182,314 | 6.96 | 35,040,055 | 1,404,500 | 8.08 |
| Cash and other assets | 3,863,594 | | | 3,716,218 | | |
| Allowance for loan losses | (369,008) | | | (381,103) | | |
| Market valuation on available-for-sale securities | 127,177 | | | 63,165 | | |
| | $ 37,873,709 | | | $ 38,438,335 | | |
| **Liabilities and Shareholders Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing demand deposits | $ 10,503,387 | 57,955 | 1.11 | $ 9,805,681 | 155,668 | 3.20 |
| Savings deposits | 1,294,586 | 3,706 | 0.58 | 1,215,385 | 9,550 | 1.58 |
| Time deposits | 6,501,544 | 124,879 | 3.87 | 7,770,415 | 227,124 | 5.89 |
| Foreign time deposits | 354,661 | 2,431 | 1.38 | 305,794 | 6,231 | 4.11 |
| Certificates of deposit of $100,000 or more | 2,001,364 | 35,723 | 3.60 | 2,420,238 | 72,549 | 6.04 |
| Federal funds purchased and securities sold under agreements to repurchase | 2,026,831 | 13,933 | 1.39 | 2,291,976 | 48,985 | 4.31 |
| Other interest-bearing liabilities | 6,246,979 | 157,142 | 5.07 | 6,360,111 | 185,074 | 5.87 |
| Total interest-bearing liabilities | 28,929,352 | 395,769 | 2.76 | 30,169,600 | 705,181 | 4.71 |
| **Net interest spread** | | | 4.20% | | | 3.37% |
| Noninterest-bearing demand deposits | 4,841,756 | | | 4,524,897 | | |
| Other liabilities | 1,113,208 | | | 898,001 | | |
| Shareholders equity | 2,989,393 | | | 2,845,837 | | |
| | $ 37,873,709 | | | $ 38,438,335 | | |

| | | | | |
|---|---|---|---|---|
| **Net interest income/margin on a taxable equivalent basis** | 786,545 | 4.63% | 699,319 | 4.02% |
| Taxable equivalent adjustment: | | | | |
| Loans | 15,833 | | 15,523 | |
| Available-for-sale securities | 2,510 | | 2,481 | |
| Held-to-maturity securities | 7,875 | | 8,098 | |
| Total taxable equivalent adjustment | 26,218 | | 26,102 | |
| Net interest income | $ 760,327 | | $ 673,217 | |

NOTE: The taxable equivalent adjustment has been computed based on the statutory federal income tax rate, adjusted for applicable state income taxes net of the related federal tax benefit. Loans net of unearned income includes nonaccrual loans for all periods presented. Available-for-sale securities excludes certain noninterest-earning, marketable equity securities. Statement 133 valuation adjustments related to time deposits, certificates of deposit of $100,000 or more and other interest-bearing liabilities are included in other liabilities.

**Table 3 Quarterly Yields Earned on Average Interest-Earning Assets and Rates Paid on Average Interest-Bearing Liabilities**

| | 2002 | | | | | | 2001 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Second Quarter | | | First Quarter | | | Fourth Quarter | | | Third Quarter | | | |
| | Average Balance | Revenue/ Expense | Yield/ Rate | Average Balance | Revenue/ Expense | Yield/ Rate | Average Balance | Revenue/ Expense | Yield/ Rate | Average Balance | Revenue/ Expense | Yield/ Rate | Av Ba |
| | (Taxable equivalent basis-dollars in thousands) | | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | | | | | |
| Loans net of unearned income | $25,701,987 | $433,331 | 6.76% | $25,272,649 | $433,114 | 6.95% | $24,947,167 | $463,816 | 7.38% | $24,762,932 | $494,161 | 7.92% | $24,( |
| Available-for-sale securities: | | | | | | | | | | | | | |
| Taxable | 4,199,230 | 86,554 | 8.27 | 4,328,728 | 85,133 | 7.98 | 4,404,328 | 84,852 | 7.64 | 4,341,632 | 84,445 | 7.72 | 4,1 |
| Tax-free | 68,526 | 1,365 | 7.99 | 74,076 | 1,466 | 8.03 | 79,009 | 1,580 | 7.93 | 81,699 | 1,590 | 7.72 | |
| Total available-for-sale securities | 4,267,756 | 87,919 | 8.26 | 4,402,804 | 86,599 | 7.98 | 4,483,337 | 86,432 | 7.65 | 4,423,331 | 86,035 | 7.72 | 4,2 |
| Held-to-maturity securities: | | | | | | | | | | | | | |
| Taxable | 3,684,672 | 59,602 | 6.49 | 3,606,201 | 58,964 | 6.63 | 3,884,256 | 64,628 | 6.60 | 3,987,733 | 66,416 | 6.61 | 4,1 |
| Tax-free | 341,933 | 6,434 | 7.55 | 341,999 | 6,436 | 7.63 | 341,890 | 6,401 | 7.43 | 341,982 | 6,365 | 7.38 | 3 |
| Total held-to-maturity securities | 4,026,605 | 66,036 | 6.58 | 3,948,200 | 65,400 | 6.72 | 4,226,146 | 71,029 | 6.67 | 4,329,715 | 72,781 | 6.67 | 4,5 |
| Total investment securities | 8,294,361 | 153,955 | 7.44 | 8,351,004 | 151,999 | 7.38 | 8,709,483 | 157,461 | 7.17 | 8,753,046 | 158,816 | 7.20 | 8,7 |
| Other interest-earning assets | 396,264 | 4,628 | 4.68 | 486,064 | 5,287 | 4.41 | 553,016 | 5,711 | 4.10 | 1,265,120 | 13,766 | 4.32 | 1,4 |
| Total interest-earning assets | 34,392,612 | 591,914 | 6.90 | 34,109,717 | 590,400 | 7.02 | 34,209,666 | 626,988 | 7.27 | 34,781,098 | 666,743 | 7.61 | 34,9 |
| Cash and other assets | 3,819,140 | | | 3,908,544 | | | 3,841,728 | | | 3,678,731 | | | 3,7 |
| Allowance for loan losses | (372,870) | | | (365,104) | | | (359,404) | | | (382,177) | | | (3 |
| Market valuation on available-for-sale securities | 123,815 | | | 130,575 | | | 185,967 | | | 127,813 | | | |
| | $37,962,697 | | | $37,783,732 | | | $37,877,957 | | | $38,205,465 | | | $38,3 |
| **Liabilities and Shareholders' Equity** | | | | | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | | | | | |
| Interest-bearing demand deposits | $10,503,635 | 29,034 | 1.11 | $10,503,137 | 28,921 | 1.12 | $10,298,075 | 36,367 | 1.40 | $10,080,711 | 61,961 | 2.44 | $9,9 |
| Savings deposits | 1,316,202 | 1,888 | 0.58 | 1,272,730 | 1,818 | 0.58 | 1,227,991 | 2,347 | 0.76 | 1,213,940 | 3,817 | 1.25 | 1,2 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Time deposits | 6,397,321 | 60,593 | 3.80 | 6,606,926 | 64,286 | 3.95 | 6,991,178 | 78,340 | 4.45 | 7,511,350 | 101,607 | 5.37 | 7,7 |
| Foreign time deposits | 371,251 | 1,329 | 1.44 | 337,886 | 1,102 | 1.32 | 360,579 | 1,430 | 1.57 | 313,799 | 2,152 | 2.72 | 2 |
| Certificates of deposit of $100,000 or more | 1,988,035 | 17,086 | 3.45 | 2,014,841 | 18,637 | 3.75 | 2,051,701 | 23,334 | 4.51 | 2,214,303 | 30,036 | 5.38 | 2,3 |
| Federal funds purchased and securities sold under agreements to repurchase | 2,067,050 | 7,704 | 1.49 | 1,986,166 | 6,229 | 1.27 | 2,035,112 | 8,239 | 1.61 | 2,162,744 | 15,664 | 2.87 | 2,2 |
| Other interest-bearing liabilities | 6,346,331 | 79,236 | 5.01 | 6,146,522 | 77,906 | 5.14 | 6,164,694 | 82,086 | 5.28 | 6,238,392 | 87,095 | 5.54 | 6,3 |
| Total interest-bearing liabilities | 28,989,825 | 196,870 | 2.72 | 28,868,208 | 198,899 | 2.79 | 29,129,330 | 232,143 | 3.16 | 29,735,239 | 302,332 | 4.03 | 30,0 |
| **Net interest spread** | | | 4.18% | | | 4.23% | | | 4.11% | | | 3.58% | |
| Noninterest-bearing demand deposits | 4,852,478 | | | 4,830,915 | | | 4,729,238 | | | 4,591,157 | | | 4,5 |
| Other liabilities | 1,118,620 | | | 1,107,735 | | | 1,059,602 | | | 974,955 | | | 9 |
| Shareholders' equity | 3,001,774 | | | 2,976,874 | | | 2,959,787 | | | 2,904,114 | | | 2,8 |
| | $37,962,697 | | | $37,783,732 | | | $37,877,957 | | | $38,205,465 | | | $38,3 |
| **Net interest income/margin on a taxable equivalent basis** | | 395,044 | 4.61% | | 391,501 | 4.65% | | 394,845 | 4.58% | | 364,411 | 4.16% | |
| Taxable equivalent adjustment: | | | | | | | | | | | | | |
| Loans | | 7,714 | | | 8,119 | | | 13,951 | | | 13,168 | | |
| Available-for-sale securities | | 1,219 | | | 1,291 | | | 1,277 | | | 1,241 | | |
| Held-to-maturity securities | | 3,978 | | | 3,897 | | | 3,987 | | | 3,965 | | |
| Total taxable equivalent adjustment | | 12,911 | | | 13,307 | | | 19,215 | | | 18,374 | | |
| Net interest income | | $382,133 | | | $378,194 | | | $375,630 | | | $346,037 | | |

NOTE: The taxable equivalent adjustment has been computed based on the statutory federal income tax rate, adjusted for applicable state income taxes net of the related federal tax benefit. Loans net of unearned income includes nonaccrual loans for all periods presented. Available-for-sale securities excludes certain noninterest-earning, marketable equity securities. Statement 133 valuation adjustments related to time deposits, certificates of deposit of $100,000 or more and other interest-bearing liabilities are included in other liabilites.

**Table 4 Loans and Credit Quality**

| | Loans* June 30 | | Nonperforming Loans** June 30 | | Net Charge-offs Six Months Ended June 30 | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | | | (In thousands) | | | |
| **Commercial:** | | | | | | |
| Commercial & industrial | $ 6,719,040 | $ 7,075,237 | $ 76,806 | $ 124,574 | $ 41,932 | $ 38,517 |
| Commercial loans secured by real estate | 1,729,042 | 1,687,629 | 16,379 | 20,780 | 166 | 1,906 |
| Total commercial | 8,448,082 | 8,762,866 | 93,185 | 145,354 | 42,098 | 40,423 |
| **Commercial real estate:** | | | | | | |
| Commercial real estate mortgages | 2,102,655 | 2,263,335 | 19,295 | 20,206 | 299 | 402 |
| Real estate construction | 2,264,041 | 2,498,698 | 16,710 | 12,846 | 42 | 329 |
| Total commercial real estate | 4,366,696 | 4,762,033 | 36,005 | 33,052 | 341 | 731 |
| **Consumer:** | | | | | | |
| Residential first mortgages | 1,652,231 | 1,528,525 | 11,655 | 12,514 | 1,052 | 612 |
| Equity loans and lines | 5,948,664 | 4,867,885 | 11,145 | 5,183 | 12,326 | 6,698 |
| Dealer indirect | 3,770,161 | 3,169,281 | 1 | 1 | 25,838 | 18,647 |
| Revolving credit | 510,427 | 497,933 | -0- | -0- | 12,503 | 10,429 |
| Other consumer | 956,647 | 1,151,901 | 693 | 1,016 | 6,731 | 6,531 |
| Total consumer | 12,838,130 | 11,215,525 | 23,494 | 18,714 | 58,450 | 42,917 |
| | $ 25,652,908 | $ 24,740,424 | $ 152,684 | $ 197,120 | $ 100,889 | $ 84,071 |

* Net of unearned income.
** Exclusive of accruing loans 90 days past due.

**Table 5 Allowance for Loan Losses**

| | 2002 | | 2001 | | |
|---|---|---|---|---|---|
| | 2nd Quarter | 1st Quarter | 4th Quarter | 3rd Quarter | 2nd Quarter |
| | (Dollars in thousands) | | | | |
| Balance at beginning of period | $ 367,819 | $ 363,607 | $ 360,717 | $ 380,663 | $ 380,646 |
| Loans charged off | (59,857) | (62,806) | (60,582) | (81,320) | (57,478) |
| Recoveries of loans previously charged off | 10,856 | 10,918 | 9,872 | 12,174 | 11,395 |
| Net charge-offs | (49,001) | (51,888) | (50,710) | (69,146) | (46,083) |
| Addition to allowance charged to expense | 52,600 | 56,100 | 53,600 | 49,200 | 46,100 |
| Balance at end of period | $ 371,418 | $ 367,819 | $ 363,607 | $ 360,717 | $ 380,663 |
| Allowance for loan losses to loans net of unearned income | 1.45% | 1.45% | 1.45% | 1.45% | 1.54% |
| Allowance for loan losses to nonperforming loans* | 243.26% | 232.16% | 228.29% | 211.32% | 193.11% |
| Allowance for loan losses to nonperforming assets* | 195.99% | 190.60% | 190.29% | 176.69% | 170.18% |
| Net charge-offs to average loans net of unearned income (annualized) | 0.76% | 0.83% | 0.81% | 1.11% | 0.75% |

* Exclusive of accruing loans 90 days past due.

**Table 6 Nonperforming Assets**

| | 2002 | | 2001 | | |
|---|---|---|---|---|---|
| | June 30 | March 31 | December 31 | September 30 | June 30 |
| | (Dollars in thousands) | | | | |
| Nonaccrual loans | $ 152,684 | $ 158,435 | $ 159,274 | $ 170,695 | $ 197,120 |
| Foreclosed properties | 32,838 | 29,462 | 27,443 | 28,006 | 20,380 |
| Repossessions | 3,982 | 5,080 | 4,365 | 5,449 | 6,177 |
| Total nonperforming assets* | $ 189,504 | $ 192,977 | $ 191,082 | $ 204,150 | $ 223,677 |
| Nonperforming assets* to loans net of unearned income, foreclosed properties and repossessions | 0.74% | 0.76% | 0.76% | 0.82% | 0.90% |
| Accruing loans 90 days past due | $ 91,376 | $ 117,068 | $ 116,576 | $ 102,373 | $ 88,747 |

* Exclusive of accruing loans 90 days past due.

**Table 7 Investment Securities**

| | June 30, 2002 | | June 30, 2001 | |
|---|---|---|---|---|
| | Carrying Amount | Market Value | Carrying Amount | Market Value |
| | (In thousands) | | | |
| **Held-to-maturity:** | | | | |
| U.S. Treasury and federal agency securities | $ 2,780,151 | $ 2,852,140 | $ 2,868,385 | $ 2,909,346 |
| Other securities | 1,055,065 | 1,083,383 | 1,297,765 | 1,316,900 |
| State, county and municipal securities | 342,640 | 364,010 | 342,377 | 355,991 |
| | $ 4,177,856 | $ 4,299,533 | $ 4,508,527 | $ 4,582,237 |
| **Available-for-sale:** | | | | |
| U.S. Treasury and federal agency securities | $ 3,739,796 | | $ 3,534,854 | |
| Other securities | 772,933 | | 872,491 | |
| State, county and municipal securities | 77,542 | | 96,549 | |
| | $ 4,590,271 | | $ 4,503,894 | |

NOTES:

1. The weighted average remaining life, which reflects the amortization on mortgage related and other asset-backed securities, and the weighted average yield on the combined held-to-maturity and available-for-sale portfolios at June 30, 2002, were approximately 3.7 years and 6.32%, respectively. Included in the combined portfolios was $7.4 billion of mortgage- backed securities. The weighted-average remaining life and the weighted-average yield of mortgage-backed securities at June 30, 2002, were approximately 3.4 years and 6.30%, respectively. The duration of the combined portfolios, which considers the repricing frequency of variable rate securities, is approximately 2.8 years.

2. The available-for-sale portfolio included net unrealized gains of $164.8 million and $98.1 million at June 30, 2002 and 2001, respectively.

**Table 8 Other Interest-Bearing Liabilities**

| | June 30 | |
|---|---|---|
| | 2002 | 2001 |
| | (In thousands) | |
| **Other borrowed funds:** | | |
| Short-term bank notes | $ -0- | $ 50,000 |
| Treasury, tax and loan notes | 100,000 | 25,000 |
| Commercial paper | 7,432 | 13,210 |
| Other borrowings | 42,976 | 59,599 |
| Total other borrowed funds | $ 150,408 | $ 147,809 |
| **Other long-term debt:** | | |
| 6.45% Subordinated Notes Due 2018 | $ 302,777 | $ 303,274 |
| 6.125% Subordinated Notes Due 2009 | 174,704 | 174,568 |
| 6.75% Subordinated Debentures Due 2025 | 149,942 | 149,924 |
| 7.75% Subordinated Notes Due 2004 | 149,824 | 149,733 |
| 7.25% Senior Notes Due 2006 | 99,726 | 99,655 |
| 6.875% Subordinated Notes Due 2003 | 49,974 | 49,942 |
| 6.625% Subordinated Notes Due 2005 | 49,815 | 49,762 |
| Other long-term debt | 3,475 | 8,195 |
| Statement 133 valuation adjustment | 43,445 | 7,000 |
| Total other long-term debt | $ 1,023,682 | $ 992,053 |

**Table 9 Capital Amounts and Ratios**

| | June 30 | | | |
|---|---|---|---|---|
| | 2002 | | 2001 | |
| | Amount | Ratio | Amount | Ratio |
| | (Dollars in thousands) | | | |
| **Tier 1 capital:** | | | | |
| AmSouth | $ 2,692,896 | 8.03% | $ 2,590,226 | 7.70% |
| AmSouth Bank | 3,299,085 | 9.85 | 3,278,150 | 9.77 |
| **Total capital:** | | | | |
| AmSouth | $ 3,756,972 | 11.20% | $ 3,716,964 | 11.04% |
| AmSouth Bank | 3,978,662 | 11.88 | 3,970,705 | 11.83 |
| **Leverage:** | | | | |
| AmSouth | $ 2,692,896 | 7.14% | $ 2,590,226 | 6.80% |
| AmSouth Bank | 3,299,085 | 8.76 | 3,278,150 | 8.62 |

**Table 10 Contractual Obligations and Other Commitments**

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| | (Dollars in thousands) | | | | |
| Borrowings(1) | $ 8,476,404 | $ 2,745,956 | $ 1,483,430 | $ 575,230 | $ 3,671,788 |
| Operating leases | 358,919 | 46,821 | 77,584 | 57,719 | 176,795 |
| Time deposits(2) | 8,852,399 | 5,990,593 | 2,415,549 | 446,257 | -0- |
| Total contractual cash obligations | $ 17,687,722 | $ 8,783,370 | $ 3,976,563 | $ 1,079,206 | $ 3,848,583 |

| | Amount of Commitment Expiration Per Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| | (Dollars in thousands) | | | | |
| Commercial letters of credit | $ 56,223 | $ 44,678 | $ 11,545 | $ -0- | $ -0- |
| Standby letters of credit | 2,568,862 | 1,101,616 | 1,152,464 | 254,838 | 59,944 |
| Commitments to extend credit(3) | 13,828,569 | 10,145,138 | 2,796,438 | 854,435 | 32,558 |
| Total commercial commitments | $ 16,453,654 | $ 11,291,432 | $ 3,960,447 | $ 1,109,273 | $ 92,502 |

NOTES:

1. All maturities are based on contractual maturities. Excludes $43.4 million of FAS 133 valuation adjustments.
2. Excludes $3.9 million of FAS 133 valuation adjustments.
3. Excludes $3.2 billion of loan commitments under equity lines and $2.1 billion under revolving lines of credit which do not have scheduled expiration dates.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The information required by this item is included on pages 14 and 15 of Part 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

Several of AmSouth s subsidiaries are parties to legal proceedings arising in the ordinary course of business. Some of these proceedings seek relief or damages that are substantial. The actions relate to AmSouth s lending, collections, loan servicing, deposit taking, investment, trust, and other activities.

Among the actions which are pending against AmSouth subsidiaries are actions filed as class actions. The actions are similar to others that have been brought in recent years against financial institutions in that they seek punitive damage awards in transactions involving relatively small amounts of actual damages. A disproportionately higher number of the more significant lawsuits against AmSouth have been filed in Mississippi relative to the amount of business done by AmSouth in Mississippi. In addition, lawsuits brought in Alabama and Mississippi against AmSouth and other corporate defendants typically demand higher damages than similar lawsuits brought elsewhere, and often request punitive damages. Legislation has been enacted in Alabama that is designed to limit the potential amount of punitive damages that can be recovered in individual cases in the future. However, AmSouth cannot predict the effect of the legislation at this time.

It may take a number of years to finally resolve some of these legal proceedings, due to their complexity and for other reasons. It is not possible to determine with any certainty at this time the corporation s potential exposure from the proceedings. At times, class actions are settled by defendants without admission or even an actual finding of wrongdoing but with payment of some compensation to purported class members and large attorney s fees to plaintiff class counsel. Nonetheless, based upon the advice of legal counsel, AmSouth s management is of the opinion that the ultimate resolution of these legal proceedings will not have a material adverse effect on AmSouth s financial condition or results of operations.

**Item 4. Submission of Matters to a Vote of Security Holders**

The regular Annual Meeting of Shareholders of AmSouth was held on April 18, 2002, at which meeting the shareholders (i) elected five nominees as directors; (ii) approved the material terms of the Executive Incentive Plan, as amended; (iii) approved the 1996 Long Term Incentive Compensation Plan, as amended; and (iv) failed to approve a shareholder proposal related to executive compensation. The following is a tabulation of the voting on these matters:

**ELECTION OF DIRECTORS**

| Names | Votes For | Votes Withheld | Abstentions | Broker Nonvotes |
|---|---|---|---|---|
| J. Harold Chandler | 282,027,333 | 6,284,695 | N/A | N/A |
| James E. Dalton, Jr. | 280,579,669 | 7,732,359 | N/A | N/A |
| Ernest W. Deavenport, Jr. | 282,383,024 | 5,929,004 | N/A | N/A |
| Elmer B. Harris | 280,249,919 | 8,062,109 | N/A | N/A |
| James R. Malone | 282,083,576 | 6,228,452 | N/A | N/A |

**EXECUTIVE INCENTIVE PLAN**

| Votes For | Votes Against | Abstentions | Broker Nonvotes |
|---|---|---|---|
| 262,235,224 | 26,215,119 | 4,542,713 | 4,605 |

**1996 LONG TERM INCENTIVE COMPENSATION PLAN**

| Votes For | Votes Against | Abstentions | Broker Nonvotes |
|---|---|---|---|
| 252,422,215 | 35,535,267 | 5,040,179 | 0 |

**SHAREHOLDER PROPOSAL**

| Votes For | Votes Against | Abstentions | Broker Nonvotes |
|---|---|---|---|
| 24,716,223 | 189,622,880 | 11,675,606 | 66,982,952 |

**Item 6. Exhibits and Reports on Form 8-K**

**Item 6(a)** ***Exhibits***

The exhibits listed in the Exhibit Index at page 30 of this Form 10-Q are filed herewith or are incorporated by reference herein.

**Item 6(b)** ***Reports on Form 8-K***

No reports on Form 8-K were filed by AmSouth during the period April 1, 2002 to June 30, 2002.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, AmSouth has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 6, 2002 By: /s/ C. DOWD RITTER

**C. Dowd Ritter**
*Chairman, President and*
*Chief Executive Officer*

August 6, 2002 By: /s/ DONALD R. KIMBLE

**Donald R. Kimble**
*Executive Vice President,*
*Chief Accounting Officer and Controller*

**EXHIBIT INDEX**

The following is a list of exhibits including items incorporated by reference.

| | |
|---|---|
| 3.1 | Restated Certificate of Incorporation of AmSouth Bancorporation(1) |
| 3.2 | By-Laws of AmSouth Bancorporation(2) |
| 15 | Letter Re: Unaudited Interim Financial Information |

**NOTES TO EXHIBITS**

(1) Filed as Exhibit 3.1 to AmSouth s Report on Form 8-K filed October 15, 1999, incorporated herein by reference.
(2) Filed as Exhibit 3-b to AmSouth s Form 10-Q Quarterly Report for the quarter ended March 31, 2001, incorporated herein by reference.